

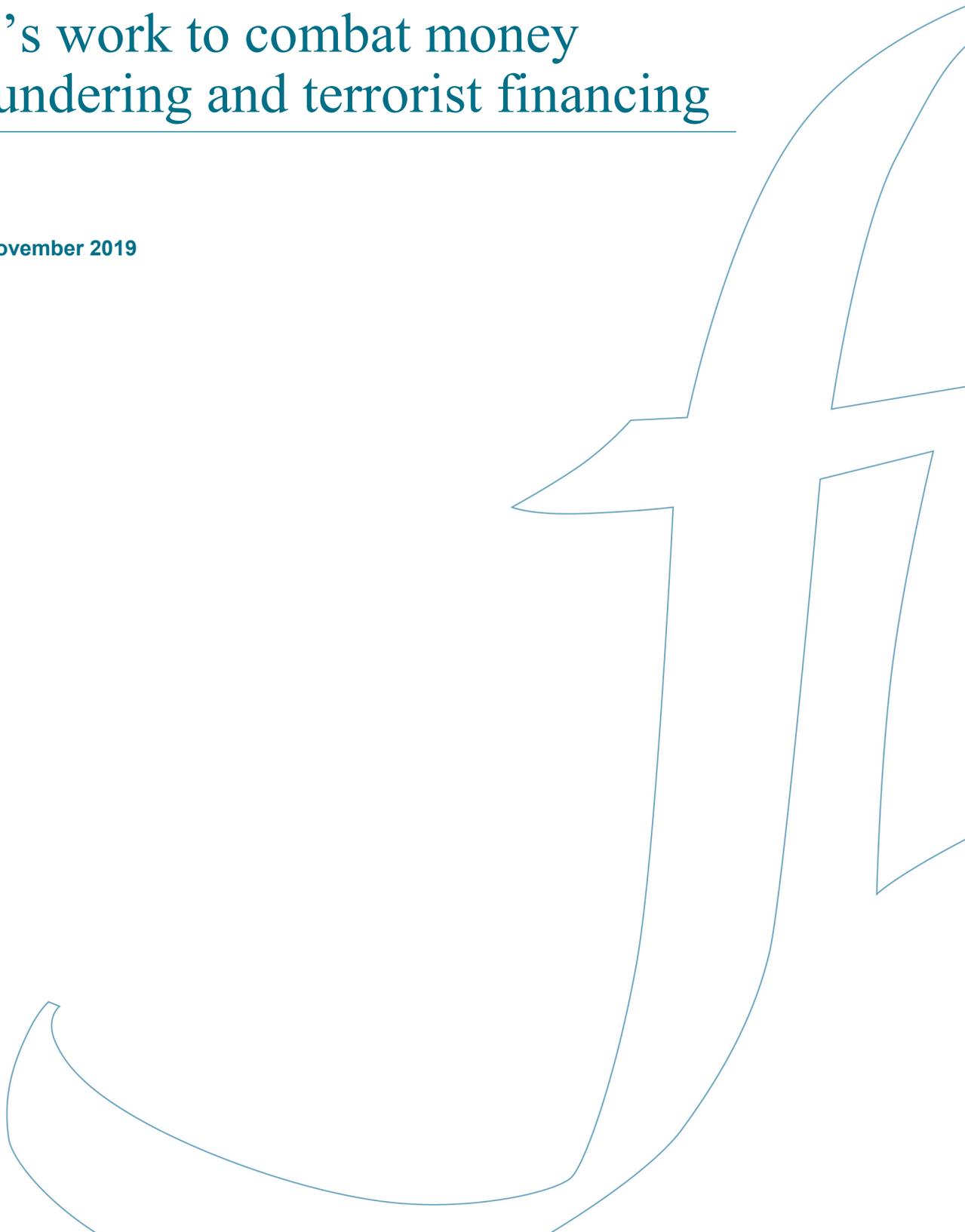


**FINANSINSPEKTIONEN**

# FI's work to combat money laundering and terrorist financing

---

15 November 2019



## TABLE OF CONTENTS

---

FOREWORD	3
SUMMARY	4
HOW SHOULD SOCIETY COMBAT MONEY LAUNDERING AND TERRORIST FINANCING?	6
Initiatives require international cooperation	6
Finansinspektionen's assignment	7
New regulations increase requirements on undertakings	8
Method and high-risk areas	9
Mapping the risk within undertakings	11
FI'S STRATEGY FOR ITS ANTI-MONEY LAUNDERING SUPERVISION	13
FI's supervision is risk-based	13
FI has an integrated strategy for its supervision	15
FI's supervision should influence firm behaviour	16
FI's cooperation with other authorities	17
FI STRENGTHENS ITS ANTI-MONEY LAUNDERING SUPERVISION	20
Several actors have initiated measures	20
Stronger cooperation between the Nordic and Baltic regions	21
Greater resources for anti-money laundering supervision	22

---

The Government has given FI an assignment to report on the authority's work to prevent money laundering and terrorist financing. This report presents FI's work in this area.

## Foreword

Money laundering is a criminal activity where perpetrators misuse banks and other financial firms to move illicit proceeds, thus making them available for consumption and investments. In order to combat money laundering, acts and regulations require financial firms to assess, mitigate and monitor their money laundering risks. Finansinspektionen's (FI) assignment is to monitor compliance of the obliged financial firms with the anti-money laundering regulations. The firms must actively identify suspicious activity and report any such transactions to the police. In other words, banks and other obliged firms carry a large responsibility. This includes a sound incentive structure for the firm's employees ensuring that the risk perspective is not overshadowed by profit interests.

FI has increased its anti-money laundering supervision initiatives in recent years. Today, we supervise more than approximately 2,200 firms within all financial sectors, not just the banking sector. This is a significant and important assignment, and it is therefore positive that the Government's budget proposal for 2020 contains SEK 10 million in extra appropriations for FI's anti-money laundering supervision. We also need to continue to develop and streamline our methods of working, for example by improving our risk identification methods. FI's ambition for 2020 is to triple its ability to exercise anti-money laundering supervision in comparison to 2018.

Increased resources should go hand-and-hand with enhanced cooperation. There are many authorities involved in the efforts to combat money laundering, both nationally and internationally, thus creating a considerable need for coordination, cooperation, and the exchange of information. As a first step, FI has prioritised its cooperation with Nordic and Baltic supervisory authorities, both strategically and operationally. These initiatives have never been tested before and are drawing interest internationally. One concrete example from this cooperation is the coordinated investigations into compliance at Swedbank, where both FI and the Estonian supervisory authority have now opened sanction cases. As a next step, we would also like to enhance the operational cooperation between a number of Swedish authorities in order to be able to more effectively share and benefit from each other's knowledge.

