FINANSINSPEKTIONEN

Consumer protection on the financial market

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Foreword

"How should my occupational pension be managed? Which funds should I choose in the premium pension system? Is it time to switch to a fixed mortgage rate?" As consumers on the financial market, we are faced with many difficult decisions that we more or less cannot avoid. Often, these decisions are related to choices that we make only occasionally in our lives, so there are limited opportunities to learn from our (or our friends'!) mistakes.

The economic development in Sweden and the rest of the world does not make this situation any easier. Because interest rates are historically low, many people are being drawn into increasingly risky investments in order to generate some kind of return on their savings. Sometimes the investments are both expensive and unreasonably risky, but still recommended by dishonest actors. Savers in the premium pension system are particularly exposed to this risk since many of them are not well-versed in fund savings but still need to make a decision.

Even if low interest rates contribute to an increase in share prices in the short term, over the long term they mean a lower expected yield given a certain risk level. In such a situation, the size of fees becomes important for the return on savings. When yield is good, it is easy for firms to charge high fees. But in the long run high fees mean that savers have less money once the fee is paid.

The low interest rate also influences the possibility and willingness to borrow. This can be seen on the housing market, where 16 per cent of new mortgage holders have loans exceeding 600 per cent of the household's annual income. Given that three-fourths of Swedish mortgage holders have variable interest rates, households with small margins may find higher interest rates difficult to handle. More households should therefore discuss their interest rate adjustment period while sitting around the dinner table – and more should consider switching to a fixed interest rate.

Regardless of whether decisions concern loans, savings or other financial services, consumers must interact with financial firms. Firms generally hold the upper hand – they are professionals doing business with amateurs. Information can never bridge this gap. A high level of consumer protection requires that firms not use this advantage to their benefit, but rather actively consider what is best for the consumer. This responsibility does not mean placing a thick stack of paper in front of the consumer to be quickly scanned and signed.

Products and services must be designed to adapt the complexity, cost and risk to consumers' needs and circumstances. Firms must also ensure that their sales staff and external distributors face incentives that enable them to prioritise the interests of the client. A consumer should not be granted too large of a loan or recommended unsuitable savings products even if doing so benefits the firm's or its employees' short-term financial interests.

FI will be clearer in its communication about how the authority interprets the rules regarding, for example, "protecting the interests of the customer". It is part of our strategy to pursue communicative and proactive supervision. The framework document that FI is publishing together with this report clarifies the objective of the authority's consumer protection work. This document takes us one step closer to a financial market where it is a little bit easier to be a consumer.

Stockholm, 11 May 2017

Erik Thedéen

Director General

Summary

Finansinspektionen (FI) presents in this report the risks consumers are facing on the financial market and that FI is prioritising in its supervision. One example is the risk that consumers will be granted larger loans than what their personal finances allow. Another is the risk of unsuitable investments, which increases as consumers have to make increasingly difficult decisions about their savings. FI also accounts in the report for other observations made in its supervision, for example that digitalisation can lead to better tailored products and more competition, but also to certain risks.

Consumers on the financial markets must make more and more decisions while at the same time facing an increasing number of options. Financial products are difficult to evaluate, and many consumers know little about or have limited interest in financial matters. As a result, consumers are generally at an information disadvantage in their interaction with financial firms. Regulation is therefore needed to protect consumers and avoid a negative outcome for both individual consumers and the economy at large.

Financial firms must be stable and subject to good control and risk management if consumers are to be able to trust that their investments with these firms are safe. Consumers must also have access to clear, relevant information in order to be able to compare the fees and other terms and conditions associated with different products.

However, simply providing information is not sufficient for ensuring a high level of consumer protection. Even when consumers have access to a lot of information, they may, for a number of reasons, have difficulty interpreting and understanding the terms and conditions of various products. The manner in which the information is presented, for example the alternative that is pre-selected, has a strong influence on which decisions are made. Furthermore, conflicts of interest within financial firms may lead to the sale of products that are not suitable given the individual consumer's needs and circumstances.

FI presents in this report the risks that it has given the highest priority with regard to consumers on the financial market as well as the measures that FI has taken or plans to take.

The first risk that FI highlights is that consumers may be granted larger loans than what their personal finances can handle. This is a prioritised risk for FI from several perspectives. The risk for consumers is especially large when it comes to consumption loans, which are designed and sold in a way that could give rise to conflicts of interest. This could have large, negative consequences for consumers, and in a worst-case scenario could result in a record of non-payment and over-indebtedness.

Mortgages constitute the majority of household debt. Vulnerable households, i.e. households that have large loans in relation to their income or the value of their home, may need to sharply reduce their consumption if interest rates were to rise or they were to suffer a loss of income. This could have negative consequences for both individual households as well as the economy. There is therefore cause for strengthening households' resilience and reducing the share of vulnerable households from both an economic perspective and a consumer protection perspective.

The second risk that FI highlights is the risk that consumers' savings will be placed in unsuitable investments. Many of the financial decisions that consumers must make are related to savings, for example their pension savings. These decisions are difficult since it is hard to predict the outcome of savings products and since fees and costs are often expressed as percentages and may consist of several components.

FI takes the position that firms developing and selling savings products must take more of a responsibility to adapt their products to the needs and circumstances of consumers. This applies to risk and complexity, but also to fees. New regulation on the market for financial instruments and insurance products clarifies that firms bear such a responsibility. New rules also place stricter requirements on the handling of conflicts of interest that may arise when financial advisors receive a commission or sell their own products. FI is of the opinion that a market for independent financial advice is an important component in making the savings market more manageable for consumers.

There are specific risks associated with savings in insurance products, for example that consumers may be treated unfairly when life insurance companies manage and distribute surpluses. Another risk is that consumers cannot sufficiently determine what the consequences are of transferring pension capital between different firms.

FI also accounts in the report for other observations made in its supervision and the trends it has identified on the market.

Digitalisation and the large number of new services available to consumers is one example. In some cases, consumers are facing risks that are not always managed by existing regulation. This is the case when it comes to crowdfunding, which on the one hand can facilitate funding for small- and mid-size firms, but on the other hand can introduce risks for the consumers who invest or lend money through funding platforms. Binary options, a type of speculative and risky product that has a very short horizon, are another example. FI considers them to be unsuitable for most consumers.

Digitalisation can also be highly beneficial for consumers. For example, FI believes that automated advisory services could play an important role in the development of the market for independent financial advice. In terms of payment services, there are many examples of how digitalisation is resulting in more user-friendly services and contributing to more competition.

Finally, FI discusses the opportunities available to consumers to make active decisions regarding sustainability aspects in financial products. Sustainable investments, for example via funds, are becoming increasingly common, but in the absence of a shared information standard it is difficult for consumers to compare the sustainability aspect of savings in different funds.

FI and consumer protection

A high level of consumer protection requires financial firms to be stable, that consumers obtain relevant and clear information, and that financial products and services are developed and sold with consideration for consumers' needs and circumstances. FI's tools in its work to attain a high level of consumer protection are authorisation assessments, supervision and regulation. Also, FI endeavours to empower consumers on the financial market by educating the general public in financial matters.

CONSUMERS AT A DISADVANTAGE

Being a consumer on the financial market is difficult. Consumers are increasingly having to make important financial decisions, for instance about saving for their pensions, or borrowing for a home. The amount of options is also on the rise, for example due to innovation and digitalisation. At the same time, consumers are generally at an information disadvantage in their interaction with financial firms for several reasons.

Difficulties in understanding and evaluating terms and conditions vary between financial products. In many cases, however, the results will only become clear a relatively long time after purchase. Was the return good in relation to the risk level and price? Did the insurance provide the expected protection when it came to putting in an unexpected claim? Furthermore, evaluating financial decisions is complicated by the fact that it is often a case of choices that are made only rarely, so the possibility of learning from previous experience is limited.

Conditions for consumers to make informed financial decisions are also affected by factors other than the products' characteristics. For example, several studies show that many people have limited mathematical ability, and find it difficult to grasp basic financial concepts such as interest, inflation and financial risk.[1] This is often linked to a lack of interest and engagement in financial matters. Also, behavioural economics indicate how basic psychological properties affect people's choices. As an example, decisions are affected by the order in which different options are presented, or by which option is preselected. Details which expectedly should not affect a person's preferences can thus govern the choices they make. In other words, research shows that it cannot be assumed that consumers on the financial market always make decisions based on financially rational calculations.

At the same time, the financial market is crucial to the economy, and most consumers rely on the financial market to finance a home, insure themselves or their possessions for injury or damage, save money for the future, etc.

So as to avoid consumers suffering as a result of their information disadvantage, rules are needed to protect them. The rules reduce the risk of consumers making financial choices that have major negative effects on their own finances. This also reduces the risk to public finances, which

1 See e.g. The memorandum ”Half of consumers lack basic financial knowledge” (http://www.fi.se/contentassets/a415dba719684ff4a29fd9c7fad3c541/finansiell_formaga_2015ny.pdf)

might otherwise have to bear the costs of excessively low pensions, or excessively high personal indebtedness.[2]

CONSUMER PROTECTION FRAMEWORK

FI's remit is to work to promote a financial system that is stable, features a high level of confidence and has well-functioning markets that serve needs for financial services, while at the same time providing comprehensive protection for consumers.

In order to clarify the remit of working to attain a high level of consumer protection, FI has devised a consumer protection framework document, published together with this report.[3] In the framework document, FI mainly focuses on the objective of the work, i.e. what a high level of consumer protection on the financial market implies.

The conclusion is that the objective of consumer protection is ultimately the same as that for FI's entire operations: the financial market shall function well and meet prevailing needs. For consumers, this means that they shall be offered appropriate and cost-effective products and services.

In order to attain a high level of consumer protection, three overarching conditions must be met in FI's opinion:

- Consumers' assets held with financial firms are secure, and the firms follow agreements entered with reasonable terms.
- Consumers are given relevant and straightforward information.
- Financial firms show consideration for consumers and act in accordance with consumers' needs and circumstances.

Both research and experience from financial supervision show that consumers' information disadvantage persists even when financial firms provide large volumes of information. A high level of consumer protection therefore requires financial firms not to exploit their upper hand, but instead consider the circumstances of individual consumers when they develop and sell products and provide information to consumers.

The consideration of financial firms for the ability of consumers to assimilate information and evaluate financial decisions is a key part of what FI expects of the firms' conduct.

Emphasising that financial firms have a duty of care marks an increase in ambition from a more traditional view of consumer protection, which often stops at concrete requirements regarding information provision and transparency, combined with rules on capital adequacy, governance, etc. FI started raising the bar in this ambition in 2014 when a specific Consumer Protection operational section was formed. The framework document clarifies this ambition even further. A sharpened focus on consumers' circumstances and behaviour is a natural development in light of

2 Rules governing the operations of financial firms other than those that focus directly on consumer protection are also necessary for the financial market to function well. However, the focus of this report is risks to consumers on the financial market and measures to strengthen consumer protection.

3 "Consumer protection framework" (FI ref.17-7487).

supervisory experience, research and new regulations. It can also be seen at supervisory authorities in other countries.[4]

TOOLS FOR ATTAINING A HIGH LEVEL OF CONSUMER PROTECTION

The tools that FI has to fulfil its remit are mainly directed at financial firms. First, strict demands are imposed on entities wishing to conduct financial operations. When issuing authorisation, FI assesses whether the firms meet the requirements imposed.

Once a firm has been granted authorisation to conduct financial operations, the firm is under FI's supervision. Supervision is sometimes a matter of dealing with incidents and urgent problems, but its primary purpose is to prevent problems. To achieve this, supervision must be risk-based. This means that FI must be in continual contact with the financial firms. It also means that each year, FI performs a risk analysis to identify the risks to be prioritised in supervision.

Current risks to consumer protection

FI's prioritisation of risks in the consumer protection area is mainly based on how consumers could be affected by an identified risk: How many consumers would be affected if the risk transpires, and what would the consequences be for those affected?

A prioritised issue is the risk of consumers and households assuming excessive debt in relation to their financial situation. This could occur, for instance, through expensive consumer loans due to deficient credit assessment or aggressive marketing. For some households, their mortgage can pose a risk, if margins are too tight to cope with, for instance, an interest rate hike.

Another prioritised risk is that consumers make unsuitable choices regarding savings products that are difficult to evaluate. Such choices could be due to information about fees and charges that is difficult to understand or misleading. It could also occur as a result of unsuitable advice, which is affected by factors other than the needs and circumstances of consumers.

Evaluating products is particularly difficult when it comes to those that resemble financial operations, but which are not fully covered by financial regulations. Two such examples are crowdfunding and binary options.

Besides supervision focusing on the conduct of financial firms towards consumers, a great deal of FI's work is about risks in the firms' business that could have indirect consequences for consumers. Such supervision also forms part of consumer protection, because a high level of consumer protection requires stable firms that can honour the agreements they have entered. FI's supervision of firms on the banking, insurance and securities market, to ensure that they are stable and financially resilient, is presented each year in separate supervision reports.

Besides authorisation assessment and supervision, FI can also issue rules (regulations and general guidelines) to clarify and supplement the legisla-

4 A clear example is the Financial Conduct Authority (FCA) in the UK which, as early as in 2013, pointed out the importance of considering these factors in financial supervision. (See "Applying behavioural economics at the Financial Conduct Authority", Occasional Paper No. 1)

tive content. FI also points out needs for regulatory amendments. All the measures proposed by FI must be based on a careful analysis of the problems which the measures aim to remedy, and the other effects that could be prompted by the measures. For example, FI must consider which groups of consumers are concerned, which firms are affected, as well as the implications of the proposal in terms of competition and the innovative climate on the market. FI also actively participates in the operations of the European supervisory authorities, not least in work on rules that supplement the requirements of EU directives in the area of financial markets.

CONSUMER PROTECTION THROUGH FINANCIAL EDUCATION

A great deal of FI's work to attain a high level of consumer protection focuses on the financial firms and their operations. At the same time, FI has the specific task of empowering consumers on the financial market by providing them with opportunities for financial education. Instead of reducing the information disadvantage of consumers by placing demands on the financial firms, these efforts are aimed at bolstering consumers' capabilities in financial matters.

Much of the work associated with this educational project is conducted in cooperation with firms, organisations and other authorities. Several educational initiatives take place in the context of the national network Gilla din ekonomi ("Like Your Finances"). The network conducts independent educational initiatives in personal finances under FI's auspices.

