



FINANSTILSYNET

THE FINANCIAL SUPERVISORY
AUTHORITY OF NORWAY

STRATEGY

2019–2022

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FOREWORD

Every four years Finanstilsynet reviews the strategy underlying its activities. The strategy formulates goals for the authority's operations and provides direction during the strategy period, and is therefore an important basis for ongoing prioritisation and management of the authority's activities, including the priorities assigned in annual activity plans.

The statutory basis for Finanstilsynet's activity is set out in the Financial Supervision Act and in provisions of special legislation in the various supervisory areas. The financial legislation is primarily based on EEA legislation and has become comprehensive and detailed over the last few years. Finanstilsynet's scope of action is limited by legislation and participation in the European supervisory cooperation, as well as the Ministry of Finance's management of operations through annual letters of allocation and individual assignments. Nevertheless, Finanstilsynet needs to regularly review main trends and overarching priorities.

The strategy for 2015–2018 has provided a sound basis for prioritising and managing activities. In its work on the strategy for the next period, Finanstilsynet reviewed key trends and possible changes in the statutory framework, risk factors, products and behavioural patterns. Views were obtained from relevant trade organisations. Strategic evaluations and plans drawn up by the supervisory authorities of other countries were also reviewed.

Financial stability and well-functioning markets remain the main goal of Finanstilsynet's activities. Targeted prioritising and effective use of available resources are important in enabling Finanstilsynet to meet its main goal. However, goal attainment depends on several factors other than financial supervision. These include both the exercise of authority in other policy areas and other factors of significance to the Norwegian economy.

Both the Norwegian banking crisis and the global financial crisis demonstrated that prevention of financial crises cannot be limited to the supervision of individual institutions. Sound supervision must take into account the reciprocal influence between the macroeconomy and the financial markets. In addition, financial stability requires that the allocation of savings and investments through the capital markets functions in a satisfactory manner at all times. Strong consumer protection is contingent on a robust financial system and transparent markets with good customer protection.

Finanstilsynet's activities must be organised to ensure that resources are used in a targeted and effective manner. The authority must therefore continuously identify and implement possible streamlining measures by adapting work processes and digitising operations wherever possible. Finanstilsynet must possess relevant and strong professional skills.

Good recruitment and competence development processes are therefore crucial if Finanstilsynet is to succeed in fulfilling its role in society. Special strategies are drawn up for digitalisation, communication and competence development at Finanstilsynet.

Finanstilsynet has extensive responsibilities related to the development, implementation and management of complex regulations, most of which apply across the EEA. New, extensive responsibilities, including the role as the Norwegian resolution authority under new banking legislation, have been assigned to Finanstilsynet. At the same time, there are great expectations of Finanstilsynet's work in virtually all supervisory areas. Individually, these expectations may be well justified, but overall, they are not possible to meet within realistic limits.

An important consideration for Finanstilsynet over the coming years is to ensure adequate resources for its core activity, which is to supervise licensable activities. Supervisory activity must be risk-based, and the resources used on regulatory development and management must as far as possible be adapted to the significance of the regulations for overall goal achievement.

Finn Arnesen
Board Chair

Morten Baltzersen
Director General

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FINANSTILSYNET'S STRATEGIC GOALS

Main goal:

Finanstilsynet will promote financial stability and well-functioning markets

Financial stability and well-functioning markets are necessary to ensure confidence in the financial system, stable economic development and protection of consumers and other users of financial services.

Financial stability implies that the financial system can manage disturbances and unexpected shocks and perform its functions, thereby precluding major, negative consequences for the rest of the economy. Well-functioning markets contribute to effective allocation and pricing of capital and risk.

There is a close link between financial stability and well-functioning markets. In the absence of financial stability, the markets cannot distribute capital and risk effectively. If capital is not distributed effectively, and risk is incorrectly priced, the outcome may be financial instability.

