Banking - Norway

Supervisor surveys banks' sales of financial instruments

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The Norwegian financial supervisory authority, Finanstilsynet, recently published the findings of its extensive survey on the sale of financial instruments at Norwegian banks. In the survey, 29 banks were asked to provide detailed statements of all the completed sales of financial instruments that were part of their investment services for customers during 2009 and the first six months of 2010. In addition, eight banks were chosen to undergo on-location supervision. During this supervision, Finanstilsynet focused its survey on their organisation of investment services, internal control mechanisms (especially the verification of compliance) and the investment advice process, assessing whether the conduct was in accordance with the legal requirements of conduct of business rules. Furthermore, the banks' model portfolio, as well as random sample portfolios, was examined.

According to the published findings of the survey, there were three positive signs of development regarding the banks' sales of saving products:

- None of the banks recommended that their customers rely on direct financing by credit or loan in order to purchase the offered financial instruments;
- The offering of saving products was characterised by a lack of complicated and structured saving products - namely, warrants (except from one bank), property funds and other structured products; and
- Among seven of the eight banks that underwent the on-location supervision, the remuneration of the investment advisers was considered product-neutral (ie, not dependant on the kind of financial instrument being sold).

Despite these positive conclusions, some observations may nonetheless give rise to concern and increased focus in Finanstilsynet's future work in relation to the banks' investment services. According to the published summary, three areas should be particularly highlighted:

- The banks offer a relatively limited range of cheaper funds;
- The quality of the documentation of the actual investment advice carried out during the investment process needs to be improved; and
- The potential conflicts of interest between the banks' need for good liquidity management and the customers' need for instruments relating to interest products must be recognised and dealt with in a manner that protects the clients' interests.

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