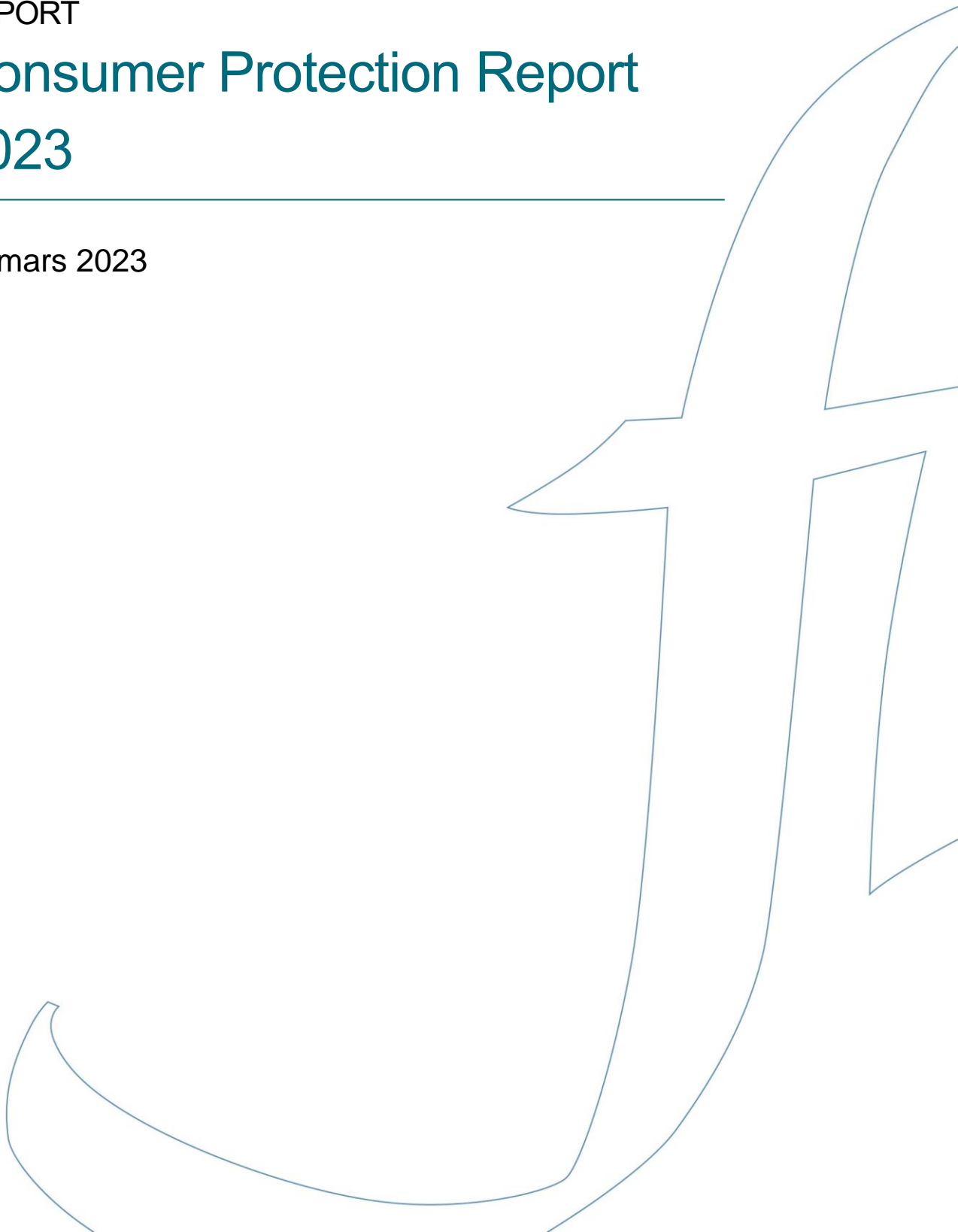




REPORT

Consumer Protection Report 2023

21 mars 2023



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This report fulfils Finansinspektionen's assignment to report on the authority's consumer protection work to the Swedish Government pursuant to Section 3 Point 4 of FI's Instructions.¹

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¹ Finansinspektionen's Instructions Ordinance (2009:93).

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Summary

The risks given the highest priority in FI's consumer protection work for 2023 are unaffordable lending, unsuitable investment products and investment fraud.

On the financial market consumers are generally at a disadvantage, information-wise, compared to the companies offering financial services or products. Although consumers have low financial literacy and skills, and do not fully understand the products and services being offered, virtually every citizen needs access to financial products and services in order to participate in society. The financial decisions made by consumers can often have a major impact on their own finances and standard of living as well. It may also be difficult, if not impossible, for them to fully evaluate the long-term effects of various options available on the financial market. One important part of Finansinspektionen's (FI's) work is therefore to safeguard the highest level of consumer protection on the financial market.

