

Björk Sigurgísladóttir: Financial supervision from the perspective of the Deputy Governor for Financial Supervision

Speech by Ms Björk Sigurgísladóttir, Deputy Governor for Financial Supervision of the Central Bank of Iceland, at the Central Bank of Iceland's Annual Financial Supervision Day, Reykjavik, 19 March 2026.

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Honoured guests:

It is highly gratifying to see so many of you today, and I welcome you to the Central Bank of Iceland's Financial Supervision Day, which we hold in conjunction with the publication of our annual *Financial Supervision* report. This year's report contains detailed information about how the Bank conducted financial supervision in 2025, what its supervisory priorities are, and other interesting topics covered in boxes.

In my speech, I will review several of the tasks we undertook last year, the approach the Bank has chosen in order to simplify financial supervision, and the challenges and priorities that lie ahead.

In 2025, we took a wide range of supervisory actions that involved all types of supervised entities and were actually relevant to all supervised entities in one way or another. In keeping with the Bank's focus on risk-based supervision, supervisory activity concentrated most on entities considered systemically important and those considered riskier than others.

Responsible business practices in the distribution of pension insurance products are accorded high priority at the Bank. In 2025 and continuing into 2026, we have met with foreign insurance companies and their Icelandic distributors, and in a targeted review that is still ongoing, we have been investigating the sales practices they use in distributing their products. We have called for necessary amendments to the regulatory framework with an eye to enhancing consumer protection in the pension market. Furthermore, we have placed increased emphasis on the provision of guidance and training. The Bank's website has been expanded to include a separate section for consumers, where members of the public can find information on a range of topics, including pension saving and its various forms.

For some time, the Bank has been collecting data on payment services fraud, and in November it published a report on the scope of such fraud in Iceland.

The number of fraudulent incidents involving transfers of funds increased from the beginning of 2023 to mid-2025. In addition, fraud-related transfers of funds represented the largest sums of money, with over a billion Icelandic krónur transferred between mid-2024 and mid-2025. The sums involved in payment card-related fraud were lower, at about half a billion krónur over the same period, but the number of incidents was far higher. About one-third of the amount has been recovered. A number of initiatives have been introduced to combat fraud, and we see that the financial market and stakeholder groups, including Finance Iceland (SFF), have greatly expanded their guidance and

information sharing about fraud-related risk. Even so, there appears to be room for further improvement. For instance, more emphasis could be placed on assessing the risk associated with transfers of funds. Initiatives could also be taken to make it easier for users to control their own payment patterns – for instance, by offering them the option of closing the possibility of transfers from their accounts to selected countries.

In 2025, the Central Bank completed a thematic check on how fourteen obliged entities carry out screening in connection with international sanctions. The aim of such measures is to make it harder for sanctioned entities to conduct or continue harmful activities such as human rights violations or acts of terrorism. The check was carried out in a testing environment with the assistance of foreign experts. We used simulated data, and our objective was to evaluate the reliability and efficacy of screening systems, based on their configurations and settings. Participating entities received feedback, and a report containing the results was published on the Bank's website in December 2025. The approach used in the process was a new one, and it appears that all parties were satisfied with it.

It is impossible to discuss financial supervision without mentioning the supervisory review and evaluation process, usually called SREP. The SREP is time-consuming and labour-intensive for both the systemically important banks and the Central Bank. In the process, risks are assessed and a decision is made on *additional capital requirements*. Icelandic banks' additional capital requirements have been lowered in recent years, although the overall requirement has remained broadly stable. There are several reasons for the reduction in additional capital requirements; for instance, capital requirements for acquisition, development, and construction exposures have been moved from Pillar 2 to Pillar 1, and the banks' risk management has improved.

During its current electoral term, the European Commission plans to simplify the regulatory framework and ensure that it is implemented more effectively, as this is considered a key to bolstering EU competitiveness. To this end, the Commission will release a report on the competitive position of the European banking system later this year. As an element in this work, a consultation process has been initiated with the aim of gathering perspectives and information from the market as regards competitiveness and the regulatory burden on the European banking system. The Central Bank of Iceland will publish a news release on the consultation, which is open for participation until 19 April, and I encourage all of you who work in the banking market to take part.

