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Where is the Finnish and European regulatory environment heading?

RegTech Day 27.2.2019

Current overview of the financial sector

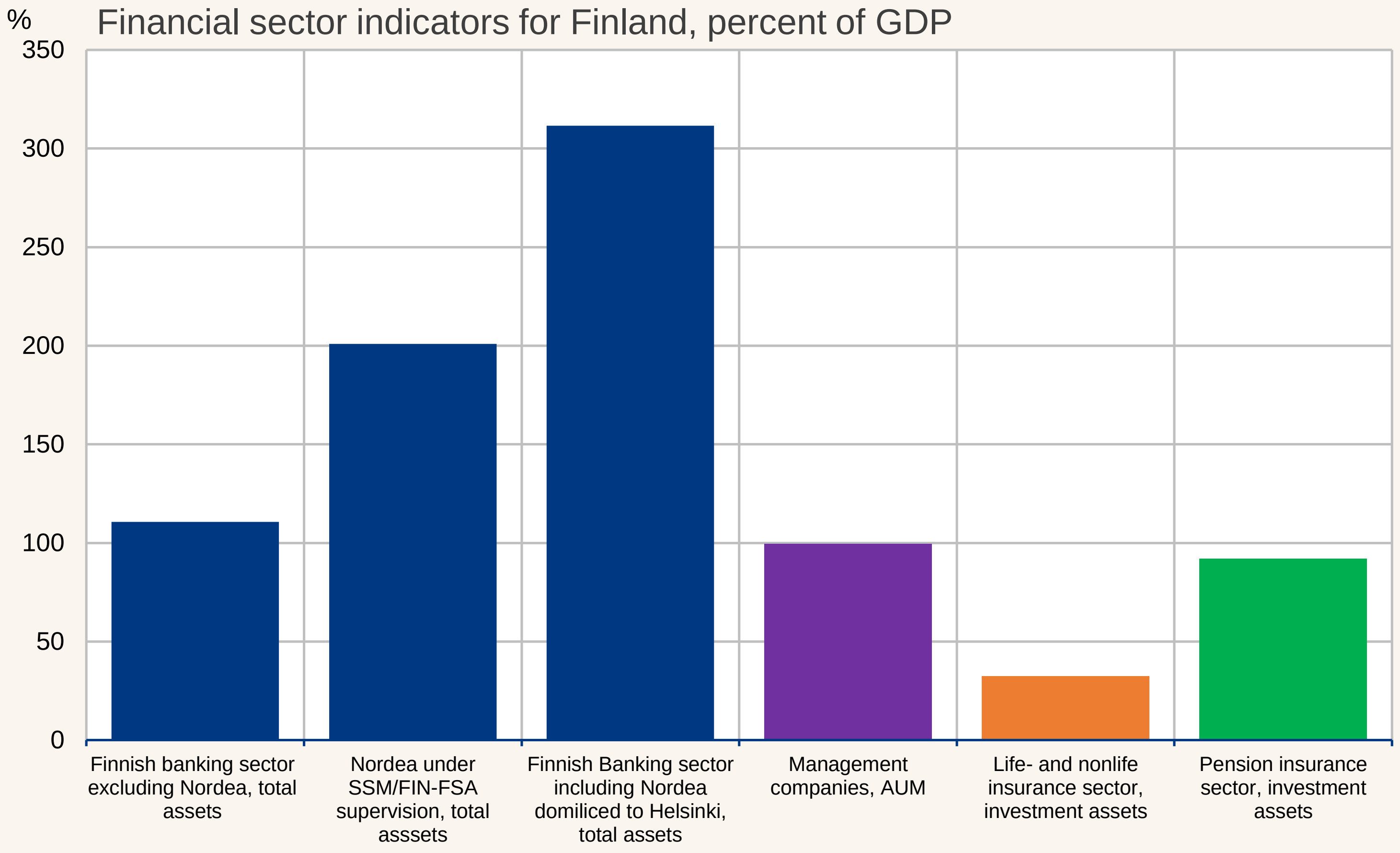
