



FINANTSINSPEKTSIOON  
ANNUAL REPORT 2019



## Finantsinspeksioon

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Start of the financial year: 1 January 2019

End of the financial year: 31 December 2019

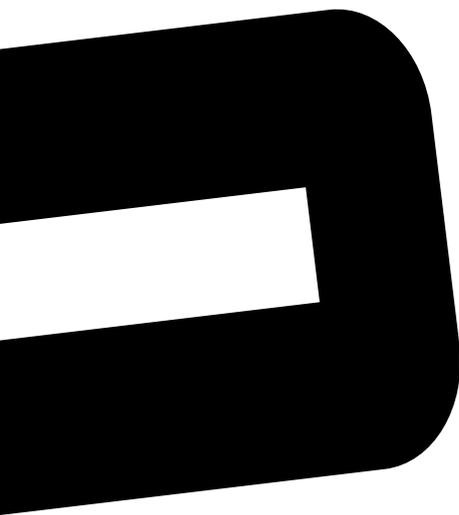
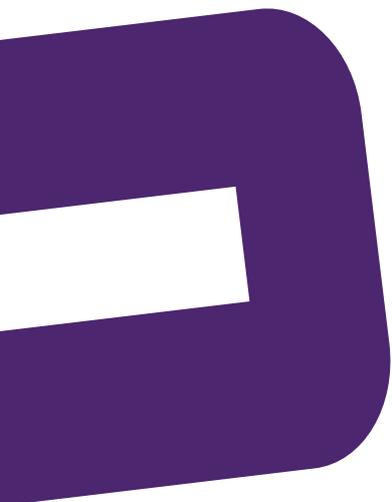
Core activity: financial supervision

Management board: Kilvar Kessler, Andres Kurgpõld, Andre Nõmm

Auditor: KPMG Baltics OÜ



# FOREWORD BY THE MANAGEMENT BOARD



Financial markets around the world are intertwined and are mutually interdependent in both good ways and bad. By the end of 2019, the reporting period for this report, Finantsinspektion was one of the most closely connected with European Union financial supervisors and other partners of all Estonian institutions. Our close work together allows us to map and manage cross-border risks. It also allows Finantsinspektion, as the smallest financial supervision authority, to use the methods of the best in the world, and to contribute our skills and knowledge to developing those methods. There are two sides to every coin though, and our experience so far has shown that bringing these working processes closely together within Europe has caused some issues, such as decision-making processes that become difficult to manage and that occasionally, and worryingly for us, may result in decisions that are not always in the best interests of Estonia, and in excess weight of bureaucracy. The benefits from the close cooperation between financial supervision authorities are clear though, as it helps provide even better quality supervision. However, centralising even more financial supervisory responsibilities because of individual cases should be thought about seriously and it would be better to get used to the way that the current system works together.

The key features of the financial sectors in the Baltic states in 2019, and especially of Estonian financial markets, were concentration, adjustment and growth. The complex and comprehensive European regulations have brought costs, but have also caused financial intermediaries to optimise their activities in order to preserve their profits.

At the start of the reporting period, the complicated process of merging different banks was completed under the supervision of Finantsinspektsioon, and the result was that a bank that is large by Estonian standards was founded with its head office in Estonia and activities in Latvia and Lithuania. This means that we must now monitor developments in neighbouring countries, together with our foreign colleagues, and if necessary we must take supervisory steps to manage risks at the bank in those countries. There was also concentration in the insurance market.

Structural demographic trends, digitalisation and its impact on the economy, and legislative changes present a challenge for financial intermediaries in adapting to the new circumstances. The business models of regulated financial intermediaries in Estonia are stable and work well, as banking is based on a fairly simple and classical model of lending backed by deposits, while non-life insurance remains focused on traffic insurance, fully comprehensive car insurance and insurance for residential property used as collateral, and the fund business is based mainly on the mandatory pension system. Life insurance, investment services and interbank payment services are still looking for their own place in the market.

The smallest banks have used the changes in the banking markets in recent years as a springboard to good growth. Finantsinspektsioon pushes the banks to hold capital and develop their control organisations, as the seeds of possible risks in the future are unfortunately sown at the time when growth is fast. The digital financial intermediation by market participants in Estonia also comes under close financial supervision that aims to make sure that it functions without interruption, so that no negative incidents would affect Estonia.

Financial intermediaries, especially the banks, had to invest in and change their compliance controls during the reporting period. The results of firm actions in the recent past by Finantsinspektsioon to eliminate money-laundering risks have affected financial intermediaries and shaken them out of their comfort zone, making them look for modern and up-to-date risk control systems. Finantsinspektsioon emphasises constantly to the banks and other financial intermediaries that

modern control mechanisms must be risk-based. Simple automatic systems are now out of date or even obsolete in the financial markets, as they cannot tell the grain from the chaff and they cause confusion for ordinary clients through excessive administrative demands, making those clients justifiably unhappy when their risk profiles should not attract any attention from the bank.

With interest rates at zero, people are looking for the best way to put their savings to work. This is leading them to put their money in unsupervised parts of the financial industry like savings and loan associations, lending and investment platforms, crypto currencies and more, without being aware of all the risks. In the worst cases they are allowing themselves to be caught up in obvious scams. The complaints and other information that we have received about these segments lets us say here clearly with flashing red warning lights that you may well earn from these but you may equally well lose all the money that you have put in! There is an old saying that you should measure nine times before cutting once. We welcome the efforts of the state to strengthen institutions investigating financial crimes, and to increase the monetary punishments in the financial sector and make proceedings there simpler. We believe that a fair solution for society would be that a financial intermediary that has hurt the credibility of society or some other social good should not be pampered but should be fined enough to reflect the harm that has been caused.

During the past reporting year we as a financial supervisor have again and again faced the question of what sort of financial market we as a society want. In what way can financial intermediation best serve the interests of the Estonian economy and people? Are current developments for the better or the worse? Should there be more competition? Are we as a society ready to bear the resulting risks? These issues arise directly from the legal mandate of Finantsinspektsioon but are much broader and weightier. For this reason we plan to work with our good colleagues at Eesti Pank and the Ministry of Finance to consider these questions systematically. Reflections on these considerations may well be a part of the next annual report by Finantsinspektsioon.



*Chair of the Finantsinspektsioon Management Board Kilvar Kessler (centre) and members Andre Nõmm and Andres Kurgpõld*

Changes in the legislation and the structure of financial markets have led Finantsinspektsioon to make changes in our organisational architecture, as has the need to use resources even more efficiently. At the end of the reporting period we effectively merged Finantsinspektsioon and the Guarantee Fund. Finantsinspektsioon now provides the Guarantee Fund with the services it needs under a cooperation agreement. We agreed together that it was not reasonable for the Guarantee Fund to keep its entire operation running outside of a crisis.

Financial supervision work is aimed primarily at professional financial intermediaries. This means that we must be able to cope with the most com-

plicated challenges that will face us. We can do this by employing the top experts in their field, and by complementing each other through close cooperation. To manage our increasing volume of work better we added another member to the management board at the start of 2020, rotated the areas of responsibility between the members of the board to refresh our perspectives on them, and set up new departments so that we can manage our skills and knowledge more effectively.

We thank all the staff of Finantsinspektsioon and all our other colleagues, the subjects of financial supervision, and our other partners who have helped to keep the financial markets in Estonia operating stably and honestly!



## ABOUT FINANTSINSPEKTSIOON



**F**inantsinspektsioon is an independent financial supervision and resolution authority with its own budget. Finantsinspektsioon acts on behalf of the Estonian state and works to ensure that the regulated financial market is stable and transparent.

In carrying out financial supervision and in resolving financial crises, Finantsinspektsioon works for the benefit of the public interest. Its work is funded not from the state budget but by the supervision and procedural fees that are paid by the market participants that Finantsinspektsioon supervises.

The work of financial supervision focuses on keeping the financial sector stable, trustworthy, transparent and efficient. Finantsinspektsioon reduces the systemic risks in the financial sector and contributes within the limits of its responsibility to preventing criminal activity. Finantsinspektsioon supports the stability of the Estonian monetary system through its supervisory work.

The resolution function of Finantsinspektsioon is responsible for the critical functions of the banks continuing to work so that no substantial harm should be done to financial stability, and especially so that no negative impacts should be passed into the financial system as a whole and to the payment and settlement systems. Finantsinspektsioon also has a legal duty to ensure that the funds of depositors, investors and other clients are sufficiently protected.

Critical functions are taken to mean the payment and settlement services provided by banks, and other services or activities where withdrawal or serious interruption could harm the functioning of financial markets, financial stability or the non-financial economy, or could have a negative impact on other participants in the financial system.

Finantsinspektsioon carries out state supervision over licensed banks, insurance companies, insurance intermediaries, investment firms, fund managers, investment and pension funds, payment institutions, e-money institutions, creditors and credit intermediaries, and the securities market.

Finantsinspektsioon is part of the European Single Supervisory Mechanism (SSM), which carries out capital supervision for the most important banks and banking groups in Europe. Finantsinspektsioon is also part of the Single Resolution Board.

The activities of Finantsinspektsioon are planned and controlled by the Supervisory Board. Its work was managed in 2019 by a three-member Management Board, which took decisions by majority vote. The Management Board will have four members from 2020.

## STRATEGY FOR 2019-2021

Finantsinspektsioon's strategy focuses on preventing money laundering and terrorist financing, making preparations for better risk management, and promoting cyber security. In setting its strategy, Finantsinspektsioon started from the experience of drafting and implementing the previous strategies, and from market and legislative trends. The need to carry out tasks set by European Union and Estonian law was considered, as were the strategies of Finantsinspektsioon's main partners<sup>1</sup>.

Key values of the strategy:

- **Vision**  
We are an influential and adaptive institution
- **Mission**  
We maintain confidence in financial markets by conducting financial supervision in the public interest and resolving financial crises`
- **Values**  
Certain  
Professional  
Open minded

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<sup>1</sup> [The strategy can be found on the Finantsinspektsioon website:](#)

## Q&A WITH CHAIR OF THE MANAGEMENT BOARD KILVAR KESSLER

### **What were the main dangers in the financial sector in 2019?**

Cyber risk and the sustainability of ICT systems. Reputational risk because of money laundering in the past. The amount and complexity of regulation and the ability of market participants to get their working processes in compliance. And also, the rapid growth of smaller market participants.

### **How was the financial sector doing at the end of 2019?**

Very well! It is clear though that the seeds of the next problems have started to sprout during these good times.

### **What scams and financial crimes were most common last year?**

Finantsinspektsioon is not an investigatory authority, and so we do not have a very clear picture of criminal activity. There has certainly been some increase in scams where people are tricked out their money by being told a story that is not truthful. Negative interest rates and the desire to earn return have helped this to happen. Then there are always cases where there is a conflict of interests, when a service provider is supposed to favour the interests of the client, but actually favours their own interests much more.

### **What were the biggest successes in Finantsinspektsioon's work last year?**

There are many individual cases. We are particularly pleased with those where we have succeeded in defending the interests of Estonia in the international arena. We are also proud to have a team of the finest professionals working in financial supervision, whose discreet daily work contributes so much to society.

## CHANGES IN THE MEMBERSHIP OF THE SUPERVISORY BOARD

The Supervisory Board monitors the management of Finantsinspektsioon and plans its activities. The board has six members. The Minister of Finance and the Governor of Eesti Pank are members of the Supervisory Board by virtue of their office. Martin Helme became Chair of the Board in 2019 as he became Minister of Finance, and a new member who joined the board was Maive Rute, the Deputy Governor of Eesti Pank. Madis Müller became Governor of Eesti Pank on 7 June and so he joined the Finantsinspektsioon Supervisory Board by virtue of his office.

Members of the Supervisory Board of Finantsinspektsioon in 2019 were:

<b>Toomas Tõniste</b>	(Chair until 29 April), former Minister of Finance
<b>Martin Helme</b>	(Chair from 29 April), Minister of Finance
<b>Ardo Hansson</b>	Governor of Eesti Pank (until 7 June)
<b>Madis Müller</b>	Deputy Governor of Eesti Pank and Governor of Eesti Pank from 7 June
<b>Rein Minka</b>	Member of the Supervisory Board of Eesti Pank
<b>Veiko Tali</b>	Secretary-General of the Ministry of Finance
<b>Valdur Laid</b>	Director General of the Tax and Customs Board
<b>Maive Rute</b>	Deputy Governor of Eesti Pank (from 1 October)

## THE WORK OF THE SUPERVISORY BOARD

The Supervisory Board held five meetings in 2019 at which the following decisions were taken:

- The 2019 annual report of Finantsinspektsioon was approved
- It was decided that the Management Board will have four members from 2020. Siim Tammer was appointed as a new member of the board alongside Kilvar Kessler (Chair), Andres Kurgpõld and Andre Nõmm
- As it was in the previous year, the surplus of 400,919.90 euros in the Finantsinspektsioon budget for 2018 was returned to supervised entities
- The Finantsinspektsioon budget of 8,619,000 euros for 2020 was approved
- It was proposed that the Ministry of Finance approve the supervision fee rates for 2020
- The Supervisory Board considered how Finantsinspektsioon followed its strategy 2016-2018

The Finantsinspektsioon Management Board also gave regular reviews to the Supervisory Board of its activities, the development of the financial sector, and the fulfilment of the Finantsinspektsioon budget.

## THE WORK OF THE MANAGEMENT BOARD

The Finantsinspektsioon Management Board comprised Chair Kilvar Kessler and members Andre Nõmm and Andres Kurgpõld.

The Management Board held 56 meetings in 2019 at which 86 management decisions and 99 administrative rulings were made, of which nine were written precepts. Supervised entities were fined on three occasions for breach of regulations, the Management Board issued three authorisations and withdrew three authorisations because of infractions, and it prohibited one branch from operating in Estonia.

## ORGANISATION AND STAFF

The Finantsinspektsioon staff are a good combination of dedicated top-level experts with long experience and young specialists who have arrived in the past few years as the organisation has grown. There were 93 people working at Finantsinspektsioon at the end of 2019, and seven more employees with suspended contracts. The average age of employees is 36.7 and they have worked on average for 7.9 years for Finantsinspektsioon. During the year, 16 new members of staff joined and six left.

The majority of the staff by qualifications are specialists in finance, analysts and auditors, and lawyers. Everybody employed by Finantsinspektsioon has a higher education degree.

