FIN-FSA
FINANCIAL SUPERVISORY AUTHORITY

Annual Report 2022

FIN-FSA's year in figures

Number of staff
242
(2021: 244)

New insurance intermediaries
377
(2021: 364)

Requests for information
100
(2021: 104)

Supervised entities and fee-paying entities
1,196
(2021: 1,209)

Authorisations granted and extended + registrations
23 + 18
(2021: 10 + 13)

Total sanctions
12
(2021: 11)

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Unless otherwise indicated, all texts refer to the year under review 2022.

Director General's review

Photo: Roni Rekomaa / STT-Lehtikuva

2022 was an extraordinary and pivotal year in many ways. Russia's invasion of Ukraine in February 2022 changed the geopolitical situation and at the same time initiated changes in the global economy and the financial sector.

The immediate effect of the outbreak of war was an increase in various threats such as cyber risks. Digitalisation has permeated financial services, which increases vulnerability to cyber risks. In the FIN-FSA, we reacted to the threat of a deteriorating cyber security situation immediately in the spring in close cooperation with other authorities. We also improved our own preparedness. Even though extensive cyber security incidents have not occurred as a result of the geopolitical situation, preparations must be continued. The backup arrangement created in 2022 to secure daily payments is an important addition to safeguarding the vital functions of society also in exceptional circumstances.

Due to the situation in Ukraine, the EU has imposed sanctions on Russia since 2014. Last year, sanctions were increased further. A Government proposal adopted in February 2023 clarifies the FIN-FSA's role with regard to how we supervise financial sector entities' compliance with sanctions.

As a result of the war, energy availability deteriorated and prices rose. Together with the Energy Market Authority, the FIN-FSA supervises the electricity derivatives market, where a sharp rise in electricity futures prices gave rise to significant threats to the functionality of the market. The instability of the electricity derivatives market extensively impacted financial markets, society and business activity.

In the capital markets, Russia's invasion of Ukraine had a significant impact on, among other things, the issuing of listed companies' future outlooks and therefore the FIN-FSA's supervision of compliance with the disclosure obligation. The exceptional circumstances were also reflected in, for example, the real estate sector, where heightened risks were identified in Europe.

Focus on households' debt-servicing capacity

The strong acceleration of inflation that began in 2022 has directly tightened the financial position of households due to increased energy and other living costs. In addition, the effort to curb inflation through interest rate hikes is further increasing the expenses of many households.

The FIN-FSA's macroprudential decisions have focused on households' debt-servicing capacity and affordability calculations. Even at the beginning of 2022, testing affordability with a 6% interest rate was criticised as too severe, but now the debate is about whether this is sufficient. In the autumn, the FIN-FSA revised its recommendation on affordability testing and, from the beginning of 2023, a recommendation came into force according to which all debt-servicing costs of housing loan borrowers should, as a general rule, be no more than 60% of the borrower's net income. This is the 'stressed' debt-service-to-income (DSTI) ratio, the calculation of which takes into account all of an applicant's debt-servicing costs. The stressed servicing costs should be calculated with a maturity of no more than 25 years and an interest rate of at least 6% (except for loans with long-term interest rate hedges and fixed-rate loans). After the extended period of low interest rates, this can be viewed as an adjustment to the new normal.

Legislation that will come into force at the beginning of next July is also aimed at curbing household indebtedness. It includes many important changes: the terms of corporate loans will be clarified, the loan periods of housing loans will be limited, and consumer credit providers will be supervised by the FIN-FSA. The legislative package entering into force does not, however, contain a debt ceiling, which the FIN-FSA also deems to be justified. A new working group established by the Ministry of Finance will examine possible additional means to curb indebtedness. At the same time, an important project on the positive credit register is moving forward.

Banks must be prepared for the fact that credit losses are usually realised with a delay after a negative turn in the economy. In our inspections and thematic evaluations, we have found extensive shortcomings in the classification of banks' problem loans. The correct classification of problem loans is particularly important in the current exceptionally uncertain economic situation. In the management of credit risks, it is important for the bank to identify problem customers in good time. Incorrect classification may, at worst, also distort the bank's capital adequacy figures.

Good governance involves knowing the rules and enforcing them.

Operating environment risks have increased

Public debt has become a hot topic in the run-up to the parliamentary elections. We know from experience that a loss of confidence in the sustainability of public finances has a negative impact on operating conditions for financial system entities. Finland's financial sector has so far been solvent and strong, so there is no immediate concern with regard to its crisis resilience.

Operating environment risks remain high, however. In their capital management processes, entities must prepare for weaker economic development than the baseline scenario. The stress scenarios used in capital management processes must be updated to reflect the current situation, as even the baseline scenarios are weaker than they looked a year ago.

Profit distribution policy is a key element of capital management. Profit distribution should be scaled such that, as the economic situation tightens, entities have adequate buffers in case of the potential realisation of risks.

In the coming years, in line with our new strategy, we will build the FIN-FSA into a proactive and predictable supervisor.

Importance of supervised entities' good governance underlined

Good governance involves knowing the rules and enforcing them. The effectiveness and coverage of internal control have been a particular focus of our supervisory attention.

The FIN-FSA has highlighted the importance of fulfilling governance requirements throughout the financial sector. In the insurance sector, in particular, we have also highlighted the requirement for competence and experience in key positions and the importance of risk management in an uncertain economic situation. To improve dialogue, we have increased the number of meetings with supervised entities.

Regulation and guidance on combating climate change have been at the centre of our work for several years now. This has significantly impacted the disclosure obligations of entities operating in the capital markets, and supervision and guidance were increased in the year under review. The quality of data available to entities varies considerably and, to some extent, there are still difficulties associated with reporting of ESG risks. It is important that we are able to ensure the quality of data and its analysis as efficiently as possible.

Prevention of money laundering has been a strategic project in the strategy period 2020–2022. The FIN-FSA now has an effective supervision strategy for prevention of money laundering. Applying its themes, a number of inspections have already been conducted and administrative sanctions have been imposed based on their findings. After legislative updates enter into force, we will publish new guidance for the sector.

Prevention of money laundering and supervision must be risk-based and proportionate to ensure access to services and the capacity to function in modern society. Legislation and supervision, moreover, do not prohibit risk-taking in this area, but adequate means are required to manage risks. It could be an easy solution to refuse the provision of services to customer groups for whom the risk is high, but in terms of the implementation of basic services, it may be the wrong course. Supervised entities should assess customer relationship risks comprehensively and take into consideration both risk-increasing and risk-mitigating factors. In addition, they should assess on a case-by-case basis how customer relationship risks can be managed. Customer due diligence procedures should not lead to unreasonable blocking of the use of banking services. When evaluating the appropriateness of restrictive measures, supervised entities should also take into account any special reasons why a customer has difficulties in providing the required information. Refusal to provide services should be the last resort, where it not be possible to manage customer relationship risks in another way, for example by restricting services.

Digitalisation impacts access to financial services and is an integral part of them. Digitalisation only attracts our attention when there are problems with digital services or we are unable to use them for one reason or another. Access to financial services is a necessity for everyone, because it is practically impossible to live and work in Finland without banking and insurance services.

Proactive and predictable supervisor

We renewed the FIN-FSA's strategy in 2022. Our personnel participated extensively in the preparation of the strategy at its various stages: analysts made a comprehensive operating environment analysis, a number of experts were involved in all of the preparatory working groups, and all FIN-FSA personnel had the opportunity to provide feedback via surveys at different stages of the process.

In the coming years, in line with our new strategy, we will build the FIN-FSA into a proactive and predictable supervisor. This means that, as a supervisor, we have to recognise changes in the operating environment and anticipate the implications for our supervisory responsibility. We are also consistent and predictable in our own actions towards supervised entities. For example, at the beginning of this year, we published our inspection and thematic assessment plan in order to improve predictability. In supervision, the focus is on economic uncertainty and long-term changes in the operating environment. At the same time, we are ready to change our inspection and thematic assessment plan if changes in the operating environment so require this.

Alongside predictability, our new strategy for 2023–2025 emphasises flexibility and use of digitalisation, but we must particularly remember that the FIN-FSA's work is done by people. The strategy has therefore expertise-oriented management as one of its themes: supervision by healthy, motivated and well-managed FIN-FSA employees.

I would like to thank all FIN-FSA personnel for a year that passed in a more turbulent operating environment than usual, and I hope that together we can build the FIN-FSA into a proactive and predictable supervisor.

Helsinki, 13 March 2023

Tero Kurenmaa

State of financial markets

In the review year, significant changes occurred in the operating environment of the financial sector. Russia's invasion of Ukraine led to a rise in energy prices and rapid acceleration of inflation to levels not seen in several decades. As a result, many central banks globally began to tighten monetary policy, ending a protracted period of expansionary policies. Central banks increased policy rates several times and announced a gradual termination of various purchase programmes. In addition to the uncertainty about the supply of energy, other COVID-induced production bottlenecks also weighed on consumer confidence and undermined companies' prospects. Economic growth weakened and, towards the end of the review year, the threat of a recession loomed over the economy.

The change in monetary policy, continuation of the COVID crisis and uncertainty caused by Russia's war of aggression led to a steep rise in interest rates and a deterioration of general risk sentiment. The uncertainty of the financial markets was evident in, among other things, tightening financing conditions and changes in the valuation of financial market instruments. For example, the yields on 10-year euro area government bonds and particularly the credit risk premia (so-called CDS) on high-risk corporate credit rose. At the same time, stock indices tracking the development of equity prices in major economic areas declined. The rising energy prices and cost of living added to concerns about, among other things, the sustainability of the debt of households, housing companies, non-financial corporations and governments.

Economic growth also weakened in Finland in the review year, although the situation for companies and investments remained reasonable. The cyclical turn was visible, however, in various confidence indicators. Companies' and consumers' confidence in the economy sunk to the lowest level on record. Towards the end of the review year, the prices of old flats declined, new drawdowns of housing loans fell short of the previous years' levels, and the number of home sales decreased. In addition, residential construction decreased as the number of new construction projects and building permits declined. Household indebtedness continued to rise as debt grew faster than income.

Considerable uncertainty continues to overshadow economic development. All of the effects of the deterioration of the operating environment on the various sectors of the economy or the behaviour of households and companies are not yet visible.