Finnish financial sector

Banking sector
CET 1 Capital ratio 21 %

Non-life insurance
Solvency Capital Requirement ratio 225 %

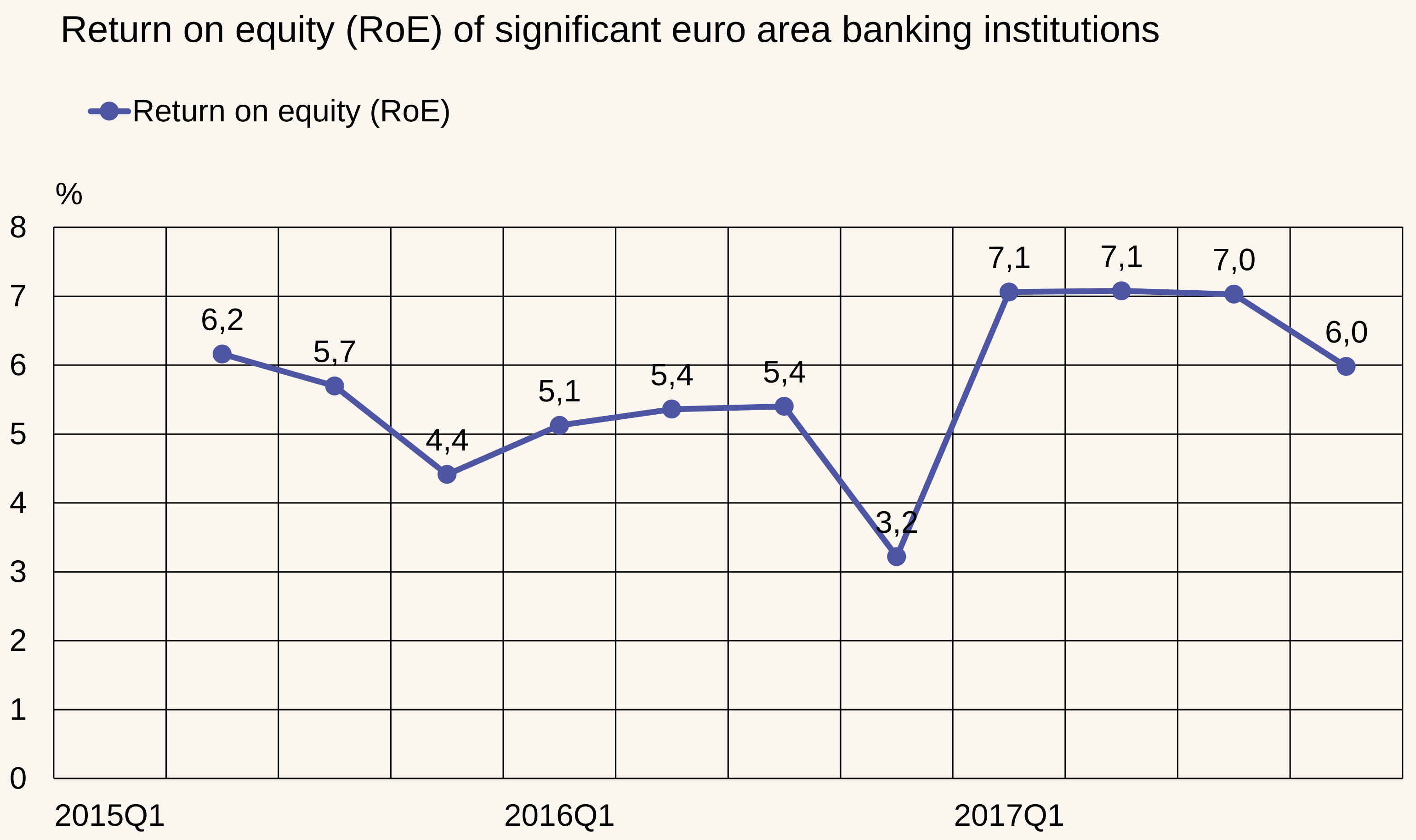
Life insurance
Solvency Capital Requirement ratio 193 %