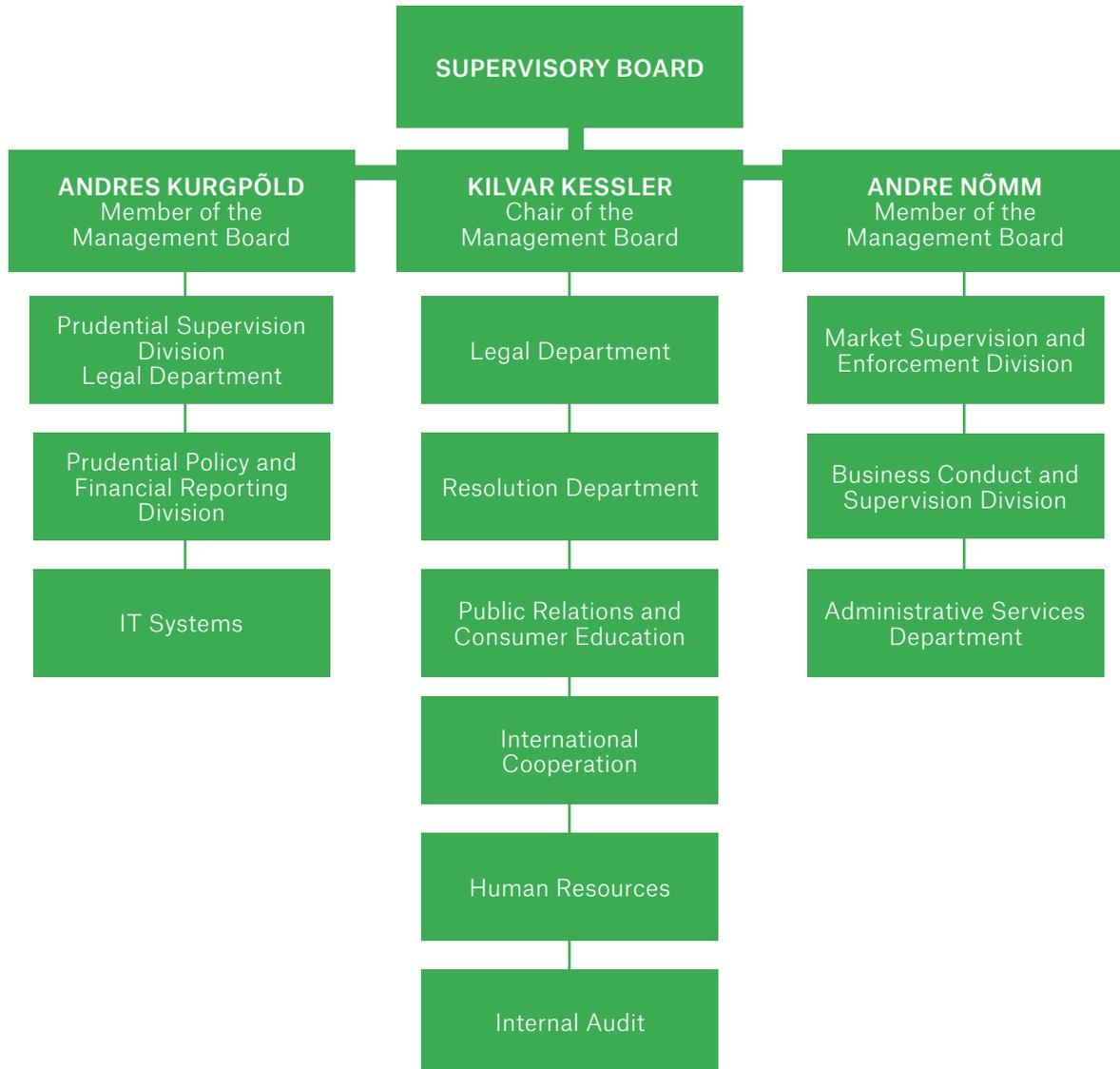
Staff of Finantsinspektsioon attended a total of 90 training courses and conferences in 2019, almost half of which were international. The proportion of training that is taken abroad has increased from year to year. The largest share of training courses were the 40% that were supervisory specific, followed by legal training at 18% and language training at 10%.

Finantsinspektsioon offers internships to Estonian university students every year. There were three interns in 2019, one in the legal department, one dealing with the securities market, and one working on the new consumer website minuraha.ee. One intern came to work for Finantsinspektsioon after their successful internship.

There were 30 men and 70 women working at Finantsinspektsioon in 2019. The share of staff who are men has declined over time.

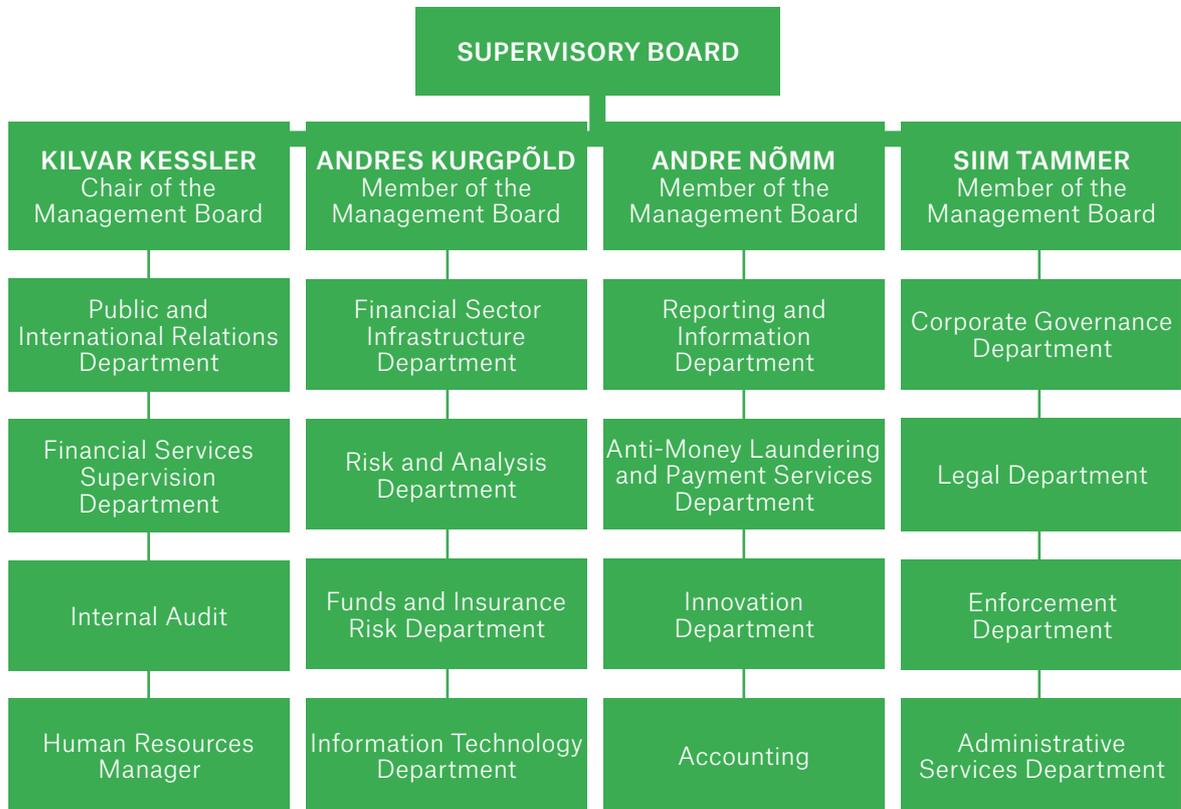
## ORGANISATION STRUCTURE

The Finantsinspektsioon Management Board in 2019 comprised Chair Kilvar Kessler and members Andre Nõmm and Andres Kurgpõld. The structure in 2019:



By decision of the Supervisory Board of Finantsinspektsioon, the Management Board became a four-member board from 1 January 2020. The Supervisory Board appointed the current board members Andre Nõmm and Andres Kurgpõld to another term of office alongside Chair of the Board Kilvar Kessler and new member Siim Tammer.

There have been substantial changes in recent years to the structure of the Estonian financial market and the dynamics of risk in it, and also to the content, complexity and amount of the regulation of it. The structural changes that Finantsinspektsioon has made will help it to achieve its strategic goals better and to take supervisory steps in the interests of an honest financial market. The new structure in 2020:



## THE GUARANTEE FUND WILL JOIN FINANTSINSPEKTSIOON

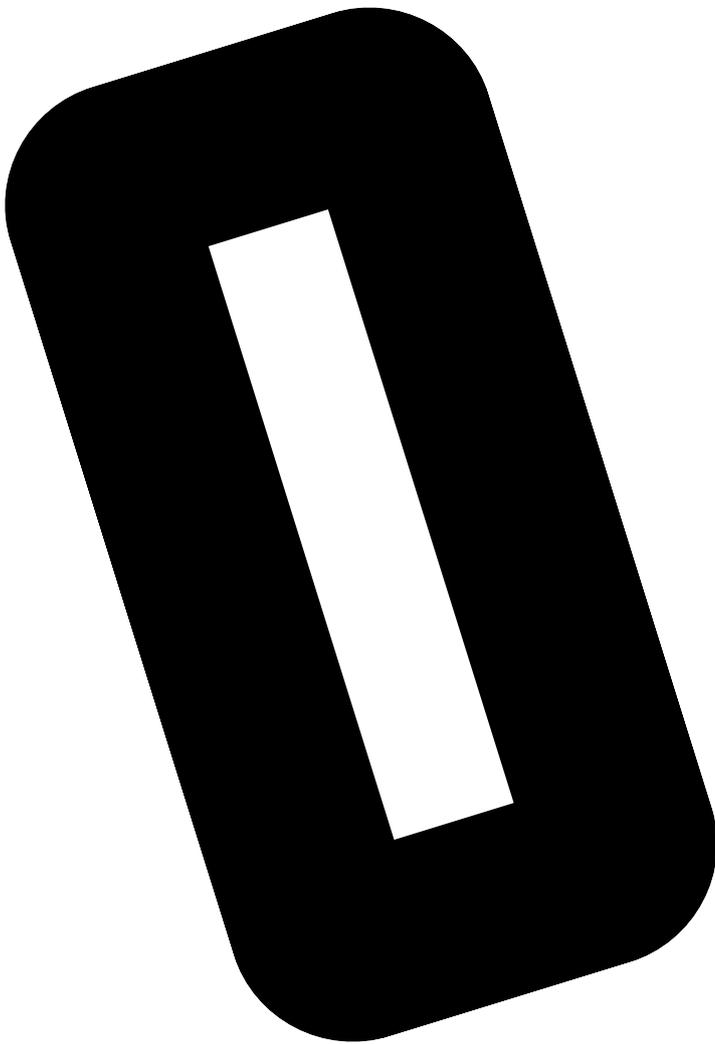
Finantsinspektsioon signed an agreement with the Guarantee Fund in 2019. Finantsinspektsioon will provide services under this agreement to the Guarantee Fund that will help the fund achieve its goals better, especially outside of crises. Merging the activities of the two organisations will create scale effects that will help save on costs. There will also be synergy between the resolution institution and the decision-making processes of the guarantee scheme. The Guarantee Fund is also paying more attention to the readiness of banks to pass data to it on deposits that need to be compensated. The fund and Finantsinspektsioon together organised a range of stress tests for this purpose in 2019, basing them on the EBA stress test guidelines for deposit guarantee schemes. The stress tests carried out with the banks showed the banks to be able to put together the data required within the time limits set by law and to submit those data to the Guarantee Fund. The Guarantee Fund continues to run the necessary stress tests together with Finantsinspektsioon.



*Finantsinspeksioon carried out extraordinary anti-money laundering inspections in all the banks operating in Estonia in late 2018 and early 2019.  
Photograph: Liis Treimann / Äripäev*



*A press conference in the Eesti Pank Museum, where Chair of the Finantsinspeksioon management board Kilvar Kessler talks about the precept issued to Danske Bank that prohibited the branch of the bank from operating in Estonia.  
Photograph: Liis Treimann / Äripäev*



## BANKING AND CREDIT



**B**anks, credit intermediaries and creditors are supervised by Finantsinspektsioon under banking and credit supervision. The main activity of banks is taking in deposits or other repayable resources from the public and issuing loans, while creditors only issue loans. Creditors and credit intermediaries are only supervised by Finantsinspektsioon if they lend to consumers.

## THE LARGER BANKS ARE SUPERVISED JOINTLY WITH THE EUROPEAN CENTRAL BANK

The European Central Bank is responsible for capital supervision over banks that are considered systemically important under Europe's Single Supervisory Mechanism (SSM), and it works together with the local financial supervisors of the countries in the euro area. The main role of the SSM is to ensure the security of the banking system and confidence in it, to increase financial integration and stability, and to ensure supervisory continuity. Banks in the SSM are supervised by Joint Supervisory Teams whose members come from the European Central Bank and from Finantsinspektsioon. The systemically important banks in Estonia in 2019 were AS SEB Pank, Swedbank AS and Luminor Bank AS.

The SSM Supervisory Board took 1509 decisions in 2019, most of which concerned supervision of individual banks.

The Supervisory Board of the SSM met 15 times in 2019 and some of its decisions affected the banks operating in Estonia. These included approving the issue of banking authorisation to Koduliising and the acquisition of a significant holding in Luminor Bank. Luminor Bank was granted permission to issue bonds, and the SREP decisions for Luminor bank AS, AS SEB Pank, and Swedbank AS were approved. The SREP decisions set out how much capital and of what quality the banks must hold to cover risks. The suitability of members of the management boards and supervisory boards of those banks was assessed as well.

## THE BIGGEST CHANGES AFFECTED LUMINOR

The head office of Luminor Bank AS has been in Estonia since the start of 2019, but branches of the bank operate in Latvia and Lithuania. This change made it necessary to look at how work was organised in the Joint Supervisory Team.

SSM rules say that the members of the Joint Supervisory Team come from the European Central Bank and the financial supervision authority of the country of location, which for Luminor is Finantsinspektsioon of Estonia. At the proposal of Finantsinspektsioon, staff from the Latvian and Lithuanian financial supervisors remained on the team, though they did not have to do so. Having members from Latvia and Lithuania means that the risks in the Latvian and Lithuanian markets can be analysed better, and it supports supervisory cooperation within the Baltic states. The four supervisory authorities worked together last year to assess the business model, management system, capitalisation and liquidity of the bank.

On top of the thorough regular supervision, two major projects concerning Luminor Bank AS were completed in 2019. The US investment fund Blackstone applied for permission to acquire a significant holding in the bank together with other investors. The application was processed by Finantsinspektsioon and the European Central Bank. Finantsinspektsioon also coordinated work at the Baltic level with the Latvian and Lithuanian supervision authorities, who carried out similar procedures for the subsidiaries of Luminor Bank AS in those countries.

