



# **The Danish Financial Supervisory Authority's Strategy 2025**



**A robust financial sector**

**A proper financial sector**

**A supervisory service and set of rules that reflect the  
development of society**

**Professional and effective financial supervision**

## Preface

# A robust financial sector which behaves properly

**We have come a long way since the financial crisis.** The sector is more robust, financial regulations have been sharpened and the Danish Financial Supervisory Authority (FSA) has been given more tools to intervene and sanction violations.

One of our most important tasks now is to make sure that the financial sector remains robust and that regulations are enforced in a consistent and fair manner. Moreover, I see a close connection between a robust and a proper sector.

At the same time, we must deal with the current economic situation triggered by COVID-19 and prepare ourselves for future challenges. We must develop our supervision so that we are ready for other important tasks resulting from developments in, for example, new technology, sustainable financing and climate-related risks.

Robustness and proper supervision must go hand in hand up to 2025, and the Financial Supervisory Authority's Board of Directors has an important role as society's supervision that the FSA is carrying out its task in an appropriate manner.

### **Nina Dietz Legind**

Professor, Ph.d., SDU

Chairman of the Danish Financial Supervisory Authority



**The Danish Financial Supervisory Authority's Strategy 2025 focuses on creating a robust and proper financial sector** through effective and professional supervision that reflects the development of society. We are building on top of our previous strategy, but Strategy 2025 also includes an increased focus on properness and elements such as sustainability and technology.

The strategy is the result of many months of work, in which the employees of the Danish Financial Supervisory Authority have been involved in setting out our direction up to 2025.

Although it is said that no battle plan survives the first battle, I am certain that the intense process of formulating this strategy means that we will act appropriately when our strategy encounters reality. I am proud to oversee the FSA. We have achieved a great deal in the latest strategy period, and despite difficult challenges, we have paved a passable way forward.

### **Jesper Berg**

Director General of the FSA



# An effort that reflects reality

## **The FSA's strategy towards 2025 has four key elements**

The FSA's strategy towards 2025 has four key elements: A robust financial sector, a proper financial sector, supervision and rules that reflect the development of society, as well as a professional and effective financial supervisory service. It is our job to contribute to a financial sector that is robust and proper. The financial sector is changing rapidly, and our work must reflect developments in society in general and the financial sector in particular. Finally, we must fulfil our duties efficiently and highly professionally.

The FSA's vision remains unchanged: there must be justified confidence in the financial system. This vision is challenged every time something goes awry in the financial sector. This happened during the financial crisis, and it happened again in connection with the money laundering cases of recent years. Our vision therefore requires continuous vigilance. Although the challenges encountered differ in nature, our objective remains unchanged. Having a proper, robust financial sector is crucial to any society.

## **Supervision with a focus on risk**

The supervisory approach is risk-based. This means that we allocate our resources according to where risks are deemed to be greatest based on assessment of their probability and consequences, and use the instruments in financial regulation to curb them. This applies to risks in relation to how robust and proper the financial sector is. However, we live in uncertain times, and there will be events that the FSA cannot anticipate. This may be due to our assessment of probability and consequence being incorrect, or even that improbable events occasionally take place. But this does not change the fact that risk-based allocation of resources must be the most effective approach.

## **An approach adapted to reality**

The FSA's work over the next five years will be based on expectations about economic, political, social and technological developments. Obviously, such expectations may turn out to be wrong, in which case policy will have to be adapted accordingly. But an explicit formulation of expectations is necessary to understand what we as financial supervisors generally consider to be the right direction.

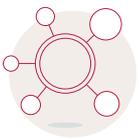
## **Strong values**

The FSA's work is based on strong values, rooted in its employees. These values will continue to contribute to our success in our strategy in the future. We will aim for high professionalism, responsibility, quality and drive in our work. In relation to our stakeholders, we will be responsible for impartiality, dialogue and equal treatment. This policy will contribute to the goals of a robust and proper financial sector, the developments in which we, as financial supervisors, will be able to reflect and carry out our work efficiently and highly professionally.