The need for financial education varies between groups, and between people with different life situations. For this reason, targeted initiatives are carried out for different target groups, such as in workplaces, in classrooms, and through digital channels.

To gain a broader reach, the idea of the educational projects is to train people who, in turn, can relay that knowledge to others. For example FI, together with Gilla din ekonomi, trains trade union representatives who can share their knowledge at workplaces, and chief guardians who can in turn train legal guardians.

By collaborating with universities and colleges, FI and the network train budding business administrators and human resource specialists on pensions, thus enabling them to inform others about pension matters in their future workplaces. For junior schools and high schools, FI produces training materials linked to the curriculum. In the project Ekonomismart ("Money smart"), young, unemployed adults are trained in daily finances and consumer rights. FI has also produced educational materials for secondary schools and material about personal finances that can be used in the Swedish language classes offered to new arrivals (Swedish for Immigrants – SFI). Starting in 2016, FI and several other authorities and organisations have been cooperating with Sweden's county councils to coordinate training days aimed at people who, in their daily work, are in contact with newly arrived immigrants and unaccompanied minors.

Finally, the international work conducted by FI as part of its task of educating the general public on financial matters can be mentioned. For example, in 2016 FI collaborated with the annual international forum of the organisation Child & Youth Finance, which highlights innovative educational initiatives for children and youths in personal finances. FI also coordinates Sweden's activities during Money Week, which is a global thematic week on the importance of financial knowledge for children and youths.

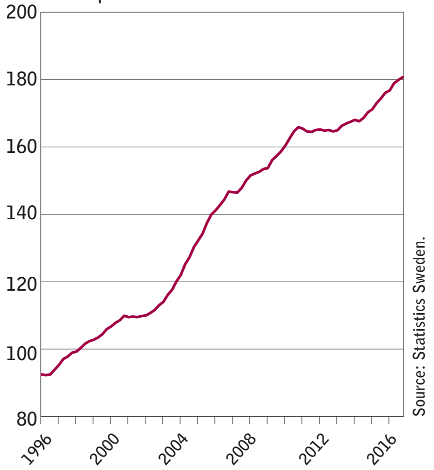
OTHER ENTITIES THAT WORK TO ATTAIN A HIGH LEVEL OF CONSUMER PROTECTION

FI's supervision is mainly based on specific business rules for financial firms. At the same time, the Swedish Consumer Agency supervises firms from the point of view of market law, such as regarding contractual terms and marketing. Other entities with important tasks are the Swedish National Board for Consumer Complaints and the Consumer Ombudsman – who can help individual consumers with cases of complaints in relation to firms – The Swedish Consumers' Banking and Finance Bureau and the Swedish Consumers' Insurance Bureau, – which provide price comparisons for different products – and the Swedish Pension Agency, the Swedish National Debt Office, the Data Inspection Board and Swedish Competition Authority, whose respective remits are important to attaining a high level of consumer protection.

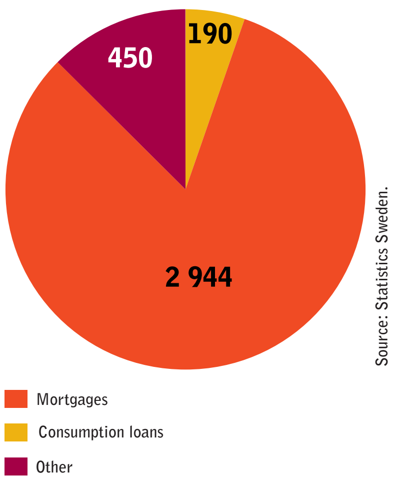
Indebtedness – a consumer risk

When access to credit grows, there is a greater risk of consumers taking out larger loans than their finances allow. Consumption loans can pose a significant risk to individual households, particularly if they are increased or rescheduled in a way that is not in the interests of the consumer. Overall, households that take on a mortgage to finance their housing have adequate margins, but there are also vulnerable households. For these households, shocks to personal finances or the economy can have significant consequences.

1. HOUSEHOLD DEBT-TO-INCOME RATIO (debt in relation to disposable income)



2. LENDING TO HOUSEHOLDS BY PURPOSE (SEK billion)



Note: The chart is based on outstanding loans from Swedish monetary financial institutions (MFI) to households as at March 2017. Lending by consumer credit institutions is not included.

Converting savings to funding is one of the basic functions of the financial system. It allows money that a household or firm is not currently using to contribute to funding consumer spending or investment. For consumers, credit can provide the opportunity to buy a house or allow consumption today using funds that will only be available later. But credit can pose a risk, particularly for consumers and households that do not have sufficient margins.

Consumer credit is a collective term for all credit issued to consumers. The statistics are often divided into three categories based on estimated purpose (see the box). This report uses the categories mortgages and consumption loans to highlight the risks to consumers.

Different types of consumer credit

The statistics divide consumer credit into three categories based on the purpose of the loan. These categories are primarily based on the type of collateral for the loan and which firm it is issued by. This is because financial firms in Sweden are not required to ask their customers what the credit will be used for. Mortgages are loans issued with housing as collateral. The consumption loan category includes unsecured loans, loans issued against guarantees, as well as payment card receivables and credit card loans. A final category is other loans, which are loans secured against collateral other than housing. This report uses the first two categories of mortgages and consumption loans to discuss the risks to consumers.

Different risks from different types of loan

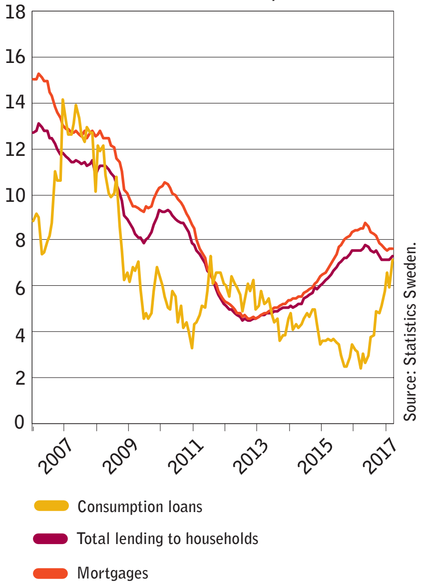
Household debt has increased over a long period. As a percentage of disposable income, household debt has increased from 90% in 1996 to around 180% in 2016 (Chart 1).

Mortgages account for the lion's share of household debt (Chart 2). Mortgages are also increasing faster than consumption loans, but the rate of growth for mortgages has eased slightly over the past year or so whereas it has increased for consumption loans (Chart 3).

The overall risk is the same for all types of loan: that consumers will be granted loans that are too large or too expensive in relation to their repayment capacity. However, the risks are expressed in different ways for different types of loan. The differences illustrate, in part, the considerations that FI has to take into account in its risk-based supervision: What is the likelihood that a risk will transpire and how many consumers will be affected if it does?

Many consumers have mortgages, but the risks are limited for most of them from a consumer protection perspective. Households with small margins may, however, be adversely affected in the event of shocks to finances, which can result in a risk to both the economy and individual consumers. This is discussed in more detail in the final section of this chapter. The percentage of consumers that take out consumption loans is smaller. Nevertheless, FI estimates that the risk to consumers from these types of loan is higher, as they essentially involve a different type of loan product that is sold to consumers in a very different way. Lending that is affected by factors other than consumers' repayment capacity can have significant consequences for individual consumers that take on larger or more expensive consumption loans than their finances allow.

3. RATE OF GROWTH (%, annual)



CONSUMPTION LOANS

Lending statistics include different types of loans used for consumption (see previous box). This chapter focuses on unsecured loans, i.e. loans without collateral, which vary in size but can be up to SEK 500,000. The bulk of lending comes from credit institutions (banks and credit market companies), some of which specialise in unsecured loans.

In recent years, lending by consumer credit institutions (sometimes referred to as instant loan firms) has also increased[5]. Total lending by firms that are currently authorised as consumer credit institutions amounts to 3% of total consumer lending. The loans issued by these firms, however, are much smaller than those provided by credit institutions. The average size of loans granted by consumer credit institutions in the fourth quarter of 2016 was approximately SEK 8,200.

Risks in consumption loans

As the availability of consumption loans increases, there is a risk that more consumers will take on more debt than their financial situation allows. This may occur as a result of a lack of understanding of how interest rates and charges are structured or how their own financial situation can change. It may also depend on the lending firm not carrying out a sufficient credit assessment or influencing consumers to extend, increase or take out on new loans. Other reasons for in the increase in debt are social norms and attitudes to borrowing. This is supported by new research, which shows that many people have a negative attitude towards debt and that this influences behaviour around borrowing. However, the researchers also note that social norms around indebtedness as a negative factor appear to decrease as debt increases.[6]

The risks of consumption loans to individual consumers mainly relates to the fact that they are structured and sold in a way that could create a conflict between the earnings of the lending firms and what is best for the consumer.

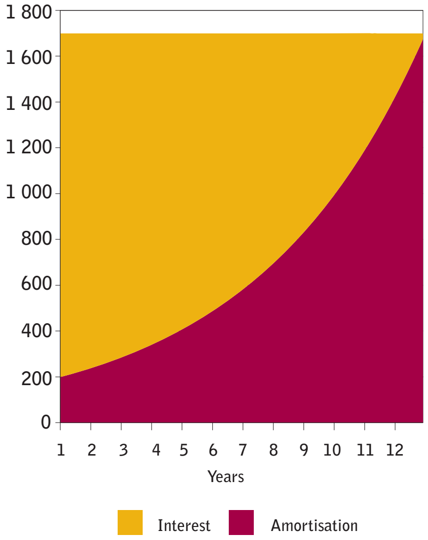
In 2016, FI analysed more than 80 credit institutions to see how unsecured consumption loans are structured and sold. The sample included large banks, saving banks as well as small banks and credit market companies that largely specialise in unsecured consumption loans. Many of the firms selected are only involved in consumption loans to a limited extent. The findings from the analysis therefore mainly apply to credit institutions that largely specialise in consumption loans.

5 Comparison of the total granted volume of credit for firms authorised as consumer credit institutions in the final quarter of 2015 shows the total volume of credit in the corresponding period of 2016 was 31% higher.

6 See Almenberg et al., 'Attitudes Towards Debt and Debt Behavior'.

The analysis shows that consumption loans are to a large extent terminated early by borrowers and replaced by a larger loan, or a loan with a longer repayment period, instead of being repaid. For credit institutions specialising in unsecured consumption loans, the average planned repayment period for loans paid out in 2015 was just over seven years. But on average the actual repayment period for terminated loans over the same period was just over two years. The fact that most consumption loans are set up as annuity loans (see the box) means that the loan is more profitable for the lender at the start of the loan repayment period. This could incentivise lenders to suggest customers replace the loan with a new loan after a while. This may seem attractive to the consumer in cases where it results in lower monthly payments. However, this may result in the overall cost of the loan being much higher than when the agreement was originally made, as the percentage of the monthly fee consisting of interest increases once again when the loan is rescheduled or increased.

4. MONTHLY PAYMENT FOR AN ANNUITY LOAN (SEK)



Annuity loans

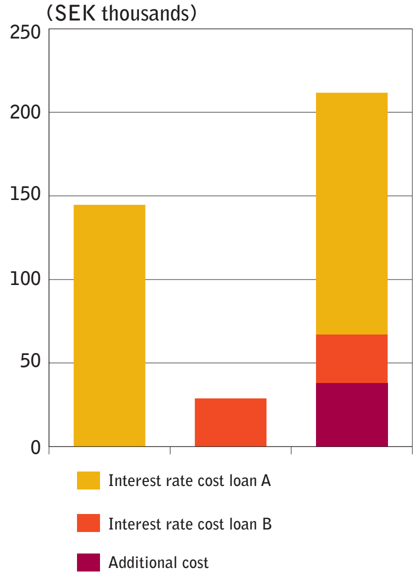
In an annuity loan, the borrower pays a fixed total amount for interest and amortisation in each period. As the loan is paid off, the portion consisting of amortisation increases, while the portion consisting of interest decreases, but the monthly payment for the consumer remains the same over the entire repayment period (Chart 4). This contrasts with loans with straight-line amortisation, whereby the monthly payment decreases as more of the loan is paid off.

Annuity loans do not pose a risk to consumers by definition. For example, most educational loans from the Swedish Board for Study Support are paid in this way. The fact that the loan generates higher income for a lender at the start of the repayment period may, however, incentivise the lender to persuade the consumer to reschedule the loan.

This can be shown with an illustrative calculation as in Chart 5: A consumer borrows SEK 100,000 over 12 years at 18% interest (loan A). After three years the consumer wants to borrow a further SEK 20,000 (loan B). The best solution for the consumer would be to arrange a separate loan for the amount, as much of the interest expense for loan A has already been paid. The lender, however, makes money on loan A being paid off early and creating a new loan which amounts to loan B plus the remainder of loan A. In the illustrative calculation, this results in an additional cost to the consumer of over SEK 38,000.

FI's analysis of unsecured consumption loans has found that it is common for loans to be repaid early and then rescheduled. This is a phenomenon that FI will continue to review through targeted supervisory measures.

5. INTEREST EXPENSE FROM RESCHEDULING OF LOANS (SEK thousands)



Note: Loan A totals SEK 100,000 and is borrowed over 12 years at an interest rate of 18%. Loan B totals SEK 20,000 and is borrowed separately on the same terms as Loan A. Loan C consists of the remaining debt from Loan A after three years (SEK 90,586) and SEK 20,000 and is arranged as new loan over 12 years at 18% interest.

FI's analysis also shows that rescheduling of loans is, to a relatively large extent, initiated by loan intermediaries.[7] More than half of lending by credit institutions specialising in unsecured loans was initiated by loan intermediaries. Since intermediaries are often paid commission by lenders (up to 8% of the loan amount), this creates risks for commission-based lending that is not in the customer's best interests.

In this regard, there are clear parallels with the risk of conflicts of interest relating to financial advice, which is discussed in the next chapter.

7 Intermediaries of consumption loans must be authorised as a consumer credit institution. In 2016 they arranged loans equalling 8% of all consumer lending.

However, further supervisory work is required to determine whether the problem can be said to be as extensive for loans.