It is now time for both authorities and firms to think outside the box about how we should work to combat money laundering. We must be open to new and perhaps unconventional structures for how we, for example, organise our money laundering supervision, share information and use new technology. But the big solutions will take time. We can and must also do something here and now. We need to prioritise a deeper cooperation between today's authorities, both within our borders and beyond. We also need to resolve the issue of how to better share existing information, between both authorities themselves and authorities and financial firms.

Stockholm 15 November 2019

Erik Thedén

Director General

## Summary

Money laundering and terrorist financing are global problems that present difficult challenges for society. In the past decade, these issues have moved up the agenda. Finansinspektionen (FI) strengthened its anti-money laundering supervision in 2019, in part by dedicating considerable resources to reviewing major Swedish banks' governance and control of anti-money laundering measures in Baltic subsidiaries. We are planning to triple FI's capacity to work with anti-money laundering and terrorist financing supervision, compared to 2018, by the end of 2020. FI will also continue to enhance its international cooperation – primarily in the Nordic and Baltic regions.

In the past decade, money laundering issues have moved up the agenda. Both the EU and supervisory authorities have worked to improve and tighten the anti-money laundering regulatory framework, and the requirements on obliged firms have increased. FI's important role in this work is to monitor that Swedish financial firms comply with the anti-money laundering regulations and thus prevent them from being used for money laundering and terrorist financing.

FI's work to combat money laundering and terrorist financing is based on an aggregate risk assessment. This risk assessment serves as a basis for how FI works with the roughly 2,200 financial firms subject to its money laundering supervision. Over the past few years, FI has gathered information about and conducted investigations into money laundering. These activities show that anti-money laundering awareness and preparedness have increased at many financial firms. However, FI has also found deficiencies. Firms need to improve their knowledge about their customers and develop both risk assessments and monitoring systems. FI has communicated these deficiencies to the firms in question, as well as to the financial sector at large through one of our supervision reports.

Money laundering and terrorist financing are complex and global problems. Together with other supervisory authorities in the Nordic and Baltic states, FI has started a permanent working group in the region that is active both strategically and operationally. It is a unique initiative that provides us with significantly better conditions for exercising cross-border anti-money laundering supervision. FI also maintains a close dialogue with Baltic authorities in terms of the investigations into Swedish banks' governance and control of anti-money laundering measures in Baltic subsidiaries. Supervisors and experts are regularly exchanging information on both sides. For FI, this is a very valuable cooperation that we would like to develop in the future even after the ongoing investigations have been concluded.

FI is now further strengthening its anti-money laundering supervision. We want to triple the authority's capacity for its anti-money laundering and countering terrorist financing work by the end of next year, compared to 2018. FI has dedicated significant resources from different parts of its organisation to the ongoing anti-money laundering investigations, and the number of resources for anti-money laundering supervision has increased, primarily through external recruiting. To further strengthen its organisation, FI integrated its anti-

money laundering supervision with its supervision of other non-financial risks. This will help broaden the department's competence and resources. It also provides FI with a better understanding of the firms' non-financial risks and risk management as well as their link to the firms' internal governance and control.

However, in addition to supervision resources, there is also a need for improved working methods. By continuing to develop FI's risk classification method, we want to improve the authority's ability to identify, classify and monitor money laundering risks at both the sector level and the firm level. We would also like to increase FI's presence by conducting a supervision activity at more obliged firms, for example by conducting more thematic investigations that are limited in scope. FI will then be able to compile and share its assessments and expectations related to the thematic investigation in public supervision reports.

# How should society combat money laundering and terrorist financing?

According to the Anti-Money Laundering Act, financial firms must assess, mitigate, and monitor the risk that they will be used for money laundering and terrorist financing. Firms must also actively work to identify suspicious activity. FI monitors that the firms are taking preventive measures and are in compliance with the Anti-Money Laundering Act. Credit institutions, money remitters, and currency exchangers are particularly exposed to the risk of being used for this type of crime. FI has observed in its supervision that anti-money laundering awareness and preparedness has increased at many financial firms over the past few years. However, in practice, firms also need to both improve their knowledge about their customers and develop their risk assessments. Monitoring systems also need to be continuously refined to increase their accuracy in reporting suspicious transactions.

## INITIATIVES REQUIRE INTERNATIONAL COOPERATION

Money laundering and terrorist financing are global problems that present difficult challenges for the democratic rule of law, and they are broad terms that encompass many different activities. Money laundering aims to integrate illicit proceeds into the legitimate economy by feeding money from criminal activities into the financial system, thus hiding the money's criminal origins and enabling free use of the proceeds. For terrorist financing, one of the primary aims is the opposite – to hide where the money is going. Terrorist financing includes not only making direct contributions to support terrorism but also gathering, providing, or accepting money and assets that will finance terrorism.

In order to be able to combat crime at an international level, the G7 countries decided in 1989 to establish a joint body, the Financial Action Task Force (FATF), which today consists of 37 member jurisdictions, the European Commission and the Gulf Co-operation Council. FATF coordinates anti-money laundering and terrorist financing initiatives by preparing international standards and regularly evaluates its members' work to comply with these standards. FATF also has been tasked with identifying, studying and reporting on trends and methods within the area.

The EU issues directives based on FATF's recommendations, and EU Member States then implement these directives into national law. National authorities are responsible for monitoring compliance with the anti-money laundering regulations. However, many of the obliged firms and individuals conduct cross-border operations, and in many cases the supervision of compliance is divided between different jurisdictions. This places high demands on international cooperation and the exchange of information between supervisory authorities in different countries.

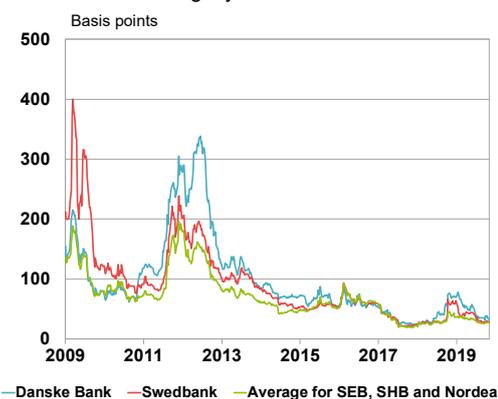
Diagram 1. Share prices fell after the news broke about suspected money laundering.



Source: Thomson Reuters Datastream.

Note: Disclosures about suspected money laundering in the Baltic region caused reactions on the market. The share prices of the mentioned banks fell sharply on several occasions in connection with the publication of new revelations.