*We will aim for high professionalism, responsibility, quality and drive in our work.*

# *Strategy 2025 has four key elements*

They complement each other and are interdependent. For example, the prevention of economic crime not only strengthens the sector's properness, but also its robustness. Strong professional and effective financial supervision also supports the use of new technology in companies.



## **A robust financial sector**

Robust financial companies are a prerequisite for society's economic cohesion. Balanced risk-taking is required that does not exceed the ability of undertakings to maintain a buffer, which enables them to resist economic downturns – such as the corona crisis.

### *Objectives*

#### **Proper undertakings with risk-taking under control**

The FSA must ensure that financial companies have sufficient control over risk-taking through efficient and competent management functions (good governance). Entry into new areas must reflect competencies and resources.

#### **Appropriate handling of the setback caused by corona**

The financial sector must be able to withstand fluctuations in the business cycle, such as in connection with the corona crisis, and rebuild its resilience after any setback.

As far as possible, the FSA will deal with credit institutions in trouble through early intervention. As the economy improves, capital and liquidity positions must be re-established.

#### **IT security able to meet the threat**

IT security in the financial sector must match its IT dependency and threat status.



# A proper financial sector

Undertakings and financial consumers must be confident that the sector which manages their assets not only acts in accordance with the law, but also correctly and fairly in all business aspects. Customers must gain value of their financial products and not be exposed to unnecessarily high risks. The financial sector is also a key player in the fight against economic crime.

## *Objectives*

### **Good financial products for consumers and investors**

The FSA must ensure that financial companies offer products that provide value to customers, and do not impose disproportionate financial risks on them. Pension products must support the livelihood of individual pensioners. Detail investors must be able to safely use the investment options available to and targeted at them.

### **Prevention of money laundering and terrorist financing**

Danish financial companies must be among the leaders in the fight against money laundering and terrorist financing.

### **Good governance and corporate culture**

Management in the financial sector must exhibit good governance and focus on integrating their behaviour into the corporate culture at all levels to ensure satisfactory treatment of customers.

### **Proper financial markets**

Investors must be able to invest with the certainty that there will be no market manipulation or insider trading, and in the assurance that prospects are adequate. This will also help to promote the role of capital markets in corporate finance.



# A supervisory service and set of rules that reflect the development of society

The financial sector, like the rest of society, is in the midst of rapid development with major upheavals. Climate change and a number of connected environmental conditions necessitates change in society and financial companies. In the field of technology, increased digitalisation requires increasing attention. Financial supervision must support the sector in dealing with such developments in a robust and correct manner.

## *Objectives*

### **Controlled transition to sustainability and management of climate-related risks**

The financial sector must contribute to controlled transition to a more sustainable society in terms of both environmental, social and managerial aspects. The transition must have a clear framework for managing the associated risks. The financial sector must be equipped to deal with transitional as well as physical climate risks.

### **Reassuring use of technology as well as new business models, providers and products**

The financial sector must have a satisfactory framework for the use of new technologies, data and the management of the associated risks. The FSA supports appropriate development of increased digitalisation of business models, new players and new products. Openness to new opportunities and the development of the same must be in balance with risk management. Breaking up the value chain in the provision of financial services and developing with new and more specialised players must be done safely, and customers must continue to be adequately protected.

### **International financial regulation that takes into account sound Danish business models and is implementable**

The majority of new regulation is determined under the auspices of the EU. Sound Danish business models must be respected, and regulations must be implementable in Denmark. Dialogue and co-operation with other countries on the approach to regulation and supervision must be an important and integral part of the FSA's work.



# Professional and effective financial supervision

The tasks of a modern financial supervisor are many and complex. Strong and diverse skills are required, able to collaborate with and provide financial companies with an appropriate professional counterpoint. The right technological tools must support supervision, to ensure our work is as effective as possible.

## *Objectives*

### **A digital and data-driven supervisory service**

Supervision must be supported by digital processes and accurate, relevant data that can contribute to ongoing prioritisation in areas where risks in relation to financial stability and functionality are deemed to be highest.

### **The best professional development in the financial sector**

The FSA's behaviour and culture must be supported by strong skills, knowledge sharing and cooperation across the organisation. Staff are continuously challenged and developed through their work, feedback and discussion as well as ongoing education, to allow the FSA to provide the financial sector with expert feedback and to attract skilled personnel with the right skills.