The second important event was that Luminor Bank AS was given an additional authorisation to issue covered bonds. The Covered Bonds Act came into force in early 2019, and Luminor Bank AS was the first to apply to Finantsinspektsioon under it. This was the first time the Covered Bonds Act was applied. Finantsinspektsioon worked with the European Central Bank on this, and had the lead role in it. It was decided at the end of 2019 to issue Luminor Bank AS an additional authorisation to issue covered bonds. This was the first such authorisation issued to an Estonian bank.

## HOW ARE THE RISKS OF BANKS ASSESSED?

Finantsinspektsioon assesses and measures the business models, management systems and risk profiles of each bank at least once a year, and also the sufficiency of their capitalisation and liquidity. Finantsinspektsioon can set additional capital requirements for an individual bank if the general capital requirements are not sufficient to cover the risks from the particular activities of that bank. Additional

capital requirements for small banks were of 56 million euros in 2019, which was 37% higher for them than the standard capital requirements. On the advice of Finantsinspeksioon, the additional capital requirements were set for the larger banks at 471 million euros, which exceeded the prudential requirements by 38%. The largest part of the capital requirements is the capital held to cover credit risk.

Finantsinspeksioon confirmed that all the banks are generally relatively well capitalised against possible credit risks. It should be remembered though that with rapidly growing consumer loan portfolios, the banks need not only capital buffers but also the readiness to handle debt management if the economic cycle should turn and the market for problem loans become much less active than it currently is.

## CHANGES IN THE LEGISLATIVE FRAMEWORK WILL REQUIRE CORRECTIONS TO INTERNAL RULES AND INTERNAL CONTROL SYSTEMS

Finantsinspeksioon carried out four on-site inspections of 13 risk areas at banks last year. The organisation and operation of internal control systems, general management, risk management and control, and compliance controls were inspected. Risk areas that were assessed were the management and organisation of controls for credit risk, operational risk and IT risks. Reporting and the suitability of managers and key staff were also assessed. Finantsinspeksioon made 70 observations during the inspections. The banks provided explanations and comments, and were obliged to make good any shortcomings. The observations mainly concerned insufficiencies or inaccuracies in the internal rules and the internal control systems.

## ASSESSING INFORMATION TECHNOLOGY RISKS

The IT risks of the banks are analysed every year in the Supervisory IT Risk Assessment Process (SITRA), and the results appear in the end report of the largest supervisory assessment process. The process is based on the methodology of the European Central Bank, which has been applied since 2019 to larger banks and to smaller ones. The assessment is based on information received during various supervisory activities. Although the IT solutions of the banks are complex and the banks are very dependent on technology, e-channels and external service providers, IT risks are generally well controlled.

The dependence of the banks on products, software and legacy systems that were reaching the end of their life-cycle was also analysed to minimise the risks from related processes and eliminate weaknesses. Being overly dependent on such systems can pose risks to a bank through security, interoperability, reduced reliability, outdated or insufficient functionality, cost, and more. Banks generally use processes and solutions to monitor their dependence on end-of-life and legacy systems, and they install the necessary version updates and security patches. They generally have a planned schedule for retiring outdated solutions and for minimising the related risks. There was still some room for improvement in updating the related procedures and actions.

During its standard quarterly analysis, Finantsinspeksioon analysed incidents and loss events connected to interruptions to the business operations of banks and system failures. The analyses show the level of business interruptions and IT incidents have generally been quite stable at the majority of banks. The notable rise in the number of incidents was seen more at banks where large-scale IT reorganisations were happening. The number of loss incidents and the losses from business interruptions and system faults were relatively small.

In the market for less important banks, a precept was issued last year to Danske Bank A/S by which Finantsinspeksioon prohibited the bank from operating in the Estonian market through its Danske Bank A/S Estonia branch and required the bank to dispose of its loan contracts signed through the branch. After that the portfolio of loans to private clients of Danske Bank A/S Estonia branch was acquired by AS LHV Pank. Finantsinspeksioon monitored the process and communicated with both Danske Bank A/S and AS LHV Pank to protect the interests of the clients. It also kept the European Central Bank abreast of the costs of the process.

## **ANTI-MONEY LAUNDERING SUPERVISION GAINED EXTRA POWERS**

Finantsinspektsioon created a separate department to make anti-money laundering supervision more effective, and it hired new staff for the department so that it had seven members at the end of 2019. This was an increase of almost half in the number of staff dealing with supervision over money laundering and terrorist financing.

Finantsinspektsioon made six on-site anti-money laundering inspections, 15 extraordinary enquiries, and 146 remote inspections in 2019. It also organised five information days to discuss prevention of money laundering, met market participants on some 60 occasions, and attended ten meetings of the Estonian Banking Association on preventing money laundering. Proportionally, the closest attention paid to supervised entities and transactions focused on banks, with five on-site inspections, 15 extraordinary enquiries and 31 remote inspections, and investment firms, with one on-site inspection and five remote inspections.

## **THERE IS NO LONGER ANY GREAT DANGER TO THE BANKING SECTOR FROM MONEY LAUNDERING RISK**

One of the most important anti-money laundering supervisory actions was the conclusion in April 2019 of the extraordinary supervisory proceedings that looked into the risks to the banking sector in 2019 and compared them with the point when the new management of Finantsinspektsioon gave a great boost to anti-money laundering supervision in 2014. The financial supervision opinion at the conclusion of the proceedings was that the risks to Estonian banking from serving non-residents had been substantially reduced, and the majority of the banking sector was not at high risk of money laundering. In 2019 the focus in Estonia is mainly on providing services to local clients or to business and private clients that are related to them. The share of non-residents in banking fell from 19.1% at the end of 2014 to 10.0% in the data for the end of 2019. The steepest fall was from 8.5% to 0.3% in clients from very high-risk jurisdictions, including low tax territories. The deposits of clients from outside the European Union were exactly 1% of the deposits in the banking sector at the end of 2019, having been 11.4% at the end of 2014.

Finantsinspektsioon developed its international cooperation in anti-money laundering work a great deal in 2019. Finantsinspektsioon was one of the instigators in creating a cooperation network between the financial supervision authorities of the Nordic and Baltic countries. In consequence there were many more meetings with financial supervisors from other countries than in 2018. Of the 250 or so meetings concerning money laundering that were held in 2019, 60 were with financial supervision authorities from foreign countries, which was twice as many as a year earlier. The head of the anti-money laundering department of Finantsinspektsioon also contributed directly to the fight against international money laundering by applying for the position of head of the European Council's anti-money laundering expert committee Moneyval.

The European Banking Authority (EBA), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the European Commission all assessed the anti-money laundering work of Finantsinspektsioon in 2019. On 16 April the EBA decided that Finantsinspektsioon had not broken European Union law in its supervision over Danske bank. It also decided not to issue any recommendations for changes to the current organisation of supervision. The IMF gave a positive opinion of the work of Finantsinspektsioon after its 2019 mission, and it noted that Finantsinspektsioon was one of the first institutions to take a risk-based approach to combating money laundering.

## FINANTSINSPEKTSIOON REQUIRE THE BANKS TO PRODUCE FORWARD-LOOKING PLANS FOR BAD TIMES

One of Finantsinspektsioon's aims is to prevent any insolvency of any bank hurting financial stability, and so to protect the funds of the public sector, depositors, investors and other clients.

In 2019 Finantsinspektsioon drew up, extended and updated the resolution plans of the important credit institutions operating in Estonia in cooperation with the resolution authorities of other countries.

By the end of the year Finantsinspektsioon had also drawn up and updated resolution plans for the less important institutions operating in Estonia as well. Minimum requirements for own funds and eligible liabilities were set for the less important banks. It also started drawing up resolution plans and minimum requirements for own funds and eligible liabilities for the investment firms operating in Estonia.

As the Nordic and Baltic banking sectors are closely interrelated, a Nordic and Baltic financial crisis exercise was run in 2019 to resolve a hypothetical crisis lasting for two weeks. The main aim of the exercise was to assess and improve the resolution capacity of the Nordic and Baltic institutions and their ability to work together internationally.

## LENDING TO CONSUMERS MUST BE RESPONSIBLE

The risk level of compliance with the risk requirements for responsible lending is shown by the share of overdue loans, meaning how much trouble consumers have in repaying their loans. This may indicate that a lender has lent in violation of responsible lending, which includes assessment requirements for credit capacity. To clarify what creditors have done about overdue loans, such as whether they have assigned them to third parties including bailiffs, Finantsinspektsioon carried out 71 remote inspections of consumer credit providers in the first half of the year. The inspection showed which share of overdue loans had increased, and the information received helped Finantsinspektsioon decide which consumer credit providers needed close supervision.

Finantsinspektsioon carried out on-site inspections of compliance with responsible lending requirements at three consumer credit providers in 2019. Following the inspections, a precept was issued to one of the consumer credit providers.

The precept required the creditor's internal rules to be brought into legal compliance in order to ensure that the consumer credit provider pay sufficient attention to checking the data submitted by consumers.

It was notable last year that a lot more attention was paid in lending supervision to collecting supervisory information better, so as to give a better view of the problems within the market. To get this information, Finantsinspektsioon met the Estonian Debt Counsellors Association in the second half of the year. Debt counsellors come across the clients who are most affected by the principles of responsible lending.

## ISSUING AND WITHDRAWING AUTHORISATIONS

One important joint project between the European Central Bank and Finantsinspektsioon in 2019 was the issue of a banking licence to Holm Bank AS. During this process Finantsinspektsioon exchanged numerous opinions with the European Central Bank and held telephone conferences.

Finantsinspektsioon issued authorisations to one creditor and one credit intermediary in 2019. At the decision of the management, the creditor CP Vara AS was removed from the list on the Finantsinspektsioon website. The authorisation of the creditor Blond Finance OÜ was withdrawn, also at the decision of management.

On 9 December 2019 Finantsinspektsioon granted AS Inbank authorisation to merge with the financing institution Akcinė bendrovė Mokilizingas, which operates in Lithuania.

The European Central Bank gave Luminor Bank AS an additional authorisation to issue covered bonds on 18 December 2019.

Sector and business	Decision of the Finantsinspektsioon Management Board	Date
<b>Creditor</b>		
Monefit Estonia OÜ	Additional authorisation issued to operate as a mortgage lender	08.07.2019
<b>Credit intermediary</b>		
Montonio Finance OÜ	Authorisation to operate as a credit intermediary was issued	01.07.2019

## ESTONIAN COMPANIES PROVIDING INTERNATIONAL SERVICES

Five banks wanted to provide international services in 2019.

Sector and business	Decision of the Finantsinspektsioon Management Board	Date of the decision granting the right to provide international services
AS Inbank	Authorisation was granted to provide international services to the Netherlands	21.01.2019
	Authorisation was granted to provide international services to Lithuania	17.06.2019
	Authorisation was granted to provide international services to Latvia	15.07.2019
AS LHV Pank	Authorisation was granted to provide international services to Spain and the Netherlands	13.05.2019
Coop Pank aktsiaselts	Authorisation was granted to provide international services to Spain and the Netherlands	05.08.2019
AS Swedbank	Authorisation was granted jointly with the European Central Bank to provide international services to Sweden, Denmark and Norway	13.08.2019
	Authorisation was granted to provide international services to Latvia, Lithuania and Finland	19.08.2019
Holm Bank AS	Authorisation was granted to provide international services to Germany and Austria	02.10.2019

One creditor also announced its intention to provide international services outside Estonia. Monefit Estonia OÜ wanted to provide international services in Romania, Norway and Italy, and to provide mortgage loans for residential property and other types of real estate purchases in European Union countries.

## GRANTING AUTHORISATIONS TO FOUND, CHANGE AND CLOSE A BRANCH OF AN ESTONIAN COMPANY IN A FOREIGN COUNTRY

Finantsinspektsioon granted authorisations to two Estonian banks to open branches in foreign countries in 2019. One bank changed the operating plan of its branch in another country, and the other bank closed its branch in the other country.

Sector and business	Decision of the Finantsinspektsioon Management Board or notification by the business	Date
<b>Banks</b>		
AS LHV Pank	Authorisation was granted to found a branch in the United Kingdom as a third country when the United Kingdom became a third country after its departure from the European Union	04.02.2019
Bigbank AS	Authorisation was granted to change the operating plan of the branch in Latvia	11.03.2019
AS Inbank	Authorisation was granted to found a branch in Lithuania	09.09.2019
Bigbank AS	Operations of the branch in Spain were terminated	02.10.2019

## SETTING UP OR CHANGING A BRANCH OF A FOREIGN BUSINESS IN ESTONIA OR TERMINATING ITS ACTIVITIES

Sector and business	Decision of the Finantsinspektsioon Management Board or notification by the business	Date of the decision of the Finantsinspektsioon Management Board or forwarding of notification
<b>Banks</b>		
Folkefinans AS Estonia branch	Changing the operating plan of the branch	20.05.2019
Nordea Bank Abp Estonia branch	Changing the operating plan of the branch	10.06.2019
Svenska Handelsbanken AB Estonia branch	Terminating the operations of the branch	23.09.2019
Nordea Bank Abp Estonia branch	Changing the operating plan of the branch	02.10.2019
Nordea Bank Abp Estonia branch	Changing the operating plan of the branch	25.11.2019
Danske Bank A/S Estonia branch	Terminating the operations of the branch	02.12.2019
Scania Finans AB Estonia branch	Terminating the operations of the branch	10.12.2019

## PROVIDING INTERNATIONAL FINANCIAL SERVICES IN ESTONIA

Financial institutions that operate in a country of the European Economic Area and want to provide international services in Estonia do not need to apply to Finantsinspektsioon for an authorisation. They may start operations in Estonia once the supervisory authority of their home country has passed on the necessary information to Finantsinspektsioon.

Provider of international services in Estonia	Number at the end of 2018	Number at the end of 2019
Banking services	351	372
Credit intermediation	22	33



# INSURANCE



**F**inantsinspektsioon carries out state supervision over insurance companies and insurance intermediaries that operate under an activity licence granted by Finantsinspektsioon.

Finantsinspektsioon assessed the capacity of insurers to manage risk

Finantsinspektsioon carried out risk analysis at all the insurance companies in 2019, and produced an SRP report from it. The report assessed the business model strategy, management system, financial position, insurance risk and market risk of the insurance companies, and their capacity to manage those risks sustainably.

An on-site inspection was carried out at one insurer. The inspection uncovered several shortcomings in the organisation of management and operation of key functions, in the calculation methodology used for capital requirements, and in the process for compiling and submitting reports. Finantsinspektsioon wrote a precept requiring the insurer to make good all the deficiencies and improve its systems to avoid any such errors in the future.