Based on the main goal, Finanstilsynet has formulated six operational goals as a basis for planning and evaluating its activities. The operational goals are closely interrelated and are largely overlapping for many supervisory activities. For example, Finanstilsynet's efforts to promote financially sound and well-capitalised financial institutions, a robust infrastructure, investor protection and effective crisis management play an important part in safeguarding consumer interests. Consumer protection has nevertheless been formulated as a separate operational goal in order to highlight activities that directly target consumers' purchases of financial services and products. See separate box on consumer protection.

Operational goals

1. Financially sound and well-capitalised financial institutions

Financially sound and well-capitalised financial institutions are a prerequisite for the stability of the financial system, enabling institutions to meet their obligations to their customers and maintain vital functions in society. Finanstilsynet assesses the risk of instability in the financial system and uses instruments to reduce systemic risk based on information gained from the supervision of individual institutions and from macroeconomic surveillance. Through licensing requirements, capital and liquidity requirements and ongoing supervision, Finanstilsynet plays its part in ensuring that institutions are financially sound and have robust financing, fit and proper management and satisfactory risk management and corporate governance. In addition, Finanstilsynet advises the political authorities on capital adequacy and liquidity requirements and other measures that help to reduce risk in the financial system.

2. Robust infrastructure

A robust financial infrastructure is crucial to satisfactory systems for payments, trading, pricing and settlement in the financial market. Infrastructure failure could quickly result in an extensive collapse of critical services and thus have serious consequences for society. Low risk of systemic failure and a high degree of preparedness to enable rapid recovery in the event of failure are therefore of crucial importance. Through licensing requirements and the supervision of financial institutions, investment firms and infrastructure entities, Finanstilsynet contributes to ensuring that the institutions maintain adequate management and control of ICT risk and other operational risks.

3. Investor protection

Reliable and adequate information is needed to ensure that the securities markets contribute to effective allocation and pricing of capital. Finanstilsynet helps to ensure that current and periodic information from listed companies is correct and timely, and that the companies' prospectuses are designed in keeping with relevant requirements. Furthermore, Finanstilsynet helps to ensure that the preparation and auditing of annual financial statements are of satisfactory quality. Through its supervision of investment firms and effective and swift enforcement of codes of conduct in the securities market, Finanstilsynet contributes to market discipline and the safeguarding of investors' and issuers' interests.

4. Consumer protection

Good consumer protection is important for the individual consumer and for maintaining confidence in financial market participants. Service providers shall safeguard customer interests, paying due heed to the customers' qualifications for understanding the product characteristics. Finanstilsynet promotes consumer protection by supervising that the provision and brokerage of loans, insurance and pension products, mutual fund products, other financial instruments and property take place in an acceptable manner. The supervision of debt collection agencies also strengthens consumer protection. Monitoring compliance with capital adequacy and prudential requirements helps to create assurance that product providers meet their obligations to their customers.

5. Effective crisis management

Preparedness to deal with critical situations is important in ensuring confidence in the financial system. Finanstilsynet maintains preparedness to deal with crises in both individual institutions and markets in order to mitigate the risk of wide-reaching, long-lasting harmful effects for the financial sector and customers. The requirement that banks and investment firms must prepare recovery plans and that Finanstilsynet must prepare crisis management plans will help to ensure that critical situations are handled in a satisfactory manner. The ability to quickly provide relevant information to the general public is a key element of maintaining emergency preparedness.

6. Fight against crime

It is up to the financial sector to prevent the exploitation of financial institutions and other market players for criminal purposes. Finanstilsynet oversees that the institutions comply with the obligations set out in the anti-money laundering and counter-terrorist financing legislation. Illegal activity weakens confidence in the financial markets and represents unfair competition for firms operating in compliance with the regulations. Supervisory efforts aim to prevent illegal activities, and offences that are uncovered in supervised institutions are followed up. Suspicion of serious financial crime is reported to the police. Finanstilsynet's work to ensure satisfactory auditing and accounting also helps to prevent and uncover financial crime.

Consumer protection

Consumers' financial choices can have a strong bearing on their welfare. Finanstilsynet shall ensure that supervised institutions safeguard consumer interests and rights as part of their operations. A wide range of supervisory activities helps to strengthen consumer protection.