Every year FI decides which consumer protection risks will be given the highest priority in the years to come. This decision is made based not only on the number of consumers who would be affected if anything were to go wrong, but also on how serious the impact would be on the consumers affected. This is why our consumer protection work not only involves us addressing potential problems that impact a lot of people in society, but also prioritising areas where individual people are at risk of being particularly badly affected.

FI has been working for many years to tackle unaffordable lending. Last June we announced two decisions, issuing remarks and administrative fines to Svea Bank and Resurs Bank. This was due to failures in their credit checks when assessing the repayment capacity of individual consumers.² In 2022 we also analysed loans that had been arranged with lenders through credit intermediaries. In these cases we identified an elevated risk of lenders approving loans, even though they had not requested sufficient information about the customer to carry out effective credit checks. As well as following up on this during the year, we will take a closer look at the way that 'payday lenders' treat their borrowers. We are aware that these companies mainly target consumers with smaller margins in their personal finances, who would therefore have been hardest hit by recent economic events.

We are still seeing situations where conflicts of interest put consumers at risk of being given bad advice or being affected in other ways when buying financial products. In 2022 FI issued a warning and an administrative fine to SIP Nordic Fondkommission for violations relating to their advice on investment products and failures in managing conflicts of interest.³ Celina Fondförvaltning also received a warning and an administrative fine.⁴ Consumers are taking even greater risks as a result of more speculative investments, such as structured products, corporate

² FI Ref. 20-1557 and FI Ref. 20-1558.

³ FI Ref. 20-22112.

⁴ FI Ref. 22-4684.

bonds and cryptoassets. This is why FI is also going to prioritise the risk of consumers buying unsuitable investment products.

Society is still plagued by fraudsters who appear to offer profitable investments to consumers, which turn out to be fictitious. FI has received a higher number of calls from consumers who have lost large sums of money. We will continue our work to warn consumers about these and other kinds of fraud. In parallel with this, we are continuing to work closely with the police and international authorities to stop fraudsters.

In this report we will also highlight the potential need to amend regulations. FI believes that the Government should investigate the suitability of a ban on commissions on the Swedish investment market.

Tougher times ahead

Recent economic events have hit many consumers hard, particularly those with small margins in their personal finances.

The year 2022 marked a turning point following many years of low interest rates. The expectations that society would return to what it was like before the pandemic did not materialise. Instead 2022 was a year of great uncertainty, triggered by the war in Ukraine and higher inflation. Inflation eroded the purchasing power of consumers, with both food prices and electricity bills rising dramatically. This worsening economic situation resulted in margins being reduced for many households and asset prices falling.

High inflation also caused central banks around the world to raise their interest rates. Our analyses indicate that the majority of mortgagors will still have sufficient margins to cope with the hikes in interest rates. Despite this, FI is in discussions with banks and other lenders to highlight the importance of them taking into account individual mortgagors who may experience hardship. We have made it clear that unexpectedly high costs could be regarded as a significant change in circumstances and therefore meet one of the criteria for amortisation relief. During the year we will follow up with the banks to see how they assess applications for a temporary exemption from the amortisation requirement.

Many of the consumers who are likely to be hit hardest in the future do not own their own homes.⁵ The main problem for people with the smallest margins in their personal finances is often higher subsistence costs. If consumers have small margins, it is important for them to look at their insurance cover. There are insurance policies that consumers often have little need for and that most of them do not need to buy, such as product insurance. However, consumers need to maintain basic insurance cover for themselves, their family, and their homes and contents. This includes, for example, accident and sickness insurance, home and house insurance, and unemployment insurance.

Access to payment accounts with basic features is a right set out in the Payment Services Act (2010:751). However, there are private individuals who do not have access to basic banking services. When FI receives reports about consumers who have not been allowed to open a bank account, the reason often given by banks is the money laundering rules. Denial of a bank account can have serious consequences for consumers. Without access to a bank account, they can find it difficult to e.g. withdraw their wages or salary, pay their rent, and withdraw money to pay for subsistence costs.

Cash payments are also being accepted less frequently, which is making the situation even more difficult for consumers without bank accounts. This situation was made significantly worse in 2022 with the closure of the Kassagirot (Cash Giro) system. This was one of the last services in Sweden that enabled cash

⁵ *Låntagarbaserade åtgärder vid hög inflation och stigande räntor*, Finansinspektionen, 14 October 2022. An English translation is available at www.fi.se.

payments to be used for bills and cash withdrawals for people without a bank account.⁶ Similarly the fact that the financial services markets are becoming increasingly digitalised is excluding some consumer groups from basic features and services. The risks associated with financial exclusion will form part of our consumer protection work for this year, including people without access to a bank account.

⁶ *'Bevakning av grundläggande betaltjänster 2022'*, Länsstyrelserna, 5 December 2022. Only available in Swedish.