SEB Elu- ja Pensionikindlustus received authorisation from Finantsinspektsioon in 2019 to merge with the Latvian and Lithuanian insurers that are in the same group, and it will continue its operations as a branch of an insurer that has its head office in Latvia. Seesam Insurance wanted to go through the same process to become a branch of Compensa VIG, which has its head office in Lithuania. Branches must provide services under the rules of the country they operate in.

Changes to the law in 2019 allowed insurers to be set up as cooperatives as well. The same requirements will start to apply to cooperatives as to companies or to insurers operating as European businesses. Some insurers have already shown interest in entering the market.

## Authorisations

The life insurer Apdrošināšana akciju sabiedrība SEB Dzīvības apdrošināšana operating in Latvia was granted authorisation on 4 November 2019 to merge with the Estonian life insurer AS SEB Elu- ja Pensionikindlustus and the life insurer UAB SEB gyvybės draudimas operating in Lithuania.

## ENTRY INTO THE LIST OF INSURANCE INTERMEDIARIES AND DELETION FROM IT

Insurance brokers and insurance agents operated in Estonia as insurance intermediaries.

At the end of 2019, there were 40 insurance brokers listed as insurance brokers on the Finantsinspektsioon list of insurance intermediaries. There were also branches of seven foreign insurance brokers operating in Estonia at the end of 2019.

An insurance broker represents the interests of the policyholder. Finantsinspektsioon entered three insurance brokers into the list of insurance intermediaries in 2019, and deleted four insurance brokers from it.

Insurance broker	Decision of the Finantsinspektsioon Management Board	Date
Insta Insurance Broker OÜ	Deleted from the list of insurance intermediaries	Date of deletion: 22.01.2019
Luminor Kindlustusmaakler OÜ	Deleted from the list of insurance intermediaries	Date of deletion: 06.06.2019
Adele Kindlustusmaakler OÜ	Added to the list of insurance agents	Date of entry: 31.07.2019
K.Kindlustusmaakler OÜ	Deleted from the list of insurance intermediaries	Date of deletion: 23.08.2019
Coop Kindlustusmaakler AS	Added to the list of insurance agents	Date of entry: 29.11.2019
OÜ INZMO Support, formerly OÜ INZMO Kindlustusmaakler	Deleted from the list of insurance intermediaries	Date of deletion: 12.12.2019
InPro Insurance Brokers OÜ	Added to the list of insurance agents	Date of entry: 30.12.2019

An insurance agent represents the interests of the insurance company and intermediates its services. Insurance agents are entered into the list of intermediaries by the insurance company they represent.

## AUTHORISATION TO PROVIDE INTERNATIONAL SERVICES

Finantsinspektsioon approved the international merger of one Baltic insurance agent in 2019.

Finantsinspektsioon issued authorisation to provide international services to one insurance broker and one insurance agent in 2019. The initial information about the types of services was changed for one insurance broker.

Sector and business	Decision of the Finantsinspektsioon Management Board	Date when the right to provide international services was granted
<b>Insurance intermediary</b>		
AVC Advisory Kindlustusmaakler OÜ	Issue notification to all EMU countries of a change to the provision of international services	02.04.2019
Kominsur Kindlustusmaakler AS	Issue notification of the provision of international services in Bulgaria	13.06.2019
Cachet OÜ (insurance agent)	Issue notification of the provision of international services in Latvia	19.12.2019

Finantsinspektsioon issued authorisation to one insurer to provide international services in 2019

Sector and business	Decision of the Finantsinspektsioon Management Board	Date when the right to provide international services was granted
<b>Insurance company</b>		
If P&C Insurance AS	Issue notification of the provision of international services in Czechia	19.08.2019

## ISSUING AUTHORISATIONS TO FOUND AND CLOSE A BRANCH OF AN ESTONIAN COMPANY IN A FOREIGN COUNTRY

Finantsinspektsioon issued authorisation to one Estonian insurance agent to found a branch in a foreign country in 2019.

Sector and business	Decision of the Finantsinspektsioon Management Board or notification by the business	Date of issue of notification
<b>Insurance agent</b>		
Luminor Bank AS	Issue notification of the founding of a branch in Latvia	26.02.2019

## FOUNDING A BRANCH OF A FOREIGN BUSINESS IN ESTONIA OR TERMINATING ITS ACTIVITIES

Financial institutions that operate in a country of the European Economic Area and want to found a branch in Estonia do not need to apply to Finantsinspektsioon for an authorisation. They can start activities in Estonia once they have informed Finantsinspektsioon of their intentions through the financial supervisory institution of their own country and submitted all the appropriate data and documents. Finantsinspektsioon has the legal right where necessary in certain cases to make decisions or declarations defining the public interest requirements that the business must follow in Estonia. Finantsinspektsioon makes these decisions known through the financial supervision authority of the business's home country.

Sector and business	Date when the right to provide international services was granted
<b>Insurance broker</b>	
EDRAUDA, UADBB Estonia branch	04.06.2019

A branch of a foreign business that ended its activities in Estonia was the insurance broker BALTO LINK UADBB Estonia branch, which was deleted from the list of insurance intermediaries on 26 February 2019.

## PROVIDING INTERNATIONAL FINANCIAL SERVICES IN ESTONIA

Financial institutions that operate in a country of the European Economic Area and want to provide international services in Estonia do not need to apply to Finantsinspektsioon for an authorisation. They may start operations in Estonia once the supervisory authority of their home country has passed on the necessary information to Finantsinspektsioon.

Provider of international services in Estonia	Number at the end of 2018	Number at the end of 2019
Non-life insurance services	470	490
Life insurance services	111	115
Insurance brokerage services	1172	1346
Insurance agent services	1498	635



## PAYMENT AND E-MONEY SERVICES



The main focus in the payment institutions market in 2019 was undoubtedly open banking, which will make life easier for people, while at the same time evidently requiring them to be more careful about managing their finances. Open banking allows new service providers and solutions to operate so that one single service provider can show all the balances on accounts from different providers and allow payments to be initiated from them.

Open banking also means that more and more service providers from other European Union member states will appear in the Estonian payment services landscape, together with their bank cards and money transfer services. This free movement of services will encourage competition and make it easier and simpler to consume services, but those companies will need to be supervised by their home countries.

## PAYMENTS BECAME MORE SECURE

In September 2019 the European second Payment Services Directive PSD2, which creates the conditions for open banking, started to apply in Estonia, and it clarified the requirements for strong authentication and secure information exchange with clients. The directive is intended to promote innovation and to develop the electronic payments market so that it would be open to companies that provide payment initiation and account information services. This means that payment services providers will have to share client information with other companies if the client has given their agreement.

Banks and payment institutions that process payments were no longer allowed by law to use weak authentication in the form of code cards as of the start of 2019, and they moved in their electronic channels to strong authentication using ID cards, smart ID, mobile ID and PIN calculators.

As online commerce continues to be dominated by credit card payments, the European Banking Authority (EBA) proposed strong authentication for those payments as well in June last year. By the end of 2020 at the latest, authentication has to be more secure. During this transition period, Finantsinspektsioon is collecting information each quarter on the authentication methods used by payment services providers operating in the country.

## NOT EVERY SERVICE PROVIDER HAS TO APPLY FOR AN AUTHORISATION

Some payment service providers do not have to do apply for an authorisation to operate. The

exceptions have applied since the Payment Institutions and E-money Institutions Act came into force. In 2019, service providers that had a total turnover of payment transactions in the previous year of more than one million euros but that provided services in a limited form needed to send a notification to Finantsinspektsioon.

Finantsinspektsioon registers those service providers on its website or gives them a reasoned opinion on why they are not exempt from payment transactions and services. Finantsinspektsioon processed 10 such notifications in 2019 or continues doing so in 2020. It published information about this requirement to send notification on its website in 2018, giving guidelines for how to conduct the analysis and for the declarations required in advance of notification.

## WHAT IS AN E-MONEY INSTITUTION?

An e-money institution is a company that issues electronic money in its own name and has an authorisation to do so. E-money is an electronically saved value in a card, device, computer, mobile telephone or other piece of equipment or program that corresponds to an amount of money received.

## AUTHORISATIONS

Finantsinspektsioon withdrew authorisations from three payment institutions in 2019.

The e-money institution inHouse Pay AS was granted an authorisation to operate on 9 September 2019.



*Finantsinspeksioon carried out extraordinary anti-money laundering inspections in all the banks operating in Estonia in late 2018 and early 2019. The results were presented at a press conference by member of the Finantsinspeksioon management board Andre Nõmm, chair of the board Kilvar Kessler, and expert on preventing money laundering Matis Mäeker.  
Photograph: Liis Treimann / Äripäev*



*A Finantsinspeksioon press briefing on preventing money laundering. Pictured are member of the Finantsinspeksioon management board Andre Nõmm, chair of the board Kilvar Kessler, and head of division Matis Mäeker.  
Photograph: Konstantin Sednev / Postimees Grupp*



# INVESTMENT



**F**inantsinspektsioon carries out state supervision over investment firms, fund managers, and investment and pension funds that operate under authorisations granted by Finantsinspektsioon, and over the securities market. Supervision over branches of investment firms operating in Estonia is exercised by the supervision authority of the home country of the firm. Providers of international investment services are also supervised by the supervision authority of their home country.

## FUND MANAGERS HAD TO REPORT MORE

The focus on fund managers for Finantsinspektsioon in 2019 was on assessing their financial position, their compliance with requirements for own funds, the sustainability of their activities, and the impact analysis for how the possible reform of the second pension fund could affect pension fund managers.

Finantsinspektsioon set additional reporting requirements for two fund managers to ensure and monitor better compliance with the own funds requirements. It also sent a memo to all fund managers in the first half of 2019 reminding them that market participants have an obligation to send notification if their own funds fall by more than 5% or are below the permitted minimum level.

An on-site inspection was carried out at one fund manager concerning five risk areas. The inspection assessed general management, risk management, processes related to the functioning of internal control systems, rights for supervisory reporting, and the management and control of IT risks.

## FINANTSINSPEKTSIOON TESTED WHETHER THE BANKS ARE COMPLYING WITH THE LAW ON INVESTOR PROTECTION

Finantsinspektsioon tested in 2019 whether the banks were complying with European Union requirements for investor protection that were passed into Estonian law in the Securities Market Act. Finantsinspektsioon focused its attention on whether clients were being offered the securities and investment services that suited them, and whether their risk appetite and investment goals were being assessed at the same time.

An on-site inspection was carried out at one bank in 2019 to test whether the bank was providing investment services appropriately. Shortcomings were identified by the inspection in the activities and internal rules of the bank. Finantsinspektsioon will if necessary take additional supervisory measures in 2020 to eliminate the shortcomings that have already been identified.

Finantsinspektsioon held an information day in 2019 for market participants providing investment services that aimed to get immediate feedback on the operation, application and possible problems of the requirements they are subject to. To help guide market participants and ensure that investment services providers operate within the law, Finantsinspektsioon explained the applicable requirements and the principles of supervision.

## FINANTSINSPEKTSIOON USED STRICT CAPITAL REQUIREMENTS TO REDUCE THE RISKS OF INVESTMENT FIRMS

Finantsinspektsioon carried out supervision of investment firms in 2019 using the information received from supervisory reporting and notification requirements. It focused its attention on the exposures of investment firms to market risk and how those affect their general capitalisation, and on internal control systems. It also looked at how the exit of the United Kingdom from the European Union would affect assessments, and at the risks around the intermediation of cryptocurrencies.

It carried out one on-site inspection of an investment firm in 2019 and observed whether shortcomings identified during earlier inspections had been eliminated. It also ran remote inspections of the internal control systems of investment firms to look through the internal procedures of the firms.

Finantsinspektsioon has set elevated additional capital requirements for investment firms. The additional capital requirements totalled 17 million euros at the end of last year and the total capital requirement was 1.9 times larger than the capital requirement called for by the regulations.

Stricter requirements have been set at the European level on making complex investment products, known as packaged retail and insurance-based investment products (PRIIPs), available to retail inves-

tors by a regulation of the European Parliament and of the Council (the PRIIPs regulation). The requirements have been tightened to make complex investment products more transparent for retail investors and more comparable. Finantsinspektsioon wrote a memo in 2019 for market participants, which are banks, branches of foreign banks operating in Estonia, investment funds and fund managers, to explain its expectations about compliance with the requirements, which are intended to make complex investment products more available for retail investors.

## Authorisations

Tuleva Fondid AS received an additional authorisation on 19 August 2019 to manage a voluntary pension fund.

## MAKING FEES FOR INVESTMENT AND PENSION FUNDS MORE TRANSPARENT

There were many more proceedings in 2019 concerning investment and pension funds than there were in 2018. Changes to conditions and statutes were coordinated on 26 occasions. The large number of proceedings was a consequence of changes that came into force in early 2019 in the Investment Funds Act that removed the earlier 25/50/75% system for restricting risk from equities in mandatory pension funds and allowed fund managers to choose for themselves how much equity risk their pension funds would take on. The changes to the law also gave pension fund managers the right to start calculating success fees from the return on pension funds.

In the fourth quarter of 2018, Finantsinspektsioon started an on-site inspection at the registry AS Pensionikeskus that was completed in the first quarter of 2019. The inspection identified several shortcomings in the internal rules, the organisational management and operation, the information security framework, and business continuity. AS Pensionikeskus rectified the shortcomings and brought its internal rules and processes into line with the recommendations from Finantsinspektsioon.

Finantsinspektsioon assessed how the value of assets of mandatory pension funds was calculated and the net value of assets was defined at two pension fund managers in 2019. No significant shortcomings were identified during these on-site inspections.

Finantsinspektsioon carried out a remote inspection last year of how the rates for current fees were calculated at all pension fund managers. The rate for current fees indicates the amount of expenses taken from the fund and its unit holders in the previous calendar year. It is important for the rate of current fees to be recorded correctly, as it affects which pension fund investors choose. The remote inspection identified shortcomings in the calculation and recognition of the fees of trust funds. Finantsinspektsioon issued guidance to the market in 2019 explaining the Investment Funds Act §80(1) on the requirements for disclosing information on the fees and expenses of pension funds.

The most important event in the Estonian fund sector in 2019 was the start of the reform of the mandatory funded pension, which centred around making the second pension pillar voluntary. Finantsinspektsioon asked pension fund managers to carry out stress tests for related scenarios to help in assessing the resilience to the possible departure of pension investors and the realisation of their assets. Stress tests of the funds in connection with the reform of the second pillar of the pension system allowed assessment of how the reform would affect the liquidity of fund portfolios, and how ready fund managers were for the exit of a significant part of their pension investors. The results of the stress tests of pension funds showed that their liquidity level was generally good, but some individual funds could face liquidity problems if a lot of pension investors all exited at once.