Diagram 2. Price of affected banks' credit risk increased slightly.



Source: Thomson Reuters Datastream.

Note: Credit Default Swaps denominated in EUR on banks' senior debt, maturity 5 years.

## FINANSINSPEKTIONEN'S ASSIGNMENT

FI has an overarching assignment to contribute to a stable financial system that is characterised by a high level of confidence. This does not necessarily mean that FI must maintain confidence in individual firms, but for the financial system as a whole – in part by taking measures against firms that weaken the public's faith in the system. The manner in which financial firms manage the risk of being used for money laundering and terrorist financing is an important trust-based issue for many of them, as evidenced by the much-publicised money laundering scandals at several European banks in the past few years. The insufficient management of money laundering risks indicates that many banks have underestimated the impact of these issues on credibility. A high degree of trust from both the public and market participants is one of a financial firm's most important assets. The scandals have had a negative impact on affected banks' share prices and at least temporarily increased their financing costs (Diagrams 1 and 2).<sup>1</sup>

In Sweden, several different authorities are working to combat money laundering and terrorist financing. This work rests on two types of regulations: administrative and penal. The objective of the administrative regulations is for different parts of society, including both the private sector and authorities, to actively mitigate the risks of money laundering and terrorist financing. In these regulations, the Anti-Money Laundering Act plays a key role. According to this act, financial firms and certain other undertakings must take measures to prevent their operations from being used for money laundering and terrorist financing.<sup>2</sup> The undertakings must assess, limit and monitor their risks and also work actively to identify suspicious activity (see Pillars of the anti-money laundering regulations). FI's assignment lies within this area – the authority is responsible for supervising that financial firms in Sweden comply with the Anti-Money Laundering Act. The assignment does not encompass only banks but also payment service firms, insurance companies, fund management companies and other financial firms under FI's supervision.

According to the Anti-Money Laundering Act, the undertakings are also obligated to report suspected money laundering and terrorist financing to the Swedish Financial Intelligence Unit. The Financial Intelligence Unit in turn forwards relevant information to criminal investigation authorities such as the Swedish Economic Crime Authority, the Swedish Police, the Swedish Security Service, and the Swedish Prosecution Authority. Together, they are responsible for investigating and prosecuting crimes. FI must also report suspected money laundering to the Financial Intelligence Unit, if such information is identified in FI's supervision. This means that we do not investigate cases of suspected money laundering and terrorist financing ourselves. FI instead monitors that firms are following the

<sup>1</sup> The price for the banks' credit risk has increased. The credit risk premium provides an indication of the banks' costs for unsecured market borrowing.

<sup>2</sup> "Other undertakings" that are subject to the regulatory framework include, for example, attorneys, real estate agents, accountants, and casinos.

rules and regularly developing and improving their work to prevent money laundering and terrorist financing.

## NEW REGULATIONS INCREASE REQUIREMENTS ON UNDERTAKINGS

In recent years, anti-money laundering has moved up the agenda. Both the EU and supervisory authorities are working to improve and tighten their anti-money laundering regulations. At the same time, the demands placed on obliged firms have also increased. Since the beginning of the 1990s, the EU has adopted five anti-money laundering directives.<sup>3</sup> Sweden and other EU countries transposed these directives through new laws. To supplement and clarify the basic rules set out in the act, FI also issues regulations.

The first anti-money laundering directive was adopted in 1991 and consisted of only 18 Articles. It required financial firms to verify the customer's identity, monitor transactions and report suspicious behaviour. Since then, the EU has increased the scope of the regulations to include more groups of undertakings, for example accountants, tax advisors, real estate agents and casinos.

The third anti-money laundering directive was adopted in 2005 and contained more comprehensive revisions. For example, provisions were introduced that the undertakings must not only prevent and counteract money laundering but also terrorist financing. The obligations of the undertakings were also expanded to include customer due diligence, for example through requirements to verify both the customer's and the beneficial owner's identity.<sup>4</sup> The directive also required the undertakings to request information from the client about the purpose and nature of business relationships. A new central part of the regulatory framework was also introduced: that undertakings must have risk-based procedures for preventing their operations from being used for money laundering and terrorist financing (see Pillars of the anti-money laundering regulations). These provisions were tightened in the fourth anti-money laundering directive in 2015, which, upon its implementation, also increased the supervisory authority's sanction possibilities, in part by raising the maximum amount the undertakings could be fined.

In 2018, the EU adopted its fifth and currently applicable anti-money laundering directive, a supplemental directive to the previous directive. It will be transposed in Sweden through amendments to Swedish legislation and FI's regulations, and it mainly enters into force in January 2020. The amendments entail in part strengthened protection for whistleblowers and improvements to the possibilities to cooperate and exchange information with other supervisory authorities. The new act also covers administration or trade of virtual currencies.

---

<sup>3</sup> The Directives were adopted in 1991, 2001, 2005, 2015 and 2018. The Directives from 2001 and 2008 are supplemental directives for the first and fourth Directives, respectively.

<sup>4</sup> A beneficial owner is the person or persons who ultimately own or control a firm or an association.

---

### **Pillars of the anti-money laundering regulations**

According to the Anti-Money Laundering Act, firms must assess, mitigate and monitor their risks. They must also work actively to identify and report suspicious activity. The regulatory framework rests on three central pillars: risk assessment, customer due diligence, and monitoring and reporting.

#### **RISK ASSESSMENT**

According to the act, firms must assess the risk that the products and services they offer can be used for money laundering or terrorist financing. Firms must also assess how large this risk is. And this is called a general risk assessment. In addition to the general risk assessment, firms must also assess the risk associated with individual clients and the business relationship. Firms must also document procedures and policies based on their general risk assessment.

#### **CUSTOMER DUE DILIGENCE**

Firms must take measures to achieve customer due diligence when establishing a business relationship and even in some cases for individual transactions. The term "business relationship" refers to a relationship that is expected, at the time it is established, to have a certain permanence, but it can also arise through the actual behaviour of the parties. The documents obtained and the information about the measures taken to achieve customer due diligence must be stored safely at the undertaking. If there is a high risk for money laundering or terrorist financing, the undertaking must take stricter measures.

#### **MONITORING AND REPORTING**

Undertakings must monitor their business relationships and transactions in order to be able to identify activities and transactions that can be suspected to constitute money laundering or terrorist financing. If reasonable suspicions remain after a more detailed analysis, information about all circumstances that could indicate money laundering or terrorist financing must be reported to the Financial Intelligence Unit immediately.

