



FINANSINSPEKTIONEN

Supervision Report 2011

SUMMARY



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Finansinspektionen's annual Supervision Report discusses areas in which fundamental issues with regard to supervision and regulatory development have risen to the forefront and in turn have resulted in new lessons and conclusions. The issues touched on in the report stem from the work with financial stability, consumer protection and more general topics related to internal governance and control that are essential for both maintaining stability and protecting consumers.

Finansinspektionen's aim is to influence the behaviour of companies and consumers to fulfil its objectives of contributing to a stable financial system and maintaining good consumer protection. The majority of Finansinspektionen's work consists of activities related to ongoing supervision that do not result in intervention or changes to the regulatory framework. Occasionally, however, issues emerge that require more fundamental consideration and analysis. A number of these issues are presented in the annual Supervision Report.

CONTINUED FOCUS ON INTERNAL GOVERNANCE AND CONTROL

Internal governance and control plays a central role in the management of financial companies. Insufficient internal governance and control can lead to non-compliance with the rules governing financial operations, which in turn gives rise to serious risks for the companies' customers and the financial system. Deficiencies in this area can often be traced to negligence by the companies' boards of directors and senior management teams, which is why several cases in the past year have resulted in an intervention, for example the revocation of HQ Bank AB's licence. Companies need to dedicate more time and resources to internal governance and control, and Finansinspektionen will review the rules in this area.

Deficiencies were also identified during the year in two specific areas that fall under internal governance and control and are important for companies to resolve:

■ Adaptation of financial companies to the remuneration rules

Rules regarding remuneration were introduced in 2010 for employees in companies under Finansinspektionen's supervision. Finansinspektionen subsequently conducted a survey to control the degree of compliance with the regulations. The results of the survey show that barely half of the surveyed companies had made sufficient changes to adapt to the remuneration rules. The survey indicates that companies do not perceive variable remuneration as a risk in their operations. Since then, new, stricter rules regarding remuneration have been introduced.

■ **Insufficient transaction reporting**

During 2010 Finansinspektionen reviewed the transaction reporting of investment firms and identified problems with data quality, which led to an intervention. The information Finansinspektionen receives from transaction reporting must be reliable if Finansinspektionen is to detect and investigate market abuse, identify general market risks and receive sufficient information about the investment firms' market activities. Problems arise in particular in conjunction with changes in the information or amendments to regulation.

FINANCIAL STABILITY AND CRISIS MANAGEMENT

A considerable amount of work during the year has been focused on implementing the rules emerging from the lessons of the financial crisis and the need to protect financial stability. Finansinspektionen believes that there are two areas in the regulatory framework that need further modification:

■ **Deficiencies in the framework for handling banks in distress**

One important lesson from the financial crisis is that financial stability is dependent on the Government having the appropriate tools for handling banks with problems. Finansinspektionen is of the opinion that the legislation regarding banks in distress needs to be changed. This includes both the current framework for large, systemically important institutions and rules for smaller companies. The experiences from the handling of HQ Bank after its licence was revoked indicate that the application of the regular rules for bankruptcy and liquidation to banks is problematic, even when the bank in question is not large and systemically important.

■ **New regulations for liquidity risks**

The experiences from the financial crisis triggered an extensive push to tighten the rules regulating liquidity risks. In December 2010 the international Basel Committee presented its recommendations for quantitative liquidity risk measures for banks that are planned for implementation within the EU in conjunction with changes to the capital adequacy rules in the next few years. In 2010 and 2011 Finansinspektionen decided on new regulations for the management of liquidity risks and reporting. This is a step toward a new, improved regulatory framework.

IMPROVED CONSUMER PROTECTION ON THE FINANCIAL MARKET

Promoting good consumer protection on the financial market is one of Finansinspektionen's primary objectives. During the year, attention has been directed toward several areas where measures are needed from authorities and companies to strengthen protection for consumers:

■ Advice and marketing from insurance intermediaries

Finansinspektionen has identified deficiencies in the supervision of insurance intermediaries. These problems have led Finansinspektionen to take the position that the Government should consider a ban on commissions for intermediaries similar to the ban in other countries. Part of Finansinspektionen's ongoing work includes reviewing the current regulations regarding insurance intermediaries and determining if these rules can be clarified in any way, particularly with regard to the term "good insurance mediation practice".

■ Supervision of mortgages

On 1 October 2010 Finansinspektionen introduced a mortgage cap, which limited the loan-to-value ratio of homes. A qualitative survey conducted by Finansinspektionen of households and credit managers at a number of banks show that the mortgage cap has had an effect and the number of homes with really high loan-to-value ratios has decreased. In its supervision of mortgages, Finansinspektionen also highlighted the considerable differences between the companies' calculations of interest differential compensation, i.e. the charge a customer must pay for the early settlement of a fixed-rate loan. As a result of these differences, Finansinspektionen has proposed new general guidelines for these calculations.

■ Deficiencies in depositaries

Depositaries fulfil a crucial function on the fund market. One of the prerequisites for being able to maintain satisfactory consumer protection is that the depositaries act as an independent control function. During its reviews of the depositaries, Finansinspektionen detected major deficiencies and intervened against all of the institutions that were reviewed. Given this background, Finansinspektionen believes that it would be inappropriate for future legislation to allow intra-group depositaries.

■ Licence requirement and knowledgeable consumers

As a part of its monitoring of consumer protection, Finansinspektionen not only supervises companies on the financial market, but also strengthens the position of the consumer via information and education. During the year Finansinspektionen investigated the current system of registration vs. supervision of some financial companies. The investigation resulted in a proposal by Finansinspektionen to change the law so that all companies receiving deposits or involved in lending to consumers shall have authorisation from Finansinspektionen.

To further strengthen consumer protection, Finansinspektionen conducted a survey of the arithmetic ability and financial skills of students and, in cooperation with a number of other stakeholders on the financial market, established the GillaDinEkonomi (LikeYourFinances) network.

EU SANCTIONS AND MONEY LAUNDERING

Finansinspektionen conducted its first investigation focused on EU's sanction regulations. The results show that there is a risk of insufficient compliance with the regulations. This risk is partly due to financial companies not taking sufficient action to remain up-to-date about the regulations and partly due to the companies controlling a much too limited number of persons. The same investigation also identified a need for improvements in the reporting to Finanspolisen with regard to suspected money laundering or financing of terrorism.



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