## REGISTRATION OF INVESTMENT AND PENSION FUNDS, CHANGES TO CONDITIONS, AND OTHER PROCEDURES

Finantsinspeksioon coordinated the terms and conditions of three new investment firms in 2019. These investment funds were the 100% Swedbank Pensionifond V100 indeks, a voluntary pension fund with 100% equity risk and restricted withdrawals managed by Swedbank Investeerimisfondid AS; the SEB Pensionifond 100, an actively managed 100% equity risk mandatory pension fund managed by AS SEB Varahaldus; and the Tuleva III Samba Pensionifond, a passively managed voluntary pension fund managed by Tuleva Fondid AS. On top of that, changes to the conditions of 26 investment funds were coordinated.

Investment and pension funds	Decision of the Finantsinspeksioon Management Board	Date
Swedbank Pensionifond V100 indeks (restricted withdrawal)	Conditions of the new investment fund to be coordinated	21.01.2019
Avaron Areneva Euroopa Fond	Changes in conditions to be coordinated	22.04.2019
LHV Pensionifond Eesti	Changes in conditions to be coordinated	29.04.2019
LHV Pensionifond XS	Changes in conditions to be coordinated	29.04.2019
LHV Pensionifond S	Changes in conditions to be coordinated	29.04.2019
LHV Pensionifond M	Changes in conditions to be coordinated	29.04.2019
LHV Pensionifond L	Changes in conditions to be coordinated	29.04.2019
LHV Pensionifond XL	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond K1	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond K2	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond K3	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond K4	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond K1990-1999 (life-cycle strategy)	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond V1	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond V2	Changes in conditions to be coordinated	29.04.2019
Swedbank Pensionifond V3	Changes in conditions to be coordinated	29.04.2019
Luminor A Pluss Pensionifond	Changes in conditions to be coordinated	06.05.2019
Luminor A Pensionifond	Changes in conditions to be coordinated	06.05.2019
Luminor B Pensionifond	Changes in conditions to be coordinated	06.05.2019
Luminor C Pensionifond	Changes in conditions to be coordinated	06.05.2019
SEB Konservatiivne Pensionifond	Changes in conditions to be coordinated	13.05.2019
SEB Optimaalne Pensionifond	Changes in conditions to be coordinated	13.05.2019
SEB Progressiivne Pensionifond	Changes in conditions to be coordinated	13.05.2019

Investment and pension funds	Decision of the Finantsinspektsioon Management Board	Date
SEB Energiline Pensionifond	Changes in conditions to be coordinated	13.05.2019
SEB Energiline Pensionifond Indeks	Changes in conditions to be coordinated	13.05.2019
SEB Pensionifond 100	Conditions of the new investment fund to be coordinated	12.08.2019
Tuleva Maailma Aktsiate Pensionifond	Changes in conditions to be coordinated	19.08.2019
Tuleva Maailma Völakirjade Pensionifond	Changes in conditions to be coordinated	19.08.2019
Tuleva III Samba Pensionifond	Conditions of the new investment fund to be coordinated	02.10.2019

### ISSUING AUTHORISATIONS TO FOUND AND CLOSE A BRANCH OF AN ESTONIAN COMPANY IN A FOREIGN COUNTRY

Finantsinspektsioon did not issue any authorisations to fund managers to found a branch in a foreign country in 2019.

### PROVIDING INTERNATIONAL FINANCIAL SERVICES IN ESTONIA

Provider of international services in Estonia	Number at the end of 2018	Number at the end of 2019
Fund management services	83	19
International provision of investment funds	154	78
Investment services	1931	2013

### SMALL FUND MANAGERS MUST REGISTER THEIR ACTIVITIES

Small fund managers, which do not apply to Finantsinspektsioon for an authorisation, must register their activities. Finantsinspektsioon registered the activity of eight small fund managers without authorisations in 2019. There are 29 small fund managers registered in Estonia without authorisations. A small fund manager operating without an authorisation is not permitted to offer its funds to the public, and Finantsinspektsioon does not supervise such funds. Registration is primarily needed for supervisory reporting and statistics.



# THE SECURITIES MARKET



**F**inantsinspektsioon monitors trading in securities and releases of information by listed companies in the regulated market of the Tallinn exchange run by Nasdaq Tallinn and the First North alternative market. At the end of 2019 Finantsinspektsioon was supervising 28 issuers on the exchange. Six of these were Estonian resident issuers whose securities were not traded on the Estonian regulated market. There was a notable increase in 2019 in the number of securities issuers from Estonia whose securities were traded on the Warsaw exchange.

## INVESTORS SHOULD EXAMINE THE PROSPECTUS BEFORE INVESTING

Before offering its securities to the public and trading them on the regulated market, a company must register its prospectus with Finantsinspeksioon. Prospectuses for the public sale, listing and trading of five new share issues and two bond issues were registered in 2019. Finantsinspeksioon also registered two supplements to prospectuses. One new issuer, Coop Pank AS, joined the Tallinn exchange. The remaining prospectuses came from issuers of securities that had already been accepted earlier for trading on the Tallinn exchange.

Securities can also be publicly offered in Estonia using a prospectus registered with the financial supervision authority of another country in the European Economic Area if the authority that has registered the prospectus has informed Finantsinspeksioon of this. Finantsinspeksioon was informed in 2019 of 12 such public international offers. Securities using a prospectus registered with Finantsinspeksioon can also be offered in other countries of the European Economic Area if Finantsinspeksioon informs the supervision authority of the country where the securities will be offered after the prospectus has been registered. Finantsinspeksioon gave notification of two such international offers in 2019.

## INVESTORS SHOULD HAVE EQUAL ACCESS TO INFORMATION FROM LISTED COMPANIES

Finantsinspeksioon supervises issuers of securities and the information that they publish. Securities issuers must save the published information in the central OAM system managed by Finantsinspeksioon to ensure public access to information published by listed companies. This information covers everything that the issuer has a duty to publish.

The European Commission wants to connect the OAMs of the countries of the European Union into a single electronic entry point EEAP, which would allow investors to find data on issuers accepted for trading in Europe. Modernisation of the central storage system managed by Finantsinspeksioon for managing information started in 2019.

Exchange issuers have to produce their financial reports within specified time limits. During the year Finantsinspeksioon examined the annual reports of six issuers, and the interim financial reports of four, assessing their compliance with the requirements and their public presentation. The annual reports of five issuers were examined for whether the issuer is following the guidelines issued by the European Securities and Markets Authority (ESMA) on publishing alternative indicators for return. It was confirmed that the nine issuers who are obliged by the Accounting Act to disclose information other than financial information, such as information on environmental issues, human rights and anti-corruption efforts, had done so.

From 1 January 2020, issuers have to publish their initial annual reports in the machine-readable European Single Electronic Format (ESEF). Electronic labelling means that investors and other interested parties can interpret information faster and in larger amounts.

## TAKEOVER BIDS ALLOW EXIT FROM THE OWNERSHIP OF LISTED COMPANIES

Takeover bids for listed companies have to be coordinated with Finantsinspeksioon. The priority for Finantsinspeksioon is to make sure that all the important information on the bid is published in the prospectus for the takeover. With a mandatory takeover bid, Finantsinspeksioon estimates whether the price meets the criteria set by law. With a voluntary takeover bid Finantsinspeksioon does not coordinate the takeover price, as it is set by the buyer.

There was a public offering of the shares of AS Baltika in 2019, which then obliged the Baltika shareholder KJK Fund SICAV-SIF (in liquidation) to make a takeover bid for all the Baltika shares. Finantsinspeksioon coordinated the compulsory purchase of all of the shares of AS Baltika with KJK Fund SICAV-SIF.

## CRIMINAL ACTIVITY IS NOT PERMITTED IN THE SECURITIES MARKET

Once the securities of a listed company have been accepted for trading, Finantsinspektsioon supervises transactions made with those securities. During trading, Finantsinspektsioon identifies suspicious securities transactions itself, and it also investigates suspicious transactions and transaction orders that have been identified by market participants.

By the end of 2019 Finantsinspektsioon was supervising the trading of 26 securities on the regulated Tallinn exchange and four securities on the alternative market.

Market participants who have the right to do so may make transactions with securities in the securities market. Traders have a duty to inform Finantsinspektsioon of suspicious transactions and transaction orders on the regulated market. Finantsinspektsioon is informed of suspicions if the trader making the transaction or the issuer of the transaction order may be trying to hold the price of the security at an artificial level or move it to an artificial level. Suspicions are also passed on about the use or planned use of insider information for transactions. Market participants sent Finantsinspektsioon 91 reports of suspicious transactions and transaction orders in the securities market.

The MiFID II packet of regulations that came into force at the start of 2018 created a new paradigm in transaction reporting. This was designed to increase investor protection by adding additional obligations for providers of investment services, which are mainly banks and investment firms, and also fund managers and exchange operators providing investment services. Providers of investment services have an obligation to avoid, identify and resolve conflicts of interest within investment firms, and they also have an increased duty of care in selling and securing investment products to clients, so that client transaction orders are carried out in the best way possible. On top of that providers of investment services have to pass on information about transactions to Finantsinspektsioon. This has put the IT capabilities of both European market participants and supervision authorities to the test. Looking back over 2019 it can be said with confidence that Finantsinspektsioon has kept up with developments and successfully handled around 18 million transactions.

### THREE QUESTIONS ABOUT SUSPICIOUS TRANSACTIONS

#### **Who has an obligation to report suspicious transactions?**

Market participants must themselves report suspicious securities transactions or transaction orders to Finantsinspektsioon.

#### **What sort of suspicious transactions should be reported to Finantsinspektsioon?**

Finantsinspektsioon should be informed if the trader making the transaction or the issuer of the transaction order may be trying to hold the price of the security at an artificial level or move it to an artificial level. It should also be informed if it is suspected that the market participant has used or is planning to use insider information for transactions.

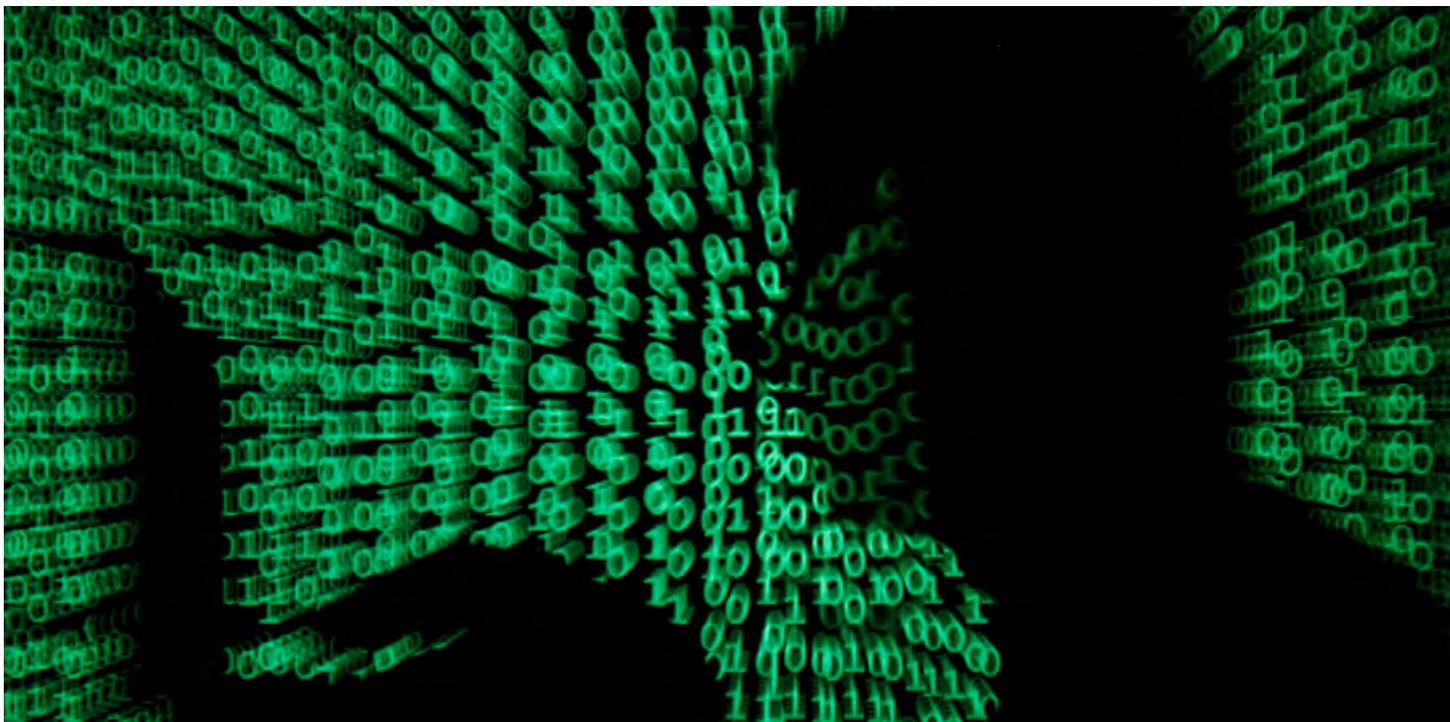
#### **How does Finantsinspektsioon react if somebody reports a suspicious transaction?**

It depends on what is reported. Further supervision proceedings can be taken in response to the information, or misdemeanour proceedings may be initiated or a criminal complaint submitted.

## HOW SHOULD SUSPICIONS BE REPORTED?

Anybody who suspects that an action may have broken the law can inform Finantsinspektsioon about this. This can be done by calling +372 668 0555, where calls are not recorded, or by emailing turukuri-tarvitus@fi.ee, writing to Finantsinspektsioon, Sakala 4, 15030 Tallinn, or using the online form. Anyone giving Finantsinspektsioon information under the market abuse regulations is not breaking any confidentiality agreement or the limits imposed by legal or administrative standards, and so holds no liability as a result of sharing this information.

If the information submitted leads Finantsinspektsioon to suspect that the law has been broken, it can start misdemeanour proceedings or inform the prosecutor and the police of the criminal act. If you informed us about the breach of the law you may be called as a witness in any criminal proceedings. To maintain confidentiality for you, your witness statement will not give information on how you informed us and will not connect you with the information we received about the breach of the law. For more on whistleblowers see also § 50<sup>2</sup> and § 53<sup>3</sup>.