In addition to the risks relating to the structure and sale of consumption loans, there may also be risks relating to the specific need for protection of the group of consumers taking out consumption loans. As interest on consumption loans is often high, it is reasonable to assume that consumers that have an alternative to borrowing in order to spend would largely prefer the alternative. Based on this assumption, it is thought that consumers who borrow for consumer spending have smaller margins in their finances to start with.

This situation is discussed in the findings of the report on certain consumption loans, published in 2016. The report, which restricts its work to so-called high-cost loans from consumer credit institution, points to a number of factors suggesting that consumers who take out these kinds of loans constitute a particular risk group, as a result of factors such as low income, small margins or non-payment notices. The report also notes that similar risks occur for loans from other lenders too. For example certain credit institutions' marketing is aimed at consumers with non-payment notices or those that find it hard to obtain loans from other credit institutions.[8]

Irrespective of whether it is due to small margins among consumers or lending that is affected by considerations other than the borrower's repayment capacity, there is a risk that consumers take out larger or more expensive consumption loans than their finances allow. The consequences can be serious for individual consumers, and events could progress as far as the lender transferring the debt to the Swedish Enforcement Authority. But even before things reach this stage, increased costs as a result late loan payments can have a major impact on consumers' personal finances. When a consumer cannot pay debt due for payment, and his/her inability to pay is prolonged, this is usually referred to as over-indebtedness.

Supervision by FI and the Swedish Consumer Agency

A key aspect of consumer protection in the loan market consists of the rules on credit assessment and ”good creditors practice”.[9] The rules on credit assessments are based on the principle that firms may only lend money if the consumer is deemed to have the ability to repay the loan and cope with the costs of the loan.

Checking that credit assessments are performed correctly is therefore an important part of supervision. FI is the responsible supervisory body for credit institutions, while the Swedish Consumer Agency supervises credit assessment by consumer credit institutions.

In light of the information that has emerged from FI's analysis of the unsecured consumption loan market, over the next year FI will undertake more targeted supervisory measures. These will focus on checking that consumers are not granted loans they cannot afford, looking both at credit institutions specialising in unsecured lending and at loan intermediaries.

In this regard, it is also worth mentioning the cooperation between the

8 ”Stärkt konsumentskydd på marknaden för högkostnadskrediter” (SOU 2016:68) p. 165-166

9 Sections 12 and 6 of the Consumer Credit Act (2010:1846)

Swedish Consumer Agency, FI and the Swedish Enforcement Authority in countering over-indebtedness (see the box).

Increased coordination to address over-indebtedness

The Swedish Government has tasked the Swedish Consumer Agency with cooperating with the Swedish Enforcement Authority and FI to increase coordination with other organisations in society that could help people who have or are at risk of problems with over-indebtedness to sort out their finances. The remit includes the exchange of knowledge and experience and cooperation on preventive activities to reduce over-indebtedness.

The project will run until June 2019. FI's contribution mainly involves experience from its supervision of financial firms' conduct in relation to consumers and from other areas of FI's operations, such as authorisation of applications and initiatives concerning financial education.

New regulation for stronger consumer protection

The fact that, since July 2014, consumer credit institutions have required authorisation to operate and are subject to supervision is an important step in strengthening consumer protection in the consumption loan market.[10] So far 117 firms have applied for authorisation. FI has turned down 29 of these applications as they were deemed not to meet the stipulated requirements.[11] The prevention of firms that do not meet these requirements from operating in the market by definition provides stronger consumer protection.

Additional steps are proposed by the aforementioned report of the inquiry into stronger consumer protection in the high-cost loan market. These include an interest rate and cost cap and restrictions on the ability to extend loans. In addition, tougher marketing and information requirements are proposed to make it easier for consumers to understand the true cost of a loan. Finally, requirements are proposed for consumers to not only be assessed to cope with the costs of a loan but to also allow for a buffer in their personal finances.[12]

FI believes that, together, the proposals could lead to stronger consumer protection. Primarily because they are not solely based on providing consumers with more information, but also place tougher requirements on firms' conduct towards consumers with regard to product design and credit assessment. FI's continued supervision could identify whether similar measures should also be proposed for consumption loans provided by credit institutions.

Digitalisation provides faster access to loans

Rapid digitalisation is affecting all aspects of the financial markets, including the consumption loan market.

For example, digitalisation is resulting in innovations and new operators, whose operations cannot always being fully encompassed by existing regulation. For example, in the credit market there is crowdfunding, which funds lending to consumers (sometimes known as peer-to-peer

10 The Certain Consumer Credit-related Operations Act (2014:275)

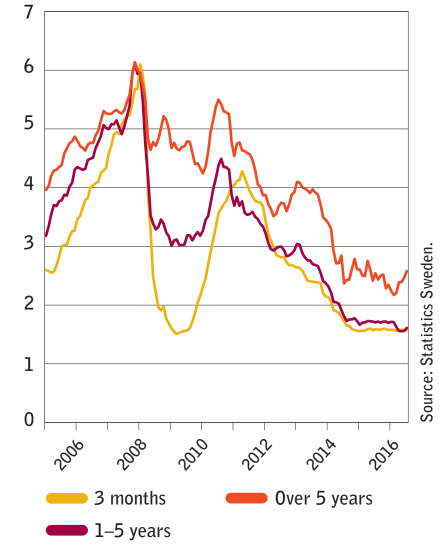
11 Another nine applications have been withdrawn by candidate firms.

12 See e.g. pages 19–20 "Stärkt konsumentskydd på marknaden för högkostnadskrediter", (SOU 2016:68).

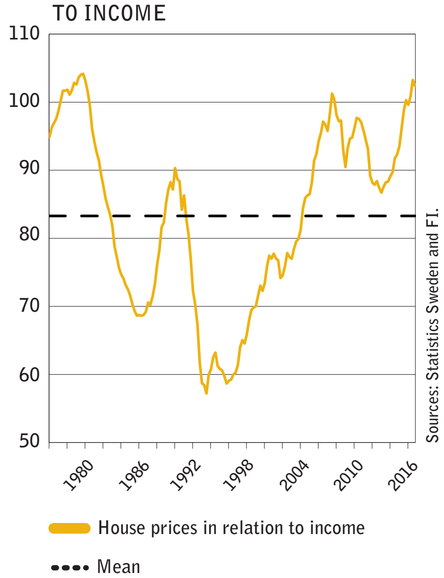
lending). These loans carry a clear risk to those consumers borrowing money.[13] These loans are similar to consumption loans, but since the firms are not always covered by requirements for credit assessment, there is a greater risk that consumers will be granted loans that they are unable to repay. The incentive to perform good credit assessments is also weaker since the platform does not assume credit risk itself.

In December 2015, FI published a report on crowdfunding at the request of the Swedish Government.[14] Subsequently, in July 2016, the Government initiated a report to review the conditions for crowdfunding in Sweden, based in part on FI's report. The remit of the report also includes analysing how these businesses relate to current regulations, whether new business-related statutory regulation is required or whether existing legislation needs to be amended. FI is participating in the work of the report, which will report its work by 29 December 2017 at the latest.

6. MORTGAGE INTEREST RATES (%)



7. HOUSE PRICES IN RELATION TO INCOME



Note: House prices in relation to disposable income
Index 100 = 1989.

MORTGAGES

Most households have to borrow to fund the purchase of a home. Since mortgages account for over 80% of total household debt, this is an important market for FI to monitor. FI analyses the mortgage market based on all elements of its mandate: to contribute to financial stability and a high level of consumer protection, and to counter macroeconomic imbalances.

FI focuses largely on measuring and assessing the resilience of households to shocks that could affect the national economy. This may include higher interest rates, increased unemployment or declining housing prices. FI also assesses the vulnerabilities caused by high household debt.

Assessing the likelihood and size of possible shocks is difficult. However, FI believes that, in light of the exceptionally low interest rate environment and low mortgages rates, it is reasonable to assume that there is greater potential in the economy for interest rate increases than scope for interest rate cuts over the next few years (Chart 6). It is also unlikely that the rapid growth in housing prices could go on forever (Chart 7).

FI's ability to influence the probability of shocks occurring is limited. Instead, FI focuses on strengthening the resilience of households and firms and on reducing the proportion of vulnerable households in order to limit the risk to individual consumers and to the economy.

Limited risk of credit losses

FI believes that households' large mortgages currently do not pose an increased risk to financial stability. The risk of credit losses to banks is limited. FI continually checks banks' assessment of households' ability to cope with the costs resulting from mortgages in addition to other essential subsistence costs, and judges the quality of these calculations to be adequate in general. The samples that FI takes of a large number of new mortgage borrowers in its annual mortgage survey also show that the households that took out a new mortgage generally have sufficient repayment capacity. This means that essentially all households could cope with their mortgage costs even in the event of economic shocks.

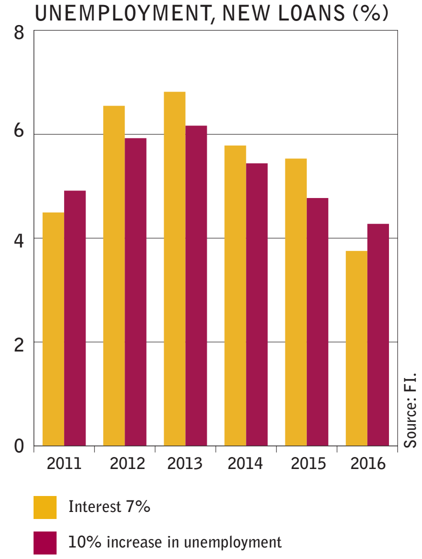
Margins have also improved over time. At an interest rate level of 7%

13 There are also risks for those consumers that provide the money funding lending in exchange for interest, which is discussed in the next chapter.

14 'Crowdfunding in Sweden – an overview' (http://www.fi.se/contentassets/0ffe196bc6ba4569bc16682da5faae14/grasrotsfinansiering_151215.pdf)

just under 4% of new mortgage borrowers in 2016 would experience a financial deficit, compared with 5.5% of new mortgage borrowers in 2015. The percentage of new mortgage borrowers that would experience a financial deficit in the event of higher unemployment has also decreased (Chart 8).[15]

8. THE NUMBER OF HOUSEHOLDS WITH A DEFICIT AT 7% INTEREST AND 10% HIGHER UNEMPLOYMENT, NEW LOANS (%)



Note: The calculation for increased unemployment is based on 2% interest for all years.

Risks to vulnerable households

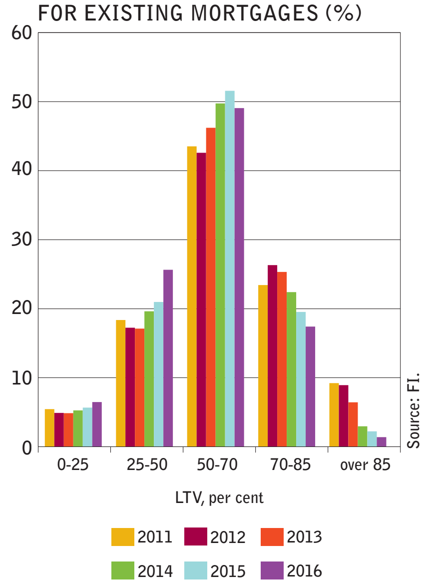
Although the household sector is largely able to bear the costs of their mortgages, shocks in the economy can lead to many households having to reduce their other expenditure to cope with interest and amortisation payments. This poses a risk to the economy, as reduced aggregate consumption can reinforce an economic downturn. This can also pose a risk to individual households, whose everyday lives could be significantly affected if they had to reduce spending.

Households with high levels of debt in relation to their income (high debt-to-income ratio) or in relation to the value of their home (high loan-to-value ratio) are particularly vulnerable. The debt-to-income and loan-to-value ratios are therefore two parameters that FI monitors closely in its annual mortgage survey.

In terms of all outstanding mortgages, the percentage of households with an loan-to-value ratio of over 50% is nearly seven out of ten. (Chart 9) For new loans, the average volume-weighted loan-to-value ratio has decreased in recent years, but it still relatively high at almost 70%.

The average debt-to-income for new mortgage borrowers has increased in recent years, but has stabilised since 2015 at around 400%. More than 16% of new mortgage borrowers, however, have a debt-to-income ratio of more than 600% (Chart 10). Households with a high debt-to-income ratio are more vulnerable to an interest rate increase, particularly if they have a variable-rate mortgage.

9. BREAKDOWN OF LTV RATIOS FOR EXISTING MORTGAGES (%)



Households' interest rate sensitivity – an economic vulnerability?

Around three-quarters of new mortgage borrowers have variable interest rates, i.e. a fixed interest period of three months. This figure was presented in the analysis memorandum published by FI in March 2017.[16] Combined with high debt-to-income ratios, this results in a historically high interest rate sensitivity in the Swedish household sector.

According to FI, it is therefore important for consumers to be provided with sufficient circumstances to choose fixed interest rates to protect themselves against interest rate risk. This applies in particular to vulnerable households.

FI believes the rules need to be revised regarding the compensation that a bank may have the right to charge when a consumer changes loan terms (premature loan redemption penalty) so they do not unnecessarily distort households' choice of fixed interest period.

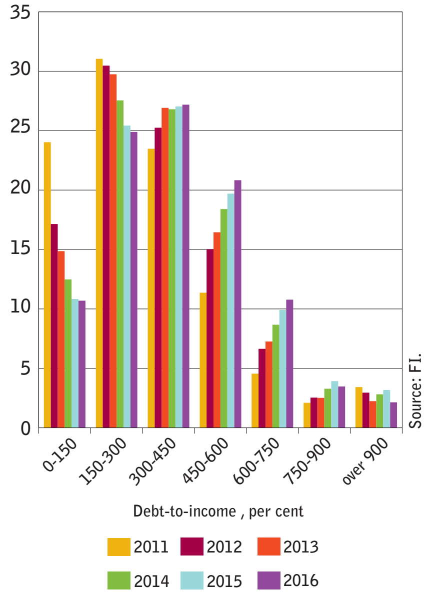
In addition, banks play a key role in providing specific interest rate offerings to customers with information about the pros and cons of different fixed interest periods. It is essential that households understand the implications

15 See 'The Swedish mortgage market' for a description of the stress tests. (http://www.fi.se/contentassets/2a4665e04627420880e4af1c771a11fe/bolan_2017ny3.pdf)

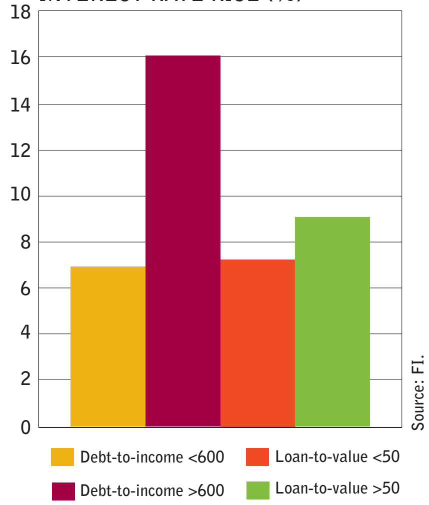
16 FI analysis 9 'Households' interest rate adjustment periods – an economic vulnerability?' (http://www.fi.se/contentassets/1dcc1e4d818c4751aeb56d3265ee2e16/fianalys9_hushall_rantebindtid_20170310.pdf)

of having fixed interest or variable interest so they can discuss their interest rate sensitivity and possibly fix the interest rate in order to increase their resilience against interest rate hikes.