Highest priority risks for 2023

Every year FI prioritises the risks that in our assessment will impact the consumers the most. In 2023 we are going to investigate credit intermediaries and consumer credit institutions in particular. We will also focus on unsuitable investment products and investment fraud.

Unaffordable lending

For many years FI has highlighted the risks of consumers being approved for loans that they cannot afford to pay back. Lenders are responsible for ensuring that they do not make an already difficult situation worse by lending money to people who cannot afford to pay it back. Irresponsible lending can have an incredibly detrimental effect on a consumer's situation, leading to more serious payment problems that could have major consequences for both the individual and their relatives.

Credit intermediaries amass a number of borrowers for their customer for each application round. The commission paid by the lenders often make this highly profitable for the intermediaries. In 2022 we performed a detailed analysis of loans arranged through credit intermediaries so that we could gain a better understanding of the role played by these intermediaries when consumers apply for new credit without any security. It is always the lender that is responsible for the lending. This applies whether the consumer applies for credit direct from a lender or through an intermediary. If a loan is arranged through a credit intermediary, the lender must require the intermediary to request the necessary information from the consumer, or ensure that the lender can ask for supplementary information directly from the consumer. Our analysis showed that the agreements between the lenders and intermediaries often contain terms and conditions that prevent lenders from asking for supplementary information from the consumer.

The credit intermediation market has grown in recent years, with the balance of power between lenders and intermediaries shifting in favour of the intermediaries. Some credit intermediaries now demand a specific approval rate from the lenders as a condition for continuing to refer loan applications to them. This creates an incentive for lenders to approve loans for consumers who do not have sufficient repayment capacity so that they can continue the partnership with the intermediary.

FI finds it difficult to understand how lenders can agree to terms and conditions that ban contact with consumers or include an obligation to approve a specific percentage of credit in an application round, when they have a duty to base their lending on adequate data and must not approve credit to consumers who do not have sufficient repayment capacity. We are going to follow up this detailed analysis by carrying out targeted supervision activities with the lenders.

FI has also noted that consumer credit institutions, or ‘payday lenders’, approve credit more frequently to people with small margins in their personal finances and that their credit checks are less comprehensive than other credit institutions. This is why we are planning to take a special look at these companies as part of our supervision work. In the spring we will send out a consultation proposal, which includes amendments to our general guidelines regarding consumer credit. In this consultation proposal, FI states that the application of our general guidelines should be extended. The guidelines should then be re-issued to ensure that every kind of company that provides credit to consumers is covered in the future.

In 2023 FI is also planning to follow up on our previous investigation of the marketing of payment services online, so that we can ensure that consumers are not being offered credit payments as a first choice when other options are available.

Unsuitable investment products

One of the characteristics of the Swedish savings and insurance market is its wide range of investment products; everything from simple index funds to complex leveraged products with a variety of underlying assets. Consumers are also showing a relatively strong interest in investing, with many households now in a position financially to both save and invest. Digitalisation has further helped to increase the supply and demand of various kinds of investment products. Although there is currently a wide range of simple and cheap products on the market, there is still a number of products that are completely unsuitable for most consumers to invest in. This can be an indication of a market failure, where poor and ineffective products are not dropped or disappear from the market.

We have specifically identified risks associated with structured products.⁷ During our supervision we have also identified problems with the sale of corporate bonds that have been expensive, complex and risky.⁸ A third example is cryptoassets, with FI and European supervisory authorities have issued clear warnings to consumers about investing in them.⁹ Complex products are unsuitable for most consumers. This is why strict requirements are placed on the distributors of complex products to ensure that they are only offered to suitable consumers. FI has also identified the potential for the greenwashing of financial products to mislead

⁷ Structured products are financial instruments whose return is either fully or partly dependent on the development of other instruments or assets. Examples of structured products include equity-linked notes, index-linked autocalls, sprinters and credit certificates.

⁸ *‘Beslut om återkallelse av tillstånd för Nord Fondkommission’*, Finansinspektionen, 12 October 2021; and *‘Beslut: Varning och sanktionsavgift – SIP Nordic Fondkommission’*, Finansinspektionen, 17 November 2022. Both only available in Swedish.

⁹ See, inter alia: <https://www.fi.se/sv/publicerat/nyheter/2022/europeiska-tillsynsmyndigheter-varnar-for-kryptotillgangar/>; and <https://www.fi.se/sv/publicerat/nyheter/2021/se-upp-for-riskabla-produkter-med-kryptotillgangar/>. Both only available in Swedish.

consumers into choosing products that do not meet their needs or preferences for sustainability (for more information, see the ‘Greenwashing’ section below).

There can be many reasons why consumers buy unsuitable investment products. For example, a financial advisor might have proposed a savings instrument that generates good earnings for the advisor rather than a high return for the customer. Another reason could be that a customer buys the product themselves, for example, through a digital platform, where the presentation on the platform has been influenced by what generates the best earnings for the platform.