*Finantsinspektsioon supervises transactions with securities, and it identifies suspicious securities transactions and investigates suspicious transactions and transactions orders that have been identified by market participants.*



## THE LEGAL ENVIRONMENT



The main legislative events for Finantsinspektsioon in 2019 concerned the reform of the penalties for misdemeanours. The state's plan to bring Estonia's penalty rates for the financial sector into line with those set in European Union law is welcome. This means that some penalties will be a thousand times higher, but under current circumstances this is very necessary. Finantsinspektsioon has earlier insisted, and did so again with the draft of the reform, that misdemeanour penalties in the financial sector should be replaced with fines under administrative law. There are several reasons for this; the misdemeanour is not an appropriate form for the financial sector as the concept of secondary liability applies in misdemeanour proceedings, the proceedings are exceedingly complex and time-consuming, and the period of limitation is too short. This means there is no certainty of any immediate, appropriate and rapid process as would be required when the infraction is discovered.

## FINANTSINSPEKTSIOON WAS TAKEN TO COURT ON TWO OCCASIONS

Finantsinspektsioon was sued twice in 2019 and both cases are ongoing.

Nexo Services OÜ, Nexo Capital Inc and Credissimo EAD filed a complaint with the Tallinn Administrative Court on 21 March 2019 that the warning issued by Finantsinspektsioon on 4 March 2019 was unlawful and looking to oblige Finantsinspektsioon to retract the publication of the warning and remove it from its website. The case is still ongoing. The case will make it clear whether the warning rules of Finantsinspektsioon are legally adequate and whether the whole framework functions.

GFC Good Finance Company AS, GFC Holding OÜ, Tiiu Järviste, Andrii Danchaki and Lada Riisna filed a complaint with the Tallinn Administrative Court on 26 June 2019 asking Finantsinspektsioon to annul its decision of 27 May 2019 or to accept the illegality of that decision. They also wanted the publication of the decision to be recognised as unlawful and to receive compensation for it, and they wanted Finantsinspektsioon to reject the allegedly inaccurate data published on 28 May 2019 about GFC Good Finance Company AS or to find the published valuations illegal.

They requested that any decision by Finantsinspektsioon or press releases published by it should not be public, and they wanted to prevent Finantsinspektsioon from submitting certain statements during the court proceedings. The court has not applied interim relief, and so GFC Good Finance Company AS is no longer a payment institution. The case is still ongoing. The possible outcome of the case is important for connections between decisions about the financial sector and state responsibility.

## GUIDELINES AND REQUIREMENTS FROM FINANTSINSPEKTSIOON

Decision of the Management Board		Name of the guideline
1	11.02.2019 (no 1.1-7/24)	Guidelines on the conditions to benefit from an exemption from the contingency mechanism under Article 33 (6) of Regulation (EU) 2018/389 (RTS on SCA & CSC)
2	26.02.2019 (no 1.1-7/28)	Revised guidelines on the supervisory review and evaluation process and on common procedures and methodologies for supervisory stress testing, amending Guideline EBA/GL/2014/13 of 19 December 2014
3	26.02.2019 (no 1.1-7/29)	Guideline on managing the interest risk coming from foreign activity with a trading portfolio
4	26.02.2019 (no 1.1-7/30)	Guidelines for stress tests at financial institutions
5	1.04.2019 (no 1.1-7/44)	Standard securitisation criteria for asset-backed commercial securities
6	1.04.2019 (no 1.1-7/45)	Guidelines on standard securitisation criteria for securitisation of non-asset-backed commercial securities
7	22.04.2019 (no 4.1.1/56)	Guidelines on defining the types of exposures to high risk
8	03.06.2019 (no 1.1-7/72)	Guidelines on CCP conflict of interest management
9	03.06.2019 (no 1.1-7/73)	Guidelines on management of non-performing and forborne exposures
10	03.06.2019 (no 1.1-7/74)	Requirements for marketing insurance
11	10.06.2019 (no 1.1-7/78)	Guidelines on EMIR anti-procyclicality margin measures for central counterparties
12	17.06.2019 (no 1.1-7/81)	Guidelines on disclosure of non-performing and forborne exposures
13	27.06.2019 (no 1.1-7/82)	Guidelines on internalised settlement reporting and Article 9 of CSDR
14	05.08.2019 (no 1.1-7/92)	Guidelines on outsourcing arrangements
15	05.08.2019 (no 1.1-7/93)	Requirements regarding the arrangement of operational risk management

Decision of the Management Board		Name of the guideline
16	05.08.2019 (no 1.1.-7/98)	Guidelines for the estimation of LGD appropriate for an economic downturn
17	12.08.2019 (no 1.1.-7/104)	Guidelines on the application of C6 and C7 of Annex 1 of MiFID II
18	19.08.2019 (no 1.1.-7/108)	Guidelines on non-significant benchmarks and the benchmarks regulation
19	16.09.2019 (no 1.1.-7/120)	Guidelines for the insurance sector in light of the United Kingdom withdrawing from the European Union
20	18.11.2019 (no 1.1.-7/151)	Guidelines on risk factors in the prospectus regulation

Further information on guidelines and requirements can be found on the Finantsinspektsioon website: <https://www.fi.ee/et/juhendid>

## ANALYSIS OF SIGNIFICANT PARTICIPATION

Finantsinspektsioon processed applications from 106 parties for significant participation in 26 supervised entities. Authorisation was granted to 51 parties at 13 supervised entities. Authorisation for significant participation in the banks is granted by the European Central Bank, but whether the applicant meets the legal requirements is assessed jointly by Finantsinspektsioon and the European Central Bank. Finantsinspektsioon carries out the initial assessment and drafts a proposal for acceptance or rejection that is sent to the European Central Bank. Finantsinspektsioon sent the European Central Bank such assessments of 29 people for two supervised entities.

The significant participation procedures were not processed for eight individuals at three supervised entities, and applications were withdrawn by 18 individuals at eight supervised entities.

## SIGNIFICANT PARTICIPATION IN NUMBERS

Among the banks Finantsinspektsioon, working with the European Central Bank, granted authorisation for 29 individuals to acquire significant participation in two supervised entities. Applications were withdrawn by five individuals from two supervised entities.

Among fund managers Finantsinspektsioon granted authorisation for 28 individuals to acquire significant participation in two supervised entities.

Among investment firms Finantsinspektsioon granted authorisation for one individual to acquire significant participation in one supervised entity. The significant participation procedures were not processed for two individuals at one supervised entity.

Among payment and e-money institutions Finantsinspektsioon granted authorisation for seven individuals to acquire significant participation in three supervised entities. The significant participation procedures were not processed for three individuals at one supervised entity, and applications were withdrawn by three individuals at two supervised entities.

Among creditors and credit intermediaries Finantsinspektsioon granted authorisation for 15 individuals to acquire significant participation in seven supervised entities. The significant participation procedures were not processed for three individuals at one supervised entity, and applications were withdrawn by ten individuals at four supervised entities.

## THE MOST NOTABLE CHANGE IN SIGNIFICANT PARTICIPATION WAS AT LUMINOR

The most important significant participation proceedings for Finantsinspektsioon in 2019 related to Luminor Bank AS, which changed its owners. The European Central Bank, working together with Finantsinspektsioon, issued authorisation on 6 September 2019 for funds managed by the US financial institution Blackstone to take a majority share in the Luminor Group. The result of the transaction was

that the new owner of Luminor Bank AS was the Estonian business Luminor Holding AS, of which 60.1% was owned by the Blackstone Group and its joint investor ADIA. Nordea and DNB each retained 19.95% of the Luminor Group.

The significant participation proceedings have become more international than in earlier years. Ownership structures have become more complicated and there has been an increase in the number of businesses and individuals from European Union countries and from third countries who want to take a significant participation in the ownership of Estonian entities that are subject to financial supervision. The owners may underestimate though how much the requirements stated by law will be applied to them. Anyone holding significant participation must have a spotless reputation and must be trustworthy if they want to be involved in the financial sector. This is one reason why more applications were not processed than earlier and why more of them were withdrawn.

### **FINANTSINSPEKTSIOON REFUSED 12 CANDIDATES FOR MANAGEMENT**

Finantsinspektsioon assessed the suitability for management of 272 people in 2019. The largest group of them were the 78 in the banking sector, followed by 56 in insurance and 54 at payment institutions. Finantsinspektsioon gave permission to work in the financial sector in 187 of the cases but in 85 cases the suitability assessment was not completed by Finantsinspektsioon. In 12 of those cases Finantsinspektsioon refused permission.

Each suitability assessment lasted on average 154 days last year, which is a reasonable time given the length of the entire process. The new instructions and the questionnaire attached to them that were introduced at the end of 2018 certainly played a role in the suitability proceedings, and have shortened the time required for them.

### **MISDEMEANOUR PROCEEDINGS, WARNINGS AND CRIMINAL COMPLAINTS**

Finantsinspektsioon completed four misdemeanour proceedings in 2019, of which two concerned credit institutions. There were also cases at an insurance broker and a payment institution.

Finantsinspektsioon submitted five complaints of criminal activity in 2019, one concerning a payment institution and four concerning individuals who did not have authorisation to operate.

One precept was issued to a securities issuer in 2019 requiring it to publish its annual report. As the issuer was not able to comply with the precept within the deadline, it was given a penalty of 15,000 euros.

Finantsinspektsioon publishes warnings at its own initiative when it becomes clear that investment services are being offered in Estonia without the appropriate authorisation. It also publishes warning notifications issued by other European financial supervision authorities. Finantsinspektsioon published 933 warning notifications in 2019, which was substantially more than the 583 published in the previous year. Of those warnings, 30 were written and published at the initiative of Finantsinspektsioon.



*Finantsinspeksioon assessed the suitability for management of 272 people in 2019.*



## CONSUMER COMPLAINTS



Consumers of financial services can contact Finantsinspeksioon if there are misunderstandings in the relationship with their financial service provider, which may be a bank, insurer or other financial services company, or if they are not happy with the actions of the financial service provider. Finantsinspeksioon can use the complaint to make a supervisory enquiry of the financial institution to ask for explanations and to test whether it is acting in full compliance with the law.

## FINANTSINSPEKTSIOON RECEIVED 233 COMPLAINTS ABOUT FINANCIAL SERVICES PROVIDERS

Finantsinspektsioon received 233 complaints in 2019. The most common complaint about banks concerned the completion of settlements, mainly payment transactions, but there were also complaints about banks refusing to create client relationships or deciding to end client relationships.

The most common complaints about creditors and credit intermediaries concerned the cost of credit and the execution of contractual obligations. The most common disputes in insurance were about compensation for losses, especially refusal to compensate losses and the size of the compensation, though also about the length of the procedures in cases of loss and the methods for compensating loss.

Finantsinspektsioon is not responsible for resolving the complaints submitted to it, but it can have a role in explaining the law and in giving the complainant advice on where to take the complaint for resolution. Registration and systematisation of client complaints gives Finantsinspektsioon a general picture of the main arguments in the market for financial services, which helps in applying the risk-based supervisory model in supervision of services.

Finantsinspektsioon carried out a remote inspection of all banks, creditors and credit intermediaries to assess whether their activities and internal rules met the requirements for handling client complaints. The focus was on the function and procedure for handling customer complaints, the registration of complaints, reporting, communication of information on the handling of complaints, and control of the rules for follow-up in handling complaints, as following those rules makes sure that customer complaints are handled consistently and that clients are adequately protected in the process. The inspections also concerned investment firms, fund managers, payment institutions and e-money institutions. No significant shortcomings were found during the inspection.

### NUMBER OF COMPLAINTS SENT TO FINANTSINSPEKTSIOON BY SECTOR

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Banking services	88	101	80	64	72	78	102	92	121	139
Insurance including insurance intermediation	89	45	34	33	33	31	45	44	45	42
Creditors and credit intermediaries							19	47	23	39
Other including unspecified	5	4	2	5	5	3	3	8	3	13
<b>Total</b>	<b>181</b>	<b>148</b>	<b>119</b>	<b>102</b>	<b>108</b>	<b>112</b>	<b>174</b>	<b>186</b>	<b>196</b>	<b>233</b>

### NUMBER OF COMPLAINTS SENT TO FINANTSINSPEKTSIOON IN 2019 BY SERVICE TYPE AND SERVICE PROVIDER

	Number of complaints
Settlements	86
Loans/credit	74
Third party motor vehicle insurance	16
Asset insurance	14
Investment services	12
Motor vehicle insurance	9

	Number of complaints
II and III pension pillars	6
Leases	4
Deposits	2
Life insurance	2
Fund management	2
Accident insurance	2
Insurance for legal costs	1
Civil liability insurance	1
Other including unspecified	5

#### NUMBER OF COMPLAINTS SENT TO FINANTSINSPEKTSIOON BY SERVICE PROVIDER

	Number of complaints in 2018	Number of complaints in 2019	Market share in the sector
Swedbank AS	37	38	46%
AS SEB Pank	25	25	23%
Luminor Bank AS	10	25	10%
Bondora AS	6	18	0%
AS LHV Pank	13	15	14%
Danske Bank A/S Estonia branch	8	7	0%
AB Lietuvos draudimas Estonia branch	7	7	16%
ERGO Insurance SE	2	6	16%
Coop Pank aktsiaselts	5	5	2%
AS TBB pank	2	5	1%
GFC Good Finance Company AS	1	5	-
AAS BTA Baltic Insurance Company Estonia branch	6	4	7%
If P&C Insurance AS	5	4	18%
Luminor Liising AS	2	4	17%
AB Kreditex AS	-	4	1%
Swedbank P&C Insurance AS	4	3	19%
Aktsiaselts INGES KINDLUSTUS	4	3	2%
Bigbank AS	2	3	1%
Inbank AS	2	3	2%

	Number of complaints in 2018	Number of complaints in 2019	Market share in the sector
Seesam Insurance AS	2	3	9%
Compensa Life Vienna Insurance Group SE	1	3	17%
Ferratum Bank plc	3	2	-
Admiral Markets AS	-	2	66%
Holm Bank AS	-	2	0%
AS Citadele banka Estonia branch	2	2	0%
Coop Finants AS	2	2	5%
PLACET GROUP OÜ	1	2	2%
TF Bank AB (publ.) Estonia branch	1	2	0%
Bondkick AS	-	2	-
Akciné draudimo bendrové Gjensidige Estonia branch	4	1	2%
Koduliising AS	2	1	-
CHB Kindlustusmaakler OÜ	-	1	5%
AS KIT Finance Europe	-	1	31%
IIZI Kindlustusmaakler Aktsiaselts	1	1	33%
Salva Kindlustuse AS	-	1	6%
Express Credit AS	1	1	-
Creditstar Estonia AS	1	1	2%
Luminor Pensions Estonia AS	-	1	8%
Swedbank Liising AS	-	1	26%
BB Finance OÜ	1	1	1%
Invest In OÜ	-	1	0%
Satabank plc	-	1	-
Nordea Bank Finland Plc Estonia branch	-	1	-
AS Pensionikeskus	-	1	-
Hüpoteeklaen AS	1	1	1%
Ühisraha OÜ	-	1	10%
Unnamed service provider	12	10	-

\* Market share as at the end of 2019. Market shares in insurance are calculated from insurance premiums and do not include reinsurance. Market shares in banking are calculated from client deposits, those for fund managers from fund assets, those for investment firms from asset volumes, those for creditors from the loan stock, and those for credit intermediaries from turnover. The data do not cover subsidiaries, associated enterprises or branches.