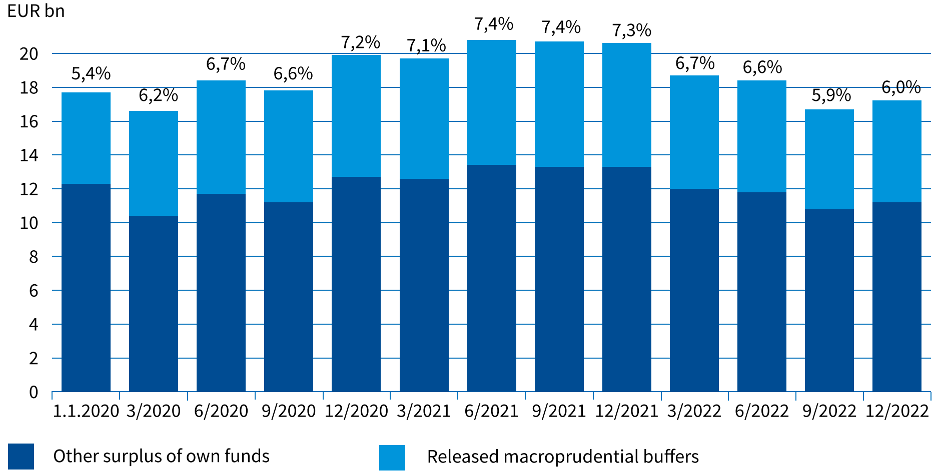
In the longer haul, financial sector participants will be challenged by, in addition to the unstable economic operating environment, long-term trends such as the impacts of climate change (ESG risks [1]) and their countermeasures, demographic changes, digitalisation, new technologies, products and ways of operating (e.g. cloud services and cryptocurrencies) as well as cyber risks.

Capital position of the banking sector remained strong – growth of net interest income boosted profits

The capital ratios of the banking sector weakened slightly during the review year. This was primarily due to profit distribution, which reduced own funds. On the other hand, profit for the period accumulated own funds, and there were no significant changes in the amount of risk-weighted assets. Despite the reduction in own funds surplus relative to capital requirements, the banking sector continued to have ample capital relative to the requirements. The capital ratios remained higher than the European average in the review year.

The profit of the banking sector fell short of the previous year's level. The uncertain market situation was reflected in securities-related income items. On the other hand, the increase in the interest rate level strengthened net interest income, and its share of total revenues continued to rise. Impairments remained at a moderate level, and there were no significant signs of weakening in the quality of the credit stock. In the review year, the banking sector's non-performing assets relative to credit stock remained among the lowest in Europe.

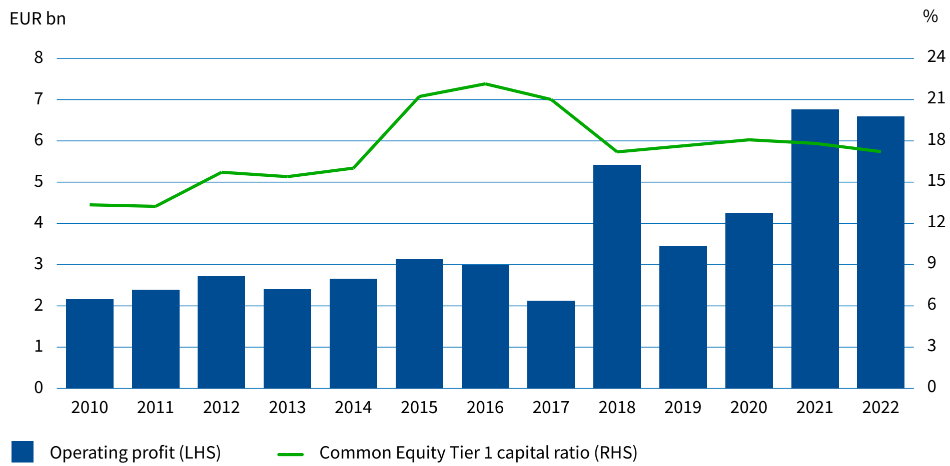
Finnish banks' own funds surplus compared with capital adequacy requirements



• Above the bars, size of buffer in relation to the risk-weighted assets.

Source: The FIN-FSA

Operating profit and CET1 capital ratio of the domestic banking sector



Source: The FIN-FSA

[1] ESG = Environmental, Social and Governance.

Life insurance companies’ solvency strengthened but profitability weakened

The solvency ratio of the life insurance sector improved considerably in 2022 as a combined result of the rise in interest rates and depreciation of investments. The solvency capital requirement (SCR) declined significantly from the previous year. At the same time, the own funds of the companies decreased slightly. Despite the strengthening of the solvency ratio, the excess of assets over liabilities of the life insurance sector remained at the same level.

Life insurance companies’ investments made a clear loss, but equity investments recovered slightly towards the end of the year. Real estate investments made a solid return during the year, although returns declined in the last quarter.

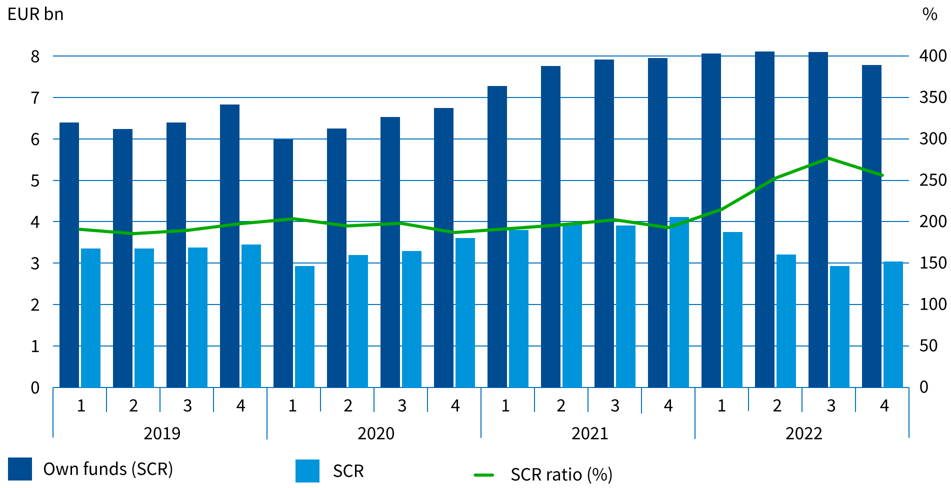
Premium income on life policies decreased and claims paid increased in 2022. High inflation and the loss-making investment market had a negative impact on the sale of investment insurance policies. Risk insurance policies continued to show stable growth.

Rise in interest rates strengthened non-life insurance companies’ solvency

The solvency ratio of the non-life insurance sector strengthened significantly during the year, although the investments made a loss. Solvency was strengthened both by the growth of own funds and the decline of the solvency capital requirement. Own funds were increased by the decrease, due to the steep rise in interest rates, of the market value of insurance liabilities to their lowest level during the Solvency II regulation that started in 2016. Solvency was also strengthened because the decrease of the market value of equities and insurance liabilities reduced the capital requirement.

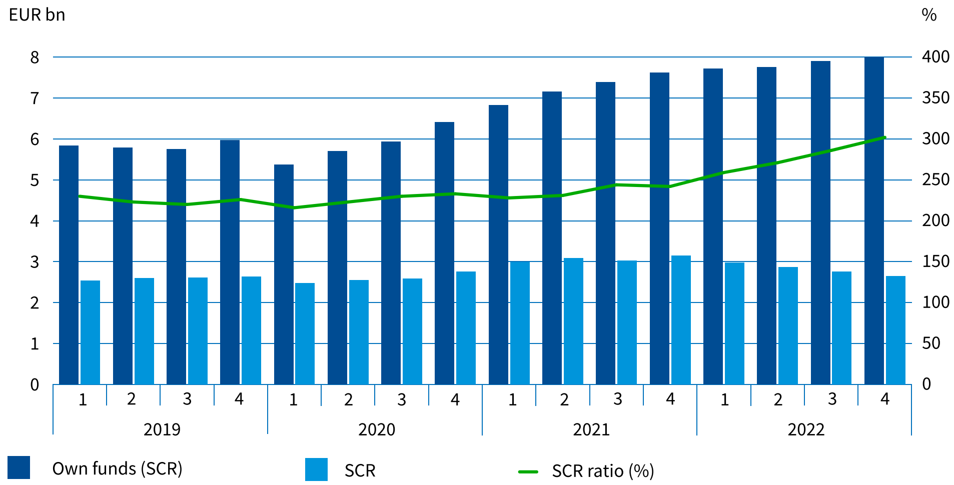
Investment returns were negative. Due to the steep increase in the level of interest rates and the decline in equity market values, both of these asset classes made a loss, and only real estate investments had a positive return.

Solvency of life insurance companies



Source: The FIN-FSA

Solvency of non-life insurance companies



Source: The FIN-FSA

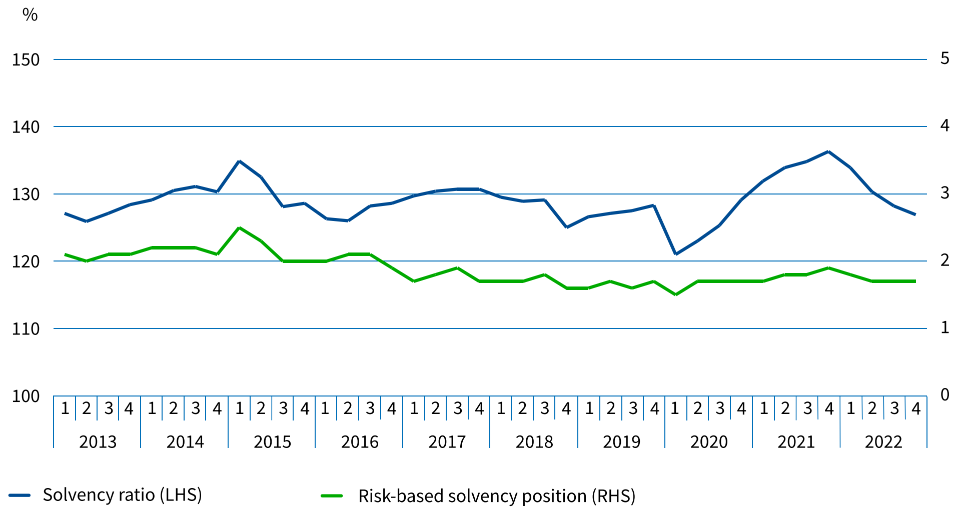
Growth of claims expenses weakened the result of the insurance business. There has been a shift from fully remote work during the pandemic to hybrid work, and the increase in mobility has raised the claims expenses on vehicle insurance and the number of occupational accidents. Major claims increased the claims expenses of property insurance and business interruption insurance. The profitability key ratio, the combined ratio excluding the effect of changes in reserving bases, weakened from its the above-average level at the end of 2021.

Value of investment assets decreased, reducing solvency of employee pension insurance sector

The investment returns of the employee pension insurance sector were negative except for the last quarter, reflecting the general development of the financial markets. The solvency ratio of the employee pension sector weakened as the value of investment assets decreased. The value of investment assets was affected in particular by the negative performance of listed equities and bonds. The return on illiquid investments, such as real estate, was positive, balancing the total return performance. The risk-based solvency position deteriorated as solvency capital, impaired by the loss of investment operations, declined relative to the solvency limit. The change in the solvency position was cushioned by the reduction in the solvency limit due to changes in the amount and level of risk of investment assets.