### **Efficient management of operations and processes**

The FSA must continuously manage and prioritise its efforts to increase efficiency. Continuous follow-up and improvement of processes must be a natural part of our working methods..

# The work of the FSA

*The FSA's activities cover a large number of areas on the national and international level.*

It requires a vision and overview of the big picture – and insight and high professionalism when working with the details.

## **International negotiations**

The FSA participates in a large number of international negotiations. The main part of Danish financial regulation is designed under the auspices of the EU, and the scope of regulation is rising sharply.

We have a special responsibility for the secondary legislation adopted in the European supervisory authorities, the ESAs, in which the FSA participates. We perform risk-based prioritisation of which of the more than 200 working groups under the ESAs we participate in. We also contribute to the Ministry of Industry, Business and Financial Affairs' work with the primary EU legislation.

In our international work, we focus on the areas that are important to Denmark. We also focus on regulation being implementable – in our own practices and in those of the financial companies. We are proactive in a number of selected areas in order to make our contribution to the development of financial regulation in the EU.

## **Analysis**

The FSA's analytical work contributes to regulation, supervision and the provision of information.

In other words, we focus on making our analyses applicable in practice. In terms of regulatory practice, our analyses are often driven by demand, e.g. from the Ministry of Industry, Business and Financial Affairs.

Our analytical work reflects our proximity to financial markets and institutions. We incorporate our knowledge from supervisory work and dialogue with the financial sector.

## **Regulation**

Financial regulation sets the framework for financial activities, and for our work.

We contribute to the Ministry of Industry, Business and Financial Affairs' work in this area, and have a range of authorities to lay down secondary legislation. That secondary legislation fills the framework under primary legislation and is accompanied by practice-oriented guidelines for companies.

We work for quality in legislation and for clear rules. The principle is uniform rules for the same activities. Proportionality should reflect risks.

## **Supervision**

The FSA's primary instrument is supervision.

Our key activity is on-site inspections, which are increasingly theme-based. The scope of off-site and database supervision is growing. This applies to pure off-site supervision and input to on-site supervision.

Supervision is risk-based. We focus on limiting the biggest risks rather than on compliance with individual rules. This is reflected in our supervisory responses and follow-up. We always strive for a uniform supervisory practice across sectors, unless there are convincing arguments to the contrary.

## **Information**

The FSA's information activities aim to influence and inform undertakings subject to supervision, and to fulfil our obligation to provide information to the public.

We communicate through a number of different channels, such as reports from inspections, analyses, press releases, presentations and statements to the media.

We focus on our communication being easy to understand, professional and objective – and with respect for the confidentiality that the law requires of us. In the consumer area, there is more need for communicating freely, and the opportunity to do so.

*The FSA's primary  
instrument is supervision*

# Vision

*The FSA's vision is that companies and the public can have justified confidence in the financial system.*

Confidence in the financial system and its companies means that financial consumers use financial services and products. That contributes to a healthy financial sector that supports societal development and prosperity through savings, financing and risk sharing. The task of the FSA is to contribute to strengthening and maintaining that confidence – for the benefit of the public, the economy and financial companies.

# Mission

*The mission of the FSA is to help ensure a proper, stable financial sector with smoothly running financial markets through regulation, supervision and information.*

Confidence in the financial system and its companies underpins the financial consumers use of financial services and products. This contributes to a healthy financial sector that supports societal development and prosperity through savings, financing and risk sharing. The task of the FSA is to contribute to strengthening and maintaining that confidence – for the benefit of the public, the economy and financial companies.

# The FSA's six values

## *Responsibility*

We are aware of our responsibility and take ownership for handling cases properly and correctly.

## *Quality*

We are professionally competent and ensure that the basis for our decisions is adequately researched and proper.

## *Vigour*

We act and respond in a timely, relevant and reasonable manner when we become aware of challenges, errors, problems or other irregularities.

## *Dialogue*

We are open-minded, respectful and listen when we encounter individuals and companies.

## *Equality*

We act professionally. Cases that are essentially the same, we treat the same.

## *Impartiality*

We are involved in all contexts without taking sides, and there is never any doubt about our impartiality.

