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Kilvar Kessler, Chair of the board of Finantsinspektsioon, gave a presentation to the Riigikogu on 6 November on the experience of Estonian financial supervisors in combating international money laundering, as part of a discussion on matters of significant national importance.

He started by pointing out that Estonia is the first country in the euro area where a bank has had its authorisation withdrawn at the request of the financial supervisors because it broke the anti-money laundering rules. This shows the high professional standards and decisiveness of the Estonian financial supervisory authority in securing the stability of the national financial system. He declared he is convinced that the actual closure of a business and the danger that they could lose their freedom gave a necessary warning to banks and credit institutions and their managers by making financial intermediaries think seriously about which risks it is really worth taking.

Mr Kessler said there are four parties in the financial sector in Estonia combating the risks of money laundering. These are the financial intermediaries themselves, then the Financial Intelligence Unit, the investigatory agencies, and finally Finantsinspektsioon. The focus of financial supervision is on the operational functioning of risk controls. This means the financial supervisors consider it a problem if there is an imbalance between a business connected to non-residents and its risk controls, if the controls are weak and lag behind risk-taking. The role of Finantsinspektsioon in combating money laundering is to analyse whether the risk controls at each bank are proportionate to the business strategy of that bank.

“The law does not make it an absolute requirement for the banks to interdict their customers from committing or attempting to commit crimes, it is rather in the category of proper due diligence”, said Mr Kessler. “Assessing how the risk controls in an institution conform its business strategy is not a binary job, as the law sets basic standards, but organisations and their business strategies are all different”.

He noted that there are three institutions in the European Union handling financial supervision to combat money laundering that are independent of the member states, and these are the European Banking Authority (EBA), the European Securities Market Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA), as well as the Joint Committee of those authorities. Their main role is to develop standards to help to apply EU directives and regulations concerning money laundering. They stand for unified supervisory standards in the European Union, and to do this they run quality control for certain issues over their member institutions, which include Finantsinspektsioon. The European Banking Authority resolves disputes between financial supervision authorities, rules on breaches of European Union law, and is an observer in the college work of financial supervisors.

The supervision of cross-border banking groups is executed through colleges. “The college is

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chaired by the home supervisor, meaning the supervisor of the country where the parent company is located. This lead supervisor sets the working calendar and topics for the college. The role of the colleges in combating money laundering has been defined through the management and governance of the credit institution, as a distinction of the management's holistic and group-wide risk controls and the intra-bank organisational framework to combat money laundering", said Mr Kessler.

He finished his presentation with three proposals for ways of countering money laundering even more effectively. He called for changes to the misdemeanour part of Estonian criminal law, which is not suitable for the financial sector because of its short statutes of limitation, complicated procedures and low conviction rates. Secondly he noted the need for a central analysis base in Estonia for assessing the risks of money laundering, terrorism funding and breaches of international financial sanctions. Thirdly he said that a European Union centre to combat money laundering needed to be set up to coordinate the work of the competent authorities of member states.