10. BREAKDOWN OF DEBT-TO-INCOME RATIOS FOR NEW MORTGAGES (%)



11. REDUCTION IN CONSUMPTION SPENDING IN THE EVENT OF A 3 PERCENTAGE POINT INTEREST RATE RISE (%)



Measures for greater resilience

In order to reduce the risks in high household debt, FI has taken a number of measures to strengthen the resilience of households and to reduce vulnerabilities. In 2010, FI introduced a mortgage cap, which sets a limit on the size of a mortgage in relation to the value of the collateral. This requirement provides some protection for households against the risk of having a loan that is larger than the value of the home in the event of a decline in house prices.

In 2016, an amortisation requirement was introduced for households with an loan-to-value of more than 50% of the value of the home. In April 2017, FI presented an analysis of what effects the amortisation requirement has had. The analysis shows that the amortisation requirement has had a restraining effect. New mortgage borrowers' debt-to-income ratios are now lower than they would have been without the requirement. On average, the amortisation requirement has restrained mortgage borrowers' debt-to-income ratios for mortgages by almost 9%.[17]

Overall, the amortisation requirement means that households subject to the requirement are purchasing slightly less expensive housing and borrowing slightly less. From a consumer protection perspective, however, it is particularly interesting to examine what effects the requirement has had on vulnerable households. The analysis shows that mortgage borrowers with the highest loan-to-value ratios have been most affected and are taking out smaller loans in relation to their income as a result of the amortisation requirement. FI's mortgage survey also shows that the increase in the proportion of households amortising debt is highest among households with higher loan-to-value ratios, particularly in the 50–70% range. Although the amortisation requirement results in higher charges for new mortgage borrowers at present, the requirement should in the longer term therefore strengthen the resilience of vulnerable households by reducing indebtedness.

The risk remains, however, that some households may make considerable changes to their other expenditure in order to cope, for example, with rising interest rates. The estimated reduction in consumer spending as a result of an interest rate rise of 3 percentage points over one year has increased since 2011 and now amounts to 2.4% of total consumer spending.[18]

For vulnerable households, such an interest rate rise could have even greater consequences. An estimate of new mortgage borrowers with a debt-to-income ratio of over 600% shows that these households could need to cut their total spending by over 16%. Households with a debt-to-income of less than 600% need to reduce their spending by just under 7%. For new mortgage borrowers with an loan-to-value ratio of over 50% , the estimated drop in spending is 9% (Chart 11).

17 FI analysis 10 'Amortisation requirements have reduced household debt' (http://www.fi.se/contentassets/808855501f59461692aada9fddf20675/fi-analys10.pdf)

18 See 'The Swedish mortgage market', p.22 (http://www.fi.se/contentassets/2a4665e04627420880e4af1c771a11fe/bolan_2017ny3.pdf)

FI continually analyses the effect of measures that are introduced and does not rule out further measures to reduce the risks of household indebtedness.

Other consumer risks from mortgages

In addition to the risks to the economy and to individual households that arise from indebtedness, consumers may also face other risks when they take on mortgages. One of these risks is that banks may use the mortgage as a way of encouraging consumers to purchase other financial products and services from the bank in a way that is not in the interests of the consumer. This may, for example, involve taking out insurance or moving their pension savings. FI's mortgage survey shows that it is very common for households that take out mortgages to also purchase other services, particularly within savings. For consumers who are keen to obtain a mortgage and possibly receive an individual discount on the mortgage rate, it may be difficult to determine if these additional services are a good deal in relation to the interest rate offer. It is therefore positive that new rules introduced on 1 January this year mean, among other things, stricter requirements for firms that arrange and advise on mortgages.[19] For example, it is no longer permitted to require consumers to also purchase products in order to obtain a mortgage. It is still permitted to offer package deals, i.e. a discounted price for a mortgage together with other services. But the mortgage must be signed separately and it must also be made clear what each service costs individually.

Senior loans – more expensive than other mortgages

Senior loans are a type of mortgage aimed at older people who have a small mortgage on their homes but whose income is too low to be granted a normal mortgage. The terms for the loan, such as how the interest is paid, differ between different firms.

In theory, this can be a good solution to free up capital that is tied up in a home and to bolster the pension. The variants that have been offered so far, however, have been expensive and have sometimes had other unfavourable terms. In some cases, pensioners have also been advised to invest the capital that is freed up in insurance solutions, posing a risk of losing some of the capital.

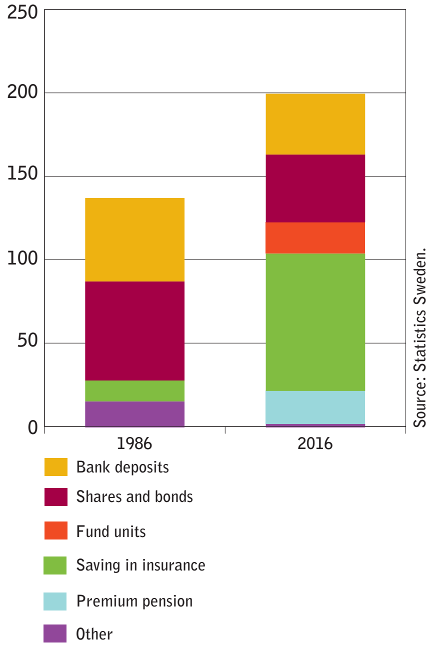
In previous mortgage surveys FI has found that several of the largest banks offered senior loans. The results of the 2017 mortgage survey, however, indicate that the banks have now stopped offering this product. It is not inconceivable that the senior loan market will grow in the future. In order for senior loans to actually be of benefit to pensioners, both fees and other terms must be adapted to their needs and circumstances. FI will continue to monitor developments in this market.

19 Special authorisation is now required for these kinds of operators under the Mortgage Lending Business Act (2016:1024). These rules come from Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on consumer credit relating to residential property. The directive has also been implemented in Swedish law through amendments to the Consumer Credit Act (2010:1846).

Savings products that are difficult to evaluate

Consumers face a growing number of savings-related decisions – not least regarding saving for their pension. At the same time, savings products are difficult to evaluate and the offering is vast, so consumers risk selecting products that are inappropriate in relation to their needs and circumstances.

12. HOW SAVINGS HAVE CHANGED
(financial assets as a share of disposable income – and distributed across different asset types)



Note: Households' assets consisting of housing are not included.

Saving has gone from being about the simple process of earning interest from savings accounts in the past, to often being placed in more complex financial assets today. A comparison between households' financial assets in 1986 and 2016 shows that assets have increased as a share of disposable income, and that they have changed in nature: The share of deposits with banks has decreased, while saving in funds and insurance policies has increased (Chart 12).

Because of these developments, consumers must increasingly make decisions about complex financial products and services. For example, consumers saving for their pension are faced with difficult choices; in the premium pension system and in occupational pension.

While savings products are necessary for consumers to obtain return and distribute the risks in their saving, they illustrate the difficulty in making informed choices on the financial market. For example, judging expected return and risk based on information about for example standard deviation and past return is difficult for most people. Neither can it be taken for granted that the information is a good indication of what will happen in future. Also, in some cases, the total cost can be difficult to judge, especially when it consists of several components and includes fees for distributors, external managers or other third parties. Even when the total cost is clearly specified, it is difficult to determine whether it is proportionate to the value of the product, i.e. whether the product is value for money.

The difficulty in evaluating savings products creates a risk that consumers invest their money in products that are unsuitable in relation to their needs and circumstances. It could be a product that is excessively risky, has an excessively high fee, or which lacks a secondary market and is hence difficult to get rid of.

INFORMATION IS KEY

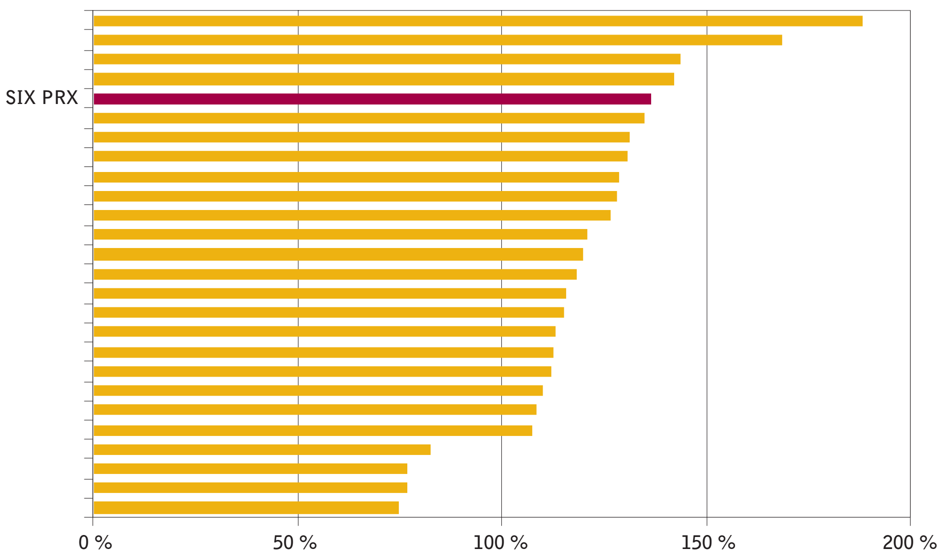
An important step in facilitating decisions on saving is ensuring that consumers receive relevant and clear information. A great deal of FI's supervision of for example funds is therefore about verifying that fund companies follow the rules on information provision.

For example, FI has followed up on its earlier review of actively managed "Sweden funds" (funds that invest in Swedish equities). FI has looked at how the fund companies follow the recommendation regarding benchmarks and reporting other measures of activity introduced by the Swedish Investment Fund Association. The recommendation was introduced after FI criticised funds that purport to offer active management, but which in actual fact manage the funds in a way resembles tracking an index.

In November 2016 FI held a seminar on the topic (an “FI forum”), at which FI ascertained that most of the funds studied follow the recommendation of the industry association. However, there are exceptions and FI pointed out that the fund companies in point should remedy this.

FI also pointed out the importance of fee levels for the return that ultimately accrues to savers, and how it is related to activity in the fund. The smaller the active share of a fund – and the higher its fee – the higher the required return will be in order for the active share to compensate for charging the extra fee. In other words, on there is higher pressure on the manager to outperform the market in the part of the asset management that deviates from a comparable index. The importance of the fee was also illustrated by a compilation of the return of 25 Sweden funds in the past ten years. More than half the funds outperformed the index before charging fees, but when the fee is included, it can be seen that only four of the funds managed to outperform the index over time (even when deducting a standard fee of 0.4% from the index, see Chart 13).

13. RETURN, 10 years, in 25 Sweden funds (after charging fees)



Note: FI has compiled the funds' return in the past 10 years and compared it with the index SIX PRX minus a standard fee of 0.4% for index management.

Sources: Bloomberg and data from the fund companies.

Besides the fee being key to evaluating the possibility of a fund to reach its targets, FI's main message at the seminar was that the fund companies must provide sufficient information in their fund rules to enable consumers to understand the difference between different funds and how they are managed. This is necessary in order for a large range of funds to provide consumers with added benefit. This requires in turn that the boards of fund companies take active responsibility in evaluating the funds, in order to ensure that the management over time has been conducted in a way that is consistent with the fund rules, and in the interests of unitholders. Furthermore, FI would like to see the fund companies taking a greater responsibility for their fund offering being adapted to consumers' needs and circumstances – making it easier for consumers to make good choices.

KID – Key Information Document

A close relative of the compulsory key investor information document for UCITS funds is the new key information document (KID) for package retail and insurance-based investment products (PRIIPS). The key information document resembles that for investment funds, but has the purpose of enabling comparisons of cost, risk and expected return between a number of different packaged investment products of varying complexity.

FI has participated in the work in the European supervisory system to reach an agreement on a standard that is apt for all products. The regulation introducing the key information document was supposed to come into effect on 1 January 2017. However, because the European Parliament voted down the proposed key information document, it was decided to defer entry into force by one year to enable reworking the proposal. [20]

PRODUCTS ADAPTED TO INDIVIDUAL NEEDS AND CIRCUMSTANCES

Even when consumers have access to relevant and clear information, evaluating and comparing different products can still be difficult. It is therefore crucial for firms that develop and sell savings products – from simple funds to complex derivative products – to consider the needs and circumstances of the consumers at which the products are directed.

This is also a factor made clear in forthcoming regulations regarding processes for the approval and governance of products, implemented in Swedish legislation through new EU directives. is the rules specify that producers of savings products have a responsibility for ensuring that their products are not sold inappropriately or to the wrong target group. This applies to both financial instruments and insurance-based investment products.[21]

FI finds these developments to be positive in many ways. First, the rules make it clear that it is the producer's responsibility to follow up and ensure that products are sold in the right way through the appropriate distribution channels, and to take measures if this is not the case. It means that producers of savings products cannot blame individual distributors if their products are sold inappropriately, for instance to consumers whose financial situation and knowledge motivate a less complex product, or one with a lower fee. The rules also present improved possibilities for FI to conduct supervision. FI will be able to place demands both on the firms selling financial instruments and insurance policies for savings, and the firms that develop them.