---

## **METHOD AND HIGH-RISK AREAS**

Money laundering and terrorist financing are often advanced cross-border crimes that need to be analysed at both the national and international level. Swedish authorities jointly identify and highlight on an annual basis the risks of money laundering and terrorist financing in Sweden in a so-called national risk assessment.<sup>5</sup> The risk assessment report for 2019 focused on mapping and assessing Swedish authorities' challenges in the area. One of the report's conclusions was that Swedish authorities must increase the degree to which they prepare and share strategic assessments and status overviews in this area. This would facilitate both authorities' and undertakings' possibilities for managing known methods and identifying high-risk areas for money laundering and terrorist financing.

---

<sup>5</sup> The risk assessment is compiled by Sweden's national coordinating function, see FI's cooperation with other authorities.

The Swedish National Council for Crime Prevention conducted a comprehensive study in 2015 of risks and structures in various industries and sectors in Sweden from the perspective of money laundering. The Council identified the financial sector as one of three sectors where money laundering predominantly occurs. According to the Council, the key services the perpetrators need are transfers between bank accounts, cash withdrawals and deposits, currency exchange and payment mediation. This means that firms offering these services – primarily credit institutions, money remitters and currency exchangers – run a greater risk of being used for money laundering.

In Sweden, cash handling has decreased in recent years. Despite this, perpetrators still use cash to limit the traceability of their actions and reduce the risk of detection. The parts of the financial sector that handle cash therefore continue to be high-risk areas in terms of money laundering. Both Swedish authorities and the European Commission mention this in their risk assessments for 2019. For Swedish banks, this risk has been mitigated in that the banks have reduced their cash handling. Perpetrators therefore primarily use currency exchangers and money remitters to withdraw, deposit and exchange cash.

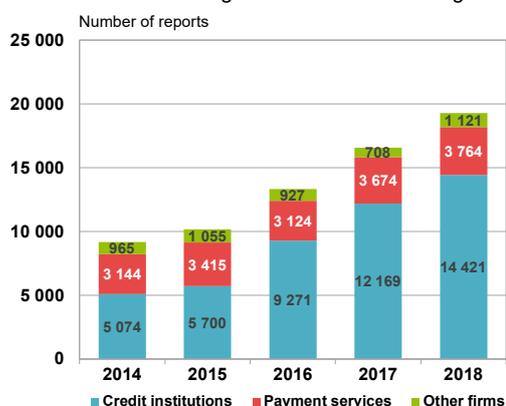
Perpetrators are also to a greater extent using companies as a facade. False identities, front men and other decoys such as board members, account holders and owners make it difficult for the authorities to identify and reach the perpetrators. Companies are also used to send false invoices – an established method for money laundering. According to an analysis FI published together with the Swedish Economic Crime Authority in 2016, false invoices are estimated to have been used to launder approximately SEK 65 billion a year.

In Sweden, both new and established financial firms have been quick to utilise technological innovations to develop new financial services and products. These technological innovations contribute to new challenges within the area of money laundering. One such innovation, mobile payment services, are used for criminal activities, according to criminal investigation authorities. Mobile payment services make it possible to conduct relatively large transactions in real time. Perpetrators can also quickly and easily conduct a series of different transactions with the aim of making it difficult to trace the money's origin, which is called layering. New technological solutions have also meant that the number of purely electronic business relationships is increasing, which places higher demands on correctly identifying the customer. There is also a risk that financial products offering anonymity, for example some virtual currencies and crowdfunding platforms, are used for both money laundering and terrorist financing.

At the same time, the increase in digitalisation presents new possibilities for authorities and financial firms to manage and process large amounts of data. For many financial services, digitalisation has also increased the traceability of customers and transactions as well as the possibility to detect and analyse advanced and suspicious payment patterns.

Sweden is a regional financial hub for the Nordic and Baltic regions, and FATF identifies this as a vulnerability for money laundering risks. This means that both Swedish authorities and international

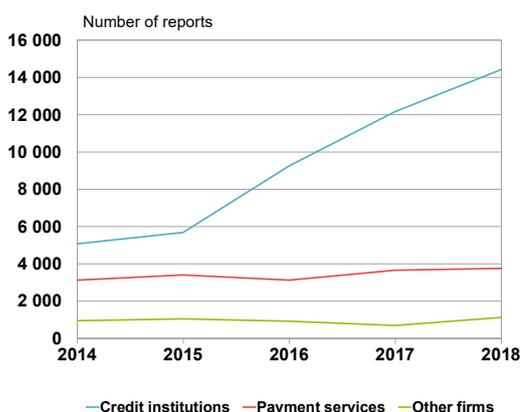
Diagram 3. Transactions reported to the Financial Intelligence Unit are increasing.



Source: The Financial Intelligence Unit of the Swedish National Police Board.

Note: The number of suspected transactions of money laundering and terrorist financing reported to the Financial Intelligence Unit.

Diagram 4. Reported transactions from credit institutions increased the most.



Source: The Financial Intelligence Unit of the Swedish National Police Board.

Note: The number of suspected transactions of money laundering and terrorist financing reported to the Financial Intelligence Unit.

undertakings must take into consideration and understand the money laundering risks in Sweden's immediate surroundings. For example, banks in the Baltic countries are exposed to members of the Commonwealth of Independent States (CIS).<sup>6</sup> According to FATF, these countries are vulnerable to economic crime, for example in the form of corruption.

FI commissioned the Swedish Defence University to conduct a study in 2015 on terrorist financing in Sweden.<sup>7</sup> The study focused on known methods and risk indicators for the financing of terrorism. Common methods were the use of couriers and informal payment systems, which means that the transactions occur outside the financial system. However, perpetrators have also misused money remitters and currency exchangers to transfer money with the aim of financing terrorism, and various types of consumption loans and cash have also been misused for this purpose.

## MAPPING THE RISK WITHIN UNDERTAKINGS

In 2018, FI mapped the firms' work within several of the anti-money laundering regulatory framework's most central areas: risk assessments, customer due diligence, and monitoring and reporting of suspected transactions. The analysis included more than 70 banks, money remitters, and credit market companies and was based on information from FI's investigations and surveys during the period 2016–2017 (see FI's supervision should influence firm behaviour). The analysis showed that the firms' work to prevent money laundering and terrorist financing has improved in recent years. In general, the firms had systems, procedures and documentation in place as required by the regulations. However, there were in many cases deficiencies in the analysis, assessments, follow-up and measures. This indicates that the firms are largely aware of what is expected of them from the regulations. However, the firms also need to develop internal policies and procedures and adapt these to their operations in order to achieve the expected result.