One important step towards mitigating these risks was taken in 2018 when new rules on commission and independent advice came into force. FI has also been working actively for many years to further mitigate these risks through communication and by investigating investment advice. There has been some improvement on the market, with some surveys¹⁰ showing that certain companies have stopped receiving commission or passing on commission received to its customers. Other companies state that they are not receiving commission to the same extent as before. We have also noted that insurance companies have changed their remuneration models to intermediaries in order to mitigate the risk of conflicts of interest.

However, several challenges remain, including the distribution of funds where the highest levels of commission are paid. When an actively managed fund is being distributed instead of an index fund, the securities company or insurance company responsible for its distribution can earn as much as ten times more. This applies whether or not any advice has been given. FI has also noted that the supply of independent advice remains limited, with only a few companies offering this kind of advice. Added to this is the fact that the rules contain some ambiguities, particularly about what is considered to be a ‘quality enhancing service’.

One positive development is that companies on the market are taking action themselves to resolve problems linked with commission. However, it is important that the removal of commission is not replaced with payment models that contain higher or more complex charges to the consumers, or where the interests of consumers are overridden in any other way. This is why we will continue to closely investigate potential conflicts of interest in companies under supervision, particularly in light of the structural changes that the market has undergone since 2018, including digitalisation. FI plays an active role in EU collaboration and is

¹⁰ ‘Uppföljning av de nya reglerna om provision och oberoende rådgivning’, Finansinspektionen, 20 December 2021; and ‘Uppföljning av de nya reglerna om försäkringsdistribution för försäkringsföretag’, Finansinspektionen 20 December 2021. Both only available in Swedish.

monitoring what is happening in the countries that have banned commission or are working to ban commission.

Fact box – Cryptoassets

Last year the cryptoasset market was extremely volatile and turbulent, with the collapse of a number of major crypto companies, such as FTX and Terra/Luna . Listed crypto companies, such as Coinbase, have experienced substantial falls in their share price.¹¹ The price of bitcoin, the largest cryptoasset, plummeted from approximately USD 69,000 in November 2021 to approximately USD 23,000 in February 2023.¹²

Just like many other international supervisory authorities, Finansinspektionen has warned consumers repeatedly about investing in cryptoassets.¹³ Their price volatility is extremely high compared with the most volatile share investments, with consumers at risk of losing the money they invest. There are no generally accepted, reliable, valuation models. Cryptoassets that use the consensus method ‘proof of work’¹⁴, such as bitcoin, also have a very negative impact on the climate. In addition, cryptoassets are used widely for criminal purposes, including ransomware, money laundering and terrorist financing.

We are actively contributing to drafting new international regulations to improve consumer protection, prevent financial stability risks and reduce the impact on the climate. We have specifically prioritised our work on the EU’s future MiCA Regulation¹⁵. This work is supplemented through our participation in workstreams in other international organisations, including the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO) and the Basel Committee.

However, stricter regulation will not prevent all of the risks that we have identified for cryptoassets. It is therefore likely that they will continue to be unsuitable

¹¹ “Coinbase reaches \$100 million settlement with US regulators”, Financial Times, 4 January 2023.

¹² Source: CoinDesk.

¹³ Visit our website for our sources and references: <https://www.fi.se/krypto>.

¹⁴ ‘Proof of work’ is an extraction method, also known as the ‘consensus method’, where everyone who wants to extract assets competes to solve an encryption task.

¹⁵ The Markets in Crypto-Assets (MiCA) Regulation.

investments for most consumers, even after the new EU Regulation comes into force.

Investment fraud

FI has received several reports about criminals that have managed to entice consumers into putting their money into non-existent investments. Intrusive marketing is used, which is disseminated through, inter alia, social media, websites and emails.

We have received several reports in particular about scam products linked to cryptoassets. The calls we have received from customers reveal worrying trends for other kinds of fraud as well, such as when consumers are tricked into believing that they are talking to a trusted counterparty (for example, their bank) and are encouraged to transfer money. Many of these kinds of fraud affect older consumers.

Our measures aim to provide information to prevent consumers and companies from being tricked into sending money to fraudsters. This preventative information is available from FI's warning list, through FI's financial courses and information on the FI website, as well as through the Swedish Consumers' Banking and Finance Bureau and the Hello Consumer (*Hallå konsument*) information service. FI also publishes quarterly summaries on investment fraud, looking back at the most recent quarter, while providing tips and advice to consumers on how to avoid being tricked and what to do if they fall victim to fraud.

Other important consumer protection risks

We will also continue FI's broader work on consumer protection. This year we are going to focus specifically on issues relating to access to payment accounts and financial exclusion, insurance products and funds, as well as sustainability and the risk of greenwashing.