# Development trends and general conditions

## *The FSA carries out risk-based supervision.*

That means allocation of resources according to where we see the greatest risks. Having said that, we must always be prepared for the fact that it may be necessary to adjust our expectations for risks along the way. If it turns out that our predictions do not hold true, we must adapt our activities accordingly. To be able to do so, we have explicitly formulated the expectations on which our planning is based. This will make it much easier to adjust our plans based on the difference between actual and expected development.

### **Coronavirus**

The economic progress that the Danish economy and large parts of the world have enjoyed has been abruptly interrupted by the corona crisis and the resulting consequences and measures. The recent upturn had lasted an unusually long time, and it was most likely that in the coming years we would experience an economic downturn – even without the corona crisis. But corona brought a deeper economic downturn than could normally be expected. It has been a setback that has developed at an extraordinary pace, but it will not necessarily be a long-term setback.

The traditional economic policy instruments will, to varying degrees, be shock absorbers for the economic downturn.

### **Low interest rates**

To a certain extent, we can expect that the current economic downturn will not be exacerbated by a financial crisis. Lending did not expand as it did ahead of the finance crisis. The same applies to household debt and property prices, with the exception of specific geographical areas. The capital and liquidity position of the banks is generally better. On the other hand, many financial assets are very highly priced, and bank earnings are under pressure from low interest rates. The historically low interest rates have also affected other parts of the financial system. It has become more difficult to generate a positive return on investment costs for customers. For many customers, a zero-interest deposit account is a sensible alternative.

Historical experience suggests that the former weighs heavier than the latter. Therefore, it is most likely that in the first instance we will not have an economic downturn that is significantly exacerbated by financial conditions.

### **European focus on stronger capital markets**

The challenges facing the investment product market coincide with a strong desire to create stronger capital markets. These will complement the more bank-oriented financial structure that is dominant in Europe. The economic consequences of a banking crisis will be less if the capital markets can replace the financing that the banks are unable to provide. This is the background to the EU's initiative for a capital market union. For the time being, we can see that Europe is still far behind the United States in this area.

The FSA plays a role in creating the framework for further development of the capital markets, but the FSA also has to ensure that this is done in a sensibly manner.

## **Globalisation**

Denmark is a small, open economy, which is highly affected by the global economy – for better or worse. Globalisation is not a new phenomenon, but the extent and nature of it and the political reactions it evokes have the potential to fundamentally change the way our society functions, and thus also the framework of the financial sector.

Global economic integration of markets and value chains for undertakings, financial and non-financial, creates a challenge in terms of supervising and enforcing rules for financial companies. Meanwhile, globalisation places demands on new and better skills for the FSA to understand new products with special related models for ROI. Finally, globalisation presents us with challenges of a more political nature. The FSA must move with the trend and adapt its supervision accordingly.

## **Many and complex rules**

A very large part of the overall legislation in the financial area is determined internationally. The general principles are established in many cases in groupings in which only the largest countries in the world participate. The Basel Committee, which sets overall standards in such areas as capital and liquidity for credit institutions, is an example. Denmark's influence here is via consultative groups and various EU bodies. Most of the standards are implemented in EU legislation, which is adopted by representatives of the governments of the various countries and the European Parliament. Depending on the nature of the acts that become law, they either have direct validity in Denmark or must be formulated as Danish law and passed in the Danish parliament.

Most EU legislation provides the authorisation for implementing secondary legislation. This is usually done under the auspices of the European financial supervisory authorities (ESAs). Secondary legislation imposes requirements on how the supervisory authorities are to supervise and on the companies they supervise. The FSA not only supervises, but is also supervised by other authorities. The scope and complexity of the rules – especially secondary legislation – is increasing sharply for the FSA and the financial companies. That makes it difficult for the financial sector to follow the rules, and challenging to supervise.

## **Money laundering**

The money laundering cases in Danish banks have been the subject of much attention. They have given rise to tighter legislation, compliance with which the FSA supervises. In a number of other countries, money laundering cases have also attracted a great deal of attention, with consequent international action.