In its analysis, FI noted in part that the firms' general risk assessments in many cases did not include all types of customers, products, services and distribution channels. There were also deficiencies in the measures the firms took to achieve satisfactory customer due diligence. In several cases there was no information about the purpose and nature of the business relationship, the risk classification of customers, and the beneficial owner. FI also noted deficiencies in the firms' systems for monitoring transactions.

Over the past five years, the number of suspected instances of money laundering and terrorist financing reported to the Financial Intelligence Unit at the Swedish Police has more than doubled (Diagram 3). This is primarily due to an increase in the reporting from credit institutions (banks, savings banks, members' banks, and credit market companies) (Diagram 4). Credit institutions are responsible for

<sup>6</sup> The Commonwealth of Independent States consists of the previous Soviet republics, excluding the Baltic states.

<sup>7</sup> The study was conducted by the Center for Asymmetric Threat Studies (CATS) at the Swedish Defence University.

more than 90 per cent of the increase in reporting since 2014, even though the number of credit institutions that are obligated to report has basically stayed the same. While this can be due to a number of factors, the upswing supports FI's observation that firms have become more aware about money laundering issues. However, more reports about suspicious activity is not necessarily optimal – a large volume of unsorted data could make the Financial Intelligence Unit's work more difficult. FI's analysis in 2018 also showed that the procedures for the firms' reporting of suspected transactions to the Financial Intelligence Unit need to be improved.

# FI's strategy for its anti-money laundering supervision

There are approximately 2,200 firms under FI's supervision that are subject to the Anti-Money Laundering Act. FI's methods for identifying and classifying the firms' risks help the authority prioritise its supervision measures. Our supervision of financial firms is an ongoing process that consists of a large number of different activities and information-gathering initiatives. In parallel to its ongoing supervision, FI also conducts investigations. In order for the supervision of individual firms to impact a larger group of firms, FI strives to share the information and lessons learned from investigations and other supervision activities. FI therefore publishes all sanction decisions and shares its observations from its supervision or other guidance in supervision reports and lectures. FI also holds regular meetings with industry organisations for the same reason.

## FI'S SUPERVISION IS RISK-BASED

In order to capture methods, trends and high-risk areas, FI uses primarily information and analyses from external sources (see Methods and high-risk areas). In order to assess the exposure of financial firms to these risks, FI has developed a risk classification method for its supervision. FI introduced a first version of the risk classification method in 2018, and the method will be evaluated and adjusted in 2020 to improve its functionality.

FI's method is based on annual reporting from all firms subject to FI's anti-money laundering supervision. The intention is for this information to provide FI with an overview of the firms' operations and risk exposure as well as the measures the firms have taken to mitigate these risks. Therefore, in addition to information about their operations, the firms also submit information about

- risk assessments,
- procedures and policies,
- monitoring and reporting,
- compliance, and
- training of employees and contractors.

FI classifies each firm's risk exposure and risk-mitigation measures and weighs them together to create a general risk profile. In order to determine the order of priority among firms with a similar risk profile, FI also conducts an assessment of a firm's size and complexity based on a number of quantitative criteria.

The objective of the risk profiles is to map and quantify risks. This information is then considered in the aggregate risk assessment that serves as a basis for FI's operational planning and supervision activities. The risk profiles are a quantitative tool meant to supplement other information at FI's disposal. Information from our other supervision activities, as well as information from whistleblowers, other authorities and the media, is assessed on a case-by-case basis. FI would like to be able to use the risk profiles to both compare

individual firms and identify differences between different parts of the financial sector.

In its annual supervision planning, FI decides which firms will be reviewed and the nature and scope of the investigations. FI prioritises and focuses its supervision activities based on the risks that have been identified. Historically, FI has dedicated more resources to the supervision of credit institutions, money remitters and currency exchangers than other parts of the financial sector, with a special focus on the major banks.

Between January 2018 and October 2019, FI started eleven anti-money laundering investigations.<sup>8</sup> Five of them have been closed, and FI has shared its assessments and recommended measures with the firms in question. In one of the cases, FI decided not to renew the firm's authorisation to conduct business, in part due to deficiencies identified during the investigation.

FI conducted investigations into all four major banks<sup>9</sup> in the past two years. FI also reviewed a number of small and mid-sized banks based on deficiencies FI identified in its ongoing supervision. Two of the investigations were related to currency exchangers and money remitters. In its supervision planning for 2019, FI identified more currency exchangers and money remitters for investigation, but at the beginning of 2019 FI chose to re-prioritise its supervision activities and postpone the planned investigations. This decision was based on the disclosures about Nordic banks' insufficient management of money laundering risks in the Baltic region. FI therefore chose to free up resources to open new investigations into SEB and Swedbank (see FI reviews Swedish banks' governance of their Baltic operations).

---

### **FI reviews Swedish banks' governance of their Baltic operations**

FI takes the recent disclosures about deficiencies in the management of money laundering risks in Nordic banks' operations in the Baltic region very seriously. The main responsibility for anti-money laundering supervision of Swedish banks' foreign subsidiary banks lies with the authority in the country where the subsidiary bank is active, and the subsidiary banks are subject to the national anti-money laundering regulations in the country where they are located. The anti-money laundering regulatory framework is largely national, although the Swedish parent banks are also responsible for managing risks and exercising internal control at the group level.

In order for the work to prevent money laundering in subsidiary banks to function well, the Swedish parent banks' management teams and boards of directors must take these questions seriously and take responsibility for the governance and control of the group's operations. In the spring of 2019, FI opened investigations into Swedbank AB's and SEB AB's governance and control of anti-money laundering measures in the banks' subsidiaries in Estonia, Latvia and Lithuania.

In October, FI decided to open a sanction case in the investigation into Swedbank AB. The decision on whether to open a sanction case is part of FI's investigation

---

<sup>8</sup> In 2016–2017, FI started ten anti-money laundering investigations.

<sup>9</sup> Including Nordea, which now has its headquarters in Finland.

process. This decision means that FI considers there to be sufficient grounds for assessing whether the deficiencies and weaknesses observed in the investigation should result in a sanction or if the investigation should be closed in some other way. The Estonian supervisory authority is simultaneously conducting an investigation into the compliance of Swedbank's Estonian subsidiary. This investigation is being coordinated with FI's investigation into the Swedish parent bank. The Estonian supervisory authority also decided to open a sanction case with regard to Swedbank's subsidiary in Estonia.

FI plans to communicate the result of the investigation into Swedbank at the beginning of next year. The investigation into the same matter at SEB is still ongoing.