The wage bill of the employee pension insurance sector grew from the previous year.

Employee pension insurance sector's solvency development 2013–2022



Source: The FIN-FSA

Due to an amendment of legislation that entered into force at the beginning of 2017, the solvency position of 2017–2022 is not comparable with previous years.

Solvency ratio is calculated by dividing pension assets by technical provisions.

Solvency position is solvency capital divided by the solvency capital requirement.

Supervision responsive to changing operating environment

The Finnish financial sector remained solvent despite the weakening of the operating environment. Changes in the operating environment are described in more detail in the chapter “State and risks of the financial sector”.

The FIN-FSA supervised, on an enhanced basis, credit risks, the situation of the funding market and liquidity risks, IT and cyber risks, market risks and valuation concerns, risk management and control systems as well as listed companies’ periodic and ongoing disclosure obligation.

The credit losses and volume of non-performing loans in the banking sector remained moderate, but the uncertainty of the operating environment increases the risks of growth of credit losses and non-performing loans in the longer term. Furthermore, the dependency of the banking sector on market-based funding exposes Finnish banks to changes in financial market sentiment and underscores the importance of liquidity management.

The situation also remained stable in the insurance sector despite the uncertain performance of the investment markets. Insurance companies’ result and solvency are sensitive to changes in the investment markets, however. In supervision, particular attention was paid to, among other things, how the higher level of interest rates and inflation affect both solvency and profitability.

The FIN-FSA’s strategy for 2023−2025 was updated at the end of the review year to reflect changes in the operating environment. The strategy highlights four strategic themes: proactive and predictable supervision, utilisation of digitalisation on operations, flexible and adaptable organisation as well as leadership that supports expertise.

FIN-FSA-related topics most visible in the media

1. Housing loans
2. Russia and cybersecurity
3. Self-employed Persons’ Pensions Act (YEL)
4. FIN-FSA organisation
5. Sanctions

Elevated risks in the operating environment were reflected in macroprudential decisions and communications in the review year

FIN-FSA began gradual reinstatement of macroprudential buffer requirements

The structural systemic risks of the Finnish credit institution sector have remained significant, warranting the application of structural macro-prudential buffer requirements. During the review year, the FIN-FSA assessed the possibilities and alternatives to restore structural buffer requirements to strengthen the resilience of the Finnish banking sector.

During the review year, the FIN-FSA assessed that an adequate over-all level of macroprudential buffer requirements in a neutral cyclical environment would be close to the pre-COVID level or slightly above it. The assessment is based on the FIN-FSA's and Bank of Finland's joint stress test calculations for the credit institution sector as well as research literature on the adequacy of capital requirements for credit institutions. In spring 2020, the FIN-FSA removed the systemic risk buffer requirements on Finnish credit institutions and eased the O-SII[2] buffer requirements on OP Financial Group to alleviate the impacts of the COVID pandemic. Due to the reduction of the buffer requirements at an early stage of the COVID pandemic, the total amount of the macro-prudential buffer requirements for the Finnish credit institution sector fell short of the overall level considered adequate in the review year.

A number of international authorities recommended a strengthening of the credit institution sector's resilience to disruptions in the review year. In September, the European Systemic Risk Board (ESBR) issued a general warning of the risks to the financial system in the EU, highlighting the need to preserve or enhance the resilience of the financial system. The Governing Council of the European Central Bank (ECB) issued a like-minded statement in November. In addition, in the autumn, the International Monetary Fund (IMF) issued a recommendation, in the context of its Financial Sector Assessment Programme regarding the Finnish financial system and its risks, that the systemic risk buffer requirement in Finland should be raised as circumstances allow.

In June 2022, the FIN-FSA Board decided to raise the O-SII buffer requirements of two nationally significant institutions for the Finnish financial system by 0.5 percentage point. The higher requirements took effect at the beginning of 2023. Furthermore, the FIN-FSA communicated in December that it is preparing to activate a systemic risk buffer requirement of no more than 1% to strengthen the resilience of the credit institution sector in the first quarter of 2023. Before taking the final decision, the Board will assess whether the requirements for the activation of the systemic risk buffer have been met as well as the impacts of the requirement and expected economic developments on the credit institution sector and lending.

FIN-FSA issued updated recommendation on housing loan applicants' maximum debt-servicing burden to contain the growth of household indebtedness

Elevated risks in the operating environment emphasise the importance of the resilience and preparedness of the financial sector and its customers. The historically high indebtedness of households relative to disposable income was already identified a long time ago as one of the main structural vulnerabilities of the Finnish financial system. Household indebtedness also continued to rise in the review year and it is

[2] O-SII = Other Systemically Important Institutions (credit institutions significant for the national financial system).

expected to continue to rise in the coming years if the economy and interest rates develop as projected. As financing conditions become tighter, living expenses rise and the economy weakens, the ability of indebted households in particular to service their debts and maintain consumption may be impaired.

In the review year, the FIN-FSA kept the maximum loan-to-collateral (LTC) ratio, i.e. the loan cap, unchanged at 85% for other than first-home buyers. The loan cap was reduced by five percentage points in 2021. The purpose of the more stringent maximum LTC than the statutory baseline level is to curb the growth of household indebtedness and to ensure that mortgage borrowers have sufficient financial buffers against higher debt-servicing burdens and living costs and lower collateral values.

In the review year, in addition to the macroprudential decisions, the FIN-FSA participated in the preparation of legislation aimed at containing household indebtedness and, in June, the Government submitted its proposal to the Parliament on the legislation. The proposed legislative amendments were adopted by the Parliament on 27 January 2023 and will enter into force on 1 July 2023. In accordance with the legislative reform, in new construction, housing company loans will be subject to a 60% limit relative to the debt-free price of the apartments being sold. In addition, the maturity of housing company loans used in connection with new construction will be limited to no more than 30 years, and there cannot be any amortisation-free periods during the five first years after the completion of the building. In addition, the maximum repayment period of housing loans will be capped at 30 years.

Elevated risks in the operating environment emphasise the importance of the resilience and preparedness of the financial sector and its customers.

The FIN-FSA has also repeatedly emphasised the need to include in Finnish legislation a debt limit tied to household income, such as the maximum debt-to-income ratio that was included in the initial proposal by the working group of the Ministry of Finance. The ESRB and the IMF have recommended the inclusion of income-based macroprudential tools in Finnish legislation.

In addition to the inclusion of binding income-based macroprudential tools in legislation, the ESRB has urged Finnish authorities to apply non-binding measures aimed at borrowers so as to contain indebtedness until binding tools are in force. Since the end of September 2020, the FIN-FSA has, in connection with making the quarterly macroprudential decision, urged lenders to exercise caution in granting loans that are very large relative to the borrower's income or have a longer repayment period than normal.

In accordance with a recommendation initially issued by the FIN-FSA in 2010, lenders must assess borrowers' repayment capacity carefully also in a scenario where the interest rate is 6% and the loan repayment period is 25 years. The FIN-FSA elaborated on its previous recommendation in June 2022. In the decision, banks are recommended to consider in addition to the 25-year repayment period and 6% interest rate that loan applicants' total loan-servicing costs under the above premises should, as a rule, be less than 60% of their net income. In September, the FIN-FSA gave more detailed guidelines on the implementation of the recommendation. The recommendation entered into force at the beginning of 2023.

The purpose of the more specific recommendation is to contain household indebtedness and to secure households' debt-servicing and consumption capacity in the context of an economic shock. The previous recommendation was revised as household indebtedness has continued to rise despite earlier recommendations. In an interim assessment published by the ESRB, the FIN-FSA's previous recommendation was considered only partly in line with the ESRB recommendation.

The calibration of the recommendation reflects the intent not to restrict current loan granting practices significantly. The FIN-FSA's revised recommendation does not eliminate lenders' discretion in credit decisions, as it allows limited deviation from the established maximum debt service-to-income burden based on the lender's assessment and discretion. The FIN-FSA recommends that credit decisions in excess of the maximum debt service-to-income burden of 60% should be preceded by a particularly careful assessment of the borrower's payment capacity, and the lender should also make the credit decision at an escalated decision-making level. As an indicative reference value, the proportion of new housing loans exceeding the 60% stressed debt-service-to-income burden should be capped at 15% of the euro amount of new housing loans granted by a given lender during a calendar year.

Banking supervision

The FIN-FSA analysed the impacts of Russia's war of aggression in particular on banks' credit risks. A thematic review of the classification of non-performing corporate credit and impairments by banks under direct FIN-FSA supervision as well as bank-specific inspections supported the view that, in this area, Finnish banks have broad difficulties in complying with regulations. The shortcomings were related, for example, to the identification of forborne loans, valuation practices regarding collateral posted by problem customers, and the assessment of expected credit losses. Banks have been urged to rectify the shortcomings, and the implementation of corrective actions will be monitored as part of regular supervisor assessments.

As of 1 July 2023, responsibility for the supervision of registered lenders and credit intermediaries will be transferred to the FIN-FSA.

The supervision of banks under the ECB's supervision (SI banks) is based on the ECB's[3] banking supervision priorities. The most significant of these priorities for Finnish banks were the impacts of the energy crisis and preparation for climate risks. The ECB published the results of the climate stress tests in July. ESG factors (Environmental, Social and Governance) have been considered in the SREP for SI banks in accordance with the ECB's guidance.

The FIN-FSA targeted inspections of internal models for prudential calculation extensively at banks applying such models. These inspections lent support to the view that many banks continue to have significant shortcomings in compliance with regulations on internal models. Therefore, the benefits that can be drawn from using the models have been limited by the supervisor's decisions raising the risk weights applicable by banks in prudential calculation.

A thematic review of the work of the boards of directors of banks under the FIN-FSA's direct supervision revealed shortcomings in how the board challenges proposals submitted by executive management, determines the risk appetite and ensures the effectiveness of control functions.

3 ECB = European Central Bank.

Authorisations entitling banks to carry out mortgage banking activities under new legislation on mortgage banks were granted. Banks remained active in restructuring arrangements – mergers among the member banks of amalgamations continued and banks moved from one banking group to another. Fellow Bank commenced operating in April 2022. The FIN-FSA granted the authorisations and amendments to authorisations required by the changes.

The Government submitted to Parliament a legislative proposal on the monitoring of Finnvera's financial risks and the FIN-FSA's related new supervisory duties. However, handling of the proposal was not finalised by the end of the Parliament's spring 2023 session, and it will therefore lapse at the end of the present parliamentary term.

As of 1 July 2023, responsibility for the supervision of registered lenders and credit intermediaries will be transferred to the FIN-FSA, in accordance with the legislation adopted by Parliament to contain household indebtedness. The FIN-FSA prepared for the transfer of supervisory responsibility and this work will continue in early 2023.