THE NEED FOR INDEPENDENT FINANCIAL ADVICE

Deciding on a form of saving requires an understanding of the trade-off that must be done between expected return, risk and cost. For this reason, many consumers need help in comparing and choosing from the

20 Regulation (EC) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

21 See Article 16(3) of Directive 2014/65/EC of 15 May 2014 of the European Parliament and the European Council on markets in financial instruments (MiFID II). See also Article 25 in Directive 2016/97/EC of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

vast range available on the market. It is for this reason that a market for financial advice exists.

Financial advice is offered by different types of financial firm (Table 1). Investment firms and banks authorised to provide investment advice offer advice on financial instruments. Insurance intermediaries and insurance undertakings provide advice on saving in insurance products. Fund companies can provide advice about their own funds.

TABLE 1: Firms on the market for financial advice

Firms authorised to provide investment advice	
Investment firm	72
Banks	24
Credit market companies	1
Savings banks	46
Firms and individuals authorised for the mediation of life insurance	
Insurance intermediaries	864
Tied insurance intermediaries	246
Other firms that can offer advice	
Fund companies and AIF managers	80
Life insurance undertakings	39

The basic problem with a lot of the advice offered to consumers is that it is offered by the same firms that sell, and also often develop, the savings products in question. The amount a firm earns on selling a product depends on the size of the remuneration (commission) paid by the producer to the advisor, or the size of the firm's margins on the products it produces in-house. Because earnings are thus linked to which products are sold, the advisor has an incentive to recommend certain products ahead of others. In its supervision in the past few years, FI has seen several examples demonstrating the great difficulty in managing the conflicts of interest arising from these incentives.

Also, commissions present an obstacle to consumers understanding the total price of a product, including the advice. This is because the commissions almost always form part of the fee (for instance insurance premium or fund management fee) paid by the consumer. For the consumer, it is therefore difficult to understand the cost of the product and the advice, respectively. The hidden distribution fee, which commissions entail, thus aggravates the difficulty in evaluating savings products.

New rules on conflicts of interest and commissions

FI has pointed out a need for a broad ban on commissions in financial advice, i.e. remuneration for advisors that comes from a source other than directly from the consumer. The purpose of this is to put into place conditions for an independent advisory market – advice that is free of conflicts of interest – thus enabling consumers to rely on the fact that it has their best interests at heart.

The new EU rules regarding sale of and advice on savings products, which will be implemented in Swedish legislation until the beginning of 2018, contains no such broad ban.[22] The Government shares FI's view of the problems on the advisory market, but finds that the rules introduced through the EU directives ought to imply that it will no longer be pos-

22 Directive 2014/65/EC on markets in financial instruments (MiFID II) and Directive (2016/97/EU) on insurance distribution (IDD).

sible to accept commissions that cause consumer detriment.[23] For example, investment firms may only accept commissions that increase the quality of the service for the consumer and do not prevent the firm from acting in the customer's best interests.

In its proposal for new regulations prompted by the regulatory changes, FI discusses its view on the new rules. For example, in light of the EU Directive and supplementary rules, FI concludes that it ought to be difficult to justify large differences in commission between different products. FI also finds that commissions accepted upon signing an agreement ("up-front commissions") can give rise to particularly strong conflicts of interest, and ought not to be consistent with the new rules either.[24]

Inspecting how firms manage conflicts of interest will remain a high priority in FI's supervision of the market for financial advice. Besides, FI sees a great need for the industry to take on board the purpose of the new rules, and alter their remuneration models. FI would like to see industry-wide initiatives aimed at addressing the conflicts of interest caused by commissions, rather than relying on informing that conflicts of interest exist.

Parts of the new rules for the security market have the specific aim of promoting the emergence of truly independent advice, by making it clear that only advisors that do not accept commissions and which do not sell in-house produced products may claim to offer independent advice.

In FI's opinion, such protection of the term "independent" could have positive effects. However, it requires consumers to understand the difference between advice that is independent, and that which is not. In the introduction of the rules in Sweden, it is therefore proposed that firms shall always inform the consumer of whether or not the advice is provided on an independent basis. As is the case with all information provided by financial firms to consumers, FI finds in this respect that the firms must take into consideration the ability of consumers to take the information on board. In this case, that should exclude synonyms aimed at giving consumers a false impression of the advice being independent, such as "autonomous" or "impartial".

Besides the rules on commissions and conflicts of interest, consumer protection in financial advice is strengthened by the fact that the rules regarding insurance intermediation are clarified by the introduction of the Insurance Distribution Directive (IDD) into Swedish law. The Government is expected to propose a limitation on the possibility of insurance intermediaries to avoid intervention by FI by withdrawing their authorisation during a current review or sanctions procedure. Also, the new rules are expected to clarify the boundary between insurance mediation and investment advice. Today, insurance intermediaries without authorisation to provide investment advice can give advice on financial instruments – including complex ones – as long as it is given as part of an insurance solution. Clarifying that such advice requires authorisation for the provision of investment advice under the securities regulations clearly implies strengthened consumer protection.

23 " Ett stärkt konsumentskydd vid finansiell rådgivning" (http://www.regeringen.se/artiklar/2016/05/ett-starkt-konsumentskydd-vid-finansiell-radgivning/)

24 Consultation memorandum "Förslag till nya värdepappersföreskrifter med anledning av införandet av Mifid 2 och Mifir" (http://www.fi.se/contentassets/ad16baddff5b40b9a6969ca80bf7e2c8/remisspm_mifid2.pdf)

Digital developments on the advisory market

FI believes that simpler and cheaper advisory services could play an important role in the process towards a market for independent financial advice. In the last few years, digital advisory services have started to emerge. They often market themselves as independent alternatives to traditional financial advice. Digitally based services are cost-efficient and enable independent advice that costs less and can reach more consumers. At the same time, FI sees the developments posing new risks. Setting the boundary between what is investment advice subject to authorisation, and what is not, can sometimes also be more difficult than in traditional financial advice.

Automated advice – opportunities and challenges

By "automated advice", FI means personal advice about financial instruments that is provided with no or little human involvement. The definition includes both automated advisory tools that are entirely automated, and those that feature some human contact at some stage of the process. However, it does not include traditional advice in which the advisor is supported by an IT tool.

When firms develop automated advisory tools, consumer protection must be in focus. This requires the firm to proceed on the basis of consumers' needs and circumstances.

Used in the right way, automated advisory tools can reduce the risk of conflicts of interest in the advisory situation. An advisory tool can also make it easier to meet the documentation requirements that the firm must follow. However, the firm must understand the limitations of the advisory tool, and carefully monitor its performance. For instance, the tool must be devised such that requisite information is gathered from the customer through straightforward questions, without an element of customers having to judge the appropriateness of different options themselves. The firm's board of directors, CEO, and control functions for compliance, risk management and internal audit, need to possess the knowledge and ability to assess the risks in automated advisory processes. In the operations based on automated tools (IT systems) specific requirements are placed on control and management of operational risks.

FI's view of certain aspects of automated investment advice is summarised in a memorandum published in December 2016.

CONSUMER PROTECTION IN THE PREMIUM PENSION SYSTEM

The premium pension system is a clear example of a situation in which consumers have to choose from a vast range of savings products. The premium pension is part of the national pension system, in which savers themselves can have an influence by choosing how their funds are invested. It is built up by annual provisions of 2.5% of salary or other taxable income. As part of the premium pension, consumers today can choose from over 800 funds available on the fund marketplace under the administration of the Swedish Pension Agency.[25]

25 The Swedish Pension Agency is the authority tasked with administrating and disbursing the national pension, which includes the premium pension. The fund companies that operate within the premium pension sign a cooperation agreement with the Swedish Pension Agency.

The high number of funds, combined with savers' lack of interest and financial capability, has led to the pension capital of many savers ending up in funds that are relatively expensive or that have a risk profile that is unsuitable for their situation.

In many cases, funds are chosen because of the influence of insurance intermediaries or investment firms that offer advisory or administrative services for fund options in the premium pension system.[26] In that case, there is a risk of conflicts of interest that are difficult to manage, as discussed in previous sections.

There is also a great risk of the design of the premium pension system being exploited by entities whose business is not sufficiently long-term or serious. On the fund market outside of the premium pension system, funds must, to a greater extent, compete through a strong brand and by showing the fund's past performance. In the premium pension system, which in practice means compulsory saving, passive consumers can instead be persuaded to select funds due to aggressive selling techniques, opening up for funds with inferior asset management.

FI supervises the Swedish funds that are selectable in the Swedish Pension Agency's fund marketplace. However, many of the funds in the selection are authorised in other EEA countries, enabling them to market their fund units in Sweden too. FI's possibility to intervene if problems are identified in foreign funds is limited, because it is the supervisory authority of the foreign fund's country of authorisation which supervises the fund. For this reason, FI has limited possibilities to inspect the assets of foreign funds.

If FI identifies a problem with a foreign fund, FI sets up a collaboration with the foreign supervisory authority (see the box describing an example of this). The exception is if the fund specifically breaches Swedish rules, for instance if the fund lacks a key investor information document in Swedish, or if there is nowhere in Sweden where units can be redeemed. FI can then order the fund to remedy this and, if measures are not taken, ban the fund from conducting transactions in Sweden.

An example of problems in the premium pension system

In 2016 a number of ambiguities were recognised with respect to three funds provided by Maltese UCITS Falcon Fund Sicav plc. The ambiguities resulted in the Swedish Pension Agency terminating its cooperation agreement with the company in June 2016. The stated grounds for termination were that illegal fund transfers had occurred through the sales company Konsumentkraft (which by that time had been reported to the police), and that there were strong suspicions of conflicts of interest in connection with securities investments made.

FI has been in dialogue with both the Swedish Pension Agency and the Maltese supervisor, Malta Financial Services Authority (MFSA). In January 2017 MFSA took one of the most stringent supervisory actions possible, when it made a decision entailing that the board of directors and individuals behind Falcon funds lost all influence over the funds. The funds will be wound

26 A survey conducted by FI in 2016 among 415 insurance intermediaries confirms that advisory services pertaining to the premium pension system are a commonly occurring phenomenon. 20% responded that they are engaged in advice about funds in the premium pension system. Such advice is also offered by investment firms and banks.

up and an external independent entity is taking care of that process. However, problems still persist for 21,000 Swedish fund savers, because the value of the fund units is still uncertain. The extent of any ultimate loss is unclear, because the wind-up process is still ongoing.

In the premium pension, there is a default option in which savers who do not make an active choice end up. However, in light of the risks and problems described, this does not appear to offer sufficient protection for consumers.

The 2016 Premium Pension Inquiry was appointed to analyse and submit proposals for how the premium pension system can be changed to increase the probability of more pension savers obtaining a better outcome from their premium pension. However, the Inquiry proceeds on the basis of attaining this without compromising freedom of choice, i.e. the high number of funds. The Inquiry proposes that savers that have made a choice other than the default option should perform an "evaluation option" once every seven years. This means that savers who have made an active choice would need to confirm that they still want to keep their fund options, or have their funds automatically transferred to the default option.[27]

In FI's opinion, the Inquiry's proposal is a step in the right direction, but does not suffice to rectify the deficiencies in the premium pension system. An evaluation option would limit problems linked to savers remaining in inappropriate funds for a long time, but does not address the risk of savers ending up with such funds to start with. In its consultation response to the report of the Inquiry, FI therefore points out the need to reduce the number of selectable funds in the premium pension system.[28]

Participation in the premium pension is compulsory, even for people who have no interest whatsoever in, or knowledge about, financial matters. Therefore, FI finds reason to strive for a particularly high level of consumer protection in this context. The Government must ensure that savers have a reasonably easy choice, and that the outcome cannot be too poor. In FI's opinion, the interest of protecting the groups of savers that risk losing a great deal of their premium pension savings weighs heavier than the interest of having great freedom of choice, which more informed and knowledgeable savers could have. FI therefore finds that the fund offering in the premium pension system should be limited, both in terms of the number of funds and possible risk-taking. According to FI, the Government should appoint a new inquiry commissioned to analyse how to devise such a solution.

Besides the discussions about how the system can be changed, the Swedish Pension Agency has been assigned by the Government to analyse and clarify the risks of fund companies and management companies in the premium pension system failing to follow the rules in place. The assignment also includes proposing measures to reduce the risks. Findings will be reported in June 2017 in consultation with FI.

27 "Fokus premiepension", SOU 2016:61

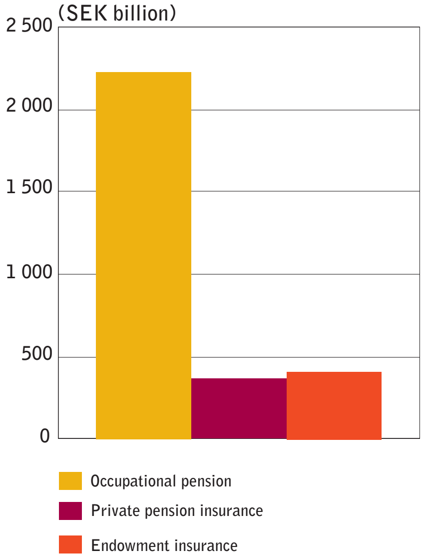
28 http://www.fi.se/contentassets/8d46249876c641c7b74b1441cb47ad49/remiss-svar-sou2016-61-framtid-premiepension.pdf

LARGE SAVINGS IN INSURANCE PRODUCTS

Including premium pension, more than half of Swedes' savings are in different types of insurance solutions. Occupational pensions make up a great deal of this, i.e. pension insurance linked to employment. There are also significant private savings in private pension insurance policies and endowment insurance policies (Chart 14).

Because of a transition from defined-benefit to defined-contribution occupational pensions, and the fact that an increasing number of people save in unit-linked and depository insurance, consumers face a growing amount of options in their pension saving. Besides the considerations between risk and expected return which consumers face in decisions about other savings products, saving in insurance policies often presents several other factors to consider. In pension insurance, for example, decisions must often be made about what happens to the pension capital if the insured party passes away prematurely. Another decision concerns whether withdrawals will be made over a predetermined limited period, or if they are life-long.

14. SAVING IN INSURANCE
(SEK billion)



Note: Refers to asset values in 2015 excluding group life insurance and non-terminable sickness and accident insurance.