The Central Bank has participated in a variety of simplification projects with the European supervisory authorities – the EBA, ESMA, and EIOPA – and has drawn your attention to the related consultation processes. In one of these, ESMA solicited perspectives and requested feedback from market agents concerning opportunities to simplify legislation relating to the retail investment process. The Bank has also worked together with Nordic financial supervisors on projects related to this topic.

As I mentioned on last year's Financial Supervision Day, the Central Bank has also been identifying opportunities to simplify supervision. The result of that work is an action plan containing a number of tasks that simplify the supervision process without reducing requirements. The tasks in the action plan have either been carried out or are on this year's work schedule.

We have published a list of completed simplification projects on the Bank's website, with the aim of increasing transparency about the work involved and of enabling you and other stakeholders to keep abreast of our systematic moves towards simplification. I encourage you to look at the list, but the following examples will give you an idea of what it contains:

- Fourteen sets of supervisory guidelines have been revoked, and only seven remain in effect. There are several reasons for this: the substance of the guidelines has been incorporated into current regulatory provisions, the guidelines are no longer needed, or the topic is covered in questions and answers (Q&A) documents or guidelines posted on the website.
- In several instances, reporting requirements have been discontinued.
- Furthermore, the assessment of board members' fitness and propriety has been revised, thereby reducing the number of verbal assessments. Linda Kolbrún Björgvinsdóttir, Director of Conduct Supervision, will cover this more thoroughly in her address today.

I hope that these changes will enhance efficiency and save labour for you and ourselves.

The Central Bank is seeking ways to make the regulatory framework for the financial market less complicated. This work is based in part on tasks assigned to the Bank and the Ministry of Finance and Economic Affairs during this year's fiscal budget preparation. It may well result in modifications to the regulatory instruments for which we are responsible, and in recommendations for statutory amendments to be presented to the Ministry.

The Bank will continue to focus on systematically identifying opportunities to simplify the supervisory process. This approach can be seen, for instance, in the newly updated Financial Supervision Policy, in which simplification is defined as a priority. It is accessible on our website.

Discussions of simplification must always be accompanied by words of warning, and therefore I want to stress, as I have done before, that the aim of simplification is not to ease requirements or abolish financial market rules but to promote a more effective regulatory and supervisory system without weakening supervision or undermining financial system resilience.

A number of supervisory challenges lie ahead, including the following:

We continue to see new regulatory instruments with new requirements, and this results in additional tasks for the financial market and the Central Bank. In the past five years, Iceland has incorporated well over a hundred European regulatory instruments on financial activities into domestic law, and it has adopted about a hundred sets of guidelines without cancelling older regulatory provisions. The Bank has responded to this challenge systematically, with the aim of making requirements clearer and more accessible. We have given increased priority to informational meetings, we have set up a powerful new search engine on the Bank's website, and we have published informational pages on new regulatory instruments. We have also placed emphasis on making our supervisory work more predictable. To this end, we published our priorities

at the beginning of the year, in addition to working methodically to simplify and streamline the process where possible.

At the same time, technological advances have changed supervised entities' business practices and the risks they face, including cyber- and IT risk. This requires that the Bank enhance its expertise, strengthen its data analysis, and develop supervisory methods that reflect a changed environment. The Central Bank places emphasis on taking advantage of the opportunities that lie in responsible use of artificial intelligence (AI). Judicious use of AI offers us the possibility of enhancing our ability to carry out the many tasks assigned to us.

Current global conditions also entail risks for the Icelandic financial system, as they do for other countries. It is important to analyse these risks, whether direct or indirect, and identify related risks as well. Under such circumstances, it is vital that companies be resilient and well protected against cyber- and IT risk.

The Central Bank takes into account all of these challenges, both those that I have mentioned today and others that are reflected in our Financial Supervision Policy and our *Supervisory Priorities* for 2026-2028. The policy and priorities can be found on our website, and I urge you to familiarise yourselves with them. Last week, I sent a letter to the managing directors of all of Iceland's supervised entities, drawing their attention to the strategy and giving examples of how the priorities in the strategy might be reflected in the Bank's supervisory work schedule.

In closing, I wish to emphasise that the trust of the general public is fundamental to a sound and secure financial system. Our joint mission is to strengthen and safeguard that trust.

I thank you all for the fruitful collaboration and open dialogue over the past term. I look forward to continuing our work together and to our discussions later today.