Lack of access to bank accounts

There are private individuals in Sweden who do not have access to basic payment services; even though the Payment Services Act entitles consumers resident in the European Economic Area (EEA) to open payment accounts with basic features, provided that there are no specific grounds for declining an account application and that it is not in violation of the Act on Measures against Money Laundering and Terrorist Financing (2017:630) (Money Laundering Act) to provide such an account.

When FI receives reports about consumers who have not been allowed to open an account, the reason often given by banks is the money laundering rules. Consumers without access to these services find it difficult to participate in society; this includes difficulties withdrawing their wages or salary, paying their rent, and withdrawing money to pay their subsistence costs.

It has also become more difficult for many people to transfer money to recipients, for example relatives, in high-risk countries. Consumers also report having their accounts blocked or closed even though there are no reasonable grounds for doing so, as far as they are concerned. To some extent small companies have experienced the same difficulties, sometimes with far-reaching consequences for their ability to continue to run their business.

It is important for the banks to fulfil their obligations under the money laundering regulations. However, it is also important for this to be done correctly, with banks meeting their obligations pursuant to the Payment Services Act. Banks need to perform individual assessments; they should not summarily decline account applications from groups of consumers based on general risk assumptions. If banks make a correct assessment, based on sufficient data, this should reduce the risk of consumers, who do not engage in criminal activities, suffering unnecessarily. In 2023 we will investigate the way that the banks undertake these assessments.

Financial exclusion

As well as consumers potentially losing access to their payment accounts, there are a number of additional factors that can cause them to be excluded from the financial system.

For example, many Swedes are not able to adapt to the digital environment. Half a million Swedes are estimated to be digitally excluded;¹⁶ this includes, for example, older consumers and consumers with various disabilities. Some consumers cannot understand the way that digital services work, while others are forced to abstain as they cannot remember codes and passwords.

The use of cash in Sweden has fallen dramatically over the past ten years. This trend continued in 2022, which was a year that saw the closure of Kassagirot. It had been the largest provider of cash payment services in Sweden. The fact that cash is accepted less frequently as a payment method has had a negative impact on this group of consumers and others, including newly arrived immigrants and international students. In the most recent report on the monitoring of basic payment services from the County Administrative Boards, 15 of 21 county administrative boards assessed access to basic payment services as being unsatisfactory for private individuals. This situation is much worse than in previous years. They noted that companies and associations faced greater difficulties as well.¹⁷

We take seriously the impact that recent events are having on specific consumer groups. In 2023 we are therefore going to analyse the current situation so that we can gain a better understanding of how widespread this problem is and what can be done to support the consumers who are affected.

Liquidity and valuation risks in funds

The importance of fund companies managing liquidity risks and having robust valuation procedures in place was clearly demonstrated during the market turbulence in the wake of the pandemic and the sanctions against Russia. This caused liquidity to disappear from several markets, making it difficult to value the assets of certain funds. Fund investors were at risk of not being able to redeem their fund units or seeing a delay in the repayment of funds. They were also at risk of having their holdings valued incorrectly.

In 2022 FI also investigated the valuation procedures of fund companies and AIF managers as part of our work to improve the valuation of small liquid assets.¹⁸ This

¹⁶ 'Svenskarna och internet 2022', Internetstiftelsen, 11 October 2022. Only available in Swedish.

¹⁷ 'Bevakning av grundläggande betaltjänster 2022', Länsstyrelserna, 5 December 2022. Only available in Swedish.

¹⁸ 'FI avslutar analys av fondförvaltares värdering av sina innehav', Finansinspektionen, 29 December 2022. Only available in Swedish.

showed us that the internal valuation guidelines of some managers are not clear and do not contain all the information required in accordance with the Alternative Investment Fund Managers Regulation (AIFMR)¹⁹. We therefore believe that this is something that the companies can address themselves by being more diligent. Risks were also identified in valuations associated with the kinds of assets we were investigating.²⁰ We will continue our analysis of this area and consider suitable measures to ensure that the actors meet the requirements set out in the regulations.

When there is market turbulence, remaining fund investors are at a greater risk of being disadvantaged due to rising transaction costs triggered by large net inflows or outflows. One important step towards addressing this risk is to apply *swing pricing*. Swing pricing is a liquidity tool where fund companies and AIF managers apply a method that prevents existing or remaining unit holders from being negatively affected by this kind of situation. In a report to the Swedish government in 2021, FI proposed that the rules for swing pricing be clarified and supplemented; an act for this is scheduled to come into force on 1 July 2023.²¹ FI is currently working on drafting regulations on the design and application of methods for the adjusted net asset value of funds and the requirements that must be met when calculating and using this adjusted net asset value.