Due to continued high property prices, strong debt growth and a record-high debt burden, Norwegian households will be seriously affected by a rise in interest rates or a sharp fall in house prices. The residential mortgage lending regulations set requirements for banks' lending practices for new residential mortgages, aiming to prevent debt problems for vulnerable households.

Recent years have seen strong growth in the volume of unsecured loans to consumers (consumer loans). Continued brisk growth in consumer lending will make households more vulnerable, and a number of measures have been implemented to dampen the growth. Finanstilsynet is following up on this, inter alia through on-site inspections at the institutions.

Finanstilsynet's supervision of payment system actors helps to ensure that customers are offered reliable payment services and promotes confidence in the system.

In order to enable customers to make informed choices, it is necessary to set requirements for information and advice in connection with the sale of mutual funds and other savings products. Requirements concerning financial advisers' market behaviour will be tightened through the introduction of a number of new rules in this field. Unit-linked pension products are gradually taking over the market, and customers are given greater responsibility for the management of their pension funds. There is an increasing need for information about the risk and return potential of the various

alternatives. A higher share of sales of financial products takes place online through automated solutions. Supervision of sales of financial products is an ever more important part of Finanstilsynet's activities.

A key aspect of the supervision of real estate and debt collection agencies is to check their customer funds and examine whether they carry out their assignments as intended and agreed with the customer. Finanstilsynet's follow-up of insurance brokers and agents for foreign insurers also aims to protect consumer interests. The supervision of intermediation activity in all parts of the financial market generally has a strong element of consumer protection.

Finanstilsynet's supervision of listed companies' annual financial statements and prospectuses helps to ensure that the quality of the reported financial information is satisfactory, and that the market has access to relevant and correct information. The supervision of accountants and auditors also helps to assure the quality of entities' financial information.

The emergence of new forms of financing may challenge products and solutions that are currently offered by businesses subject to a licensing requirement. Lending-based crowdfunding is such a product, inviting consumers to bear credit risk that would otherwise be borne by financial institutions. The risk can be high and opaque. Consequently, there is a substantial need to protect consumers who use such platforms, whether they are lenders or borrowers.

Financially sound financial institutions and insurers provide assurance that their obligations to their customers can be met. Prudential supervision promotes confidence in the financial system and is a key element of consumer protection.

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MAIN TRENDS AND CHALLENGES

Economy and markets

The real economy and the financial markets are closely linked and have a reciprocal effect on one another. Finanstilsynet must be particularly aware of this interaction, and of the bearing of the risk factors on financial stability.

Since the banking crisis in the early 1990s, there has been a favourable trend in the Norwegian mainland (non-oil) economy despite some variation in growth and unemployment rates. Growth has picked up since the oil price fall in 2014, and healthy growth and high capacity utilisation are expected in the Norwegian economy over the next few years. Low interest rates, improved competitiveness and an expansionary fiscal policy have helped to maintain activity levels.

However, substantial risk has accumulated in the debt and property markets. For a long time, household debt has outgrown household income, and the debt-to-income ratio has become very high. House prices and debt have a reciprocal influence on each other, and house prices are also very high. At the same time, low interest rates and the search for higher returns have contributed to higher commercial property prices. Financial and economic stability is therefore vulnerable to an interest rate shock or a sharp drop in prices of residential and commercial property triggered by other factors.

The post-financial crisis period has been characterised by somewhat weak and uneven international growth. Growth in the global economy has picked up, but

developments are uncertain. Ten years of very low interest rates have contributed to raising international debt levels. Sovereign debt has grown substantially in a number of countries, while private debt in particular has risen in other countries. Equity and property prices have increased significantly in many countries, which must be seen in the light of strong monetary policy stimulus through low interest rates and central banks' extensive bond purchases.

High debt and high asset prices in a number of countries constitute a significant risk for the international economy and the financial markets. The same applies to increased international protectionism. As a small, open economy that is strongly integrated into international financial markets, Norway is in a vulnerable position in the event of renewed financial turmoil and an international setback.

Since the international financial crisis, Norwegian banks have improved their financial position, which has made them better able to face financial turmoil and an economic setback. This is important in order to maintain financial stability also in bad times.



