
[Finantsinspektsiooni annual report 2018](#)

The year 2018 was one when the fight against money laundering took centre stage. For a financial supervision institution, the fight against money laundering is one supporting function alongside the main tasks of supervising the solvency of financial intermediaries, their governance, and the transparency of their services. But this secondary function still presents major challenges to the supervisor.

The recognition of the importance of breaching anti-money laundering rules that was shown by the application by Finantsinspektsioon for the authorisation to be withdrawn from Versobank set a precedent for applying values that changed the paradigms for the whole of Europe. It became clear that many other European banks had connections with risky non-resident businesses in ways where the control systems could not identify or manage the risks. Finantsinspektsioon was one of the first to start cleaning up this area, as early as 2014. This was when Danske was acting riskily before it was pushed to end that business. It became clear to Europeans more broadly in 2018 that acting effectively against cross-border risks needed the holes in the legal frameworks and the work of institutions to be filled in rapidly.

Finantsinspektsioon believes that the shortcomings in Estonian legislation are that monetary penalties are too small, the procedures too complex, and protection for whistle-blowers too weak. We believe that the low levels of fines should not be so generous to financial groups that operate across borders and whose breaches of the rules damage the trust and financial stability that are the common shared assets of all of us. It becomes a major cause for concern once there is an international breach of the rules that damages the reputation of several countries and the society that is best protected is the one where the highest fines are imposed on the rule breaker. Monetary fines and penalties are the price set by all of us together for breaches of our shared values, as the rule breaker must pay to make amends to society.

We recognised in our annual report last year that e-Estonia has become a clear shared value for us. It is an idea that should be held to and we welcome the coordination of the efforts of the state and other actors in this area. Digitalisation allows risks to be better defined, measured and managed. A financial supervisor is not an innovation laboratory of course, and taking on this role would risk conflicts of interest and important work being neglected. It is our job to meet the cutting edge of innovation with a cool head and to speak of the dangers. This is especially so as we have not seen any shocking technological innovation alongside the very orderly digitalisation of the financial sector. There are signs though of the danger that fraudsters will try to use crypto assets and other innovatory solutions to trick money out of the gullible or in other ways sidestep legal rules.

Money has built up well in the bank accounts of people in Estonia and elsewhere. In one sense this is quite a strong endorsement of financial supervision, and at the same time it shows the importance of our role in society. Finantsinspektsioon works with the European Central Bank precisely to stop banks becoming insolvent. Honest management, transparent and effective organisation, sufficient capitalisation, and professional client service all contribute to the strength of financial intermediaries.

However, only a limited number of such operators can fit into a small market. In the non-financial sector, a consumer may not notice for example that one mobile phone maker has gone bankrupt and a better competitor has entered the market, but things are more complicated for a financial sector that bears the funds and trust of all of us. Every blow to trust, and any insolvency at any financial intermediary, can cause damage to the overall background where everybody operates. In consequence stability in the financial market is as valuable as freedom of choice and free competition. Although finding the correct balance is a sensitive process for society, it should be noted that the Financial Supervision Authority Act sets financial stability as a responsibility for Finantsinspektsioon.

Indicators showing growth in the economy slowing suggest that Estonia's readiness to cope with more difficult circumstances must be tested. For this reason, we have joined forces with the Guarantee Fund and have, together, successfully tested the capacity of liquidation procedures for banks in practice. The Baltic and Nordic financial supervisors and other interested parties have put their heads together and war-gamed an imaginary financial crisis in the region. The lessons learned are still being analysed and the logjams are being untangled, but the overall impression was that the exercise ended positively.

The current strategy expired in 2018 and so a new strategy for 2019–2021 was drawn up and approved. The goals of the new strategy emphasise the important values of the financial market, which are stability, reliability and openness to innovation.

The new strategy places more emphasis than the previous one on preparations to handle the risks arising from slower economic growth. The goals are to have an effective security network, sufficient buffers at supervised entities, and a responsible policy of enforcement. The requirements for the suitability of managers and internal control systems have remained the same as in the previous strategy, including in the area of preventing money laundering. On top of objective changes in the economic environment, a second significant source of failure at an unsuccessful supervised entity can be mistakes, neglect or bad faith in management and in defining, measuring and controlling risks. The issue of preventing money laundering has become ever more topical given the changing foreign policy environment and the large cases that have emerged.

The use of modern IT infrastructure is as important as in the previous strategy, but the risks and trends of digitalisation that have emerged in this strategy period will require financial supervision to focus ever more stringently on this area. Setting more thorough supervision of the funded pension system as a new priority is a consequence of the trend of economic growth, the risks of revaluation of assets and the increasingly cross-border nature of the system at a point where new participants are joining the system and payouts are becoming increasingly topical alongside contributions.

Although strategies, policies and draft laws are unquestionably necessary, practice has shown us that as a state we put too much effort into writing them to regulate every smallest detail and idea. Finantsinspektsioon believes that in the current circumstances it is better to promote professionalism in applying the law and in other work by the public sector that makes real changes. No policy or law applies itself, as this is done by decisive action by strong institutions. The foundation for a strong financial supervision institution is sufficient and stable funding and independence in decision-making. In our work we will continue to be certain, professional and open-minded.

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