Supervision of the insurance sector

A thematic review of the implementation of the Self-employed Persons' Pension Act (YEL) pointed to significant shortcomings in the processes for the determination of confirmed income. The decisions made by pension providers were primarily consistent with the application made by the entrepreneur and they failed to show adequate case-specific discretion to ensure that the level is compliant with regulations. All institutions have taken corrective actions, but implementation will require both technological adjustments and investment in human resources, and therefore the changes will take some time. The implementation will be monitored as part of ongoing supervision. Parliament adopted the amendments to the Self-employed Persons' Pension Act to support the implementation of the Act, and the amendments entered into force on 1 January 2023.

The FIN-FSA monitored compliance with the handling deadlines of claims in statutory non-life insurance classes on an enhanced basis, among other things through reporting adopted at the beginning of the year. Although the situation has improved somewhat, all firms are not yet in full compliance with the requirements of the law. Company-specific supervisory actions have been initiated based on monitoring.

The supervisor monitored the returns on the investment operations and the solvency of life and non-life insurance companies as well as actors in the employee pension sector on a quarterly basis. In addition, stress tests on market risks were conducted in the employee pension sector. In the autumn, the FIN-FSA prepared a thematic review of insurance institutions' own risk and solvency assessments (ORSA) with respect to the organisation of investment activities and risk management. The thematic review suggested insurance institutions' ORSAs demonstrated at least an average level with respect to investment risks. The findings and input material of the thematic review will be utilised in insurance institution-specific supervisory actions.

In a thematic review of the corporate governance of unemployment funds, shortcomings were identified in their operations. Already in the review year, the supervisor targeted inspections at the identified shortcomings, which concerned, for example, the governance policies, the good repute and professional competence of management, and outsourcing. The targeted supervision will continue in 2023.

The FIN-FSA met the supervised entities considered most significant from a risk-based perspective in order to map the actions caused by Russia's war of aggression and the elevated risks. Direct exposures to Russia, Belarus and Ukraine are minor.

The supervision by an authorised representative at Elo Mutual Pension Insurance Company ended. The FIN-FSA decided that the supervision by an authorised representative at Elo Mutual Pension Insurance Company can be closed. The company took significant actions during the term of the authorised representative to develop its corporate governance system. The FIN-FSA considered that the management of the company's affairs had improved to the effect that the authorised representative's supervision could be brought to an end.

The European Insurance and Occupational Pensions Authority (EIOPA) conducted stress tests of institutions for occupational retirement provision (IORP) regarding the effects of climate change. The stress tests demonstrated that European IORPs are materially exposed to transition risks. The impact of the climate stress on the assets of Finnish IORPs included in the test was slightly lower than average.

The handling of sustainability and climate risks in ORSA[4] was mapped based on a supervision framework adopted in 2021 (IAIS). The development of regulation and supervision models continues within the ESAs[5].

During the review year, there were meetings with supervised entities on topical supervision questions with representatives of life and non-life insurance companies and unemployment funds. In addition, representatives of key stakeholder groups were met on a regular basis.

Capital markets supervision

The FIN-FSA monitored listed companies' disclosures regarding the impacts of Russia's war of aggression on an enhanced basis. The enhanced monitoring of listed companies in a weak financial position continued. As a result of Russia's war of aggression, some companies planning an IPO postponed their listing to a later point in time, but this was not significantly evident in the number of prospectuses processed. Financial reporting was challenging in several companies affected by Russia's war of aggression or its indirect impact. In addition, Finnish management companies closed their Russian funds.

The FIN-FSA monitored listed companies' disclosures regarding the impacts of Russia's war of aggression on an enhanced basis.

In July, ESMA[6] published a peer review on the prospectus scrutiny and approval process by national supervisors. The remedial action proposal given to the FIN-FSA was concerned with the implementation of the so-called four-eyes principle and the fact that there is no cooling-off period after the end of employment relationship.

During the review year, the FIN-FSA took steps to develop the first artificial intelligence-based tool to support prospectus supervision.

The energy crisis experienced in Europe and collateral requirements imposed on counterparties in the electricity derivatives markets in the review year also affected the activities of FIN-FSA-supervised entities and listed companies. The FIN-FSA participated in pan-European actions seeking to identify short- and long-term resolutions to the problems.

The supervisor continued to issue interpretation guidance on sustainable finance and provide advice to supervised entities and investors. The development of the supervision of sustainability reporting continued, taking new European and international draft standards into account.

4 ORSA = Own Risk and Solvency Assessment.
5 ESAs = European Supervisory Authorities.
6 ESMA = European Securities and Markets Authority.

The FIN-FSA supervised the sanctions imposed due to Russia's war of aggression on a proactive basis.

A thematic review of investment funds found that the cost structures were clear and simple. Management companies had room for development, for example in that they lacked written pricing guidelines and no clear view of internal pricing could be formed.

The FIN-FSA made a thematic review of the valuation of UCITS and non-UCITS funds' assets. The thematic review was part of a common supervisory action coordinated by ESMA. The thematic review concluded that the valuation processes of fund assets were mainly at a reasonable level. The main shortcomings were related to the fund asset valuation methodologies applicable in exceptional market circumstances. The FIN-FSA has required the institutions concerned to take corrective actions. The FIN-FSA reports on the findings and conclusions to ESMA and will follow up on the corrective actions taken by the firms.

The prudential supervision of investment firms under the new regulatory framework (IFR/IFD[7]) has begun. The first reports on investment firms' financial standing under the new regulation have been received (as at 31 December 2022), and ongoing supervision has been launched. The assessment of capital adequacy in connection with applications for new authorisations and the handling of owner control notifications was aligned in the spring with the new requirements.

Anti-money laundering supervision

The FIN-FSA supervised the sanctions imposed due to Russia's war of aggression on a proactive basis. Following the entry into force of a legislative amendment pending in Parliament, the FIN-FSA will have the authority for code-of-conduct supervision concerning the sanctions. Even though the amendments are not yet in force, the FIN-FSA has supervised, within the scope of its current authority, how entities under its supervision are complying with the sanctions imposed due to Russia's war of aggression. The entry into force of sanctions legislation has been delayed, but it will take place in spring 2023.

Inspections and thematic reviews proceeded according to plan. During the year, five previously initiated anti-money laundering inspections were finalised and one inspection is still in progress. Two new inspections were launched in the autumn. The inspection capacity of the Anti-Money Laundering division is approximately five inspections in a 12-month timeframe.

The FIN-FSA management group adopted the supervision strategy for anti-money laundering in December. The inherent risk assessment of anti-money laundering and counter-terrorist financing was completed in the spring, and the sector-specific risk assessment of the credit institution sector in the autumn. In the FIN-FSA's view, the highest inherent risk of both money laundering and terrorist financing is related to products and services enabling the fast transfer of funds. A particularly elevated risk is associated with international fund transfers involving several service providers. The sector-specific risk assessments of capital market and virtual currency providers have been completed for internal use. A summary of the risk assessment of money laundering and terrorist financing concerning capital market participants was published in February 2023. A thematic review of unwarranted restriction of banking services for high-risk clients (de-risking) was published in the autumn of the year under review.

[7] IFR/IFD = Investment Firms Regulation and Directive.

Ongoing supervision will focus on, among other things, participation in overall assessments of domestic banks, the work of supervisory colleges established for significant cross-border supervised entities and participation in handling new registration and authorisation applications.

Standardisation of inspection activities was an important operational development area in 2022. Another development item and focus area in the review year was the development of risk-based activities and the definition of a minimum level of supervision in the supervision strategy.

Regulations and guidelines elaborating on anti-money laundering legislation are complete and will be published after the entry into force of the legislative reform in spring 2023.

Supervision of cyber and ICT risks

Due to Russia's war of aggression, the FIN-FSA monitored cybersecurity and the operability of payment systems on an enhanced basis. Towards the end of 2022, denial-of-service attacks on Finnish banks increased. Banks were able to ward them off effectively, however, and they did not have a significant impact on online banking services.

The Ministry of Finance, the Financial Stability Authority, the Bank of Finland and the Financial Supervisory Authority together created backup daily payment facilities. The FIN-FSA participated in the preparation of legislation and card payment solutions. Contingency preparations in the domestic financial market infrastructure continue into 2023.

In 2022, an inspection of an individual payment institution concerning ICT and cyber risks as well as a thematic review of ICT and cyber risks in investment firms were completed. As a result of the thematic review of IT and information security risks in investment firms, it was found that these risk management processes have been defined and that the firms have organised the components of IT and information security management appropriately, taking the extent of their operations into account.

In autumn, the FIN-FSA commenced inspections of ICT and cyber risks in two banking groups. These were completed in February and March 2023, respectively. In addition, thematic reviews were initiated to map the ICT outsourcing chains in the financial sector (to be completed in April 2023) and banks' practices concerning fraud and compensation with respect to payment services (to be completed in April 2023).

Investigation requests submitted to the police
5
(2021: 8)

Penalty payments
3
(2021: 2)

Public warnings
2
(2021: 1)

Administrative fines
2
(2021: 0)

Themes for 2022

Elevated cyber risks emerged as a key theme in 2022; after Russia launched its invasion of Ukraine, the FIN-FSA reacted proactively to the deterioration of the cybersecurity situation in close cooperation with other authorities. In addition, the FIN-FSA improved its own preparedness. This topic is discussed in the article "Geopolitical situation accelerated preparation for cyber-attacs in the financial sector".

Due to Russia's war of aggression, energy prices also rose steeply in Europe. One of the FIN-FSA's duties is to supervise the electricity derivatives market in cooperation with the Energy Authority and, in autumn 2022, the forceful rise in electricity futures prices posed a risk to the functioning of the markets. The situation and the actions taken are described in the article "The energy crisis shook the derivatives market".

Crypto assets also remained a conspicuous phenomenon in 2022, as the virtual currency markets saw unprecedented uncertainty. In November, FTX, one of the largest virtual currency exchanges, fell into a downward spiral, ending up in bankruptcy. The events in 2022 highlighted the need for regulation in this area, too. This topic is discussed in the article "Year of uncertainty in the virtual currency markets"

Climate change continued to be a key theme in 2022. The European Central Bank and national supervisors conducted climate stress tests on banks. The tests were completed in the summer, and towards the end of the year, the ECB set the end of 2024 as the deadline for banks to meet the regulatory expectations regarding climate and environmental risks. The banks' climate stress tests are reviewed in the article "ECB's climate stress testing and thematic review: banks must consider the impacts of climate change in their operations and risk management".

The FIN-FSA monitors the actions of the entities under its supervision, intervenes in failures, and imposes sanctions where necessary. Where there are problems in the operability of governance, these are often shown as shortcomings in activities, including the way in which procedures, obligations and capital adequacy are taken care of. This topic is discussed in the article "Corporate governance safeguards the operations of the supervised entity and the security of clients' money and insured benefits".

THEME

Geopolitical situation accelerated preparation for cyber-attacks in the financial sector

Cyber-attacks are part of the tool kit of warfare. After Russia launched its invasion of Ukraine in February, the FIN-FSA reacted to the deterioration in the cybersecurity situation proactively in close cooperation with other authorities. In addition, the FIN-FSA improved its own preparedness, continued inspections and thematic reviews related to cyber-preparedness and participated in an exercise simulating a cyber-attack incident.