Digitalisation

The financial industry has a long history of incorporating new technology, which has enabled streamlining of operations and the introduction of new services. Digital platforms are increasingly used to keep in contact with customers.

New players challenge established institutions, and technological developments affect all industries supervised by Finans-tilsynet. New technology may intensify competition and provide advantages such as better access to financial services, wider options and lower-priced services. At the same time, new products and business models may also involve new types of risk. In addition, some business models and products may challenge existing licensing requirements. In order to promote financial stability and customer protection, equal risks should be treated equally, regardless of business model.

Artificial intelligence technology puts institutions in a position to consider the opportunities offered by advanced forms of data processing and the systems' self-learning. Robotification helps to automate tasks that are currently undertaken by customer advisers and case officers. This means that the interaction between institutions and customers is increasingly devoid of human involvement on the part of the institution. Unless adequate quality assurance is performed when developing, testing and checking the results after the production setting of self-learning systems, use of the technology in institutions' business processes and support functions may cause serious incidents. The technology could also be exploited by criminals to carry out sophisticated attacks against the financial sector.

There is increased focus on the development of technological solutions that ensure regulatory compliance. So-called RegTech solutions are used to, inter alia, uncover money laundering and terrorist financing. The risk of human error can be reduced and internal and external reporting made more efficient. At the same time, this requires that the institutions have adequate knowledge of and are able to manage and control the solutions.

Finanstilsynet is keeping a close watch on developments, which includes monitoring how supervised institutions and new actors comply with laws and regulations. Through its supervisory activity, Finanstilsynet assesses how the institutions manage and control the use of technology. When introducing new solutions, risk assessments must be carried out to identify relevant risks. Finanstilsynet emphasises the importance of meeting society's need for financial stability, secure services and good customer protection. Some countries have established so-called regulatory FinTech sandboxes. Finanstilsynet will establish a regulatory sandbox by the end of 2019.

Blockchain technology could lead to changes in the financial industry in the years ahead, although few solutions have yet been established based on this technology. A key element of the technology is that it can enable secure transactions without the use of intermediary services for payment and settlement. Use of the technology may require changes to institutions' organisation and working methods.

Virtual currencies are not regulated, and trading takes place on unregulated markets with no price transparency. Investments in virtual currencies entail a high risk of losses and are considered unsuitable for short and long-term consumer savings. An ICO (Initial Coin Offering) is a way to raise capital by launching your own virtual currency. The object is to enable start-ups and firms with new ideas in need of funding to quickly raise capital at low cost. These investments often carry high risk. Today, ICOs are generally beyond the scope of existing securities legislation, and investors cannot expect any form of protection.



Money laundering and terrorist financing (anti-money laundering legislation)

The purpose of money laundering is to disguise the origin of proceeds of crime by integrating the funds into the legal economy and thus make them appear legitimate. The financing of terrorism entails aiding and abetting a terrorist act or supporting a terrorist organisation. Many obliged entities pursuant to the anti-money laundering legislation are supervised by Finanstilsynet, which oversees the entities' compliance with the obligations of the anti-money laundering legislation. Obligated entities must know their customers, and suspicious transactions must be reported to Økokrim (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime).

Internationally, extensive money laundering activities have been uncovered in a number of banks, resulting in a significant loss of reputation and high fines. This demonstrates that material operational risk attends money laundering. Compliance with the anti-money laundering legislation is followed up in all industries under supervision. The new regulation widens Finanstilsynet's remit by bringing agents of foreign payment institutions under supervision. The scope of the Anti-Money Laundering Act is extended to include exchange and storage services for virtual currencies. These service providers will be subject to supervision by Finanstilsynet and are required to be registered in order to carry on business activity.



Climate risk

Climate change and measures to limit global warming affect the financial markets in a number of ways, both directly and indirectly.