In 2022 FI carried out a detailed analysis to chart the extent to which fund managers have adapted to the requirements and the recommendations on good liquidity management for funds. Although most managers have taken suitable measures, some risks remain. These include, inter alia, liquidity analyses before investments are made and the way that managers take into account a non-transparent bond market in their liquidity analyses and stress tests.²² This is why FI has developed liquidity stress tests to enable any vulnerabilities associated with large outflows in the Swedish fund sector to be identified and to assess the resistance of funds to large outflows.

Unnecessary non-life insurance

Consumers need insurance cover in both good and bad economic times. However, these needs can vary. Consumers should therefore adapt their insurance cover to their own needs and their own financial circumstances at any given time. There are

¹⁹ Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

²⁰ FI has focused on the valuation of corporate bonds, unlisted shares, structured products and credit.

²¹ 'Stärkt motståndskraft på fondmarknaden och rättvis behandling av fondandelsägare', Finansdepartementet, 28 February 2023. Only available in Swedish.

²² 'Stresstester av fonders likviditetsrisker, FI analys nr 37,' Finansinspektionen, 29 November 2022. An English translation is available at www.fi.se.

insurance policies that consumers often have little need for and that most of them do not need to buy, such as product insurance. However, consumers need to maintain basic insurance cover for themselves, their family, and their homes and contents.

It is also important for insurance companies and insurance intermediaries to ensure that they identify the requirements and needs that consumers have for insurance and to offer insurance products that reflect this. This reduces the risk of consumers paying for insurance they do not need. We have seen signs that consumers are at risk of taking out some kinds of insurance that they do not need.²³ Against this background FI intends to investigate whether the insurance companies have been meeting their obligations for sales made through ‘ancillary insurance intermediaries’.

However, we also have to make sure that insurance policies are designed in a way that meets the needs of the consumers to ensure that consumers really need the insurance they have or are going to buy. This is why we are carrying out a detailed analysis of the way that the insurance companies have adapted their operations to the product governance rules.

Risk of consumers not being able to pay their mortgages

FI’s analyses show that for households with mortgages, virtually all new mortgagors have good margins to cope with higher interest rates.²⁴ The banks have calculated for a long time that prospective mortgagors must have enough money to live on if interest rates were to rise to 6–7 per cent.

However, individual mortgagors could be hit hard by economic events in the future. In a report released in October, FI highlighted the flexibility that has been built into the rules on amortisation requirements and the importance of using this flexibility correctly when the need arises.²⁵ If the circumstances for a mortgagor get significantly worse, this could lead to them experiencing financial problems. The current rules allow banks to grant a temporary exemption from the amortisation requirements to help the mortgagor better cope with their situation.

During the year we will therefore follow up with banks to see how they assess applications for a temporary exemption from the amortisation requirement. The government has also tasked us with charting how the banks are managing this.

²³ ‘Behövs tilläggs- och produktförsäkringar?’, Finansinspektionen, 16 February 2023. An English translation is available at www.fi.se.

²⁴ ‘Låntagarbaserade åtgärder vid hög inflation och stigande räntor’, Finansinspektionen, 14 October 2022. An English translation is available at www.fi.se.

²⁵ Ibid.

Risk of greenwashing

The rapid increase in the demand for sustainable financial products combined with the regulations for this market still being in the development phase could result in companies describing their operations and products as being more sustainable than they actually are (this is known as *greenwashing*). Consumers and investors can therefore be misled into investing in products that do not meet the expectations and requirements of the investor for sustainability. This could undermine confidence in sustainable financial products. In the long term it could prevent capital from being channelled into investments that support the transition to a sustainable economy.

We have produced a strategy to combat greenwashing in the financial sector, which aims to protect confidence in sustainable investments and promote a sustainable financial market.²⁶ This sets out how FI is going to work on this using both preventative measures and specific supervisory activities. For example, we are going to monitor how actors on the financial market make sustainability-related disclosures about their financial products and how financial advisors take into account the potential sustainability preferences of consumers when giving advice. It is important to increase the level of competence in sustainable finance as well, both among consumers and financial companies; this is something that FI is going to prioritise. We are also playing an active role in the work being carried out in the EU to tackle greenwashing in the financial sector.

Fact box – Government assignment to identify the position of consumers on the banking market

The Swedish Government has commissioned FI to analyse the position of consumers on the banking market. This assignment includes studying customer mobility, which includes, inter alia, early redemption charges and how easy it is to switch banks. An early redemption charge is the cost that mortgagors incur if they want to repay a fixed-rate mortgage early. FI has previously stated that this early redemption charge needs to be reviewed, with the government commissioning a report.

One obstacle for switching banks can be that mortgagors require access to their amortisation data, even if this requirement does not apply to their mortgage. FI has noted that it is sometimes more difficult than it should be for consumers to obtain their amortisation data. We are going to look at this more closely and evaluate the measures we have already taken.

²⁶ *Finansinspektionens strategi för att motverka grönmalning*, Finansinspektionen, 13 December 2022. Only available in Swedish.