Cyber risk management has been one of the focus areas in the supervision of banks' operational risks in recent years. The management of ICT and information security risks in different sectors of supervised entities had been mapped extensively in thematic reviews already before the war began.

Cooperation between authorities and the industry participants intensified the exchange of information

A task force consisting of various authorities' cyber experts was established very soon after the war broke out. The group is led by the Ministry of Finance and also includes the National Cyber Security Centre, the National Emergency Supply Agency, the Ministry for Social Affairs and Health, the Bank of Finland, the Financial Supervisory Authority and the Financial Stability Authority. Within the task force, information has been shared on the cyber situation and cyber-attacks, and channels have been created for communication on severe threats.

The FIN-FSA also contributes to the security of supply in normal conditions within the joint financial sector pool of financial market participants and authorities and in working groups within the insurance sector pool. The assessment of cyber threats and preparation for them are an important part of this work.

Preparation for disruption events also covered own activities

The FIN-FSA's own contingency plans were updated to reflect the escalated geopolitical situation and the increase in cyber risks. This work continues in 2023. In addition, guidelines were drafted to prepare for various incidents, such as electricity and data communication outages. The FIN-FSA's contingency plan will be updated in 2023.

Management of ICT and information security risks by supervised entities was inspected

At the beginning of March, the FIN-FSA urged its supervised entities to ensure that the protections of their own and of their outsourcing partners against various cyber threats are up to date. Supervised entities were steered to ensure the capacity to detect information security deviations fast and to react immediately to cybersecurity incidents or disruptions.

The FIN-FSA conducted inspections and thematic reviews on the management of ICT and information security risks. Two inspections launched in 2022 continued into 2023, ending in the first quarter. A thematic review of investment firms was conducted with the same topic. The inspections examine the situation of a single supervised entity at a detailed level. Meanwhile, thematic reviews explore the situation of a broader group of supervised entities, typically based on self-assessments, and they provide for other supervisory actions, including inspections, where necessary.

TIETO22 exercise tested cooperation amid a cybersecurity disruption

The FIN-FSA participated in the nationwide TIETO22 exercise, involving around 120 organisations. The exercise was centred on the cybersecurity of the financial sector: it tested and practised the smoothness of cooperation in a fictitious cyber-attack scenario targeting the societal institutions on a wide scale and the banking sector in particular.

Aim is to protect financial sector functions also in cases of severe disruption

The FIN-FSA participated in the creation of the national backup account system both at the phase of drafting the legislative proposal and establishing the actual system. The backup account system maintained by the Financial Stability Authority consists of the backup account service and the backup service for card payments. The backup arrangements for daily payments also includes the interbank settlement system provided by the Bank of Finland. These systems enable the provision of basic banking services, such as cash withdrawals, card payments and credit transfers in the event of a severe disruption. The national backup account system may be activated by a Government decision in circumstances where a bank is unable to use the systems required by key payment services due to a severe disruption or emergency conditions.

As the threat of cyber-attacks increases, the EU also wants to strengthen the security of information systems in the financial sector. Political agreement on the EU Digital Operational Resiliency Act was achieved in 2022, and the statute entered into force in January 2023. DORA helps ensure that financial sector functions in Europe can be maintained also in the event of severe disruption.

Cyber risk management has been one of the focus areas in the supervision of banks' operational risks in recent years.

THEME

Energy crisis shook the derivatives market

Energy prices in Europe rose steeply in 2022 as a result of the Russian invasion of Ukraine. In particular, the price of electricity in the Nordic countries shot up. One of the FIN-FSA's duties is to supervise the electricity derivatives market in cooperation with the Energy Authority. The electricity derivatives markets have been accorded rather limited attention in previous years, reflecting stable market conditions. In autumn 2022, however, the steep rise of futures prices posed threats to the operability of the markets.

Collateral requirements in the electricity derivatives markets rose considerably

Nasdaq Commodities, an electricity derivatives exchange operating in Norway, is supervised by the Norwegian financial supervisory authority, while the clearing of exchange trades takes place at Nasdaq Clearing, a Swedish central counterparty, which is supervised by the Swedish financial supervisory authority.

In order for the central counterparty to ensure secure risk management, regulation requires that it collects collateral from both parties to a derivatives transaction, i.e. the buyer and seller of electricity derivatives.

Nordic prices of electricity futures for the next year and the next quarter

Source: Bloomberg

In the autumn, the extremely high prices prevailing on the electricity derivatives exchange and strong price fluctuations increased the collateral requirements at Nasdaq Clearing[8], which reached exceptional highs for certain counterparties. This caused liquidity problems for some energy companies and increased the risks to the operation of the whole market. For example, the Finnish energy company Fortum announced in August that its collateral requirements on Nasdaq had grown significantly over a short period of time. Late August/early September was a rather critical time on the derivatives market.

In early autumn 2022, it was seen as a risk that a counterparty to Nasdaq Clearing could fail to meet its collateral requirements. If a clearing counterparty were to fail on its collateral requirements, the central counterparty would have to assume responsibility for its exposures to other parties and, for example, auction its open derivatives contracts. This could incur losses to the central counterparty and ultimately also endanger its stability. The central counterparty's difficulties could, at the extreme, pose risks to the financial system on a more extensive scale.

In the autumn, it was feared that the crisis in the derivatives market could spread across the economy. As a relief measure and to soothe these concerns, the Swedish and Finnish governments announced support measures for energy companies in September.

Calmer remainder of the year in the derivatives market

After the government intervention, the situation in the Nordic electricity market calmed down towards the end of 2022.

During the remainder of the year, the EU made certain regulatory amendments to contain rapid price fluctuations in the electricity and gas derivatives markets and to relieve the collateral requirements for central counterparty clearing.

[8] To be exact, collateral on Nasdaq Clearing consists of a so-called initial margins and payments calculated daily based on changes in the market value of derivatives.

THEME

Year of uncertainty in the virtual currency markets

In 2022, unprecedented uncertainty prevailed in the virtual currency markets. The European Supervisory Authorities and the FIN-FSA had warned about risks related to virtual currencies on several occasions, and unfortunately many of these risks materialised towards the end of the year, also for Finnish investors. In November, FTX, one of the largest virtual currency exchanges, fell into a downward spiral, ending up in bankruptcy. Underlying this, severe misconduct was uncovered, and the founder of FTX is being charged with one of the largest financial crimes in the history of the United States. Numerous other cases of misconduct were also revealed in the sector.

Virtual currencies became a prominent phenomenon in 2021 and, according to the Finnish Tax Administration, Finns also made considerable profits on them. The value of the virtual currency markets reached an all-time high towards the end of 2021. Following the events in autumn 2022 and the revelation of numerous cases of misconduct, the total market value melted to less than a third of its peak.

In 2022, individual investors and citizens in Finland suffered losses. In February 2023, there were nine registered virtual currency providers in Finland. The FIN-FSA has an ongoing review concerning their potential links to problem-ridden international operators. According to the FIN-FSA's information, incumbent Finnish financial sector institutions have not embarked on virtual currencies nor have they begun to provide virtual currency services.

2022 demonstrated the need for stronger regulation

The gross misconduct seen in 2022 tells of the inadequacy of regulation and the vulnerabilities caused by the scant regulation. Current regulation on virtual currency providers is based on the EU AML Directive, and it is considerably more limited than the regulation of more conventional investment activities, such as securities trading on stock exchanges or investment fund activities. There are no particular provisions on investor protection, and the disclosure obligation towards clients is at a rather general level. Information available on virtual currencies may therefore be very deficient and biased. In addition, investors have weak protection measures in problem situations.

In autumn 2020, the European Commission published a proposal for a Regulation on service provision related to virtual currencies. Following the Regulation, the rules applicable to virtual currency providers would tighten, and they would be required, among other things, to provide better investor information, establish a complaints handling procedure and notify client of conflicts of interests. The Regulation will also address prevention of market abuse.

The Regulation has not yet been adopted, but the preparations are in the finishing straight.

What does the future look like?

The turbulent year made many people ponder the future of virtual currencies. Representatives of the European Central Bank suggested that Bitcoin, the popular virtual currency, is fading fast into irrelevance[9]. According to the ECB, Bitcoin's technological shortcomings make it questionable as a means of payment, in addition to being unsuitable as an investment because its value is based purely on speculation.

In the near future, virtual currencies may continue to attract some investors despite the associated risks. Regulation must respond to these developments. Technology and service models are developing at a furious pace, and therefore regulation must also closely reflect the development of the sector. At the same time, regulation must be technology-neutral and forward-looking enough, and it cannot be prepared solely from the perspective of the current market situation.

Legislative processes at the EU level are slow. Even though regulation is being developed and assessed on a regular basis, investors dealing with virtual currencies must remain cautious. The investor must be prepared for sharp fluctuations in value, including a significant depreciation. The investor must be able to tolerate extremely uncertain performance and be prepared for potential theft and fraud.

The investor must also understand and carefully assess the risks of the investment. They should never invest more than they can afford to lose, and should also have a healthy suspicion of products and services, even where they are offered by a supervised service provider.

A list of supervised service providers can always be found at the relevant national supervisor's website and, in the future, there will also be a centralised EU register where one can check the authorisation status of all European service providers. One should also bear in mind that the energy consumption of some virtual currencies is remarkably high, among other things due to their mining processes. The potential environmental impacts should be taken into consideration.

It is estimated that there are over 20,000 different virtual currencies. 2022 showed that prudence is an asset in the markets, particularly when the marketing seems too good to be true.

[9] ECB's blog "Bitcoin's last stand" (30 November 2022).

THEME

ECB's climate stress testing and thematic review:

banks must consider the impacts of climate change in their operations and risk management

The European Central Bank ECB published the results of banks' climate stress testing in July last year, and a thematic review of European banks' management of climate and environmental risks in November. The results indicate that banks still do not take climate risks adequately into consideration in their internal models and stress testing, although the situation has improved since 2020.

In 2022, two major ECB reviews of climate and environmental risks were conducted. The climate stress test provided a good overall view of banks' ways of managing their climate risks. In addition to the stress test, the ECB carried out a thematic review delving into banks' risk strategies as well as related governance and risk management processes. The largest banks operating in Finland were included in the climate stress test and the thematic review.