Pension insurance sector
Risk based capital position 170 %



Source: the FIN-FSA

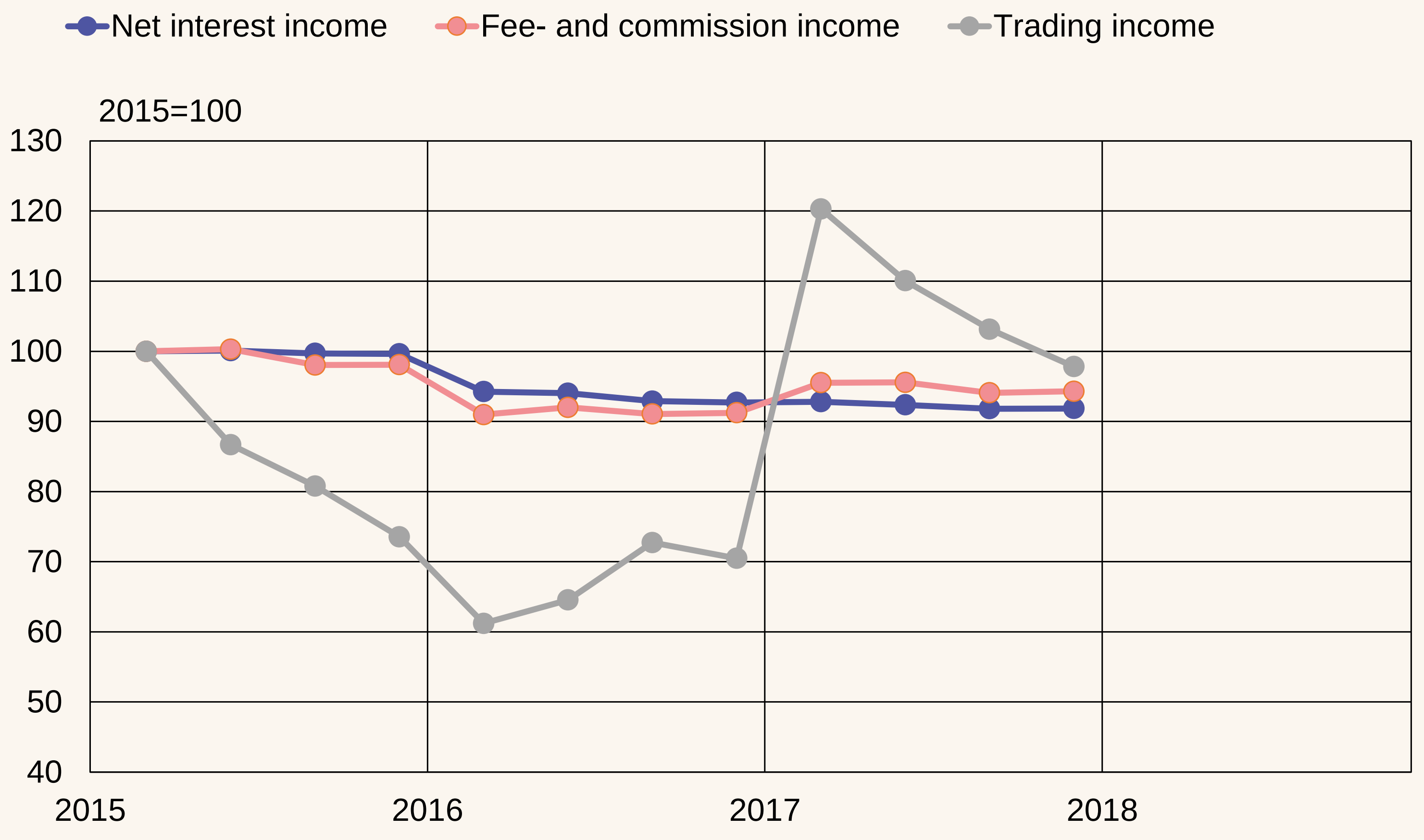
The profitability of large euro area banks is gradually improving



Source: SSM.