Assessments of climate risk and financial stability generally draw a distinction between physical risk, which is related to the physical effects of climate change, and transition risk, which reflects changes in regulations, the willingness to invest, technology and attitudes. Non-life insurance is the most obvious example of financial institutions' exposure to physical risk, but there is also a connection between physical risk and credit, counterparty and market risk inasmuch as the profitability of certain types of businesses or the value of assets is affected by climate change. Transition risk may affect profitability and the value of physical and financial assets in the same way as physical risk, but it can also have a direct impact on enterprises if investors and customers question their corporate image and business model (reputational risk).

The financial industry's handling of climate risk may also have a bearing on customers. As an example, climate risk in non-life insurance operations may result in poorer access to insurance of properties in vulnerable areas. Another example is the danger of abusing customer trust where the financial industry promotes so-called green investment products without giving customers accurate and complete information about the product characteristics and costs.

Financial regulation and supervision are not suited to promote measures related specifically to climate policy. However, financial supervision plays a role in guarding against the negative effects of climate change on the financial system. As in the case of other risk factors, this should primarily be handled through the supervision of the financial services industry's risk assessments and capital adequacy.

As part of its supervision of financial institutions, Finanstilsynet assesses whether the institutions identify and manage climate risk. In the securities area, Finanstilsynet participates in European networks that consider requirements for information on sustainability in financial reporting and other aspects relating to sustainable finance. Any restrictions in fund managers' mandates with respect to sustainability and corporate governance are followed up through various supervisory activities.



Illegal activity

Illegal activity contributes to weakening confidence in the financial markets and represents unfair competition for firms operating in compliance with the regulations. Individuals' personal finances may be seriously affected. Finanstilsynet monitors illegal activity in a number of areas, and a wide variety of illegal acts are responded to.

As a consequence of the protracted low interest rate level, both professional and non-professional investors seek to achieve returns in excess of the interest earned on bank deposits. In turn, this may have encouraged firms both with and without the necessary licence to offer products that are unsuitable for consumers. When serious violations are uncovered in institutions under supervision, their licence is normally withdrawn. In particularly serious cases, the institution or associated persons will be reported to the police.

Firms and individuals that provide services without the necessary licence, do not constitute a homogeneous group. On the one hand there are firms engaging in pure fraud; on the other hand there are firms operating on the wrong side of the law out of negligence. Finanstilsynet follows up firms that lack the required licence. The measures taken depend on the gravity of their actions. Monitoring illegal activity is resource-demanding, and the firms may be small. When setting priorities, supervisory activities aimed at these firms must be considered against supervisory activities aimed at licensed firms.

When it comes to firms offering financial products illegally from abroad, Finanstilsynet publishes market warnings on its website, both its own and those issued by other EEA countries. In addition, general information is given about the precautions that should be taken by the general public.



Administrative sanctions and other administrative measures

In several areas, the new EU legal acts set more comprehensive and detailed requirements for how member states should react in the form of administrative sanctions and other administrative measures imposed against both firms and natural persons. The imposition of non-compliance fees is an administrative sanction that can be used in connection with a variety of regulatory violations in different areas, and the legal acts often stipulate high maximum amounts. As a consequence of new EU regulations, Finanstilsynet is also assigned competence to decide on product intervention and temporary disqualification of senior executives.

The power to impose administrative sanctions gives Finanstilsynet a broader range of measures. These can be used in cases that would not otherwise have attracted a sanction, and use of such measures can have a preventive effect. On the other hand, the process to impose such sanctions may be extensive, as the measures will have a profound impact. When imposing administrative sanctions, Finanstilsynet must place emphasis on proportionality, both within and across supervisory areas.



EU/EEA regulation

Since the financial crisis, the EU has strengthened its supervision of the financial markets. In 2011, supranational financial supervisory authorities were established and play an important part in coordinating supervision across the EEA. In addition, wide-ranging new regulations have been adopted which have in all essentials been incorporated into Norwegian law. In general, the incorporation of EU regulations into Norwegian law has contributed to more stringent regulation, including higher capital adequacy requirements and more explicit requirements for risk management and internal control. The regulations, which in the main are based on full harmonisation, are also very detailed and wide-ranging.