---

## FI HAS AN INTEGRATED STRATEGY FOR ITS SUPERVISION

FI has an integrated strategy for its work to prevent money laundering and terrorist financing and its other supervision. FI's anti-money laundering experts therefore maintain a continuous and close cooperation with colleagues from other supervision departments within FI. This method of working is unusual from an international perspective since anti-money laundering supervision and other financial supervision often are placed at different authorities.

FI's supervision of financial firms is a continuous process. FI's ongoing supervision includes a large number of different activities and information-gathering initiatives. This supervision focuses primarily on stability but includes money laundering. In its ongoing supervision, FI gathers and analyses reports from the firms and follows up on incidents reported by the firms. FI assesses the risk of firms, business models, market segments or products and meets the firms to review current risks. The objective is to discuss the banks' risk exposures and how they are managed, including the risk for being used for money laundering or terrorist financing. FI also follows up on any recommended measures that emerged during the ongoing supervision or in FI's investigations. The risk reviews are held quarterly with the three major Swedish banks and semi-annually with the mid-sized banks. FI's experts on anti-money laundering participate in the risk reviews with the large and mid-sized banks and as needed with other institutions.

In parallel to its ongoing supervision, FI also conducts investigations into the compliance of one or several firms. Anti-money laundering experts plan and carry out supervision activities in collaboration with colleagues responsible for the supervision of the firms in question.<sup>10</sup> In larger and more complex investigations, supervisors and risk experts from other expert areas also often participate. The investigations into Handelsbanken and Nordea in 2015 are examples of this. FI reviewed the banks' compliance with the anti-money laundering regulations as well as internal governance and control

---

<sup>10</sup> This refers primarily to the banks, for which FI has appointed supervisors who take on an overarching responsibility for the supervision.

regulations. Both banks received sanctions due to deficiencies in these areas.

## FI'S SUPERVISION SHOULD INFLUENCE FIRM BEHAVIOUR

Anti-money laundering supervision aims to check that firms are following the rules and regularly developing and improving their work to prevent money laundering and terrorist financing. When a supervision investigation indicates regulatory infringements, FI can decide to intervene against the firm in the form of a sanction.<sup>11</sup> The sanction decision contains the observations and assessment that serve as a basis for the decision.

FI can choose not to intervene if the firm takes corrective action or the deficiency is deemed to be negligible. FI often finds various deficiencies and weaknesses in the firms' anti-money laundering measures, for example information about customers that is not up to date or risk assessments that need to be deepened or widened. This does not necessarily mean that the firm is in breach of a regulation, but it can still present good cause for the firm to implement measures that will strengthen its work to prevent money laundering and terrorist financing. When an investigation is closed without a sanction, FI communicates the results in a closing letter that is sent to the firm. The closing letter contains FI's assessment of any identified deficiencies. If the investigation is closed because the firm is taking corrective action, FI refers to the firm's action plan. The letter can also include recommendations on measures to take. FI provides such recommendations in situations where improvements can be made but FI has made the assessment that there are no grounds for intervention.

FI's supervision of individual firms should be able to influence more than just the firm being investigated. Therefore, FI strives to share the information and lessons learned from its investigations and other supervision activities, and therefore publishes all sanction decisions as well as the observations and assessments that serve as a basis for the decision. The objective is for sanction decisions to have a direct impact on the regulatory compliance of financial firms and for FI's assessment to be transparent. This enables FI to spread information about the authority's assessments of and expectations to other financial firms and stakeholders.

Unlike the sanction decisions, a closing letter is not a formal decision by FI, and the authority therefore does not consider it possible for the firm in question to appeal the content of the closing letter.<sup>12</sup> Normal confidentiality rules apply to the content of the closing letter, and it is not published. FI publishes instead supervision reports on relevant and current topics, and in these reports the authority summarises the lessons learned from its supervision. The reports are based on information from the supervision, but the firms in question are

---

<sup>11</sup> FI has several sanction options: a remark, a warning, or the withdrawal of a firm's authorisation. A remark and a warning can also be accompanied by an administrative fine. Intervention is regulated by each branch of business law, and it therefore can differ to some extent between different types of firms.

<sup>12</sup> Ultimately, it is the court system that determines if the closing letter has been formulated in such a manner that can be appealed.

typically made anonymous. One example of this is FI's supervision report *Experiences from supervision of money laundering activities 2016–2017* that was published in 2018. The report compiles the results from FI's analysis into the compliance of financial firms with anti-money laundering regulations. The report presents FI's general conclusions and a list of the most common identified deficiencies.

The FI Forum lecture series is an additional tool that we use to provide guidance and information. FI invites financial firms to these lectures to listen to information about various topics, including anti-money laundering and terrorist financing. The lectures are recorded and can later be watched on-demand on FI's website. We have held an FI Forum in cooperation with the Center for Asymmetric Threat Studies (CATS) at the Swedish Defence University. The aim of this lecture was to present the results of the studies FI commissioned from CATS. The studies analysed known methods and risk indicators for the financing of terrorism as well as financial activities linked to persons from Sweden and Denmark who joined terrorist groups in Syria and Iraq. FI usually also uses the FI Forum format to inform the industry about new rules in conjunction with the introduction of new regulations, for example the anti-money laundering regulations from 2017. In conjunction with the new regulations, FI also published informational videos on its website and sent informational brochures in several different languages to special focus groups.<sup>13</sup>

FI also holds quarterly meetings with various industry organisations in the financial sector as well as with the Swedish Anti-Money Laundering Institute. The Institute is a partnership between seven industry organisations within the financial sector.<sup>14</sup> The objective of the meetings is for FI and the industry organisations to exchange observations about methods, trends and challenges related to money laundering. FI also informs industry representatives about the ongoing national and international efforts to prevent money laundering and terrorist financing. Participants have the option of submitting questions that are then discussed at the meeting.

## FI'S COOPERATION WITH OTHER AUTHORITIES

Cooperation between authorities, both within Sweden and internationally, is required to effectively combat money laundering and terrorist financing. In its assessment from 2017, FATF concluded that Sweden's system to combat money laundering and terrorist financing was adequate. The Swedish system had undergone extensive improvements since the corresponding assessment in 2006. However, FATF also identified a number of deficiencies for Swedish authorities to rectify. One such deficiency according to the international body

---

<sup>13</sup> The informational initiatives were part of the work under the coordinating body for supervision pursuant to Anti-Money Laundering and Countering Terrorist Financing Regulation (2009:92), which is chaired by FI. This body was replaced in 2018 by the national coordinating function for anti-money laundering and countering of terrorist financing, see FI's cooperation with other authorities.