FI's work on the position of consumers on the banking market will be reported to the government in two stages; an interim report in October 2023, followed by the final report in May 2024.

Progress report on our work in 2022

We carried out a higher number of investigations and thematic reports on priority consumer protection issues in 2022. In this section we will report back on some of this work.

Inadequate affordability assessments

During the year FI continued its work on our investigations into the credit checks of specialised banks.

On 22 June 2022 FI announced two decisions, issuing remarks and administrative fines to Svea Bank and Resurs Bank. This was due to failures in their affordability assessments.²⁷ According to FI, their affordability assessments were not based on sufficient data about the consumer's individual financial circumstances, which meant that the banks had been in violation of good lending practice. The banks have been lodged appeals against both of these decisions with the Administrative Court.

Lack of access to bank accounts

In 2022 FI invited a number of banks to a round table meeting to discuss the right to open payment accounts. This is because we had received several complaints from consumers who had not been able to open accounts. In the autumn we used our supervisory discussions with these banks to follow up on this work.

On 22 December 2022 we published our legal position on the access to financial services for asylum seekers without identity documents.²⁸ We clarified the fact that there are certain circumstances when a credit institution may offer an asylum seeker without identity documents a more limited range of services than otherwise stipulated in the Payment Services Act, if this is required by the institution to manage the risk of money laundering or terrorist financing as part of this customer relationship.

In 2023 we will look more closely at the way that banks perform their assessments (see the 'No access to bank accounts' section above).

²⁷ FI Ref. 20-1557 and FI Ref. 20-1558.

²⁸ 'Ställningstagande: Asylsökandes tillgång till finansiella tjänster', Finansinspektionen, 22 December 2022. Only available in Swedish.

Investigations of fund companies and securities companies

During the year we continued our work on unsuitable advice and the way companies manage conflicts of interests. This included FI issuing a sanction, in the form of a warning with an administrative fine, to SIP Nordic Fondkommission for violations relating to their advice on investment products and failures in managing conflicts of interest.²⁹ Celina Fondförvaltning was also issued with a warning and an administrative fine for not doing enough to put the interests of the unit holders first and for not showing the level of caution required when investing funds.³⁰

FI will look at the level of risk and charges associated with consumers receiving products that are unsuitable for them. FI has also noted that there are still clear conflicts of interest risks on the market as a whole. We will continue to monitor these risks in 2023 (see the ‘Unsuitable investment products’ section).

Price discrimination on the insurance market

Insurance premiums are often based on the risk that a customer poses. If insurance companies take other factors into account, for example, the likelihood of a policyholder renewing their insurance, the consumer may end up paying more than they otherwise would have done.

In 2022 FI carried out an investigation that showed that premiums for home insurance are raised much more for loyal policyholders than for new policyholders. The premiums for house insurance were also raised more for loyal policyholders. Loyal customers are therefore hit with higher price rises, even though there is no increase in the customer’s risk.³¹ The first step that FI took was to open up a dialogue with the industry to discuss this problem. We are also monitoring how the European Insurance and Occupational Pensions Authority (EIOPA) and other EU countries are choosing to address this issue.

Unnecessary product insurance and supplementary insurance

FI carried out a detailed analysis of the need that policyholders have for product insurance and supplementary insurance.³² Product insurance is insurance that is taken out when buying electronic products and white goods, and is sold in store. Supplementary insurance is insurance that is sold as a supplement to home, house

²⁹ FI Ref. 20-22112.

³⁰ FI Ref. 22-4684.

³¹ *‘Får lojala försäkringstagare betala mer?’*, Finansinspektionen, 1 July 2022. Only available in Swedish.

³² *‘Behövs tilläggs- och produktförsäkringar?’*, Finansinspektionen, 16 February 2023. An English translation is available at www.fi.se.

and car insurance, for example, comprehensive insurance, extended travel cover, golf insurance and rental car insurance.

Our investigation revealed that customers get back a low percentage in compensation for product insurance in relation to the premiums they have paid. The remuneration paid by the insurance companies to, inter alia, the electronic chains that sell insurance is twice as high as the compensation payments, with large sums of money being involved. In terms of supplementary insurance, younger customers get back a higher percentage of compensation from the premiums they pay compared with older customers. Older customers get back a relatively low percentage.

FI has identified a risk that insurance companies are not taking into account the consumers' requirements and needs for insurance cover before a supplementary insurance policy is taken out. In terms of product insurance, there is a risk that the insurance companies have not ensured that the stores supplying the insurance take the consumers' requirements and needs into account before an insurance policy is taken out. The ancillary insurance intermediary and the insurance company that has hired the intermediary must both be responsible for the sale to ensure that the interests of the consumers are taken into account.

We are planning supervisory activities for these insurance policies in 2023.