*The most common complaint to Finantsinspektsioon about banks concerned settlements. There were also complaints about banks refusing to create client relationships or deciding to end them.*



INTERNATIONAL COOPERATION  
AND PUBLIC COMMUNICATIONS



**F**inantsinspektsioon can contribute to designing the financial supervisory policy of the European Union through the European supervisory authorities, which are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities Market Authority (ESMA). The European Systemic Risk Board (ESRB) is also part of the European system of financial supervisors, and handles macro supervision. Staff from Finantsinspektsioon are involved in the work of all these supervisory bodies and their working groups, and attended a total of 105 meetings of 41 working groups and committees in 2019.

Changes to the statutes of the European supervisory institutions were approved in 2019 that concerned the management of institutions, their duties and their mandates. Efforts were focused on the financial sector being ready for the departure of the United Kingdom from the European Union.

## THE EUROPEAN BANKING AUTHORITY (EBA)

It is the job of the European Banking Authority to set effective single standards for credibility and to supervise compliance with them. Finantsinspektsioon adopted 11 EBA guidelines and one recommendation in 2019. Finantsinspektsioon representatives attended seven meetings and one teleconference of the Board of Supervisors and participated in 14 working groups of the EBA. Andres Kurgpõld, a member of the Finantsinspektsioon Management Board, is a voting member of the Board of Supervisors of the EBA, and the alternate member is Chair of the Finantsinspektsioon Management Board Kilvar Kessler.

The Board of Supervisors of the EBA focused in 2019 on preparing for pan-European banking stress tests in 2020 and on changes to the methodology for them, on the transparency exercises in 2019, implementation of Basel III standards, analysis of the risks and opportunities from financial innovation, improving customer protection, and preventing money laundering. One decision taken was that the Estonian and Danish financial supervisors did not break European law in supervising Danske Bank A/S Estonia branch, and the investigation that had been started was terminated.

## THE EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

The role of the European Insurance and Occupational Pensions Authority is to promote a strong legal framework and single supervisory culture in insurance and occupational pensions. Finantsinspektsioon adopted one EIOPA recommendation in 2019. Finantsinspektsioon representatives attended six meetings of the Board of Supervisors and participated in 10 working groups in the EIOPA network.

Chair of the Finantsinspektsioon Management Board Kilvar Kessler is a voting member of the Board of Supervisors of the EIOPA, and the alternate member is Andres Kurgpõld, a member of the Finantsinspektsioon Management Board.

The main focus of the EIOPA in 2019 was on preparing the Solvency II directive for review in 2020. It also prepared for climate sensitivity tests in 2020 and discussed future changes to the stress testing methodology. There was further focus on handling financial innovation and technology, and on promoting consumer protection.

## THE EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

The role of the European Securities and Markets Authority is to make investor protection more effective and promote stability and efficient functioning in financial markets. Finantsinspektsioon adopted six ESMA guidelines in 2019. Finantsinspektsioon representatives attended six meetings of the Board of Supervisors and five teleconferences, and its experts participated in 15 ESMA working groups and committees. Andre Nõmm, a member of the Finantsinspektsioon Management Board, is a voting member of the Board of Supervisors of the ESMA, and the alternate member is Chair of the Finantsinspektsioon Management Board Kilvar Kessler.

The main focus for ESMA in 2019 was on implementing MiFID II/MiFIR and the prospectus regulation, improving the quality of data submitted for reporting, and monitoring action plans for the capital markets union and financial innovation and the introduction of direct supervision.

## THE EUROPEAN SYSTEMIC RISK BOARD (ESRB)

Finantsinspektsioon works together with Eesti Pank at the European Systemic Risk Board (ESRB), which operates at the European Central Bank. The ESRB is responsible for supervising the financial system at the macro level, and for preventing and minimising systemic risks. Finantsinspektsioon is a non-voting member of the General Board of the ESRB, which is its highest decision-making body, and is a full member of the Advisory Technical Committee (ATC) of the ESRB. Representatives of Finantsinspektsioon attended four meetings of the General Board in 2019, one meeting of the Advisory Technical Committee and two meetings of working groups.

## OTHER INTERNATIONAL WORK

Finantsinspektsioon participates in supervisory colleges for banking and insurance and in resolution colleges to make supervision over banks and insurers and over resolution of them as efficient as possible, and to make cooperation between the institutions responsible in different countries as effective as possible.

Finantsinspektsioon is a member of the International Association of Insurance Supervisors (IAIS), the Group of Banking Supervisors from Central and Eastern Europe (BSCEE), the International Organization of Securities Commissions (IOSCO), and the international financial education network of the Organisation for Economic Co-operation and Development (OECD). It also promotes cooperation between Nordic and Baltic countries in the Nordic-Baltic Macprudential Forum (NBMF) and the Nordic-Baltic Stability Group (NBSG). The Nordic-Baltic Stability Group carried out a crisis simulation exercise in early 2019, which was attended by 31 institutions from Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden, and from the European Union.

In 2019 Finantsinspektsioon received visits from several rating agencies as part of their regular assessments, and it met representatives of the International Monetary Fund (IMF) in their annual Article IV assessment visit.

### **FINANTSINSPEKTSIOON HAS UPDATED THE CONSUMER WEBSITE MINURAHA.EE**

Financial intermediaries are constantly bringing new products and services to the market or adding new options to their current offers. To help improve the financial literacy of the Estonian public, Finantsinspektsioon set up the consumer website [minuraha.ee](http://minuraha.ee) 10 years ago. It introduced a more user-friendly and easier to use version of the website in 2019.

Minuraha.ee offers independent advice on the financial services and products that are on the market. The main information website is grouped by subject area under banking, insurance, investment, and pensions. The latest news and most popular information can be found on the front page.

The new site has more of a focus on making information easy to find. The whole website is also easier to use on mobile devices than before, and the design of the website has taken accessibility fully into consideration, so that it is easy to use for the visually impaired for example. The information architecture and design of the website have changed, and it now has a lot more pictures, charts and infographics. The website has information on how to plan financial affairs and to budget, and it offers comparison of the payment services and the prices of them in typical payment accounts.



INCOME AND EXPENSES OF  
FINANTSINSPEKTSIOON



## CALCULATION PRINCIPLES

### GENERAL

The Finantsinspektsioon annual profit and loss account has been prepared in accordance with the Financial Supervision Authority Act and the accounting principles detailed here. Under the Eesti Pank Act, Finantsinspektsioon does not pay income tax or any other taxes related to its economic activities to the state budget, except taxes related to natural persons. Under Section 21 of the Value Added Tax Act, Finantsinspektsioon is registered as a taxable person with limited liability and calculates the value added tax from the supply of intra-Community acquisition or imports of goods and services. Income and expenses are recorded during the accounting period on an accrual basis regardless of when cash was received or paid. The profit and loss account has been prepared on the historical cost basis. Claims for supervision fees reflect claims submitted to subjects of supervision for supervision fees to be paid within the deadline set in the Financial Supervision Authority Act. The profit and loss account has been prepared in thousands of euros unless indicated otherwise.

### Transactions in foreign currency

All currencies except the euro, which is the currency of account for Finantsinspektsioon, are considered foreign currency. Transactions in foreign currency are recorded using the official daily fixings of the European Central Bank at the transaction date.

### Operating leases

An operating lease is a lease where the significant risks and benefits of ownership of the asset are not transferred to the lessee. Operating lease payments are reflected as an expense linearly across the lease period in the profit and loss account.

## PROFIT AND LOSS ACCOUNT

	APPENDIX	2019	2018
<i>thousand EUR</i>			
<b>INCOME</b>			
Supervision fees	1	7 470	7 498
Other income	2	39	26
<b>Total operating income</b>		<b>7 509</b>	<b>7 524</b>
<b>EXPENSES</b>			
Staff costs	3	4 441	4 089
Sundry operating expenses	4	2 434	2 134
Other expenses	5	92	65
<b>Total operating expenses</b>		<b>6 967</b>	<b>6 288</b>
<b>Result from core activities</b>		<b>542</b>	<b>1 236</b>
Financial income and expenses	6	-37	-33
<b>Result for the reporting year</b>		<b>505</b>	<b>1 203</b>

# APPENDIXES TO THE PROFIT AND LOSS ACCOUNT

## APPENDIX 1

### Supervision fees

thousand EUR

	Supervision fees 2019	Supervision fees 2018
Banks	4 905	5 134
Non-life insurers	911	816
Fund management companies	534	503
Life insurers	434	426
Creditors	216	190
Insurance brokers	195	187
Investment firms	146	131
Payment institutions	96	80
Credit intermediaries	13	17
Pension register administrator		
Regulated securities market operator	18	14
E-money institutions	2	0
<b>Total</b>	<b>7 470</b>	<b>7 498</b>

### Volume share rates for supervision fees

per cent

	Volume share rates for supervision fees 2019	Volume share rates for supervision fees 2018
Banks	0.0175	0.0175
Non-life insurers	0.097	0.097
Fund management companies	0.0013/0.0095/0.013	0.0013/0.0095/0.013
Life insurers	0.023	0.023
Creditors	0.1	0.1
Insurance brokers	0.92	0.92
Investment firms	0.23	0.23
Payment institutions	0.019	0.019
Credit intermediaries	0.1	0.1
Pension register administrator	0.5	0.5
Regulated securities market operator		
E-money institutions	0.22	0

The operations of Finantsinspeksioon are mainly covered by supervision fees paid by the subjects of financial supervision and procedural fees under the Financial Supervision Authority Act. The principles for financing of Finantsinspeksioon are set out in more detail in the Financial Supervision Authority Act.

The supervision fee has two components. The first is the capital share, which depends on the type of supervised entity and is 1% of the capital requirement of that entity, which may be minimum net own funds, minimum capital requirement, the highest of minimum equity or own funds or share capital or core capital, or similar. The second is the volume share, which is the rate that is set annually by the Ministry of Finance at the proposal of the Finantsinspeksioon Supervisory Board and is paid on assets, gross premiums, total intermediation fees, the stock of consumer credit, or another basis, depending on the type of supervised entity.

The capital share and the volume share of the supervision fees are paid in advance to the Finantsinspeksioon budget by 31 December of the preceding year. The final payment of the volume share is paid into the budget by 1 September. Entities that fall under supervision during the financial year pay only the capital share of the supervision fee within 30 days of receiving the right to operate.

## APPENDIX 2

### Other income

thousand EUR

	2019	2018
Procedural fees	25	26
Other income	14	0
<b>Total</b>	<b>39</b>	<b>26</b>

Under the Financial Supervision Authority Act, any natural person, legal person or branch of a foreign business that applies to Finantsinspeksioon to have an application considered or a transaction completed pays a processing fee to Finantsinspeksioon.

Other income records the repayments received from the European Securities and Markets Authority (ESMA).

## APPENDIX 3

### Staff costs

thousand EUR

	2019	2018
Salaries	3 255	3 007
Taxes	1 125	1 022
Supervisory Board remuneration	61	60
<b>Total</b>	<b>4 441</b>	<b>4 089</b>

Staff costs cover the salaries, bonuses, remuneration of members of the management board, severance pay, and the imputed reduction in holiday entitlement arising from unused holidays, together with social tax and unemployment insurance of 25 thousand euros.

The average salary of employees of Finantsinspeksioon in 2019 was 2561 euros a month. The total remuneration paid out to members of the Finantsinspeksioon Supervisory Board and Management Board in 2019 was 336 thousand euros. The remuneration paid out to them in 2018 was 329 thousand euros. Performance bonuses paid out to employees accounted for 6.8% of staff costs. There were 92 members of staff as at 31 December 2019, including members of the Management Board.

## APPENDIX 4

### Sundry operating expenses

thousand EUR

	2019	2018
Membership fees for international organisations	762	711
Rent of real estate	292	354
IT infrastructure, software and development	751	482
Business travel	254	246
Office expenses	127	105
Communication costs	29	48
Training	75	61
Accounting services	54	54
Legal assistance and consultation	9	22
Information agencies	16	13
Personnel work	10	10
Cost of leasing fixed assets	46	20
Audit costs	9	8
<b>Total</b>	<b>2 434</b>	<b>2 134</b>

## Operating expenses

Under membership fees for international organisations, Finantsinspektsioon records fees paid for membership to ESMA, EIOPA, EBA, IAIS, BSCEE, IOSCO and OECD, and the costs of the Nordic-Baltic resolution exercise.

Rent of real estate covers the office space rented from Eesti Pank with a total surface of 1515.1 m<sup>2</sup>, which increased to 1673.2 m<sup>2</sup> from 1 July 2019, at a monthly price of 13.75 euros/m<sup>2</sup>. It includes the real estate management services purchased from Eesti Pank.

IT infrastructure, software and development reflects the information technology services bought from Eesti Pank at an imputed cost of 4108 euros per user per year, and the IT infrastructure and development projects for Finantsinspektsioon.

Business travel records the costs of travel for representing Finantsinspektsioon and for supervisory cooperation. Business travel was primarily related to the work of European banking supervision at the European Central Bank and the SSM, meetings of the committees and subcommittees of the European Supervision Authorities (ESAs), and meetings with other supervision authorities. A total of 358 business trips were made in 2019, and 339 were made in 2018.

Office expenses cover the costs of books and periodicals for Finantsinspektsioon, translation and postage costs, office equipment and petty expenses, consultation and representation costs, calling costs, and transport costs.

Communication costs cover the consumer education programme, the [www.minuraha.ee](http://www.minuraha.ee) website, and the cost of the Finantsinspektsioon annual report.

Training costs cover the participation of Finantsinspektsioon staff in training in Estonia and abroad, including the costs of travel for training. Training abroad together with travel cost on average 1016 euros in 2019, and training in Estonia cost 108 euros. In 2018, training abroad cost on average 847 euros and training in Estonia 85 euros.