An important objective of cross-border supervisory cooperation is to identify risks in firms and markets. Supervisory cooperation also enables the authorities to coordinate measures to handle risks and crises.

The new regulations required extensive follow-up on the part of Finanstilsynet. Common supervisory standards have been developed for all supervisory areas, and the volume of reported data and information has increased significantly. It is resource-demanding to put in place systems to receive the reports and to review and assess the quality of the reporting. The sum total of

all new regulations and tasks represents a challenge because it gives Finanstilsynet less scope of action in its ongoing supervisory activities. Comprehensive new requirements for firms and supervisory authorities require strict prioritisation to ensure targeted and risk-based supervision.

A prerequisite for the creation of a single EEA financial market is that member states mutually recognise the right of financial institutions, investment firms and mutual funds licensed by their home state to fully or partially operate in other EEA states by establishing a branch or engaging in other cross-border activities. The firms are under supervision by their home state's authorities, while regulation related to market conduct, such as information and advisory services, is conducted by the host state's supervisory authorities. In the Norwegian financial market there is a fair proportion of branches, especially among banks and non-life insurers. Although their home states are responsible for the prudential supervision of these entities, Finanstilsynet has host state responsibility for supervising market conduct and for monitoring the potential impact of the operations of large bank branches on financial stability.

In addition, a large number of firms in industries under supervision have reported cross-border activity into Norway. Savings products with high risk, low liquidity and complex cost structures are offered to the Norwegian market, and supervision of the distribution of such products is challenging. It is also demanding to follow up Norwegian financial institutions and investment firms that provide cross-border services out of Norway.

Framework for Finanstilsynet's activities

Well-capitalised financial institutions and an effective payment and capital allocation system are crucial to a well-functioning economy. Consumers' choices, often linked to complex financial products and services, can have a strong bearing on their welfare. This is the reason why financial market activity is subject to wide-ranging regulation and supervision.

Finanstilsynet supervises several types of institutions in the financial markets and adjacent markets. The Financial Supervision Act requires Finanstilsynet to "ensure that the institutions it supervises operate in an appropriate and proper manner in accordance with law and provisions laid down pursuant to law and with the intentions underlying the establishment of the institution, its purpose and articles of association. Finanstilsynet shall ensure that supervised institutions safeguard consumer interests and rights as part of their operations." In addition, Finanstilsynet is required to monitor listed companies' reporting as well as securities market conduct, and to combat unlawful licensable activity. The Act further specifies supervisory activities and also empowers Finanstilsynet to impose a number of orders on the institutions.

In addition, specific supervisory tasks are set out in special legislation for the supervisory areas. The legislation is primarily based on EEA legislation. Through the EEA Agreement, Finanstilsynet participates in the European supervisory cooperation that aims to harmonise supervisory practices within the EEA. The European supervisory authorities for banking, insurance and securities supervision, respectively, set common supervisory standards that are an important basis for Finanstilsynet's activities.

Every year, Finanstilsynet receives a letter from the Ministry of Finance in connection with the allocation of budget funds. The letter provides guidelines for the authority's operations and specifies which activities should be given high priority. Finanstilsynet is also assigned investigative tasks by the Ministry of Finance related to, inter alia, regulatory development.

Finanstilsynet supervises:

- banks
- finance companies
- mortgage credit institutions
- electronic money institutions
- payment institutions
- account information service providers
- insurers
- pension undertakings
- insurance intermediaries
- investment firms
- securities fund management companies
- managers of alternative investment funds (AIFMs)
- regulated markets (including stock exchanges)
- central counterparties
- securities registers
- real estate agents and real estate agencies
- debt collection agencies
- external accountants and accounting companies
- auditors and audit firms
- debt information undertakings

Other key supervisory and control responsibilities:

- macroprudential supervision and policy
- control of prospectuses – transferable securities
- control of financial reporting by listed companies
- supervision of trading and conduct in the securities market
- supervision of various aspects of the derivative market
- supervision of the determination of and use of reference interest rates etc.
- supervision of ICT and payment systems
- supervision of loan intermediation
- supervision of compliance with anti-money laundering legislation – trust and company service providers, agents of foreign agent enterprises and exchange and storage services for virtual currencies

3

ASSIGNMENT OF PRIORITIES BETWEEN SUPERVISORY AREAS

Finanstilsynet will seek to maintain an acceptable level of activity in all supervisory areas. In order to ensure the highest possible overall goal achievement, special priority is given to specific supervisory areas. Based on the main goal to promote financial stability and well-functioning markets, macroprudential supervision is an important part of Finanstilsynet's activities. Finanstilsynet's macroprudential supervision focuses on the reciprocal influence between the macroeconomy and the financial system.