Standardised information in the transfer of pension insurance

In line with saving in insurance having evolved to require a growing amount of individual choices, several entities have pointed out the importance of mobility to ensure a high level of consumer protection. The Life Insurance Inquiry pointed this out back in 2012.[29] The Swedish Competition Authority made a similar analysis in 2016.[30]

In principle, FI favours the right to transfer pension capital. The basis should be that consumers should be able to "vote with their feet" and switch suppliers in the field of life insurance too. However, because of the nature of life insurance as a product, more considerations are motivated than in other areas. Fundamentally, insurance is about sharing risks within a collective. The analysis tends to focus too much on the rights of parties that want to transfer their funds. There is, however, also a considerable need to protect parties that cannot or do not want to transfer their funds. It is therefore important to analyse the circumstances under which transfers should not be permitted or are considered inappropriate.

There are a number of issues that FI believes must be clarified before a general right of transfer can be introduced. One such issue is how large a share of the surplus in the undertaking out of which people wish to transfer can be disbursed without risking a deterioration in the return for those who do not wish to transfer. This aspect is discussed in the next section. Also, there is a clear link to the risks associated with commissions in financial advice, described earlier in the report. Consumers might be recommended to transfer their pension capital because it gives the advisor a larger commission, rather than it being beneficial for the consumer, which presents a conflict of interests.

In case a transfer of pension capital is possible, the consumer's ability to understand the terms and conditions of both the old and the new product is seriously put to a test. Such understanding is essential in order to evaluate the benefits and drawbacks in a transfer. To facilitate such a decision, clear and relevant information is needed so that consumers can compare different pension insurance policies and understand the financial implications of a transfer.

29 "Förstärkt försäkringstagarskydd", SOU 2012:64.

30 "Flyttavgifter på livförsäkringsmarknaden", Swedish Competition Authority Working Paper Series 2016:12.

In 2014 the Government therefore commissioned FI to work towards a joint standard in the life insurance and pension industry for information in connection with transferring pension capital. The purpose is for consumers, at the time of transfer, to receive straightforward, standardised information about their own transferable amount, and the characteristics and fees of their own insurance. As part of this, the insurance industry, under the management of industry association Insurance Sweden, prepared a recommendation applicable as of 1 January 2016.

In 2016 FI conducted an investigation to review whether insurance undertakings follow the recommendation. The investigation shows that there are some problems in both the interpretation of the standard, and in the firms' application of it. These are reported in detail in a status report to the Government in December 2016.[31]

Some firms have been delayed in applying the standard, and two firms have not adopted the recommendation at all. FI finds that these firms should adopt the transfer right recommendations as an expression of "good insurance standard".[32] If a lot of consumers miss out on important information on transfer rights, FI will consider measures in the form of regulation.

FI also sees that some aspects of the recommendation might need clarifying. One example is the question of when in the transfer process information should be presented. Another example is which insurance policies should be covered by the term "collectively agreed occupational pension", which is excluded in the agreement.

A key factor for consumers considering transferring insurance capital is information about fees – both the fee charged for the transfer itself, and the fee charged in the different policies.

According to FI's investigation, the transfer fee has been similar in the past two years, but varies sharply between firms. In many cases the transfer fee is so high that it can be questioned whether it is justified in relation to costs for, for example, sales and administration.

In terms of the cost of the policies themselves, FI's investigation shows that several companies deviate from the rules of the recommendation in terms of reporting annual fee charging. In order to improve the possibility for consumers to compare the cost of different insurance policies and to clarify the importance of the fee to saving, the Government commission from 2014 includes prompting the industry to develop a standardised calculation of the effects of charging fees on the value of savings. This calculation is called "Benchmark pricing" (see the box).

Benchmark pricing

The Swedish Consumers Insurance Bureau has been tasked with reporting on Benchmark Pricing – a standardised calculation of the effects of charging fees on the value of different policies. The online service of the Insurance Bureau enables comparing the cost of new saving in collectively agreed occupational pensions for the five largest collective agreement areas, and for saving in private pension insurance. The Insurance Bureau is also working

31 "Lägesrapport om branschöverenskommelse för ökad transparens vid flytträtt för pensionssparande" (http://www.fi.se/contentassets/bafd386d0ed64ea496af-6b1a30d16364/lagesrapport-flyttrattsinformation-dec-2016.pdf)

32 The Insurance Business Act (2010:2043) Chapter 4, section 3

on preparing Benchmark Pricing for individual occupational pension and endowment insurance, with the intention to launch these elements before the summer of 2017.

Allocation of surplus in traditional life insurance

Saving in life insurance can either be done in unit-linked and depository insurance, in which consumers themselves choose the assets in which premiums are to be invested – or in traditional life insurance, for which the insurance undertaking conducts the asset management. Traditional life insurance is based on the basic concept of the undertaking guaranteeing the customer a certain minimum return on savings, usually through an agreement on a guaranteed insurance amount level.

If the actual outcome is better than the assumptions made by the insurance undertaking about for example return and expenses, a surplus is created that the customer may receive in the form of a bonus. It is therefore possible that the customer may receive a higher amount from the insurance than that guaranteed. An important principle when distributing such a surplus is the "contribution principle". It means that a policyholder is entitled to the surplus to which the policy contributed. The principle is set out in law, but provides considerable scope for interpretation.[33]

FI has previously pointed out the risks of incorrectly managing surpluses, for instance an undertaking enticing new customers by allowing them to receive surplus to which they have not contributed. Because consumers often have less information about how the products are devised and how the surplus is determined and distributed in practice, it is difficult for consumers to determine whether they can receive the surplus to which they are entitled. Also, the terminology and methods used by the undertakings are difficult to understand for the average consumer, making evaluation difficult.

In light of this risk, FI has investigated the surplus management of the undertakings with a focus on the content of technical guidelines and the technical basis for calculations of the larger life insurance undertakings that apply a smoothed bonus interest rate.[34] The technical guidelines are key to the undertakings' internal governance and control of surplus management. They are also important to FI's ability to follow up on how the bonus has been distributed among policyholders. The analysis of the results of the investigation will be reported later in 2017.

Examples of improper surplus management

The contribution principle not only applies to surplus management of saving in insurance, but also to personal risk insurance products offered by life insurance undertakings. However, it has long been permitted to simplify the application of the surplus management rules for risk insurance compared with savings insurance. For example, bonus in group life insurance can be given in the form of disbursing bonus amounts to policyholders who are still custo-

33 Chapter 11, section 18, Chapter 12, section 69 and Chapter 13, section 23 of the Insurance Business Act (2010:2043).

34 The bonus interest rate is the rate of interest used for distributing the undertaking's total return between policyholders. It is set by the undertaking based on past and expected return and expenses. Some undertakings use instead the "interest rate on return", which is set once the return is known.

mers at the end of the year, while customers whose policies ended earlier in the year do not receive any bonus. Bonus can also be given in other ways. For example, bonus in the form of a reduced premium is common. Undertakings shall, in their technical guidelines, state the way in which bonus is provided if there is a surplus.

In April 2017 FI decided to issue Folksam mutual life insurance (Folksam Life) with a remark and an administrative fine of SEK 10 million for breaching the contribution principle for group life insurance. FI draws the conclusion that the undertaking has treated customers with a similar background differently. Some customers whose group life insurance ended in 2013 or 2014 received a bonus because, at the end of each year, they were still customers of Folksam mutual non-life insurance (Folksam Non-Life). However, other customers whose policies had ended, but who were not customers of Folksam Non-Life, did not receive bonus from the group life insurance. For this reason, FI finds that the undertaking has not followed the principle of fairness expressed in law.

Abolished tax deduction for private pension savings

On 1 January 2015 the right to make tax deductions on private pension saving was reduced from SEK 1,000 to SEK 150 per month, and was abolished entirely the following year. Consumers who continue to save in private pension insurance or in an individual pension saving scheme (IPS) will therefore be taxed twice, since they will pay tax once on the money they are putting into the scheme and again when they receive the pension disbursement.

In 2015 FI approached the undertakings that offer private pension saving to verify that they had an action plan to inform consumers of the amended tax-deduction rights. Because many consumers are still saving in private pension schemes, at the end of 2016 FI asked new questions about the undertakings' further work on the matter.

FI is of the opinion that the undertakings have done what they can to inform consumers of the new rules. Several undertakings are working actively to inform consumers about the total abolition of the right to deduct tax, and offering alternative forms of saving. The undertakings also let customers know that it is still possible to make tax deductions in certain cases, such as for business operators or people who entirely lack pension rights in their employment.

LOW CONSUMER PROTECTION IN THE BORDERLANDS OF REGULATED FINANCIAL OPERATIONS

FI's supervision is directed at firms that conduct financial operations. Business that is not covered by financial regulations is generally not subject to FI's supervision either. However, business does occur that resembles financial operations, but which is not covered (or is only partially covered) by the rules applying to financial firms. It is sometimes a case of operations enabled by new technology and which were not predicted when the regulations emerged. If FI discovers operations that ought to be regulated in the same way as financial operations, but which are not covered by existing rules, part of FI's role is calling the Government's attention to this.

Crowdfunding

In the section on loans for consumption in this report, it is discussed how the type of crowdfunding that finances lending to consumers (often called peer-to-peer loans) increases the risk of excessive indebtedness for consumers. Crowdfunding also presents a risk to the consumers who invest through the platforms, irrespective of whether it is a case of loan-based or equity-based crowdfunding.

In equity-based crowdfunding, investors (commonly consumers) help to finance a company in exchange for participations or shares in the company. Such crowdfunding resembles regular equity investments, but because the capital seekers are often private companies, the participations are not defined as financial instruments.[35]

In December 2015 FI published a report analysing the crowdfunding market in Sweden. In the report, FI determined that crowdfunding can have many positive effects. Small and medium-sized enterprises can gain easier access to capital, and the companies that obtain funding are determined by consumers who are thus able to control which products and ideas are launched on the market. FI's analysis also showed that, because the operations are not subject to any regulations, this poses a great risk to consumers. The absence of information requirements can lead to consumers failing to understand the investment and the risks therein.[36] Also, consumers risk getting stuck with their units, because there is no secondary market.

As mentioned previously, the Government has appointed an inquiry to review conditions for crowdfunding in Sweden. The inquiry will report on its work in December 2017.[37]

Warning about binary options

A binary option is a product in which the buyer can only speculate in two possible outcomes – that a certain circumstance transpires, or that it does not transpire. Besides this characteristic, binary options can be devised in lots of different ways depending on the terms of the specific product. However, it is generally a case of options with a very short maturity (for instance, 60 seconds) bought on a digital platform and based on the buyer's assumption about the price performance of an underlying asset. This asset could, for example, be individual shares, financial indexes, commodities or currencies.

In the past year, FI has received a growing number of calls from consumers who have suffered losses from purchasing binary options. The products are highly risky and many buyers lose considerable amounts of money. The terms and costs can vary a lot between products, making it difficult for consumers to understand the risks involved. At the same time, the products are often aggressively marketed, commonly through social media.

35 See the definition of financial instruments in the Financial Instruments Trading Act (1991:980) and the Securities Markets Act (2007:528). See also Government Bill 2004/05:158 p. 68) and Government Bill 2006/07:115 p. 282.

36 In a new report on crowdfunding, etc. from IOSCO, the International Organization of Securities Commissions, it is stated that the estimated probability of start-up companies going bankrupt is around 50–90%. ("IOSCO Research Report on Financial Technologies", p. 17)

37 "Crowdfunding", Dir. 2016:70

Consensus on the risks in binary options at EU level

In July 2016 the European Securities and Markets Authority (ESMA) issued a warning about binary options and other "speculative" products sold to consumers.[38] The warning highlights the fact that such products are sometimes sold by firms that lack authorisation for securities business, which further increases the risk for consumers. Additionally, ESMA ascertains that a lot of the sales occur on a cross-border basis. ESMA points out the supervisory actions taken by the competent authority in Cyprus against a number of investment firms domiciled in the country, which have conducted extensive cross-border business.

In a European context, it can also be mentioned that, in August 2016, the supervisory authority in Belgium (FSMA) introduced a framework for the sale of certain derivatives, entailing a ban on distributing binary options to consumers in Belgium.[39] In France too, binary options have practically been banned through rules preventing the electronic marketing of speculative products.[40]

Many binary options are covered by the definition of a financial derivative instrument in Swedish securities legislation and therefore count as financial instruments.[41] However, there are exceptions that cannot be classed as financial instruments, but which are rather covered by lottery legislation.

In cases where a binary option is to be considered a financial instrument, the firm that develops or sells them must apply for authorisation under the securities regulations in the firm's home member state. FI is not aware of any Swedish firm that lacks authorisation for securities business which offers binary options. However, binary options are sold on the Swedish market by a number of firms authorised for securities business in the UK and Cyprus.

A foreign investment firm wishing to offer its products to consumers in Sweden must inform FI prior to commencing operations. FI is currently working on contacting firms that offer binary options in Sweden, but which have not informed FI of their business. If Swedish consumers come to harm from contacts with a foreign firm entitled to operate on the Swedish market, FI commences a dialogue with the supervisory authority of the home member state, which may take measures against the firm.

Finally, it is important to point out that binary options are a highly speculative product, which should only be used by consumers that have sufficient knowledge and experience of how such products work. There is a

38 "ESMA issues a warning about speculative products for consumers" (http://www.fi.se/sv/publicerat/nyheter/2016/esma-varnar-for-spekulativa-produkter-till-konsumenter/)

39 "FSMA Regulation establishes a framework for the distribution of OTC Derivatives (Binary options, CFDs...)" (http://www.fsma.be/en/Site/Repository/press/div/2016/08-08_banning.aspx)

40 "A major investor protection milestone: the AMF sets specifics for its ban on the advertising of the riskiest products" (http://www.amf-france.org/en_US/Actualites/Communiques-de-presse/AMF/annee-2017.html?docId=workspace%3A%2F%2FSpacesStore%2Ff12bcdf3-0a29-4cde-912f-616b0f8f45c8)

41 Chapter 1, section 4, p. 5 of the Securities Market Act (2007:528)

big risk of losing all or large parts of an investment. For most consumers, binary options are an unsuitable product for these reasons.

Deposit firms

In a report from 2011, FI pointed out the problems in terms of consumer protection and confidence in the financial market that can emerge from certain financial operations not being subject FI's supervision, but only requiring registration at FI. [42] An example of such business at the time was lending to consumers by firms other than banks and credit market companies. That business has since been regulated (see the previous chapter).