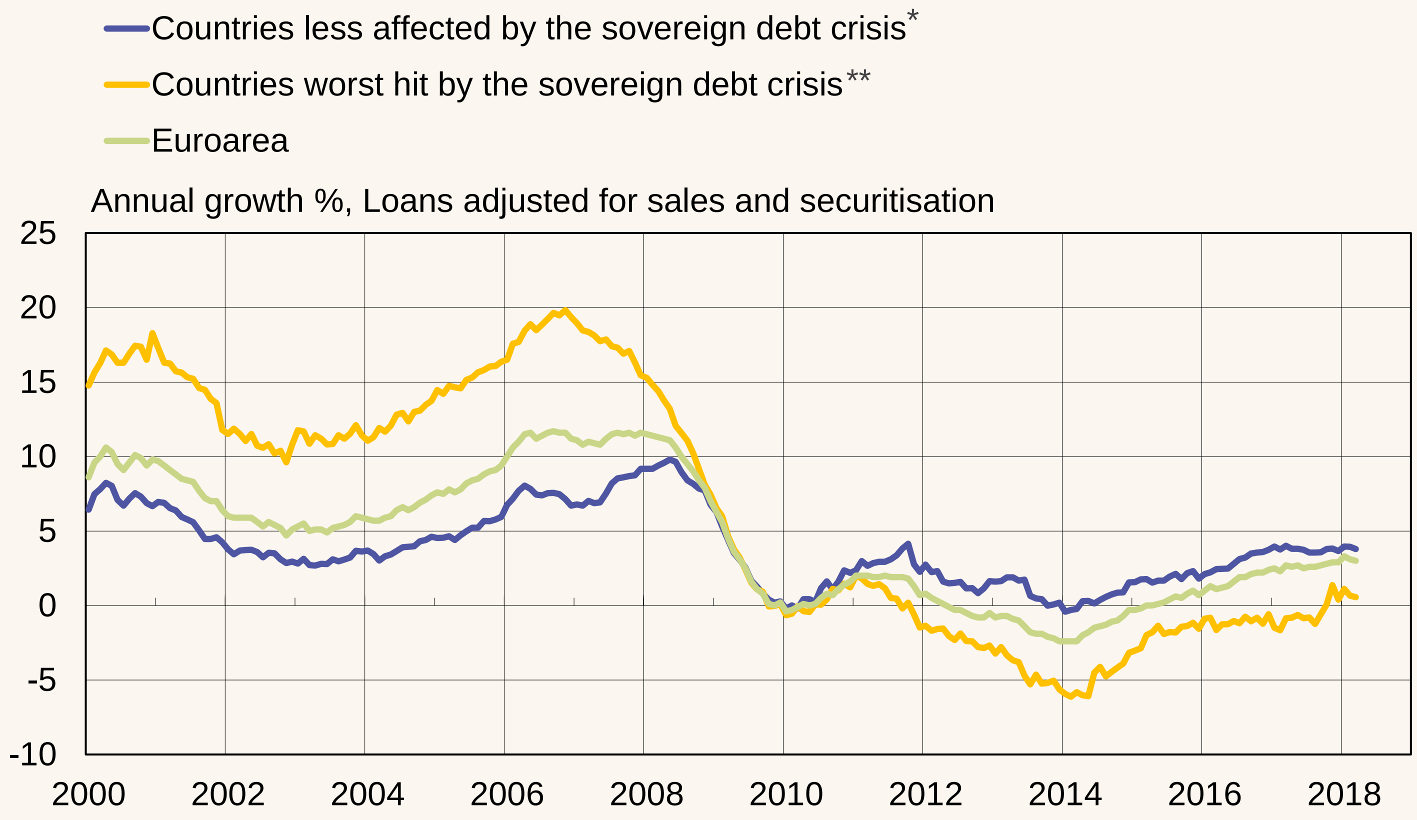
34308@ROE (eng)

Euro area banks’ core banking revenues still under pressure as the low-interest rate environment prevails



Source: EBA.