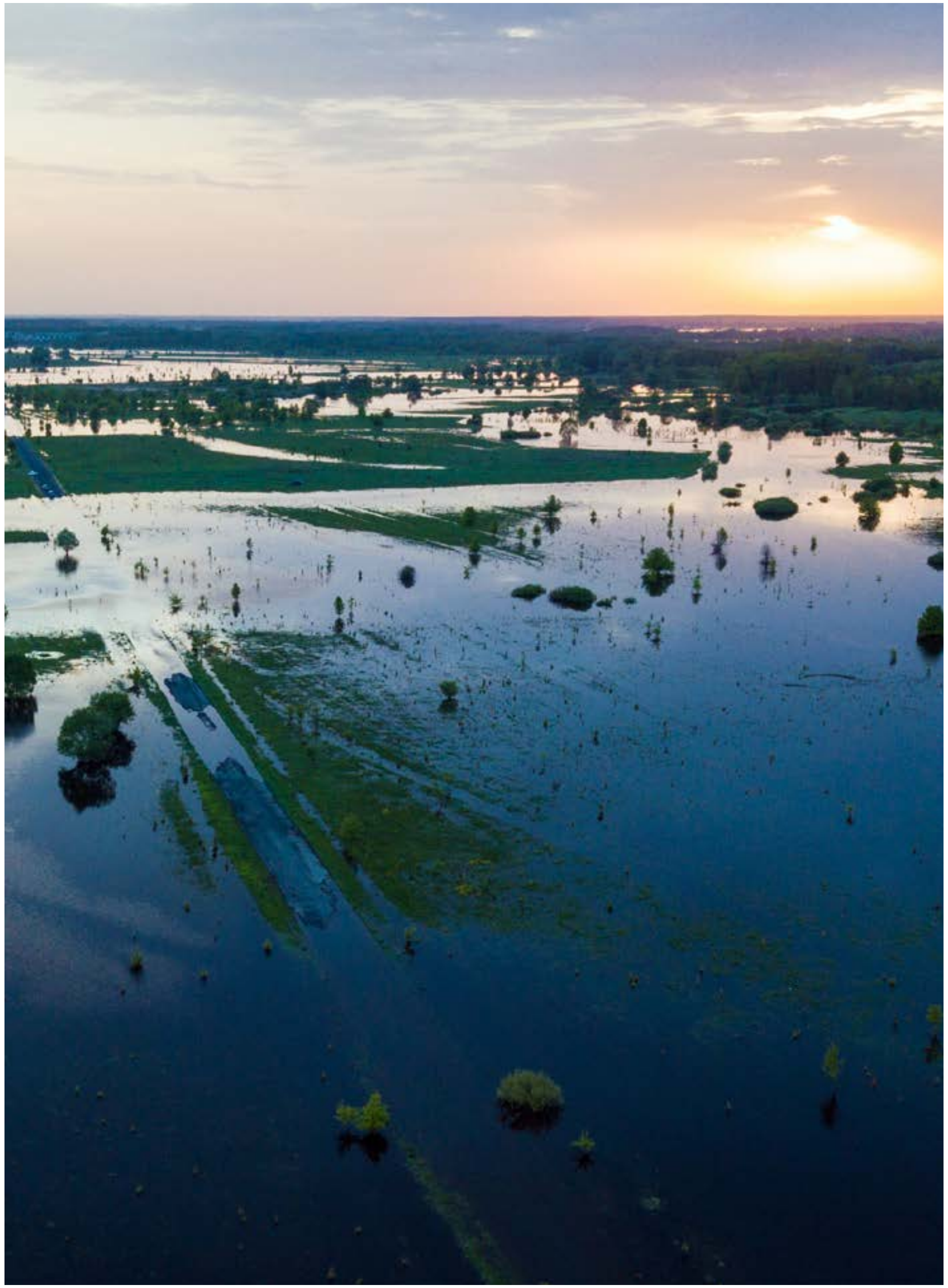
Controlled transition to green economy will reduce banks' losses

The banks' climate stress test conducted last year was the first of its kind and part of the ECB's drive to steer European banks through the transition period to a greener economy. In total, 104 banks participated in the test. It was revealed that 60% of banks do not yet systematically carry out their own climate stress tests and that most banks have not incorporated climate risks into their credit risk models. Only a fifth of the banks stated they had paid attention to potential climate risks in their lending. Two-thirds of banks income from corporate clients is still related to income generated in carbon-intensive industries.

The stress test provided useful information for both banks and banking supervisors. The purpose was to examine vulnerabilities as well as good practices and challenges related to climate risks. The results of the test will be considered in the Supervisory Review and Evaluation Process (SREP), even if they did not yet have a direct impact on capital guidance for banks.

Information gathered in the test will help banks improve their own climate risk stress-testing practices and be better prepared for the green transition necessitated by carbon neutrality. Based on the test, the conclusion could be drawn that banks will incur the least losses if they transition to the green economy in a controlled fashion.

The ECB expects the stress tests to enhance the ability of the financial system to cope with climate change risks and that banks will utilise the information so generated to formulate their own methodologies for stress testing related to climate risks.



Banks are materially exposed to climate and environmental risks

The objective of the thematic review published in November was to ascertain whether banks identify and manage climate and environmental risks adequately in accordance with the ECB's supervisory expectations. The review also looked into banks' risk management strategies as well as related governance and risk management processes. The thematic review included 186 European banks.

According to the results, banks largely agreed that they are materially exposed to climate and environmental risks both in the short and longer term. Many banks are still in the process of establishing a comprehensive management framework for environmental risks and implementing it in a clear fashion. For example, no targets and risk limits have been set for climate risks. This means that the risks are not yet effectively measured and monitored. In addition, there continue to be challenges in the assessment and predictability of the impacts of risks.

Deadlines set for banks to meet supervisory expectations concerning climate and environmental risks

The results of stress test and the shortcomings identified in the thematic review have been communicated to the banks, and it will be monitored in the following years how the banks will remediate the shortcomings. Overall, the banking supervisor calls for banks to pay more attention to climate risks. Banking supervisors will monitor the correction of the shortcomings as part of ongoing supervision as well as in the SREP. The ECB has set the end of 2024 as the deadline for banks to meet the supervisory expectations concerning climate and environmental risks.

THEME

Corporate governance safeguards the supervised entity’s operations, capital adequacy and the security of the client’s money and insured benefits

Problems in the operability of governance are often revealed as shortcomings in activities, including the way how procedures, obligations and capital adequacy are taken care of.

The FIN-FSA intervenes in failures identified in the course of supervision, and will impose administrative sanctions, where warranted. In 2022, the FIN-FSA imposed three penalty payments, two administrative fines and issued two public warnings. The sanctions were concerned with failures and delays in reporting as well as failures related to anti-money laundering and counter-terrorist financing obligations.

In recent years, the FIN-FSA has also appointed authorised representatives to supervise the operations of an authorised supervised entity in circumstances where there has been evidence of incompetence, carelessness or misconduct in the management of its affairs.[10] The FIN-FSA has also withdrawn authorisation in a situation where the preconditions for authorisation were not ultimately met.

[10] In accordance with section 29 of the Act on the Financial Supervisory Authority (878/2008), the Financial Supervisory Authority may appoint an authorised representative to supervise the activities of an authorised supervised entity if there is evidence of incompetence, carelessness or misconduct in the management of its affairs.

Societal significance emphasises the importance of good governance

Risk management is always an integral part of the operations of organisations and firms. Many entities supervised by the FIN-FSA have a key function in society, which emphasises the significance of effective governance and steering: it ensures the reliability and responsibility of operations. The capital adequacy of supervised entities is also an important factor for the stability of the entire financial sector.

The expertise of senior management and other key personnel is a key prerequisite for good governance. Internal weaknesses expose financial sector entities, for example, to the adverse impacts of market fluctuations.

Effective governance ensures, for example, compliance with procedures guaranteeing client rights as well as regulations with societal and global significance – such as anti-money laundering and counter-terrorist financing regulations.

The assessment and management of risks are some of the most important areas of expertise and responsibilities of executive management in the financial sector. In the review year, the FIN-FSA conducted several thematic reviews, identifying areas of development in the operability of governance and in risk management. Supervisory actions concerning governance are taken to protect assets or insured benefits. In addition, the interests of the entities involved and their societal reliability require action when operations fail to meet the established standards.

Effective governance ensures that client assets and insured benefits are safe

The FIN-FSA's mandate is based on section 1 of the Act on the Financial Supervisory Authority: "We ensure financial stability, confidence in the financial markets as well as customer and investor protection and the protection of the insured". This mandate also requires careful assessment and inspection of supervised entities' governance and control systems. The importance of effective governance is highlighted further in a rapidly evolving operating environment. If necessary, the supervisor takes actions to ensure the appropriateness of governance or even to terminate operations.

In 2020, the FIN-FSA appointed an authorised representative to supervise the activities of Elo Mutual Pension Insurance Company, as the supervisor found evidence of incompetence or carelessness in the management of its affairs that endangered the management of the firm's solvency and the pursuit of its mission as part of the employee pension system. In June 2022, the FIN-FSA considered that Elo had taken extensive and significant measures to develop its corporate governance, and decided to terminate the supervision by authorised representative.

In 2021, the FIN-FSA appointed an attorney for the investment firm Privanet Securities Ltd due to several shortcomings in its operations. The firm failed to correct these shortcomings during the term of supervision by the authorised representative, and therefore the FIN-FSA ultimately decided to withdraw its authorisation.

Good governance also establishes the procedures for customer protection.

During the review year, the FIN-FSA reported the findings of a thematic review, showing room for development in the operation of the boards of directors of banks under the FIN-FSA's direct supervision. It is important that the board of directors participates in the resourcing and assessment of the effectiveness of the independent control functions, such as risk management, compliance and internal audit. In addition, it is the board of directors' duty to constructively question the proposals brought to it by executive management as well as documentation concerning risk appetite.

Good governance also establishes the procedures for customer protection. The thematic reviews of investment funds and investment advice conducted in the review year found that the asset valuation processes of UCITS and non-UCITS funds were mainly at a moderate level, but there was room for development in processes, guidelines and documentation concerning costs and charges. The FIN-FSA's findings required six firms to take actions which will be monitored by the FIN-FSA. The FIN-FSA also requires that other management companies and alternative investment fund managers review the findings and views raised by the FIN-FSA in the supervision letter and take the requisite steps. The FIN-FSA reports on the findings and conclusions to the European Securities and Markets Authority.