<sup>14</sup> Swedish Bankers' Association, Association of Swedish Finance Houses, Swedish Investment Fund Association, Swedish Savings Banks Association, Insurance Sweden, Swedish Securities Dealers Association, and Swedish Insurance Broker's Association.

was that the national coordination between Swedish authorities needed to improve, in particular related to risk assessments.

In Sweden, there are several different authorities and other actors involved in the efforts to prevent money laundering and terrorist financing. Taking advantage of the broad knowledge and skills of the various actors in these efforts requires good cooperation and dialogue and an efficient exchange of information and lessons learned between the actors. In January 2018, Sweden established a national coordinating function that is spearheaded by the Swedish Police. FI is represented in the function's steering group as well as its working groups. The coordinating function consists of 16 authorities and the bar association. It is tasked with

- functioning as a national forum for sharing information and knowledge between members
- continuously identifying, mapping and analysing risks and methods for money laundering and the financing of terrorism
- annually compiling a national risk assessment for anti-money laundering and terrorist financing
- providing information to firms subject to the Anti-Money Laundering Act as a basis for their risk assessments, risk classification of customers and monitoring and reporting of suspected activities and transactions.

The coordinating function is an important forum for the distribution of information between authorities. This cooperation needs to be developed and enhanced so that even more concrete and operational information about money laundering can be shared within the function's framework. The current possibility for sharing confidential information is limited to information about concrete suspicions of criminal activity or organised crime. Other areas of cooperation already have more far-reaching possibilities for sharing information between authorities. One such example is matters related to financial stability, for which FI, the Riksbank, and the Swedish National Debt Office are all responsible. The coordinating function has already begun to investigate the need for regulatory amendments for the exchange of information, and FI is actively pursuing this matter.

The coordinating function is also an important forum for the distribution of information between authorities and firms. For example, the function arranges lectures by the Financial Intelligence Unit and FI on money laundering and terrorist financing. FI advocates closer cooperation between Swedish authorities to take advantage of the collective knowledge at authorities and, in particular, to develop our joint risk assessments. This is also necessary if the coordinating function is to be able to give banks and other firms better guidance in their work to prevent money laundering and terrorist financing.

FI is also cooperating with the European Banking Authority (EBA) by participating in its Anti-Money Laundering Committee, which among other things prepares guidelines and technical standards in this area. FI also contributes to FATF's assessments of Member States. FI's experts participated, for example, in 2019's assessments of both Finland's and Norway's work to prevent money laundering and terrorist financing. The Basel Committee compiled in 2019 guidelines on how anti-money laundering supervision can be better coordinated

with stability supervision. FI was part of the expert group that prepared the guidelines. For more information about FI's cooperation with national supervision authorities, see "Strengthened cooperation between the Nordic and Baltic regions".

## FI strengthens its anti-money laundering supervision

FI strengthened its anti-money laundering supervision over the past year. The number of specialists has increased, primarily through external recruitment. FI also reallocated in 2019 internal resources from other activities to its efforts to prevent money laundering and terrorist financing and committed extensive resources to reviewing the major Swedish banks' governance and control of their subsidiaries' operations in the Baltic region. FI also strengthened its cooperation with the supervisory authorities in Estonia, Latvia and Lithuania, both strategically and operationally. FI plans to triple its capacity for anti-money laundering and terrorist financing supervision, compared to 2018. FI will also continue to enhance its international cooperation, primarily within the Nordic and Baltic regions.

### SEVERAL ACTORS HAVE INITIATED MEASURES

It should be difficult for criminals to misuse the financial sector for money laundering and terrorist financing. There are a number of proposals at the EU level on how to strengthen anti-money laundering supervision moving forward. One such proposal is to turn the Anti-Money Laundering Directive into a Regulation, thus making it law in all EU countries. This means that the directives will not need to be transposed into national legislation, and the rules will be more harmonised between EU countries. Other proposals are related to greater integration of anti-money laundering supervision with normal financial supervision (stability supervision). The idea has also been floated to turn over part of the responsibility for anti-money laundering supervision to an independent EU authority.

The Swedish Government decided to appoint an inquiry to investigate any additional measures Sweden could take to strengthen anti-money laundering measures. The inquiry will analyse, for example, concerned authorities' authorisations in relation to the banks, and the banks' authorisations in relation to their customers. The authority structure and the division of responsibility between the anti-money laundering authorities will be reviewed, including FI's capacity to exercise supervision in the area. The inquiry will thereafter propose measures to strengthen anti-money laundering supervision in Sweden.

The banks are also prioritising anti-money laundering measures right now. For example, the Swedish Bankers' Association is investigating how the private sector and anti-crime authorities can cooperate more efficiently. One of the proposals is based on a model used in the UK, a Joint Money Laundering Intelligence Taskforce (JMLIT), which is a cooperation between anti-crime authorities and the financial sector and aims to facilitate the sharing of information to improve possibilities for finding and investigating suspected money laundering.

FI takes a positive stance to the banks now taking broader initiatives to strengthen their anti-money laundering work. The steps being taken are important for improving the possibilities for detecting and preventing money laundering. However, these types of measures

require extensive IT investments, changes to confidentiality rules and other preparations. This means that it will take a while before they are in place. FI therefore notes that it is important to be able to work more closely with banks and authorities already in the short term. It is necessary to find solutions that can be implemented quickly in parallel to the work to try to reach more long-term solutions.

## STRONGER COOPERATION BETWEEN THE NORDIC AND BALTIC REGIONS

The supervision responsibility for Swedish firms' cross-border operations is divided between FI and foreign supervisory authorities. In order to achieve effective supervision of banks with operations in several countries, it is crucial for the responsible supervisory authorities to cooperate – both strategically and operationally.

In order to coordinate its supervision, FI and affected sister authorities sit together on supervisory colleges. Participants meet at least once every six months to discuss risk assessments and ongoing supervision activities, including measures to combat money laundering and the financing of terrorism. For SEB and Swedbank, which have extensive operations in the Baltic region, the three Baltic supervisory authorities and the ECB (which is responsible for the single supervisory mechanism in the banking union) participate in the college.

One lesson learned from the cases of suspected money laundering in the Nordic banks' Baltic operations the past few years was that the coordination in these matters could have been better. At a more general level, it is also evident in the European Commission's review of the banks that the cross-border efforts to combat money laundering within the EU have failed in several ways.<sup>15</sup> The banks have not taken responsibility at the group level for anti-money laundering work in foreign subsidiaries at the same time as the cooperation with supervisory authorities in different countries has also not been suitably effective.