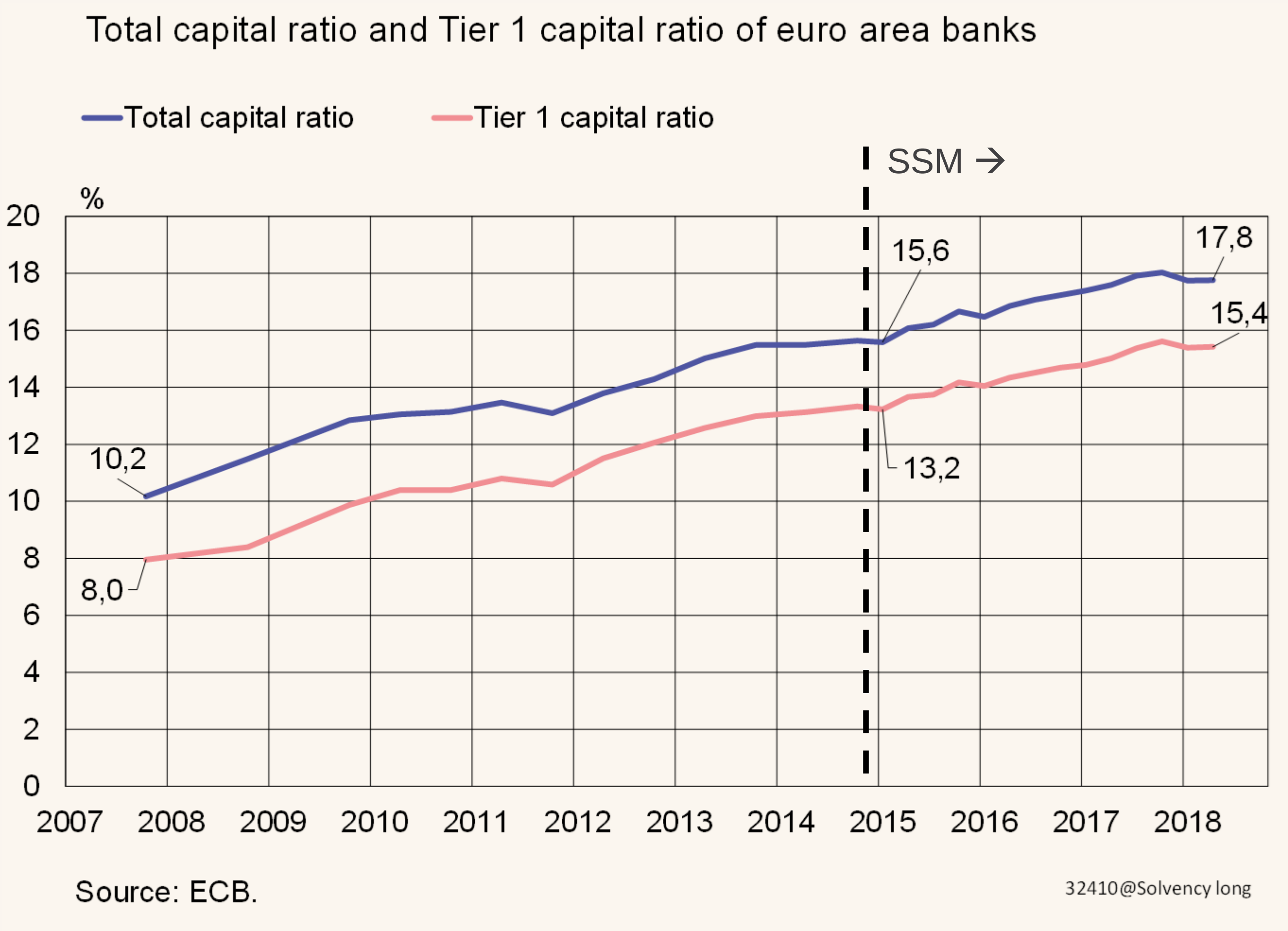
Despite improving economy and decreasing credit risks, loan growth remains modest in the euro area



* DE, FR, NL, BE, AT and FI
** GR, IT, IE, ES and PT
Source: ECB.