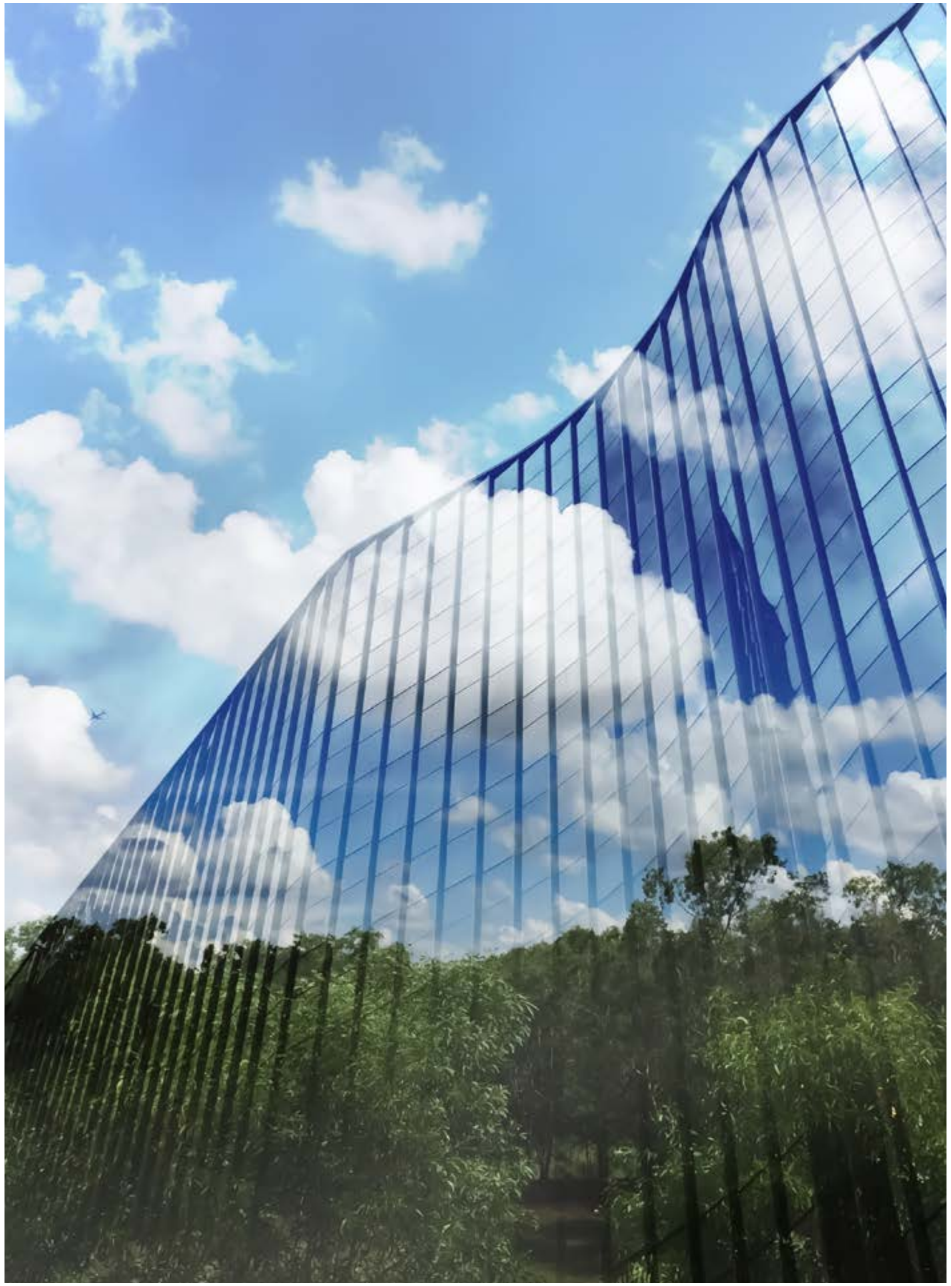
Regulation of sustainable finance also has an impact on risk management

New regulation of, among other things, sustainable finance imposes new requirements on institutions regarding informing clients and management of risks.

The European Central Bank (ECB) published the results of the climate stress test carried out in the summer. The situation has improved from 2022, but despite the development, banks must continue to improve the identification and management of climate and environmental risks. In autumn 2022, the ECB set the end of 2024 as the deadline for banks to meet the supervisory expectations concerning climate and environmental risks.

At the end of the review year, the European Insurance and Occupational Pensions Authority (EIOPA) published the results of a climate stress test on institutions for occupational retirement provision (IORPs). In the first climate stress test for the sector, EIOPA assessed the resilience of occupational pension institutions to a climate change scenario, and the results showed they are materially exposed to transition risks. The stress test also included occupational pension institutions from Finland. Climate stress was assessed as having a slightly lower than average impact on their assets.

The FIN-FSA reminded management companies and authorised alternative investment fund managers that they must consider sustainability risks in their operations and that they must have adequate resources and expertise to consider sustainability risks in their activities and in the investment funds' investment operations.



Risk-based approach to commensurate prevention of money laundering and terrorist financing actions requires effective governance

In 2022, the FIN-FSA communicated on several occasions about the importance of risk management, such that anti-money laundering measures do not unnecessarily restrict the availability of basic banking services.

Banks must have appropriate procedures in place to identify, assess and understand the risks of money laundering and financing of terrorism to which they are exposed and take actions that are commensurate with these risks. It is important for banks to prepare a long-term risk appetite statement, whose extent and level of detail of content should be commensurate with the bank's size and the nature and extent of its activities. It is also crucial to ensure that the planning of operations and decision-making reflect the risk appetite defined by the bank, also in practice.

The purpose of the emphasis on risk assessment and management actions is to strike a balance between the avoidance and management of risks and, on the other hand, equal preconditions to economic activity in society and the availability of basic utility services.

In an effective governance system

- The personnel of the organisation are suitable in terms of background and are competent in terms of know-how for their tasks.
- The skills and cognitive abilities of the members of the governing bodies, senior and middle management and employees, and their courage in challenging the validity of operations and information flows also play a key role.
- The flows of decisions and information between the governing bodies and senior and middle management must function appropriately.
- Internal control ensures that norms and management decisions are complied with. Internal control briefs the board of directors on any risks it may become aware of.
- The institution's internal prudential supervision must be managed appropriately, and the organisation must be aware of risks related to its operations and monitor its risk-taking.
- The remuneration systems must steer the management in an appropriate way from the perspective of the purpose of operations and risk-taking.
- Overall, the firm's risk awareness, risk capacity, risk appetite and risk management must be on an appropriate level.

These together ensure that the supervised entity's operations and key figures meet regulatory requirements, and that, for example, insured benefits and client assets are secured.

Management and personnel 2022

All FIN-FSA staff	Management	Experts	Operative staff
242	**25**	**203**	**14**
(2021: 244)	(2021: 24)	(2021: 206)	(2021: 14)
59% (59%) / **41%** (41%)	**52%** (58%) / **48%** (42%)	**58%** (56%) / **42%** (44%)	**86%** (93%) / **14%** (7%)

Board

Management Group

Board

The Board sets the specific objectives for the activities of FIN-FSA, decides the operational principles, and guides and supervises achievement of the objectives and compliance with these principles.

In addition, the Board considers the budget of the FIN-FSA and submits it to the Board of the Bank of Finland for confirmation. In accordance with section 10 of the Act on the Financial Supervisory Authority (878/2008), the Board supplies the Parliamentary Supervisory Council at least once a year with a report on the operational objectives of the FIN-FSA and their achievement. This includes an assessment of expected changes in supervision, their impact on the accumulation of supervision fees and measures required by the expected changes.

The photo shows the Board of the Financial Supervisory Authority in February 2023.
Back row: Martti Hetemäki, Lasse Heiniö and Pauli Kariniemi
Front row: Leena Kallasvuo, Marja Nykänen and Liisa Siika-aho
Photo: Heikki Saukkomaa / STT-Lehtikuva

Board 2022

Chair **Marja Nykänen**	LLM (trained on the bench), Deputy Governor of the Bank of Finland
Vice Chair **Leena Mörttinen**	(until 8 December 2022), DSocSc, Permanent State Under-Secretary of the Ministry of Finance
Vice Chair **Pauli Kariniemi**	(as of 9 December 2022), LicSc (Econ), MSc (Econ), Attestation Erasmus, Head of Department, Ministry of Finance
Heli Backman	(until 8 September 2022), LLM, Head of Department, Director General, Ministry of Social Affairs and Health
Minna Lehmuskero	(as of 9 September 2022), MSc, actuary approved by the Ministry of Social Affairs and Health (SHV) Senior Actuary, Ministry of Social Affairs and Health
Lasse Heiniö	MSc, actuary approved by the Ministry of Social Affairs and Health (SHV)
Leena Kallasvuo	MSc (Econ.)
Vesa Vihriälä	(until 2 June 2022), DSocSc, Professor of Practice, University of Helsinki
Martti Hetemäki	(as of 9 September 2022), DSocSc Professor of Practice, Aalto University, University of Helsinki

The deputy member for Marja Nykänen was **Katja Taipalus** (DSocSc, Head of Department, Bank of Finland). The deputy member for Leena Mörttinen was **Janne Häyrynen** (LLM, DSc Econ, Docent in Securities Market Law, Legislative Counsellor, Head of Unit, Ministry of Finance) until 14 November 2022. The deputy member for Pauli Kariniemi was **Paula Kirppu**, (LLM, Legislative Counsellor) as of 9 December 2022. The deputy member for Heli Backman was **Minna Lehmuskero** (MSc, actuary approved by the Ministry of Social Affairs and Health (SHV), Senior Actuary, Ministry of Social Affairs and Health) until 8 September 2022. The deputy member for Minna Lehmuskero was **Jaana Rissanen** (LLM, Director) as of 9 September 2022.

The Secretary to the Board was **Pirjo Kyyrönen** (LLM, trained on the bench, Senior Legal Advisor). The Board convened 38 times during the year. Fees paid to the members and deputies in the year totalled EUR 84,308.

CVs of the Board, composition of the Parliamentary Supervisory Council, organisation chart: finanssivalvonta.fi/en › FIN-FSA › organisation and tasks

Management Group

Back row: Sonja Lohse, Samu Kurri, Kaisa Forsström, Janne Häyrynen and Mira Väisänen
Front row: Armi Taipale, Tero Kurenmaa and Päivi Turunen. Jyri Helenius and Erkki Rajaniemi are not in the photo.
Photo: Mikko Stig / STT-Lehtikuva

The Management Group convened 60 times during the year. The Director General's[11] salary and fees totalled EUR 307,192.92. Salaries and fees paid to the other Management Group members totalled EUR 988,737.

CVs of the members of the Management Group and its Secretary:
finanssivalvonta.fi/en › FIN/FSA › Organization and tasks

Management Group 2022

Tero Kurenmaa	LLD, LLM, Director General, Chair of the Management Group as of 15 June 2022 Head of Unit, Legal, until 14 June 2022
Anneli Tuominen	LLM (trained on the bench), BSc Econ Director General, Chair of the Management Group until 14 June 2022
Jyri Helenius	MSc Eng, Deputy Director General, Head of Banking Supervision
Kaisa Forsström	LLM, Head of Insurance Supervision
Samu Kurri	MSocSc, Head of Digitalisation and Analysis
Armi Taipale	LLM, MSc Econ, Head of Supervision of Capital Markets
Janne Häyrynen	LLM, DSc (Econ.), Docent in Securities Market Law, Head of Unit, Legal, as of 15 November 2022
Sonja Lohse	LLM (trained on the bench), Chief Advisor, Head of the Director General's Staff
Erkki Rajaniemi	DSc Econ, LicLL, LLM (trained on the bench) Advisor to the Management
Mira Väisänen	LLM, MSc (Econ.), Senior Legal Advisor, Secretary to the Management Group
Päivi Turunen	LLB, Senior Market Supervisor, representative of the personnel

[11] Anneli Tuominen until 14 June 2022 and Tero Kurenmaa as of 15 June 2022.

