

# MEMORANDUM



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**Finansinspektionen**  
Box 7821  
SE-103 97 Stockholm  
[Brunnsgatan 3]  
Tel +46 8 408 980 00  
Fax +46 8 24 13 35  
finansinspektionen@fi.se  
www.fi.se

## **Finansinspektionen's (FI) prioritised areas for 2021**

### **FI's assignment and method of working**

A stable and well-functioning financial system is a prerequisite for a functioning economy. Finansinspektionen (FI) monitors the financial sector to ensure that it is functioning well.

The financial system should be characterised by a high level of confidence with well-functioning markets that meet the needs of households and firms for financial services while at the same time providing comprehensive protection for consumers. The financial system should also contribute to sustainable development. FI is also responsible for taking measures to counteract financial imbalances in order to stabilise the credit market.

FI is a small authority in relation to the size of the financial sector in Sweden, so we cannot be everywhere, all the time. One condition for us to be able to carry out our assignment is that we conduct what we call effective and communicative supervision.

Effective supervision means that we apply a risk-based approach to our work and direct our resources to where we consider they will provide the most benefit. We therefore analyse where the largest risks are in each area and target our efforts there. Communicative supervision means clarifying our expectations and the demands we place on the firms under our supervision as well as the consequences of non-compliance.

### **FI's priorities for 2021**

We use the risk-based method of working to identify a number of areas and risks that we will look more closely at during the coming year. But we must also be prepared to re-prioritise our resources to handle unexpected events.

### ***A financial sector that safeguards consumers' interests***

Households are dependent on financial services to make their daily routines work. But the products are also often complex and difficult to understand, and many may even come at a high cost for individual consumers. Since consumers

are at a disadvantage in this respect to the producers of financial services, it is important that the protection for them is strong.

One important area that we are monitoring is financial advice. Many consumers need help to set up good long-term savings. They should feel confident that the advice they might receive is always in their best interest and not the most profitable solution for the advisor. Poor advice and insufficient information about financial products could have a major impact on the finances of a private individual, and by extension could even undermine confidence in the financial sector as a whole.

In our supervision, we have seen that many advisors find it difficult to handle the conflict of interest that arises when the firms receive commissions to broker certain financial products. We have also seen that firms are not treating customers with the requisite care, which in part has resulted in FI withdrawing the authorisation of a securities company. Therefore, we will continue in 2021 to look closely at how securities companies are working with the duty of care.

There is also a very large share of household savings invested with insurance undertakings that offer pension and endowment insurances. It is key for consumer protection that the insurance undertakings use the needs and circumstances of consumers as their starting point when designing their products and deciding how they will be distributed. We will therefore continue to look into the compliance of insurance firms with the insurance distribution rules with a focus on the requirements related to approval and governance of products. We will also look into how insurance undertakings monitor and follow up on the insurance distributors they engage and how they have structured their remuneration systems.

Another important area for consumer protection is the credit market. In our analyses, we have observed that many borrowers experience payment problems related to so-called consumer credit. The problems often arise shortly after they have been granted a loan. This indicates that the lenders are not conducting thorough credit assessments. As a result, we will continue to map and analyse the credit market and review more firms to check if they are conducting thorough credit assessments. We will also update our general guidelines regarding consumer credits to clarify the requirements the firms must meet when they are assessing who may receive a loan.

### ***A financial sector that hinders crime***

If society can make it difficult for criminals to use the money they have obtained through criminal activities – by preventing the laundering of illicit funds – this will make the criminal act itself more difficult. We have therefore dedicated considerable time in the past few years to analysing the compliance of firms with the money laundering regulations, particularly the major banks’

work to combat money laundering and terrorist financing in Sweden and the Baltics.

We have also noted that the major banks' work to combat money laundering can have resulted in criminals seeking new ways to launder their money. Therefore, during the year we will look more closely at other actors where there is a risk of money laundering, including both smaller banks and larger and smaller firms offering payment services. We will benefit greatly in this work from the close cooperation with the police that was established in 2020. We will also deepen our international collaboration within the area of money laundering.

### ***A financial sector that contributes to a sound and stable economy***

The coronavirus pandemic and its consequences have affected society as a whole in 2020. This also applies to FI's area of responsibility. The impact on the economy has been considerable, but it has been mitigated by exceptional support measures from governments, central banks and supervisory authorities. The support measures, and the buffers that were built up earlier when the economy was strong, have played a crucial role in maintaining stability in the financial system.

By requiring resilience in the financial system during good times, FI has been able to act powerfully during the crisis, in part by lowering the countercyclical capital buffer requirement on banks. This has helped enable banks to maintain their supply of credit for households and firms during the crisis.

The economic forecasts continue to be uncertain, and FI can therefore not rule out that additional support measures might be needed. At the same time, the low interest rates and the support measures mean that risk-taking in the financial sector and the economy could increase. We will therefore follow any developments carefully, both at the macro level and at individual financial firms. We will take action where we see risks accruing in order to be able to maintain the resilience in the financial sector. For example, we will work to promote improved functionality on the corporate bond market and that funds investing in corporate bonds become better at managing their liquidity risks, thus becoming better at protecting their fund savers.

### ***A financial sector that works for a sustainable society and steers investments in a sustainable direction***

FI also needs to handle central sustainability issues, in particular related to the climate and the environment, and the risks that these issues pose to our society and the financial system. The financial sector plays an important role in managing the risks arising from climate change and channelling capital to the investments required for a transition. Over the past few years we have therefore taken steps for financial firms to integrate sustainable risks in their governance

and risk management and to have access to relevant and comparable sustainability information from firms they invest in.

In 2021, we will continue to measure the climate-related risks in the financial firms' portfolios. We will also, based on pending EU regulations, follow up on the firms' work with sustainability and sustainability reporting. It is our ambition for Swedish financial firms to be at the forefront of the application of the new requirements, and we will also follow up on this in our supervision. We will also participate actively in the work to develop global standards for sustainability reporting.

### ***A financial sector that can handle a fast and extensive transition to digital payments***

The payment market is currently undergoing a fast, extensive and historically unique transition that is being driven by technological development, demand for new payment services, and a desire to lower the cost for handling payments. This change is introducing new possibilities for consumers and firms but also risks to financial stability and the consumer protection in Sweden.

Payments can be considered the “bloodstream” of the economy. A stable and well-functioning system to make payments is therefore crucial. The payment system affects everything and everyone in our society, and even short operational disruptions can have a very large negative impact.

We have observed over the past few years that firms holding central positions in the financial infrastructure for payments are opting to outsource critical operations to a greater extent than before. Third-party management of parts of the operations introduces new risks. FI will therefore carefully follow how the firms conducting clearing operations for payments are working with the risks associated with outsourcing and how the firms maintain good internal governance and control of their operations.

### ***Greater transparency regarding supervision***

We have introduced new procedures this year for how we communicate about our supervision. Under the new procedures, we will announce when we open a supervision investigation, the firms included in an investigation, and when we close an investigation. We are implementing this change in order to provide the financial sector and the public with more insight into and an understanding of FI's work.