These cases have come as an extension of the fact that many western countries, including Denmark, had to underwrite the banking sector in the wake of the financial crisis. In this context, it has been argued that the banks have breached the social contract, which was a prerequisite for society to act and save many banks during the financial crisis. It is therefore a breach of trust that could have far-reaching consequences if the banking sector were to run into problems again.

## **Demands on the authorities are increasing**

The population places ever greater demands on how companies behave in relation to their customers and to their role in society in general. Financial companies that do not behave as expected lose customers, and become the subject of attention that can consequently ruin their business. The lack of trust spreads to other companies in the same industry and may eventually lead to policy initiatives with consequent new legislation. This entails increased requirements for the FSA's supervisory activities.

The problems in the financial sector from the financial crisis and subsequently in connection with money laundering cases, have not only shaken confidence in the sector, but also raised questions about why the FSA did not discover them earlier. Confidence in the financial sector has to be boosted. Confidence in the financial sector is reflected in confidence in the FSA. The public and society must be confident that they can trust the framework that regulates their financial dealings.

## **Sustainability**

The FSA must initially handle two tasks in relation to climate risks and sustainability.

The first task is to ensure adequate consideration of climate risks in the companies under supervision. A distinction is made here between physical risks and transition risks. Physical risks are those that immediately result from climate change. An example is the risks posed by rising sea levels. Transition risks are those arising in connection with the societal changes needed to reduce climate risks. For example, restructuring in the transport sector and agriculture must be expected.

The second task is to ensure that investments and undertakings sold as 'green' really are green. The FSA contributes to information provided by listed companies to the markets is accurate. Work is underway in the EU to determine what undertakings can be described as 'green'. The FSA expects supervision will be required to ensure that such information in relation to investment products is accurate.

## **Longer life expectancy**

The increase in life expectancy will be of major importance to the financial sector. As customers get older, pension and life insurance companies are directly affected. Pension savings must therefore be extended over several years. This must be reflected in the forecasts for pension payments, with the consequences that may have for pensioners as well as for the companies themselves.

Much will depend on the quality of each of the extra years of life. Customer groups that have been weakened by illness for a long time, for example, place special demands on the financial sector and its attitudes towards these groups.

## **New business models**

Vast amounts of money are invested globally in 'FinTech' companies. These are companies that focus on creating a business by using modern technology to challenge the existing financial sector. Their investments are made in many different areas, but especially the payment area has attracted many.

Financial regulation places great demands on participants in the financial markets and can therefore be a barrier for new players. Just like a number of financial supervisors in other countries, the FSA has undertaken to help FinTech companies understand the financial regulation that is often foreign to them. The point of departure is that new technology can help create increased competition and make life easier for the population. Another very clear baseline is that the same activity must be subject to the same financial regulation.

## **Cybercrime**

Technology not only implies risks in relation to the viability of business models, but also in relation to cybercrime. Attacks on large companies have shown how vulnerable they are. It is hard to imagine that the financial sector would not have serious problems if large financial companies were out of business for as long as companies in other sectors have been recently. The financial system accounts for an incredible number of transactions every day. Those transactions are interconnected, and if one or more fail, the consequences can spread.

The FSA and the sector have moved from believing that we can stop cyberattacks before they enter the systems, to recognising that it will not always be possible. We are now focusing on being able to handle cyberattacks when they enter the systems. Although the larger financial companies have been working with security for more years than most other sectors, we must prepare for the fact that one or more large financial companies will at some point be disabled for some time.

## **Data use**

The FSA is gaining access to more and more data and the opportunity to use increasingly advanced analytical methods. Most recently, we gained access to the credit register, which covers all loans in Danish credit institutions, a new system for monitoring securities transactions and very large amounts of data on derivative transactions. The FSA has started using machine learning and robot processing. All such elements provide the opportunity to improve insight, but also require new expertise.

Regardless of the inflow of more data and new analytical methods, the FSA's supervisory activities will continue to be risk-based and based on several different approaches. On-site inspections, understanding of governance structures, policies, business processes, processes and specific transactions will still be key elements in gaining insight into the key parts of the financial system.

*The FSA's expectations for the future are structured according to a classic PEST breakdown. That is, according to political, economic, social and technological conditions.*