Another example, which is still relevant, is about deposits. Deposit firms are firms registered with FI to accept deposits from the general public pursuant to the Deposit Business Act (2004:299). Often, these firms offer an interest rate on deposits far higher than that offered by traditional banks. FI conducts a formal check on the suitability of the owners and management of the deposit firm, but does not conduct any regular, proactive monitoring of the business, and also FI has limited possibilities to intervene in the event of mismanagement of the business.

The consequence of the limited regulation is a lower level of consumer protection. For example, there are no rules about how much capital deposit firms must hold, so consumers using this type of saving cannot be sure to get their money back. Neither are deposits held with deposit firms covered by the state deposit guarantee, so consumers are not entitled to any compensation from the Government if the deposit firm goes bankrupt.

The deposit firms must inform their customers that they are not covered by the deposit guarantee, but there is nevertheless reason to assume that, for many consumers, it is difficult to distinguish between operations that are supervised by FI, and operations that are registered at FI. There is a risk of consumers seeing the registration at FI as a mark of quality and hence not considering the risks posed by this type of saving.

In time, there is a risk that an order of deposits not covered by supervision and regulation will have an adverse impact on confidence in the deposit market in general.[43] Therefore, FI finds that deposit business should in principle require authorisation like credit market companies or banks, which was also pointed out in the report from 2011.

42 "Tillsyn och registrering", FI Ref. 11-2145.

43 The OECD also pointed this out in "OECD Economic Survey of Sweden 2011" (p. 60).

Efficient and secure payments

Payment services are perhaps the area in which digital developments on the financial market are most evident. Much of FI's work in this area relates to participating in the work on new rules that tighten requirements for new entrants to the market, who were previously unregulated. Clearer rules are important to ensure strong consumer protection. Rules that are better adapted to innovative business models can also help increase competition by making it easier for firms to enter the market.

A BASIC FUNCTION

Mediating payments is one of the financial system's basic functions. The system helps households and firms pay for goods and services securely and efficiently. Most consumers depend on different payment services for their everyday lives to function. It is therefore important to ensure strong consumer protection for payments.

A significant type of risk in this respect can arise if firms are deficient in ensuring the identify of users or if personal data is not handled with sufficient security. If this is the case, there is a risk of consumers' data being used for fraud. This risk is highlighted as new digital payment services are offered to consumers.

MANY OPERATORS AND RAPID CHANGES

After obtaining authorisation from FI, banks, credit market companies, payment institutions and electronic money institutions are able to operate payment service activities. Firms and natural persons who want to provide payment services to a limited extent, however, may apply to FI to be exempted from requiring authorisation. An entity that is exempted in this way is known as a registered payment service provider.[44]

In total, just over 230 firms are authorised to provide payment services or have been exempted from such authorisation requirement (see Table 2). In addition to this, there are also a large number of agents for payment institutions. Furthermore, there are many foreign firms that provide payment services in Sweden. This takes place either through branch offices, through payment service agents or through cross-border business without operations established in Sweden.

TABLE 2. Firms authorised to provide payment services

Credit institutions	121
Payment institutions	29
E-money institutions	5
Registered payment service providers (exempted from authorisation requirement)	78
Registered e-money issuers (exempted from authorisation requirement)	1
Total	**233**

From 2018, the scope of the Payment Services Act will be increased and more firms will be subject to payment services regulations (see next section).

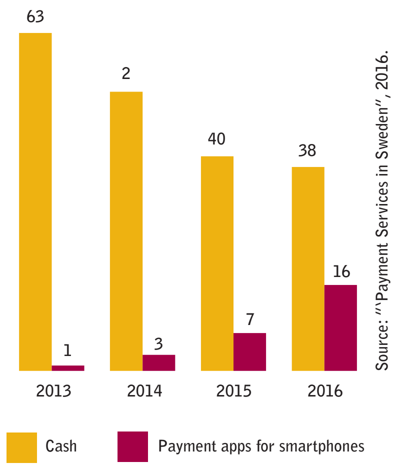
44 Se Chapter 2, section 3 of the Payment Services Act (2010:751) and Chapter 2, section 3 of the Electronic Money (Issuance) Act (2011:755).

Digital solutions and changes in behaviour

The payment solutions market is an area in which digital developments in the financial markets have been most obvious for a long time. Electronic payments are nothing new, but specialist operators are now offering new ways of making payments, enabled by the use of IT technology. This may involve invoicing services that provide easier online payments or software (apps) on smartphones that enable transfers to other users or payments in shops and online. It may also involve digital operators that do not carry out payments themselves but that initiate payments between other financial operators (typically banks) and shops or compile information about accounts and payments in a single place.

As new payment methods become more popular, the use of cash is decreasing (see Chart 15). Banks are opting to stop handling cash at more and more branches. And it is becoming more common for shops not to accept cash payments. This development could pose a problem for consumers who cannot or do not want to use payment services. Some consumers, for example, may need to travel long distances to obtain cash.

15. PAYMENT A FEW TIMES A WEEK OR MORE (percentage of consumers queried)



FI receives lots of phone calls from consumers who experience difficulties with the reduction in cash handling. However, there is no law in Sweden that requires banks (or other operators) to handle cash and cash handling is consequently outside FI's mandate and responsibility.

The Government has had discussions with representatives from the banking sector to discuss what is needed to secure consumer access to cash.[45] In addition, a parliamentary committee, appointed by the Government to review monetary policy framework and the Riksbank Act, will assess how the Riksbank's responsibility for effective cash handling throughout Sweden should be clarified in law.[46]

NEW RULES STRENGTHEN CONSUMER PROTECTION

If the firms offering payment services are deficient in their identification of customers or this handling of personal data, in the worst case this could lead to these services being used for fraud. Online and card fraud has increased over the past 10 years, according to the Swedish National Council for Crime Prevention.[47] In the long term, this could seriously impair trust in new payment services. Clear rules on protecting consumer data in relation to payments represent a step towards countering this development.

The risk of deficient customer authentication and handling of personal data is particularly significant with electronic and digital services. These types of service are consequently the focus of the revised Payment Services Directive (PSD 2).[48]

Much of FI's work in the area of payment services in 2016 concerned the implementation of this directive, which will be applied from January

45 "Bankerna ska klara kontanter – överallt", opinion piece by the Minister for Financial Markets and Consumer Affairs Per Bolund in the newspaper Aftonbladet on 27/09/2016.

46 "Översyn av det penningpolitiska ramverket och riksbankslagen",, dir. 2016:114

47 'Reported crime over the past 10 years' (http://www.bra.se/bra/brott-och-statistik/statistik/anmalda-brott.html)

48 Directive 2015/2366/EU of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

2018. Among other things, FI participated in the review that made proposals about how Swedish legislation should be adapted to the directive (and for other forthcoming rules, see next section).[49]

Since 2014, FI has also been involved in the work of the European Banking Authority (EBA) on supplementary rules for PSD 2. An important part of this concerns strong customer authentication and secure communication. [50] These rules clarify what payment services should do to ensure the identify of users, counter fraud and monitor security procedures.

FI believes it is positive that customer authentication requirements are being strengthened, as it reduces the risk of consumers' identify or data being used fraudulently. However, work on the rules has involved difficult consideration between simplicity and user-friendliness on the one hand and security and consumer protection on the other.

More services defined as payment services

In addition to new rules for strong authentication, PSD 2 also involves 'payment initiation services' and 'account information services' being defined as payment services. Operators that provide these types of services are known as third-party payment service providers. These operators will consequently have to apply for authorisation or to register their business. These services are already offered on the market, but this part of the market will become regulated when the directive rules are introduced.

A payment initiation service makes it possible to pay by the provider accessing the payer's bank details in order to complete payment without the payer having to use a bank or credit card.

An account information service is an online service for providing information compiled about one or more payment accounts held by consumers with either another payment service provider or more than one payment service provider. Using this type of service enables a payment service user to check the balance of their payment account at a bank without having to log into the bank.

In the currently unregulated third-party payment services market, neither the consumer using the service nor the bank making the payment (or providing the account information) can identify that they are acting through a third party. To the consumer and the bank, it appears as though they have direct contact with one another, despite a third-party payment service provide initiating the payment or obtaining the information. The directive's rules stipulate that payment initiation service providers and account information service providers will have to identify themselves to the bank. In addition, there are requirements regarding security in third-party payment service providers' communication with other payment services.

Clearer rules for these firms, which already exist in the market, and their obligation to apply for authorisation from FI provides greater consumer protection. More appropriate rules for their operations may also make it

49 "Betaltjänster, förmedlingsavgifter och grundläggande betalkonton", SOU 2016:53

50 "Draft Regulatory Technical Standards on Strong Customer Authentication and common and secure communication under Article 98 of Directive 2015/2366 (PSD2)", EBA/RTS/2017/02

easier for innovative operators that want to enter the market, which could boost competition and benefits to consumers.

FI's remit regarding innovation in financial services

In March 2017, FI was tasked by the Government to investigate whether, through its main tools (supervision, issuing of regulations and authorisation assessment), FI can address the questions and needs that may arise as new, innovative services are developed. The report is to be submitted no later than 1 December 2017.

As part of its remit, FI is to analyse new, innovative services in the financial market and describe what FI could do to enable innovation for the benefit of financial firms and consumers. FI is also to examine measures that have been taken in the area by authorities in other countries and assess whether similar measures would also be possible and appropriate in Sweden. The remit also specifies, however, that any measures must be assessed taking account of retaining a high level of consumer protection and otherwise effective financial markets.

The remit covers all financial businesses in which innovative technical solutions are used. The issues at hand in the field of payment services, such as how new and established operators should exchange information with one another, are also present in other areas.

PAYMENT ACCOUNTS WITH BASIC FUNCTIONS

In July 2014, the EU adopted a directive aimed at providing better scrutiny and comparability of the fees charged for consumers' payment accounts and the payment services linked to such accounts (payment account directive).[51] It also contains rules for easier transfers between payment accounts at different credit institutions. In addition, under the directive all consumers legally resident in the EU should be given access to payment accounts with basic functions.[52] Under the directive, firms must offer these accounts and services free of charge or for a reasonable charge.

The background to the directive is the large number of consumers in Europe who have difficulty accessing a bank account. The rationale to the draft payment account directive includes a fact from the World Bank that around 58 million consumers in the EU have no bank account and that around 25 million of them would choose to open a basic account.[53]

This problem does not exist in the same way in Sweden. According to World Bank statistics, 100% of Sweden's population over the age of 15 had access to an account in 2014.[54] Sweden already has some rules on all

51 Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

52 As well as services required for opening, holding and closing an account, the basic functions should include depositing funds, withdrawing cash over the counter or from an ATM, and carrying out payment transactions in the form of direct debits, card payments and payments via terminals, over the counter and online.

53 The Commission's proposals (COM(2013) 266 final), p. 3

54 "Financial Inclusion Data/Global Findex" (http://datatopics.worldbank.org/financialinclusion/country/sweden)

consumers under certain conditions being entitled to a deposit account. A general guideline from FI states that customers should also have the ability to link additional services to their deposit account.[55] The review that submitted proposals on matters such as how the payment account directive should be implemented in Swedish law also notes there are already effective procedures for switching banks.

FI believes the greatest effect of the payment account directive in Sweden should therefore be for all consumers under certain conditions to be entitled to payment services linked to an account. It will also make it easier for consumers to compare fees for payment accounts and the services associated with these types of accounts. This is because the directive contains rules on banks' obligations to provide consumers with standardised information. The review proposes that FI have responsibility for ensuring there is a website, accessible by consumers as per the payment account directive, which provides a comparison of account charges.

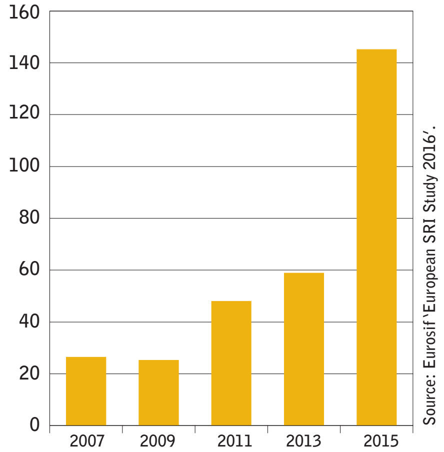
55 The Deposit Guarantee Act (1995:1571) and FI's general guidelines (FFFS 2001:8) on deposit accounts and related banking services.

Sustainable products for consumers

For the financial market to able to contribute to sustainable social development, it is important that consumers can make informed choices regarding sustainability aspects of financial products. FI has specifically reviewed the information provided on the fund market.

In 2015, Sweden's parliament determined that one of the objectives in the area of financial markets is to contribute to sustainable development. This means that financial market operators must take account of environmental, social and corporate governance issues. From a consumer perspective, this is mainly evident in the products offered by financial firms.

16. GROWING INVESTMENTS IN EUROPE WITH SUSTAINABILITY FOCUS (EUR million)



The range of 'sustainable investments' has increased considerably in recent years and holdings in these products amounts to significant sums, in both Sweden and Europe (see Chart 16).[56] FI finds this to be a positive development. It both increases the likelihood of financial markets contributing to sustainable development and provides consumers with the ability to save in a way that takes account of sustainability. But it also poses challenges for consumers, who face a greater amount of information to consider. As there are no standardised definitions of the term 'sustainability' or a standardised strategy for sustainable investments, it is difficult for consumers to assess for example to what extent and how the asset management strategy of a fund provides positive sustainability effects. As with all savings products, it is generally difficult to evaluate what option is most suitable based on the needs and circumstances of the consumer.

What does sustainability mean?

Sustainable development and sustainability are both terms that have changed meaning over the years. Having previously focused on environmental issues, the term has changed to also include broader ethical aspects such as social and financial responsibility.

One of the first definitions that also came to be an accepted definition was that launched in the UN report 'Our Common Future' in 1987 (also known as the Brundtland Commission). The report defined the term as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. One example of how the term is used in Sweden is that Sweden's parliament has determined as part of the Instrument of Government: the public should promote sustainable development that results in a healthy environment for the present and future generations.

Prior to the adoption of the UN Sustainable Development Goals in September 2016, Sweden's Government stated that from a Swedish perspective it is important to emphasise three dimensions of sustainability: financial, social and environmental.

