
[Finantsinspektsioon annual report 2020](#)

Normally you would expect this foreword to start by saying that the Covid-19 pandemic meant that 2020 was an exceptional year. We will start however with a short review of changes in the structure of the Estonian financial market, as they will affect households and businesses over a longer term than the coronavirus will.

The largest part of the Estonian financial sector is the banks and there have been a lot of changes there in the past five or six years. Earlier the third and fourth largest banks in Estonia were branches that were harder to control, but there are now no large branches in the market. The background to this change was the flood of regulations into the small local market, and developments in anti-money laundering efforts.

Predictably, this trend led to greater concentration in the market, which the existing small banks helped to offset. By now, one stockbroker has become a credit institution of a decent size, and a service provider for non-residents has become a good universal bank for local customers. Banks have also appeared that focus on consumer credit, creating additional competition and tidying up those markets. Securities issued by several new banks are traded on our exchange, and this has revitalised the local capital market.

Although increasing competition should have a positive impact on prices for services, the rapid growth in market participants also means growth in risks. We have balanced risks by requiring that financial intermediaries hold sufficiently large capital buffers, and by being consistently demanding about the development of how risk controls are organised. Risk management is being moved to a new level in anti-money laundering efforts for example, but financial intermediaries could still make further progress towards becoming sufficiently sensitive to risk. During the reporting year we drew a line under the extraordinary anti-money laundering supervisory cycle that had started in 2014, as the market has changed, market participants are adapting, institutions have drawn conclusions and development is going in the right direction.

The second important structural change was that the mandatory pension saving system became voluntary. Only the Riigikogu is able to take a fundamental decision on something that affects society so much. Finantsinspektsioon has a legal responsibility for ensuring that the change is applied within the appropriate norms. To do this we ran stress tests for pension funds both before and after the change came into force, to understand whether and to what extent they could withstand the outflow of money from the system. Their resilience is generally strong. We remain in dialogue with market participants about the reform and are directing them to work on their own information technology solutions. We have highlighted to the public the dangers that come with the changes, as fraudsters have been awakened by them. The system for resolving differences between financial intermediaries and their clients would benefit from the creation of the position of the financial ombudsman, who could operate at Finantsinspektsioon and so have sufficient authority to defend the rights of clients systematically.

Evidently the coronavirus was the main actor on the negative side in the financial markets in 2020. The initial scenarios for the devastating impact the virus would have in the financial sector were not realised, but Covid-19 still posed two main types of risk for the financial supervisor. The first risk was one that could materialise quickly and was the operational risk that illness could leave financial intermediaries unable to provide services, worsening the stagnation in the economy and in the worst case causing public panic. The Estonian financial sector managed this operational risk very well during the crisis. Their starting position for doing this was good, as financial supervision has over the years consistently required the large market participants to have recovery plans and to test them, and has monitored those plans. The Covid-19 pandemic turned those exercises into a reality.

The second serious risk was credit risk. Negative developments mean that people and businesses are no longer able to meet their loan obligations and so credit losses occur, which in the worst case could leave banks insolvent and depositors losing more funds than the Guarantee Fund could cover. The biggest capital buffers of the banks in Estonia are made up of accumulated profit. This meant it was reasonable to freeze the existing profit buffers immediately to preserve the capacity of the banks to bear credit losses. Finantsinspeksioon also started a discussion about this with colleagues in Frankfurt and Stockholm, as that is where the authorities that supervise the largest banks in Estonia are based. The outcome was an agreement that was later reached throughout the whole European Union that banks would not pay out profits from the start of the pandemic in 2020.

We also worked on compliance with obligations to allow borrowers who were facing difficulties to postpone their repayments temporarily, while at the same time offering some relief to the banks to encourage them to allow these postponements. The majority of financial supervisors in the European Union had similar thoughts and plans, and so a single framework for payment moratoriums was introduced. On this basis the banks in Estonia agreed on a payment moratorium in spring 2020, following the single conditions set by the financial supervisor.

The internal organisation of work in Finantsinspeksioon was reformed during the reporting year. To achieve a better scale effect we joined together the crisis resolution function of Finantsinspeksioon with the Guarantee Fund. To make better use of our skills and knowledge, make management more efficient, and freshen up our perspectives, we rotated the areas of responsibility of the management board and made our structural units more uniform and smaller. The unexpected outbreak of the Covid-19 pandemic brought remote working to Finantsinspeksioon, which we had earlier prepared for and so were able to introduce smoothly. Remote working led to the planned transition to mobile working spaces, where the working tools of Finantsinspeksioon allow staff to be mobile.

The main challenges for Finantsinspeksioon in 2021 will come from the coronavirus crisis, the reform of the mandatory pension system, and the opinions of foreign assessors on the anti-money laundering capacity of Estonia. In addition, we are working towards our strategic priorities of helping the state to establish a framework for administrative sanctions and the institution of a financial ombudsman, mapping regulatory barriers to innovation in the financial sector, and moving towards a more generalised supervisory model based on IT solutions.

We will continue in 2021 to be certain, professional and open-minded in dealing with more than 200 subjects of financial supervision and the application of some 600 legal acts. Finally, we thank all the staff of Finantsinspeksioon and all our other colleagues, subjects of financial supervision and other partners who have helped to keep the financial markets in Estonia operating stably and honestly!

The pdf-version of the annual report

[2020 annual report](#) (pdf, 1.30 MB)

[Yearbook](#)

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