Banks play a key role in the financial markets as they manage funds from the general public, provide loan capital to the corporate sector and to households, and perform an important function in payment transfers. Bank deposits should be a secure investment, and financially sound banks ensure the necessary confidence in the banking sector. Prudential supervision of banks is therefore a fundamental and highly prioritised task for Finanstilsynet. It is also important to ensure that the financial position of pension institutions is satisfactory. Secure future pensions are key to lifetime financial planning. For employees in the private sector, there has been a major transition from guaranteed pension policies to unit-linked pension policies. Nevertheless, the institutions will have a large proportion of guaranteed liabilities for many years. Hence, prudential supervision remains important.

Unit-linked pension products entail that customers must bear the return risk themselves, and investment decisions have a strong bearing on future pension payments. Correspondingly, customers bear the return risk when investing in various mutual fund products. It is of vital importance that customers receive information and advice when acquiring products to ensure that

the products are suitable. Supervision of advisory services and sales of such products will be an important contribution to good consumer protection.

Supervision of financial institutions' lending practices is important to prevent financial imbalances and promote robust financial institutions through good credit quality. Raising loans is an important decision for consumers. Healthy lending practices are therefore also of significance to consumer protection, helping to prevent debt problems among vulnerable households.

A robust financial infrastructure is crucial to financial stability. A serious failure or collapse of the payment system or other financial infrastructure could have a profound impact on the financial sector and vital social functions. Supervision of actors in the payment services system, trading venues, settlement systems and other infrastructure in the financial sector is therefore a priority. The financial sector is characterised by increased digitalisation, new and advanced digital solutions and new actors and suppliers. Supervision of institutions' ICT activities and risk management will remain of key importance in the period ahead.

A number of obliged entities, as defined in the anti-money laundering legislation, are under supervision by Finanstilsynet. Supervisory activity has revealed significant shortcomings in financial institutions' and other obliged entities' compliance with anti-money laundering legislation. Non-compliance heightens the risk that institutions are exploited for criminal ends and constitutes a significant operational and financial risk as a consequence of possible fines, lawsuits and loss of reputation. There is increased international focus on compliance risk.

The new anti-money laundering legislation widens Finanstilsynet's remit by bringing agents of foreign payment institutions under supervision. The scope of the Anti-Money Laundering Act has been extended to include exchange and storage services for virtual currencies, and these service providers will be subject to supervision by Finanstilsynet.

With this objective in mind, Finanstilsynet will give special priority to the following activities during the strategy period:

- macroprudential supervision
- prudential supervision of financial institutions
- supervision of the distribution of loans, pension and mutual fund products and other financial instruments
- supervision of actors in the payment, trading and settlement systems and other financial infrastructure
- supervision of compliance with anti-money laundering legislation

The financial markets may change significantly during the strategy period, which may necessitate a review of priorities. Activities must nonetheless be planned in conformity with the priorities set out in the annual letter of allocation and other assignments given by the Ministry of Finance.

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INSTRUMENTS

Finanstilsynet's activities are far-reaching, and a range of instruments are deployed with a view to meeting the authority's goals. The instruments are used individually or in combination. These instruments can be divided into four main groups:

- Supervision, monitoring and control
- Licensing
- Regulatory development
- Information and communication



Supervision, monitoring and control

The main purpose of ongoing operative supervision is to prevent crises in institutions and industries under supervision. This activity will have high priority at all times. Quality assurance and analysis of reported data, also as a basis for further follow-up, as well as on-site inspections are the core of supervisory activity. The prioritisation of resources between the various supervisory and control functions aims to ensure the highest possible overall goal achievement.