Financial Supervisory Authority in brief

The Financial Supervisory Authority (FIN-FSA) is the authority for the supervision of Finland's financial and insurance sectors. Its supervised entities include banks, insurance companies and authorised pension insurers, as well as others active in the insurance business, investment firms, fund management companies, and the stock exchange. 95% of our activities are funded by the supervised entities; the remaining 5% comes from the Bank of Finland.

Administratively, the FIN-FSA operates in connection with the Bank of Finland, but in its supervisory work, it takes its decisions independently. At the end of the review year, the FIN-FSA's personnel amounted to 242. Our office is located in Helsinki.

The objective our activities is the stable operation of credit, insurance and pension institutions and other supervised entities required for the stability of the financial markets. Another objective is to safeguard the best interests of the insured and to maintain public confidence in the operation of the financial markets. Furthermore, we seek to foster compliance with good practices in the financial markets and public awareness of the financial markets. These objectives and tasks have been laid down in the Act on the Financial Supervisory Authority.

We work in the interests of the users of banking, insurance and investment services.

Twitter

The account monitors communications by the EU's financial supervisory authorities as well as tweets on, among other things, public presentations by FIN-FSA staff, job vacancies and themes relating to the protection of banking and insurance customers.

Tweets
318
(2021: 327)

Followers
4,495
(2021: 4,216)

Top tweets were on the following topics:

"To be appointed Director General of the Financial Supervisory Authority is a mark of great trust, and I very much look forward to working with the highly professional FIN-FSA staff in my new role," says Tero Kurenmaa, FIN-FSA's forthcoming Director.

Press release 3 June 2022

Macroprudential decision: Recommendation on mortgage borrowers' maximum debt servicing burden – credit institutions' capital requirements also reviewed

Press release 28 June 2022

There are numerous frauds built around crypto assets. Watch out! Their sole purpose is to swindle your money, for example through phishing.

News release 17 March 2022

Responsibility at the FIN-FSA

Responsibility is at the core of the FIN-FSA's activities. Our statutory task is to ensure financial stability, confidence in the financial markets as well as customer and investor protection and the protection of the insured. Through our work, we also respond to major societal challenges, such as climate change, demographic and geopolitical changes and the prevention of cyber threats. Together with other authorities and financial sector institutions, we play a key role in the prevention of money laundering and terrorist financing.

These actions are described in more detail in the thematic articles of this annual report and in the chapter "Supervision responsive to changing operating environment".

The FIN-FSA's values are 'dynamic', 'responsible', 'productive' and 'together', and they are guidelines for responsible action in all activities within the FIN-FSA.

The FIN-FSA participates in the Bank of Finland's sustainability programme, which focuses on the promotion of sustainable growth and wellbeing, the exercise of influence via information and cooperation, and the management of climate risks. The FIN-FSA operates administratively in connection with the Bank of Finland, and therefore more information about our sustainability efforts can be found in the Bank of Finland's sustainability report.

Summary of FIN-FSA's activities in 2022

The activities of the Financial Supervisory Authority are aimed at ensuring financial stability and the necessary smooth operation of credit, insurance and pension institutions, and other supervised entities, so as to safeguard the interests of the insured and maintain confidence in the financial markets. (Act on the Financial Supervisory Authority, section 1)

The Finnish financial sector has remained solvent despite the weakening of the operating environment. In the impaired operating environment, particular attention has been paid to risk management.

At its meeting on 3 June 2022, the Parliamentary Supervisory Council appointed Tero Kurenmaa LLD as Director General for a five-year term, as of 15 June 2022. The FIN-FSA's management changed when the longstanding Director General, Anneli Tuominen, was appointed to the ECB's Supervisory Board.

The FIN-FSA's strategic initiatives proceeded according to plan.

Three out of the five IT projects prioritised from the perspective of the FIN-FSA's supervisory tasks proceeded as planned, while two failed to do so.

Outcomes of FIN-FSA's critical success factor indicators

The FIN-FSA's set of performance indicators keeps track of the outcomes of the critical success factor indicators. The result of these indicators is measured as a weighted average of the results of the constituent subindicators.

In the review year, nine success factor indicators and 24 subindicators were monitored. The target levels were reached in two success factor indicators and nine subindicators, while seven indicators and 15 subindicators lagged behind their respective targets.

In the review year, the FIN-FSA imposed three penalty payments, two administrative fines and issued two public warnings. The processing time of one of the sanction decisions was in line with the target. The reason for lagging behind was staff turnover and a shortage of resources in the processing of sanction cases. The updated sanction process was rolled out during the review year, and its objective is to improve the efficiency of the processing of sanction cases.

FIN-FSA's strategy 2020–2022

Supervisory effectiveness and efficiency among the best in Europe

Our primary objectives are to ensure financial stability and confidence in the financial markets and to enhance the protection of customers and investors and insured benefits.

Supervision responsive to changes in operating environment

- We target our supervision on the basis of the level of risk associated with the supervised entity and the significance of the issue at hand
- We take account of financial sector digitalisation in our supervision
- We recognise in our supervision the effects of climate change and climate policy
- We promote the preventive effect of anti-money laundering supervision, fostering the good reputation of Finland in anti-money laundering efforts
- We are well prepared for any disturbances in the financial sector and its services

Well-renowned expert

- Our staff has strong expertise that supports our objectives
- We cooperate closely with other authorities and utilise the expertise of stakeholders in areas where it is not expedient to build in-depth competence of our own
- We harness the competence of staff flexibly across organisational boundaries
- We have a supportive management approach that promotes a good working atmosphere and focuses on change management
- We are a highly respected employer of financial sector professionals

High quality and efficiency

- We apply standardised and efficient processes
- In our supervisory activities, we make extensive use of both cooperation with EU authorities and ECB supervisory practices
- We use modern IT systems to strengthen supervisory effectiveness and efficiency
- We make use of data analysis to enable appropriate targeting of supervision
- We support our strategic goals through effective communication

Dynamic **Responsible** **Effective** **Together**

Total number of supervised and other fee-paying entities

Fee-paying entities	31 December 2021	31 December 2022
Credit institutions	208	190
Investment firms	179	182
Fund management companies and AIFMs	45	42
Securities issuers	200	206
Stock exchange, clearing corporation	1	1
Finnish Central Securities Depository	1	1
Other fee-paying entities in the financial sector	201	210
Financial sector, total	**835**	**832**
Life insurance companies	9	9
Non-life insurance companies	34	34
Pension insurance companies	4	4
Unemployment funds	18	16
Pension foundations and funds	43	41
Sickness funds and other insurance funds	124	122
Insurance associations	5	5
Insurance brokers	91	86
Public-sector funds	4	4
Other fee-paying entities in the insurance sector	42	43
Insurance sector, total	**374**	**364**
All supervised and other fee-paying entities, total	**1,209**	**1,196**

In addition, the FIN-FSA supervises, for example, insurance agents (3,722) and compliance with the obligation to declare insider holdings.

Expenses and funding

Expenses and funding, EUR thousands	2021	2022*
Staff expenses	26,099	26,756
Staff-related expenses	234	448
Other expenses	5,886	5,708
Services	2,811	2,456
Real estate expenses	1,430	1,434
Other expenses	1,645	1,818
Depreciation and amortisation	912	1,084
Bank of Finland services	6,543	6,791
Total expenses	**39,674**	**40,787**
Funding of operations		
Supervision fees	35,568	36,650
Processing fees	2,584	2,073
Other income	6	1
Bank of Finland's contribution: 5% of expenses	1,984	2,039
Surplus carried over from the previous year	1,903	2,371
Surplus carried over to the next year	-2,371	-2,347
Total funding	**39,674**	**40,787**

*The figures for 2022 are unaudited and unconfirmed.
*The surpluses carried over to 2021 from the previous year and to the next year have been revised after the publication of the Annual Report 2021. At the time of publication, the surplus carried over from the previous year was reported as EUR 1,900 million and the surplus carried over to the next year was reported as EUR 2,368 million. These figures have now been revised to EUR 1,903 million and EUR 2,371 million.

Set supervision fees

Set supervision fees, EUR thousands

Fee-paying entities	2021	2022
Credit institutions	18,810	18,894
Investment firms	1,513	1,977
Fund management companies and AIFMs	2,806	3,232
Securities issuers	2,605	2,615
Stock exchange, clearing corporation	357	349
Finnish Central Securities Depository	243	232
Other fee-paying entities in the financial sector	764	766
Financial sector, total	**27,098**	**28,065**
Life insurance companies	1,540	1,639
Non-life insurance companies	1,576	1,584
Pension insurance companies	2,753	2,783
Unemployment funds	1,060	1,063
Pension foundations and funds	231	210
Sickness funds and other insurance funds	102	97
Insurance associations	5	5
Insurance brokers	131	120
Public-sector funds	794	861
Other fee-paying entities in the insurance sector	263	244
Insurance sector, total	**8,455**	**8,606**
Adjustment items carried over from previous years	15	-21
Fee-paying entities, total	**35,568**	**36,650**

Processing fees

Processing fees, EUR thousands

Fee-paying entities	2021	2022
Credit institutions	53	149
Investment firms	241	59
Fund management companies and AIFMs	1,227	953
Securities issuers	343	272
Other fee-paying entities in the financial sector	67	72
Financial sector, total	**1,931**	**1,505**
Insurance companies[1]	67	24
Unemployment funds	24	23
Pension foundations and funds	56	59
Sickness funds and other insurance funds	56	30
Insurance brokers[2]	440	424
Other fee-paying entities in the insurance sector	10	8
Insurance sector, total	**653**	**568**
Fee-paying entities, total	**2,584**	**2,073**

1 Life, non-life and pension insurance companies
2 Insurance brokers and agents

Case management

Items initiated in the FIN-FSA's case management system (main functions and their major categories)[12]	Number
Management	188
Regulation	152
Supervision	5,838
Examples of categories:	
Notifications; branches and cross-border activities	494
Articles of association, by-laws and regulations; confirmation and changes	140
Letters by private citizens	278
Fit & Proper reports	328
Inspections	88
Authorisations; granting and expansion	33
Other	271
Examples of categories:	
Domestic cooperation	55
International cooperation	15
	6,449

In addition, 380 new applications for registration and 6,102 applications for change were processed in the insurance agent register outside case management.

Parliamentary hearings and submissions on draft legislation

The FIN-FSA's experts were invited to hearings by various committees of the Finnish Parliament on 53 occasions. The FIN-FSA was requested to make 48 submissions on draft Finnish legislation and 53 other submissions in its field of competence.

[12] Figures include items initiated via case management and the FIN-FSA's e-services system.