25840@Private sector (UUSISARJA)

Euro area banks have continued to strengthen their capital ratios



Tier 1 capital increased 160 bn € since SSM became operational

Development of regulation and banking supervision

Financial regulation is largely EU based

- Most of financial regulation is EU based
  - The Union aims for regulatory harmonisation
  - Most of the guidance is given by European Supervisory Authorities (ESAs)
  - Basel III framework provides basis
- EU passporting for licenced financial institutions
- Some national rules still exist
  - For example crowdfunding

The SSM has strived for supervisory level playing field in Europe since November 2014

The Single Supervisory Mechanism (SSM) is based on the cooperation between national supervisors and the European Central Bank

Benefits	✓ Similar treatment for all credit institutions ✓ More harmonised, intrusive supervision ✓ Higher standards for the quality and amount of capital
Challenges	✓ Ongoing improvement of supervisory processes ✓ Harmonising National Options & Discretions ✓ Increasing delegation in decision-making

Towards the Banking Union

Developing the Economic and Monetary Union - the main building blocks

Banking Union
- European Deposit Insurance Scheme
- Prudential treatment of sovereign debt
- Single Resolution Fund

Capital Markets Union
- Integrated capital markets
- ”Risk-free” assets - ”Safe assets”

Fiscal Union
- European Monetary Fund
- European Governance

Pillars of the European Banking Union

Banking Union

Single Supervisory Mechanism (SSM)	Single Resolution Mechanism (SRM)	European Deposit Insurance Scheme (EDIS)
• Efficient, effective supra-national supervision with the ECB at the centre • Clear separation of monetary policy and supervision	• Centralised resolution decisions for systemic banks • Bail-in principle • Industry responsibility (resolution fund)	• Proposal by European Commission • Gradual transition to Single Deposit Insurance

Single Rulebook (all EU)

Macroprudential policies

What do we mean by macroprudential policy?

- “Taking away the punch bowl when the party is at its best”

- Preventing and mitigating the crisis in a forward looking manner – ex ante policy
  - Different from crisis management and resolution

- The scope of macroprudential policy covers the whole financial system
  - But starts from the banking sector

Macroprudential policy objectives

- The ultimate objective of macro-prudential policy is to contribute to the safeguard of the stability of the financial system as a whole,

  – including by strengthening the resilience of the financial system and
  – decreasing the build up of systemic risks,

  thereby ensuring a sustainable contribution of the financial sector to economic growth (European Systemic Risk Board, Recommendation 3/2011)

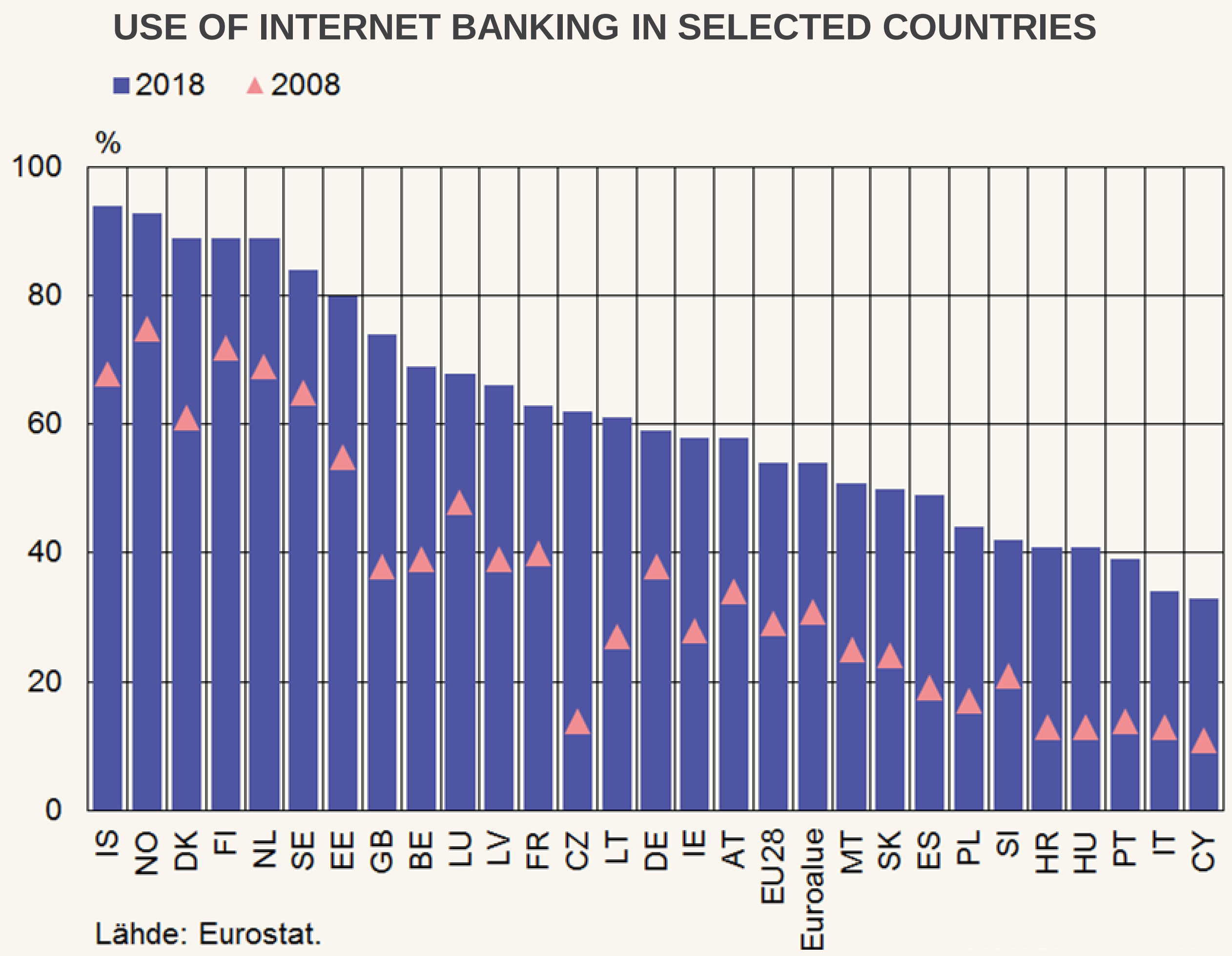
- The ultimate objective needs to be operationalized through intermediate objectives