In previous reports and analyses in this area, FI has mainly chosen to focus on environmental aspects, in particular on climate change issues. In its future

56 According to the trade association Eurosif, Swedish investments with a sustainable focus amounted to approximately SEK 20 billion at the end of 2015. See 'European SRI Study 2016', p. 91 (http://www.eurosif.org/wp-content/uploads/2016/11/SRI-study-2016-HR.pdf)

work, FI will continue to look specifically at environmental aspects, but will also conduct analyses based on this broader definition of sustainability.

FI'S MANDATE FROM THE GOVERNMENT

In 2016, FI was tasked by the Government to identify and analyse, within its area of responsibility, what opportunities the authority has to contribute to sustainable development.[57] This assignment was conducted in the form of two analyses and two reports. The first analysis examined whether banks' lending takes account of environmental and sustainability issues and the other looked more broadly at how financial firms work with sustainability issues, particularly carbon emissions. The reports 'Climate change and financial stability' and 'How can the financial sector contribute to sustainable development?' were published in March and November 2016, respectively.

Based on the work conducted in 2016, FI has been tasked by the Government in 2017 to continue pursuing initiatives to develop the possibility of financial regulation and supervision contributing to sustainable development. FI will report on measures aimed at ensuring that sustainability and climate-related risks are an integral part of financial firms' business models and risk management – and consequently that they are an integral part of financial supervision and regulation.[58] FI's combined reporting of this Government assignment will take place at the end of 2017.

Part of this work involves examining the information about sustainability aspects of financial products provided to consumers. At the start of 2017, FI therefore reviewed the consumer information about sustainability aspects provided by a selection of equity funds. The aim of this was to examine whether consumers are receiving relevant and clear information about the funds' sustainability strategy that enables them to make an informed choice.

SUSTAINABILITY AND THE FUND MARKET

Swedish fund management companies have worked with sustainability issues in different ways for a number of years. There is continual development in this area, for example in the form of an increased range of funds focusing on sustainability and several variants of sustainability strategy are offered by these funds.

Alongside this development, the industry has taken initiatives to introduce self-regulation. One example is the Swedish Investment Fund Association's guidelines on the marketing of sustainable funds.[59] Another example is the broad industry initiative called the Sustainability Profile. The Sustainability Profile is a standardised information brochure aimed at consumers that describes how a fund incorporates sustainability into its asset management. The Sustainability Profile has been put

57 'Finansinspektionen's letter of appropriation for the 2016 budget year'

58 'Finansinspektionen's letter of appropriation for the 2017 budget year'

59 'Guidelines for fund management companies' marketing and information", adopted on 6 December 2004 and last updated on 29 January 2016 (http://www.fondbolagen.se/Juridik/Riktlinjer/Riktlinjer-for-fondbolagens-informationsgivning-och-marknadsforing-m-m-av-fonder/)

together by the trade association Swesif and in January 2017 was used by almost 50 fund management companies and over 600 funds.

Fund management companies use different strategies in how they work with sustainable investments. The most common strategy involves screening out investments in certain sectors. Another strategy is to actively screen in investments either based on specific criteria or by allowing sustainability issues to have different degrees of relevance in the selection process. Asset managers then actively seek out companies that meet the fund's criteria. Fund management companies can also conduct advocacy, which means that try to influence the companies in which the fund invests to be more sustainable.

FI's analysis

FI analysed information about sustainability aspects of a selection of Swedish equity funds. The funds were selected because they use some form of sustainability rationale in their name, are specified to have a focus on sustainability or the fund management company specifies that it has an overall sustainable investment strategy. Both large and small fund management companies are included in the analysis, which includes six global funds, two Sweden funds, an emerging market fund and a sector-based fund.

The analysis shows that all the funds screen out companies, but this is done in different ways. All funds screen out companies that produce controversial weapons (such as cluster bombs and antipersonnel land mines). They also completely or largely avoid investing in companies that do not comply with international standards and conventions such as the UN Global Compact and the OECD's guidelines for multinational companies. In addition, seven out of ten of the funds screen out firms involved in weapons or munitions. The same number of funds screen out investments in alcohol, gaming and pornography. Eight funds also screen out tobacco. Six funds screen out fossil fuels and eight funds state that they screen out investments in coal.

The funds' strategies for screening in investments also differ. For eight of the funds, the results of a sustainability analysis are essential to determine whether an investment can be made. These results are usually combined with the financial analysis before an investment decision is taken. One fund management company, however, responded that the fund only takes account of sustainability issues if they affect the financial analysis.

The funds' advocacy work mainly involves them using their influence as a large owner. Most funds in the analysis join with other investors to have a greater influence. A number of the large fund management companies say they are active owners, for example using dialogue with companies, voting at general meetings or participating in nomination committees. Their activities are mainly focused on firms in Sweden and the Nordic region. Outside the domestic market, participation is generally much more limited.

Fund information and sustainability aspects

FI's analysis shows the fund management companies provide extensive information about their sustainability work. FI's conclusion is that the information largely corresponds to what is included in the processes and procedures used in asset management and the fund's holdings.

Examples of the terms and wording used by the fund management companies in their information about the funds include 'sustainable', 'environment', 'carbon emissions', 'responsible investments' and 'avoid investments in coal'.

Although information is available and is consistent with the asset management, the question remains whether it also makes it easier for consumers to make an informed choice. The question is whether the information is sufficiently suited to consumers to allow them to take it on board and understand it.

There is a significant variation between fund management companies in terms of how extensive the information is about sustainability aspects of asset management and what terms are used. Fund management companies express themselves in different ways and provide different levels of detail, which makes it difficult for consumers to understand exactly what is meant and to compare different funds.

One clear example is information from fund management companies that claim to screen out investments related to fossil fuels. Different fund management companies exclude different types of fuel (coal, oil, gas) and different sorts of business (extraction, production, distribution, combustion, etc.). This makes it difficult for consumers to understand and compare how different funds avoid investing in fossil fuels.

Another example is information about fund management companies actively screening in sustainable investments. Based on the information provided, it can be difficult for consumers to determine why a fund management company considers certain companies to be more sustainable than others and what aspects of sustainability the fund manager focuses on.

A third example is the information about the fund management companies' advocacy work. In a few cases, FI believe there is a risk of giving the impression that the fund management company carries out more advocacy work that it really does. For a consumer it can be difficult to determine the extent of the fund management company's advocacy work and the effects of such work.

The resources allocated to sustainability aspects of asset management vary between fund management companies. Many fund management companies use external services that help them screen out certain types of investments in their asset management. The work of actively screening in sustainable investments according to an established strategy is for some fund management companies based on relatively simple and less expensive methods, while others allocate more resources to conducting analyses from a sustainability perspective. In the work of influencing the companies in which the fund invests, larger fund management companies naturally have more resources and a greater ability to influence, whereas smaller fund management companies may need to cooperate with other parties to pursue advocacy initiatives.

FI notes that it is not possible to draw any conclusion about what resources a fund management company uses in its sustainability work just from the fees charge by the funds. In the funds examined by FI, charges reflect the general fee structure in the market for actively or passively managed funds rather than the actual resources applied by the fund management company to its sustainability work.

NEED FOR A COMMON STANDARD

Although information is available, FI believes that it is currently difficult for an average consumer to understand the information provided about the sustainability aspects of funds. This also makes it difficult to compare different funds in order to make an informed choice.

As the information varies between fund management companies, standardisation of such information is desirable. This would both make it easier for consumers to take on board and understand the information, and to reduce the risk of misleading information.

Industry initiative and quality labelling

In FI's opinion, an information standard does not necessarily need to be introduced by means of regulation. The self-regulation initiatives that have already been introduced by the fund sector provide a good basis for continued work on such a standard. FI expects self-regulation to continue to be developed and will monitor this development work closely. However, FI does not rule out that there may been a need to change regulation in the future as the market develops.

The previously mentioned Sustainability Profile from Swesif is a possible alternative for a common standard. FI believes this sector initiative is a good source for combined information which makes an attempt to standardise some elements of information about sustainability aspects of investing. However, there is still room for improvements through further standardisation of terms and explanations. This would improve consumers' ability to use the Sustainability Profile to evaluate and compare funds. As the information in the Sustainability Profile is provided by the fund management companies themselves, it is essential that the companies complete the information correctly and continually check its quality, for it to be of benefit to consumers. One way of ensuring that this happens could be to introduce an independent third-party review.

In addition to the work with the Sustainability Profile, work is in progress to improve the reporting of carbon emissions. In Sweden, the Swedish Investment Fund Association has developed guidance on carbon emissions reporting. Nine out of ten funds in FI's analysis say they report the fund's carbon footprint at least annually. And outside Sweden there are also examples of initiatives for promoting transparency on carbon emissions, such as the CDP (Carbon Disclosure Project) and the Montréal Carbon Pledge.[60] Most of the fund management companies in FI's analysis have also endorsed these.

Even with a common information standard, it is up to the individual consumer to assess which fund they think takes best account of sustainability aspects. As well as a common information standard, there may also be a need for some kind of quality labelling of funds' sustainability work.

In this context, there is a proposal along the lines of the Nordic Ecolabel

60 A broader international initiative for standardising the reporting and measurement of climate-related risks has been started by the Financial Stability Board (FSB). At the end of 2016, a working group (the TCFD, often called the Bloomberg Group) published a report with recommendations that have been out for referral. A final report will be published in June 2017 land FI will monitor continued developments.

for funds from independent Nordic Ecolabelling cooperation.[61] This proposal has been out for referral and the plan is for a decision regarding criteria for labelling to be taken by the Nordic Ecolabelling Board. The Nordic Ecolabel is a well-known label that could make it easier for consumers to select sustainable funds. However, the final proposal remains to be seen, along with how many funds would qualify for the labelling. The labelling could be also be assumed to be associated with a cost which, if applicable, the fund management companies would need to set in relation to the benefit of the labelling.

Regulation

In addition to these initiatives, the fund review of 2014 proposed changes to legislation to improve information about and the ability to compare how fund management companies incorporate sustainability aspects into their asset management. In summary, the proposal means fund management companies will have to provide the information required for consumers to understand the fund's investments and the consequences of these with regard to sustainability.[62]

In addition, there is also a European regulatory initiative in the form of rules that complement European regulation on key information documents for packaged and insurance-based investment products. [63]. These complementary rules relate to common key information documents also having to contain information about sustainability aspects. More specifically, key information documents must state whether a specific investment product has a 'specific environmental or social objective'. The rules also stipulate that firms that develop these types of products must also have processes and procedures for ensuring that the products' environmental or social objectives can be met. Investment funds, however, are exempted from the rules of the regulation until 31 December 2019.

61 In Sweden, Miljömärkning Sverige AB takes care of the practical work of developing criteria, carrying out checks and issuing licences. The company has been wholly owned by the Swedish Government since 2012.

62 "En hållbar, transparent och konkurrenskraftig fondmarknad", SOU 2016:45

63 Regulation (1286/2014/EU) on key information documents for packaged retail and insurance-based investment products for non-professional investors (Priip products).

Glossary

Annuity loan A loan for which the gross payment for the loan, i.e. the sum of interest and amortisation, is fixed during the term of the loan. As the loan is repaid, the percentage of the payment consisting of interest expense decreases, while the percentage consisting of amortisation increases.

Automated advice Personal advice about financial instruments that is provided with no or little human involvement.

Benchmark index Shows the aggregate growth in value for the holdings included in an index. The purpose is to provide a representative presentation of the performance of a certain market or industry.

Binary option A product in which the buyer speculates in a certain circumstance transpiring, or not transpiring. It is generally a case of very short-term investments made on a digital platform and based on the buyer's assumption about the price performance of an underlying asset.

Commission Transaction-based variable remuneration on a sale. In this report the term is used for the remuneration received by e.g. insurance intermediaries and loan intermediaries from the firms whose products they recommend.

Consumer credit Defined in the Consumer Credit Act (2010:1846) as credits provided or offered by a business operator to a consumer.

Consumer In this context "consumer" chiefly refers to individuals who use financial products for personal use.

Consumption loan A statistical category based on the assumptions of Statistics Sweden regarding lending for different purposes. Includes unsecured loans, loans issued against guarantees and credit card loans.

Contribution principle Principle of law that sets out that the distribution of bonuses in traditional life insurance, to the greatest possible extent, must be based on the contribution of the individual policyholder to the insurance undertaking's total surplus.

Crowdfunding A method for financing products or ideas by means of approaching a high number of, often small-scale, investors.

Debt-to-income ratio Debts in relation to income.

Derivative instruments Financial contracts that are linked to events or conditions at a specific future point in time or period of time. The value of a derivative instrument is linked to the value of the underlying asset. Examples of derivative instruments are options, futures and swaps.

European Banking Authority (EBA) One of the EU's three common supervisory authorities in the field of finance. EBA works for effective and harmonised regulation and supervision of banks in the EU.

European Insurance and Occupational Pensions Authority (EIOPA) One of the EU's three common supervisory authorities in the financial field. EIOPA works for effective and harmonised regulation and supervision of insurance and occupational pension undertakings in the EU.

European Securities and Markets Authority (ESMA) One of the EU's three common supervisory authorities in the financial field. ESMA works for effective and harmonised regulation and supervision of the securities markets in the European supervisory system.

Financial markets An umbrella term for markets on which financial instruments are traded. The four most important markets are the foreign exchange market, the fixed income market, the equity market and the derivative market.

Finansinspektionen's general guidelines and regulations (FFFS) Regulations which supplement the laws and regulations that fundamentally govern financial operations. Regulations are binding while general guidelines serve as guidance.

Index management Also known as passive management. Portfolio management in which the firm's own portfolio has the same composition as a selected index with the purpose of attaining the same return as the index.

Loan-to-value ratio In the context of mortgages, the term is used to describe the size of the loan in relation to the market value of the home.

Peer-to-peer loans Loans to consumers financed by other consumers, commonly over a digital platform.

PRIIPS Stands for Package Retail and Insurance-based Investment Products.

Senior loan A type of mortgage geared to older people who want to release capital by mortgaging their home, but who do not have sufficient income to be granted a regular mortgage. However, interest payment terms, for instance, can vary a lot between different firms.

Unsecured loan A loan granted without any collateral or guarantee. Also sometimes called "consumption loan" to designate that the purpose of the loan is not to make an investment in, for instance, a home.

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