When handling crises in individual institutions or industries, document-based analyses and on-site inspections can provide sound knowledge about the situation and provide a basis for decisions on further follow-up and possible solutions.



Licensing

Finanstilsynet makes individual decisions under special legislation and prepares matters for consideration by the Ministry of Finance. Based on knowledge and thorough assessments, Finanstilsynet will ensure adequate professional quality and observance of the requirement of good administrative practices. Finanstilsynet aims to achieve the greatest possible efficiency in its case processing through sound working methods and use of electronic instruments.



Regulatory development

A key element of regulatory development is to prepare for the implementation of EU legislation which under the EEA Agreement is to apply in Norway. Through its participation in the European supervisory cooperation and other international initiatives, Finanstilsynet will build sufficient knowledge about the new regulations.

On commission from the Ministry of Finance, or on its own initiative, Finanstilsynet prepares proposals for regulations in areas where there is no EU regulation. Based on experience from and knowledge of industries under supervision, regulatory development will support Finanstilsynet's goals.



Information and communication

Information and communication support the other instruments at Finanstilsynet's disposal. Good external communication enables Finanstilsynet to impart important information and assessments concerning various supervisory areas and thus promotes the supervisory effort. It also facilitates the work on licensing matters by giving the institutions more in-depth knowledge of the regulations and Finanstilsynet's assessments. Moreover, good communication will also ensure that Finanstilsynet receives useful and necessary information from supervised institutions.

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REQUIREMENTS MADE OF FINANSTILSYNET

Finanstilsynet is dependent on the general public and supervised institutions feeling confident that tasks are performed in an independent manner based on high professional standards. Given the rapid pace of change in the financial markets, it is vital to be able to identify trends as early as possible and tailor operations accordingly. Finanstilsynet must also be able to implement measures aimed at individual institutions, industries or markets if risks or serious regulatory violations are identified that could weaken confidence in the financial system and markets.

A steady escalation of Finanstilsynet' responsibilities, especially related to new EU regulations, requires stricter prioritisation of activities across the various supervisory areas and within each area. Prioritisation must be founded on a risk-based approach. Adequate supervision must be maintained in all supervisory areas.

In order to make optimal use of the organisation's resources, it is necessary to further refine work processes and supervisory methods. Operations must be further streamlined by taking new digital solutions into use. Better ICT systems will also help to ensure ample access to and use of the large volumes of data reported to Finanstilsynet and other data sources. This will ensure a sound basis for analyses and hence also for risk analyses of both individual institutions and industries.

Finanstilsynet must impart information about its assessments and activities to the general public and supervised institutions in a clear and effective manner. Changing forms of communication require a new approach for information to the general public. Finanstilsynet must review a variety of communication platforms and digital solutions on an ongoing basis in order to reach its target groups.

In some respects Finanstilsynet's organisation is industry-based. This ensures the necessary level of expertise in the areas under supervision. At the same time, it entails stricter requirements for internal information exchange and coordination within the organisation, as common issues need to be addressed across supervisory areas. Examples of common issues are consumer protection in connection with advisory services and the sale of savings and investment products from various industries, ICT risk, outsourcing risk and money laundering risk. Consistent use of administrative fees and other sanctions across industries will also gain importance when the number of available sanctions increases in several supervisory areas.

Finanstilsynet is a knowledge-based organisation whose activities are dependent on the professional expertise of its employees. Finanstilsynet aspires to be an attractive employer capable of attracting competent staff from both the private and public sector. It is necessary to have a large proportion of staff members with experience from institutions subject to supervision. A strong professional environment is characterised by a high level of competence, commitment and knowledge sharing. Competence development is important to be able to understand and assess key development trends and to retain competent staff.

FINANSTILSYNET
Revierstredet 3
P.O. Box 1187 Sentrum
NO-0107 Oslo

Tel. + 47 22 93 98 00
Fax + 47 22 63 02 26
post@finansstilsynet.no
finansstilsynet.no