Macroprudential policy and the future

- Much has already been done and achieved
  - New framework which did not exist before the crisis
  - Increasing awareness of system-wide risks
- But the financial system is evolving rapidly
  - Digitalization
  - Fintech / new competitors (for instance, Alibaba, Google, Amazon, Apple)
- In the future, there is an increasing need to
  - Extend the scope of macroprudential policy beyond banking
  - Address cross-border transmission of systemic risks
  - Further develop the analytical framework for the policy impact assessment

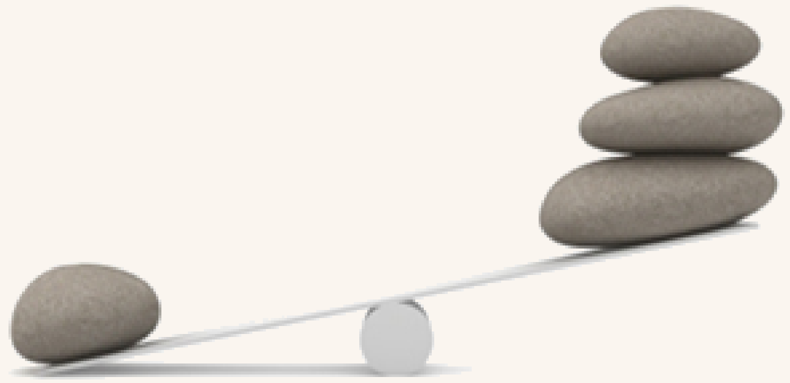
Digitalization and the future of the financial industry

The level of overall state of digitalization in European countries varies significantly



Innovations: balancing between opportunities and risks

- Authorities aim at ensuring balance between:
  - Technology and innovations
  - Customer protection, operational risks and financial stability
- Regulation and supervision of innovations raises discussion
  - Is current regulation suitable for innovations?
  - Do we need more or are there hurdles?
  - How to supervise new actors?
- Level playing field
  - Same activities regulated the same way
  - Function-based, not entity-based



Conclusions

- Financial industry will remain heavily regulated
- Regulation should provide a level playing field
- Knowledge of regulation and compliance skills are needed when planning to enter the financial industry
- Regtech can provide tools to help with regulation and compliance – but Regtech cannot fully replace people
- The future is for Regtech and people hand in hand

Thank you!