In order to strengthen the cooperation between authorities in the region, FI and Danish Finanstilsynet have taken the initiative to establish a permanent Nordic-Baltic working group. The group has representatives from the financial supervisory authorities in Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The authorities meet at different levels several times a year to exchange observations and information with the aim of becoming more effective in their efforts to combat money laundering and terrorist financing. From a European perspective, the cooperation is unique, and together we have come quite far in the concrete organisation of cross-border supervision cooperation related to the anti-money laundering area. The cooperation will be formalised through a Memorandum of Understanding that is preliminarily expected to be finalised in December of this year. This MoU will give the authorities in the region better conditions for organising cross-border cooperation for anti-money laundering supervision.

---

<sup>15</sup> See Report from the Commission to the European Parliament and the Council on the assessment of recent alleged money laundering cases involving EU credit institutions, July 2019.

FI is also working now operationally with the Baltic supervisory authorities in its investigations into the governance and control of anti-money laundering measures in SEB's and Swedbank's Baltic operations (see FI reviews Swedish banks' governance of their Baltic operations). The authorities are sharing information and analyses and are discussing topics such as joint communication. The cooperation is occurring at both the management level and the administrator level. For FI, this cooperation is very important, in particular since it provides access to information about how well the subsidiaries comply with the regulations. This gives FI an overview of compliance with anti-money laundering regulations within the banking groups.

FI sees a need to continue to work closely on anti-money laundering supervision even after the ongoing investigations have been concluded. FI is therefore planning to establish additional supervisory colleges for SEB and Swedbank that will focus specifically on anti-money laundering supervision. These colleges will cooperate with the existing supervisory colleges, which primarily focus on stability supervision. This will enable the authorities to continue their in-depth operational cooperation. This type of cooperation also enables us to invite other supervisory authorities, for example those from the other Nordic countries.

### GREATER RESOURCES FOR ANTI-MONEY LAUNDERING SUPERVISION

FATF states in its evaluation from 2017 that FI needs more resources to be able to exercise suitable supervision. In 2018 and 2019, FI has strengthened its money laundering supervision. The number of specialists increased from 7 to 13, primarily through external recruitment. To further strengthen its anti-money laundering and terrorist financing initiatives, FI reallocated in 2019 internal resources from other activities to anti-money laundering supervision. Some of these enhancements are temporary, while others are permanent. For example, risk experts, supervisors, analysts and legal counsellors from other parts of the authority worked on the ongoing investigations into Swedish banks' governance and control of subsidiary operations in the Baltic region. The internal redistribution of staffing also made it possible for the anti-money laundering experts to continue to work with already planned investigations and supervision measures. It also contributes to the dissemination of knowledge about anti-money laundering and terrorist financing work to other parts of FI and gives more staff first-hand experience in anti-money laundering supervision. This will promote the integration of the anti-money laundering perspective into other supervision areas.

On 1 September 2019, FI integrated its Anti-Money Laundering department into the Operational Risks department within FI's Banking section. The Operational Risks department is responsible for monitoring all non-financial risks, such as operational risks, IT and information security risks, and risks within the payment area. It is also responsible for the supervision of banks' internal governance and control. The department has approximately 30 staff members, including a separate function that currently consists of 13 anti-money laundering experts.

The reorganisation aimed to

- Integrate anti-money laundering supervision into the overarching supervision of non-financial risks. This provides FI with a better overall understanding of the risks and risk management at each firm under supervision. All risks are closely linked to firms' internal governance and control.
- Provide the rapidly increasing number of anti-money laundering experts with support in the form of knowledge, methodology, and tools from other supervisors within the Operational Risks department.
- Mitigate the risk that the activities will become individual-dependent.

There has been strong interest in FI's anti-money laundering work for the past two years. This can be measured, for example, in the number of requests from the public and the media for the release of official documents related to anti-money laundering. In 2016 and 2017, FI received 13 requests for the release of official documents related to anti-money laundering supervision. The corresponding figure for the period 2018 through July 2019 was 100 requests. FI processes sensitive information, both for private individuals and firms. All documents that FI releases are thoroughly assessed for confidentiality by the department affected by the request. In order to relieve the anti-money laundering experts and free up resources for supervision, FI has therefore reorganised its operations by assigning employees with legal competence to focus in particular on confidentiality assessments.

We want to triple FI's capacity for its anti-money laundering and terrorist financing supervision, compared to 2018. To strengthen its anti-money laundering supervision, FI therefore requested on 21 February an additional SEK 10 million per year in appropriations from the Government starting in 2020. In its budget proposal for 2020, the Government proposed that FI's appropriations be raised by this amount to strengthen its anti-money laundering work. FI began to recruit staff in 2019 and over the coming year will continue to use the funds to increase the number of staff working with anti-money laundering supervision.

However, in order to improve FI's capacity to exercise anti-money laundering supervision, it is also necessary to review policies and procedures to identify more effective working methods. A first step in this work has been to merge the Anti-Money Laundering department with the Operational Risks department. FI is now working on the next step – to develop the department's working methods in order for its anti-money laundering supervision to be able to benefit from the supervision experience and competence within the department.

FI is also investigating how the anti-money laundering perspective can be enhanced in other parts of its supervision. One example of this is to improve the legal departments' expertise in this area in conjunction with the issuance of authorisations. By consistently applying and clarifying for new firms that are about to enter the finance market the high demands that apply, FI can place clear expectations on firms at an early stage.

FI's supervision is risk-based. This method of working is particularly relevant for anti-money laundering supervision, which requires FI to plan and prioritise supervision activities of around 2,200 firms. A prerequisite for risk-based supervision is to have an effective method for identifying and classifying anti-money laundering risks in financial firms under supervision. By continuing to develop FI's risk classification method, we want to improve the risk analysis at both the sector and the firm level.

Together, improved risk assessments and a stronger organisation should raise the quality of the anti-money laundering supervision. However, FI also wants to increase the scope of the supervision. Investigating a firm's anti-money laundering procedures is time-intensive, particularly for larger firms. Therefore, FI would like to combine in-depth investigations of individual firms, like the ongoing investigations into the major banks, with thematic inspections into multiple firms. This would entail FI identifying a limited theme and inspecting this theme at multiple firms. We could thus also gain a broader understanding of how firms work on specific topics. This also facilitates FI's work related to the compilation and communication of identified deficiencies to other financial firms, for example through reports and FI Forums. This would increase FI's presence, both through the supervision of more firms and by sharing our assessments and expectations.



Finansinspektionen  
Box 7821, 103 97 Stockholm  
Besöksadress Brunnsgatan 3  
Telefon +46 8 408 980 00  
Fax +48 8 24 13 35  
finansinspektionen@fi.se

**[www.fi.se](http://www.fi.se)**