

Market supervision 2006

Summary

The basic aims of market regulation are in part to safeguard consumer interests on the financial markets, and in part to promote more efficient markets in a broad sense – these two aims very often coincide. The aims also have a clear underlying common denominator; that is, the desire to ensure all players the high quality level of information needed for them to reasonably assert themselves on the market. The basic problem that market regulation must address regards the uneven access to information and know-how, between various professional players as well as between professional players and households.

Two things have primarily characterized the market regulation agenda the last few years. One is the increased importance of the consumer perspective that is the result of consumers requesting and utilizing financial services of a quite complex and risky nature in a completely different manner than before. The other regards ongoing amendments to laws and regulations, primarily as a result of the EU's harmonization process. In many cases this entails in part more detailed laws and regulations, and in part FI's role as a supervisor and regulatory authority becoming more extensive than before.

All of this increases the need for FI in a clear and consistent manner to identify and assess the need for various types of supervision of the different parts of the financial market. An analysis tool is currently being developed that will allow regulatory need to be assessed in a systematic manner for various types of financial services and products. In general, it can be said that it is within savings and financing services for households that not only the most, but also the clearest knowledge and information balances are found as well as the most apparent need for supervision in a broad sense.

The last few years, Finansinspektionen has conducted a large number of surveys regarding the area of market regulation, at the same time that several changes have been made to financial laws and regulations and that coming changes have been prepared. A few examples:

- New laws and regulations pertaining to market abuse, prospectus review, accounting and insurance brokering have gone into effect, and have entailed a partially new role for FI.
- Additional EU laws and regulations are in the works and being prepared in different ways by FI. This pertains, for example, to the demand for openness on the part of issuers (the Transparency Directive), the new regulation on take-overs, on occupational pensions and what is known as the MiFID directive that affects investment services of different types. New statutory provisions involve, for example, new regulations and communication with the affected companies.
- FI has implemented and reported on a number of surveys that take aim at the manner in which financial companies inform their customers of the risk involved in certain financial instruments, costs and fees for various services, etc. FI has reviewed how creditors inform mortgage customers concerning impacts of possible changes in interest rates. FI believes that information should be clearer

Finansinspektionen
P.O. Box 6750
SE-113 85 Stockholm
[Sveavägen 167]
Tel +46 8 787 80 00
Fax +46 8 24 13 35
finansinspektionen@fi.se
www.fi.se

than is most often the case now, and that it should be provided in writing. For that reason, FI intends to tighten up the authority's general guidelines in the area.

- FI has also reviewed how companies deal with complaints, as well as how new rules concerning financial advice are adhered to.
- Efforts in the area of money laundering and financing of terrorists have been reinforced by FI.

FI also indicates two issues that are important to remedy.

One is the importance of improving knowledge of financial issues and conditions on a broad front. Knowledgeable consumers that can place demands, formulate relevant questions, compare products, and, if necessary, are prepared to switch suppliers, are probably the most efficient tools imaginable in terms of asserting both consumer interest and market efficiency. The marketbased impact that knowledgeable customers can exercise reduces the need for regulation and supervision and other governmental measures in an effective and natural manner.

FI believes that the government should substantially reinforce education efforts directed towards consumers. We intend to produce a proposal regarding this issue in the spring.

The other issue concerns the general right to transfer retirement savings policies in life insurance companies; this right has been implemented in new contracts, but should also include previously entered insurance agreements in the opinion of FI.

These life insurance company customers have a unique relationship to their companies. This is probably the only area where a consumer is locked into an agreement running over decades with no option of cancelling the agreement. This is not in line with sound consumer protection.

Finansinspektionen has previously seen several practical problems with this type of change. We now believe these difficulties are manageable. Probably the most substantial argument against the right to transfer older policies has been that an obligatory right to transfer would entail retroactive legislation and intervention in freedom of contract. This argument still exists, but in the opinion of FI, the disadvantages are outweighed by the advantages of improved consumer protection.

The best solution, of course, is that companies choose to implement a right to transfer that provides customers with realistic options of transferring their savings. If the case should be, however, that voluntary right to transfer does not work satisfactorily and that a significant number of policyholders are left unaffected, then FI believes that right to transfer should be legislated.