Accounting costs cover the cost accounting, partial management accounting, payroll accounting, credit accounting, and payment and settlement execution purchased from Eesti Pank. Legal assistance and consultation records the costs of legal opinions. Expenses for information agencies cover the costs of using news agencies. Personnel work covers the costs of hiring employees for Finantsinspektsioon.

The cost of leasing fixed assets includes the rental costs on an annual basis paid by Finantsinspektsioon to Eesti Pank for fixed assets used by Finantsinspektsioon including IT hardware and software, and inventory. The amount of the lease is equal to the amortisation rate of the fixed asset of Eesti Pank.

Audit costs record the cost of auditing the profit and loss account of Finantsinspektsioon. Under §1(3) of the Financial Supervision Authority Act, the annual profit and loss account of Finantsinspektsioon is audited by the Eesti Pank auditor.

## APPENDIX 5

### Other expenses

	<i>thousand EUR</i>	
	<b>2019</b>	<b>2018</b>
Guarantees and benefits	48	34
Culture and sport	37	31
Court costs	7	0
<b>Total</b>	<b>92</b>	<b>65</b>

Guarantees and benefits are maternity support, extraordinary allowances and costs for promoting health and sport among the staff. This cost item also covers the reimbursement of one third of the con-

tributions made by Finantsinspektsioon employees to the voluntary pension system, but not more than 10% of their gross annual salary.

Culture and sport records the costs of events for employees of Finantsinspektsioon. Court costs records the potential costs arising from court cases.

## APPENDIX 6

### Financial income and expenses

*thousand EUR*

	2019	2018
Financial income and expenses	-37	-33
<b>Total</b>	<b>-37</b>	<b>-33</b>

Finantsinspektsioon keeps its reserves at Eesti Pank. The funds held by Finantsinspektsioon at Eesti Pank have been subject to the EONIA interest rate since 1 October 2015.

### Balance sheet

*thousand EUR*

ASSETS	31.12.2019	31.12.2018
Cash and bank accounts	13 775	12 996
Supervision fee claims	203	152
<b>Total assets</b>	<b>13 978</b>	<b>13 148</b>
<b>LIABILITIES AND RESERVES</b>		
Liabilities to employees	134	159
Sundry liabilities	1 099	920
Income of future periods	7 861	7 296
Provision for possible future liabilities	7	0
<b>Total liabilities</b>	<b>9 101</b>	<b>8 375</b>
Reserves	4 372	3 570
Result for the reporting year	505	1 203
<b>Reserves and result for the reporting year, total</b>	<b>4 877</b>	<b>4 773</b>
<b>Liabilities, reserves and result for the reporting year, total</b>	<b>13 978</b>	<b>13 148</b>

### Notes on the 2019 balance sheet

Cash and bank accounts reflects the balance on the settlement account at Eesti Pank.

Supervision fee claims are the prepayments of 203 thousand euros in supervision fees for 2020 not yet received by Finantsinspektsioon. The claim in 2018 for unpaid advance supervision fees for 2019 was 152 thousand euros.

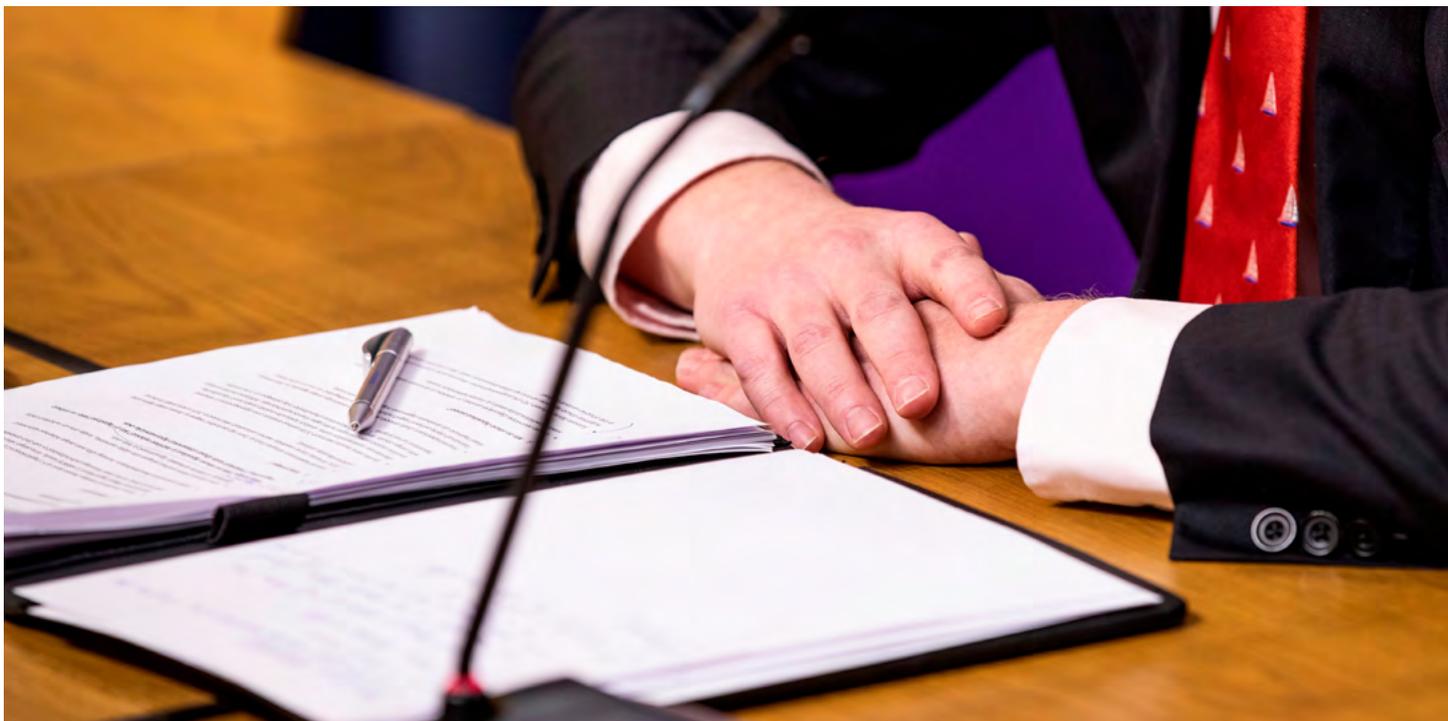
Liabilities to employees covers holiday liabilities. Holiday liabilities are the 134 thousand euros of the imputed liability of Finantsinspektsioon for holiday entitlement unused by employees.

Sundry liabilities cover the costs to Finantsinspektsioon that Eesti Pank covered in 2019 and for which Finantsinspektsioon will compensate Eesti Pank in 2020. Finantsinspektsioon's expenses are recorded in the annual report on an accrual basis.

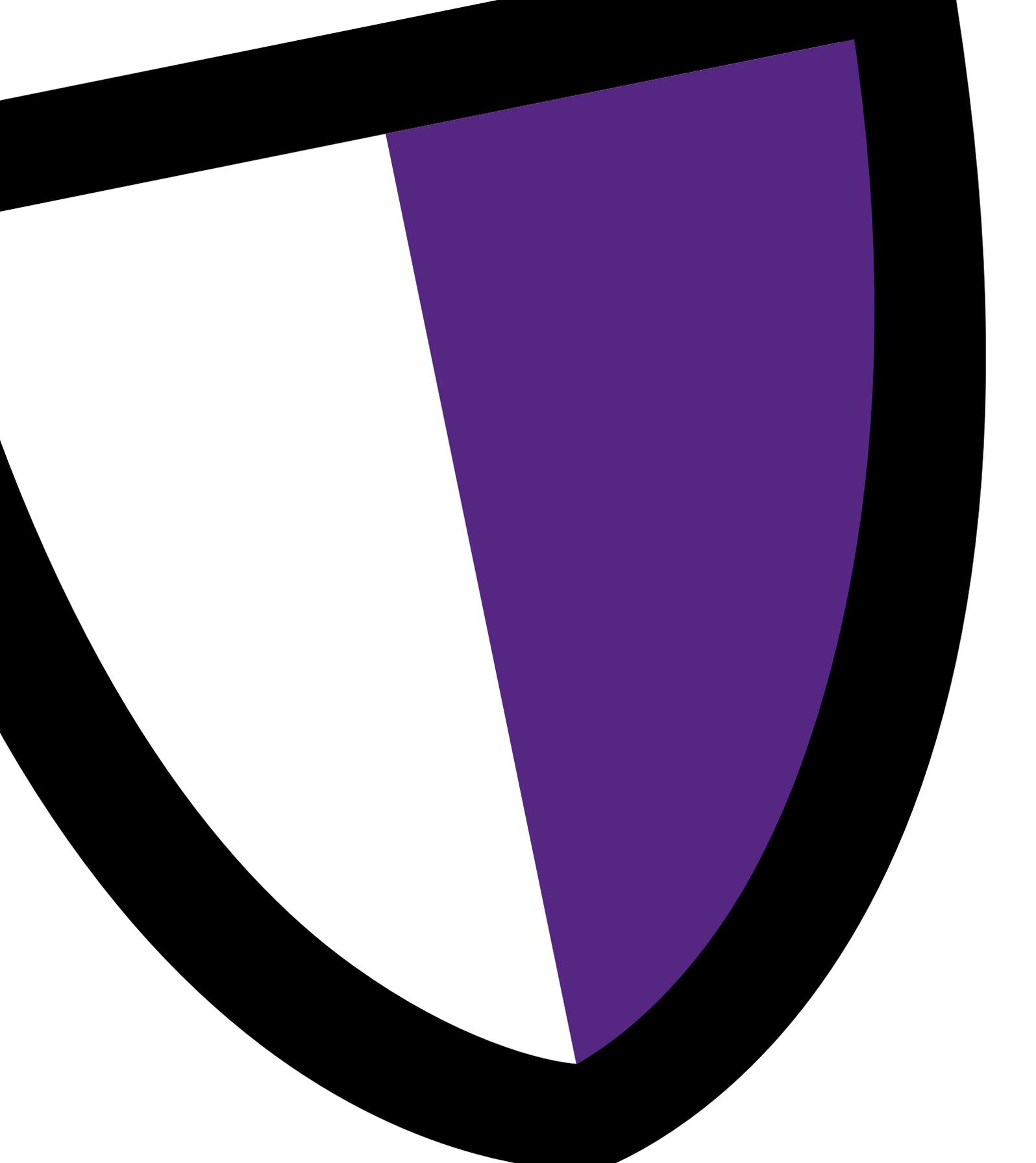
Income of future periods records the prepaid supervision fees for 2020 of 7861 thousand euros. Income of future periods in 2018 recorded the prepaid supervision fees for 2019 of 7296 thousand euros.

The budget surplus of 401 thousand euros that Finantsinspektsioon had in 2018 was deducted from the reserves in 2019 and returned uniformly and proportionally to supervised entities following the decision no 1.1-1/1 of the Finantsinspektsioon Supervisory Board of 22 March 2019.

The profit for the reporting year in 2019 was 505 thousand euros.



*A press conference in the Eesti Pank Museum, where Chair of the Finantsinspektsioon management board Kilvar Kessler talks about the precept issued to Danske Bank that prohibited the branch of the bank from operating in Estonia.*



# AUDITOR





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## Independent Auditors' Report

*(Translation of the Estonian original)*

To the Supervisory Board of Finantsinspektsioon

### Opinion

We have audited the annual report of revenues and expenditures of Finantsinspektsioon, which comprise the balance sheet as at 31 December 2019, the revenue and expenditure report for the year then ended and summary of significant accounting policies and other explanatory information.

In our opinion, the annual report of revenues and expenditures is prepared in all material respects in accordance with the Financial Supervision Authority Act and the accounting principles stated in the annual report of revenues and expenditures.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Annual Report of Revenues and Expenditures section of our report. We are independent of Finantsinspektsioon in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the paragraphs included in the 2019 annual report, but does not include the annual report of revenues and expenditures and our auditors' report thereon.

Our opinion on annual report of revenues and expenditures does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual report of revenues and expenditures, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual report of revenues and expenditures or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Supervisory Board for the Annual Report of Revenues and Expenditures

Management is responsible for the preparation of the annual report of revenues and expenditures in accordance with the Financial Supervision Authority Act and accounting principles stated in the annual report of revenues and expenditures. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the annual report of revenues and expenditures that is free from material misstatement, whether due to fraud or error.

In preparing the annual report of revenues and expenditures, management is responsible disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Supervisory Board is responsible for overseeing Finantsinspektsioon's financial reporting process.



## **Auditors' Responsibilities for the Audit of the Annual Report of Revenues and Expenditures**

Our objectives are to obtain reasonable assurance about whether the annual report of revenues and expenditures as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this annual report of revenues and expenditures.

As part of an audit in accordance with Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual report of revenues and expenditures, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Finantsinspektsioon's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Finantsinspektsioon's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the annual report of revenues and expenditures or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.
- Evaluate the overall presentation, structure and content of the annual report of revenues and expenditures, including the disclosures, and whether the annual report of revenues and expenditures represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 13 March 2020

*/signed/*

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17



## THE WORK OF THE INTERNAL AUDITOR



In the opinion of the internal auditor, the decisions of the Supervisory Board and the Management Board were executed satisfactorily in 2019. Management and control systems substantially functioned under reasonable decisions.

The internal auditor finds that Finantsinspektion staff acted appropriately to avoid conflicts of interests and the measures taken to prevent conflicts of interest worked as required by law.

The internal auditor worked in 2019 on risks, responsibilities and reviews. The internal auditor was fully independent in the general planning of his work, execution of his official duties, and organisation of his work, and neutral and objective in the announcement of the results. The Supervisory Board and the Management Board set aside sufficient resources for the internal audit in 2019.

The work followed the code of ethics of the Institute of Internal Auditors, professional standards and principles, and the recommendations in the key regulations and guidelines for internal auditors of the European System of Central Banks. The internal auditor's assessment based on key indicators found that the internal audit met reasonable expectations and the required quality standards.

Raivo Linnas  
Internal auditor



## CONFIRMATION BY THE MANAGEMENT BOARD

### Tallinnas 2020

The annual report has been prepared by the Management Board of Finantsinspeksioon and presented for approval to the Supervisory Board of Finantsinspeksioon. The annual report is submitted to the Riigikogu.

The annual report contains a review of the work of Finantsinspeksioon, including

- the profit and loss account for the year
- the balance sheet
- the auditor's report

The Management Board of Finantsinspeksioon confirm that the profit and loss account for the year for Finantsinspeksioon meet the requirements of the Financial Supervision Authority Act and the applicable accounting principles.

Kilvar Kessler

Andres Kurgpõld

Andre Nõmm

Siim Tammer