New rules required

FI believes that there are grounds to look again at whether a ban on commission would be appropriate on the Swedish savings market. State supervision of private e-identification solutions should be enhanced and they should be replaced with a state equivalent in the future.

Remuneration models for investment products

As we reported above, one of the greatest risks on the savings market is consumers receiving unsuitable investment products. One of the main reasons for this risk is the damaging conflicts of interest caused by commission. FI has previously argued for a ban on commission on the securities and savings insurance market to mitigate this risk.³³ However, such a ban has not yet been introduced in Sweden. Although there has been some improvement in managing commission, securities institutions and insurance companies are still receiving large amounts of commission for distributing financial products, whether they offer advice or not. Consumers on the Swedish market are therefore still at risk of being offered unsuitable products as a result of damaging conflicts of interest. FI has been working for several years to address this risk as part of our supervision work. We are working actively to prevent consumers from being offered unsuitable investment products, both nationally through supervision and internationally through collaboration within the European supervisory authorities. However, it should be noted that a tightening of the regulations would be more effective.

The issue surrounding different kinds of remuneration models needs to be thoroughly discussed. This should be carried out against the background of the work currently taking place in the EU on the future strategy for non-professional investors, the changes that have taken place on the market³⁴ and the fact that the consumers' investing behaviour is becoming increasingly digitalised. We are now able to learn from experiences from countries that have introduced bans on commission as well. This is why FI believes that a commission should be appointed by the Swedish Government to analyse this, with representatives from all stakeholders.

³³ 'Ett nödvändigt steg för en bättre sparandemarknad', Finansinspektionen, 3 February 2016. An English translation is available at www.fi.se.

³⁴ 'Uppföljning av de nya reglerna om provision och oberoende rådgivning', Finansinspektionen, 20 December 2021; and 'Uppföljning av de nya reglerna om försäkringsdistribution för försäkringsföretag', Finansinspektionen, 20 December 2022. Both only available in Swedish.

Private e-identification should be placed under full supervision

Electronic identification is widely used by Swedish consumers. A total of 99.2 per cent of all Swedes registered as resident between the ages of 18–65 had a BankID in 2022 and the service was used 6.7 billion times.³⁵ There is a lack of competition on the e-identification market, with BankID currently providing an essential service for Swedish society. A cyberattack on BankID could have serious consequences for several parts of Swedish society and for Swedish consumers. State supervision of BankID and similar solutions should therefore be significantly enhanced. We also support proposals to produce a state equivalent in the future.

Early repayment charges

The current model for calculating early repayment charges (when mortgagors want to pay their fixed-rate mortgage early) is not based on the direct costs borne by the creditor for managing the termination of the credit. Instead it is based on the loss of interest revenue incurred by the creditor. This results in the mortgagor having to pay an unjustifiably high charge, which includes compensation for the credit risk that ends when an early repayment is made. This is why Finansinspektionen has submitted a formal request to the Swedish Government for an amendment to the early repayment charge provision in Section 36, third paragraph, point 1 of the Consumer Credit Act (2010:1846). As a result of FI's request, the government has commissioned an investigator whose job it is, inter alia, to analyse whether there is a need to amend the rules on early repayment charges. The investigator will report back by 30 September 2023. Finansinspektionen is now awaiting the investigator's proposals.

Official report on a national debt register

Following a request by FI, the Swedish Government commissioned an official report to look into the introduction of a system that would enable lenders and consumers to receive an overall summary of the consumers' debt when a credit check is performed (Dir. 2021:108).³⁶ This kind of debt register would enable lenders to perform much more comprehensive credit checks. A central debt register will be investigated as part of this official report. The report will also review and propose other measures to tackle risky lending and over-indebtedness.³⁷ FI will contribute with an expert to be involved in the drafting of this report.

³⁵ Source: Bankid.com.

³⁶ 'FI och Konsumentverket vill att regeringen utreder förutsättningarna för ett nationellt skuldregister', Finansinspektionen, 27 October 2021. Only available in Swedish.

³⁷ 'Motverka riskfylld kreditgivning och överskuldssättning', Finansdepartementet, 3 November 2021. Only available in Swedish.

Official report on new statistics for household assets and debt

An expert from FI was involved in the drafting of the report *‘En ny statistik över hushållens tillgångar och skulder’* (SOU 2022:51), which looks at new statistics of household assets and debt. This report was commissioned following a request by the Riksbank, which explained why both it and FI need data on household debt. Access to data on assets and debt would enable FI’s microsupervision measures to be more balanced. This data would also make it possible to accurately evaluate the effects of the measures that have been taken.

The report proposes a concrete list of variables that should be included in these statistics. These variables support FI’s work on financial stability and consumer protection. By monitoring the assets, debt, income and loan payments of individuals, FI can identify the number of consumers with small margins, who would therefore be at risk of payment problems.