FINANLISH ENGLISH WORDS & TERMS EVERYBODY THINKS YOU ALREADY KNOW

VERSION 2.0

FINANS FORBUNDET

Get the most out of your time in the financial sector

As an employee in the financial sector, you will most likely encounter many new words, concept and abbrevations. Traditional business models are being rethought, new technologies adopted and products (re)invented. All these efforts aim to secure the future of a sector deeply wowen into the fabric of society. The Danish Financial Services Union (Finansforbundet) would like to help you to make the most of your career in the financial sector. We have therefore produced this brief dictionary of financial terms that we hope will make you even better prepared to explore the opportunities of the world of finance. We hope you enjoy using the dictionary!

Finansforbundet

A

AI – Artificial Intelligence / The bank adviser of the future will not necessarily be an actual human being. The technological advances within artificial intelligence have also reached the financial sector. Besides the automation of processes using robots (see robotics), AI allows for the even greater personalisation of services by using opportunities to work with larger and more complex data sets and analyses. A key aspect of bringing artificial intelligence beyond "ordinary" programming and robotics is these systems' ability to continuously learn new things. This is called machine learning (ML).

AML – Anti Money Laundering / The more often money changes hands, the more difficult it is to trace where it comes from. Banks and other payment intermediaries therefore play an important role in ensuring that their systems are not used to launder money from illegal activities. The legislation in this area has been continuously tightened in step with the increasing globalisation of financial services.

B

Basel III / After the financial crisis, a number of the world's financial supervisory authorities decided to increase the resilience of the banking sector to future financial and economic shocks. In 2010, a set of measures known as Basel III was introduced. These measures are structured as three pillars (see Pillars I, II and II) and e.g. increase the required size of a bank's core capital (i.e. the most secure capital). The measures are designed to prevent future financial crises and will be gradually implemented up to January 2019.

Bitcoin / Bitcoin is a digital currency and a decentralised payment system. The Bitcoin network is a peer-to-peer network that is not regulated by any central instance such as a bank. Bitcoin payments are a safe and direct form of transaction that take place between payer and payee, who do not need to know or trust each other. Bitcoin was invented by a programmer who calls himself Satoshi Nakamoto and who completed the first Bitcoin transaction in January 2009. The core of the Bitcoin system is the blockchain technology (see below). In recent years, blockchain has created quite a stir, not least among the world's leading banks.

Blockchain / In the good old days, financial institutions had a general "ledger" in which all payments received and made were recorded. Blockchain can be compared to a comprehensive web-based ledger. It is a decentralised database in which all transactions are visible to everyone in the network covered by the relevant blockchain. Once recorded in a blockchain, a transaction can never be changed, which makes it a very safe technology with infinite possibilities of making banking processes safer and more efficient. Blockchain is the technology behind Bitcoin and is currently one of the most hyped concepts in global fintech (see below) and financial centres.

C

Capital base / When authorities want to measure how much money is available to a financial institution to run its business, they look at the capital base, which comprises the three fundamental types of capital a bank must hold to have adequate protection: core capital (equity), hybrid core capital and supplementary capital. After the financial crisis, stricter requirements were introduced for banks and mortgage banks to bolster themselves against future requirements – see Capital requirements.

Capital requirements / As capital is fundamental to the operation of a financial enterprise (see Capital base) much of the robustness of the system is safeguarded by the requirements set by the authorities concerning the size and distribution of the various types of capital. The capital requirements for banks within the EU are subject to the Capital Requirements Regulation – CRR – and one of the requirements is an overall capital base of at least EUR 5 million. Besides the capital requirements, the financial institutions must also comply with stringent liquidity requirements.

Challenger banks / One of the major fintech trends is completely new banks that wish to rethink and fundamentally challenge how banks are run. These are typically banks that are focused on 100% self-service via mobile solutions. These banks typically also make very active use of the social media to service their customers. One of the first of these new banks was the German Fidor bank, and there are also a number in the UK, such as Atom, Monzo, Starling and Tandem.

CIBOR / Who determines the interest rate in Denmark? A handful of Danish and a couple of foreign banks that, once a day, fix a ”reference rate”, known in Denmark as CIBOR (an abbreviation of Copenhagen Interbank Offered Rate and therefore pronounced ”KIBOR”). CIBOR sets the rate of interest for banks borrowing from other banks and thus determines the rate of interest that all Danish banks and mortgage banks charge their general customers. Other countries have similar reference rates of interest. In London, they are known as LIBOR, and in Hong Hong as HIBOR.

Clearing / Every single day, around DKK 25 billion is transferred back and forth among Danish financial institutions as payments received and made. These institutions therefore have to ”take stock” once every 24 hours, so they know how much they owe each other after the millions of transactions during the preceding 24 hours. This stocktaking is called clearing and takes place during the night. 92 banks participate in this nightly clearing, which is handled by a computer system.

If a bank is too late for the clearing of the day (night, actually) and does not report all of its transactions in time, this may affect the next day's payment of salaries and wages. Denmark became one of the world's leading countries in clearing when it launched the “instant payment solution” in November 2014. This system makes it possible to transfer amounts between accounts in different banks in a matter of seconds.

Compliance / The increasing number of new acts, regulations, standards and guidelines to safeguard the financial systems' stability and security makes increasing demands of all operators in the financial sector to be “compliant” – i.e.

to comply with the requirements. Major operators typically have full compliance departments, but all employees in financial jobs of different types need to consider compliance in their respective areas. See also RegTech.

Credit Default Swap (CDS) / A financial product that, in hindsight, was proclaimed by many people as the main culprit of the financial crisis. Credit Default Swaps belong in the category of ”derivative” (see below) and are, in principle, insurance against losses incurred in connection with the purchase of bonds. Swap dealers are paid to assume the risk on behalf of the owner of the bonds. This method may help a rising

bond market and create new growth by reducing the risk for buyers. In an over-heated market, however, the low risk may lead to foolhardy investments – or to outright speculation against the business in which bonds are held, due to the insurance against losses.

CRR/CRD IV / The general set of measures in Basel III (see above), which are intended to bolster the world against future financial crises, have resulted in specific EU regulations and directives: the Capital Requirements Regulation (CRR) and the most recent Capital Requirements Directive (CRD). The purpose of both is to strengthen the EU member states’ financial systems, in order to prevent and resist future crises. They include increased capital requirements for the individual member states' credit institutions, but also rules concerning corporate governance, the role of boards of directors, and their composition, required qualifications, etc.

D

Derivative / A derivative is a financial product that was widely used until the outbreak of the financial crisis in 2008. A derivative is a paper whose future value depends on the price fluctuation in an underlying asset, such as a share. If you buy a derivative, you bank on the value of the asset rising above the agreed buying price. Derivatives have been blamed for triggering the outbreak of the financial crisis. Barack Obama said in 2009 that Credit Default Swaps (see above) and other derivatives "have threatened the entire financial system". Today there is increased awareness of the risky nature of derivatives, and stricter regulatory measures have been introduced.

E

EBA / If you come across the abbreviation EBA in the financial pages of your newspaper, you need to take a closer look at the context, since this abbreviation can stand for two different institutions: the first is the European Banking Authority, founded in January 2011 as part of ESFS (the European System of Financial Supervision). ESFS is one of three European authorities (see ESA – European Supervisory Authorities) that assess and advise Europe's largest and most important financial institutions on risks and vulnerabilities, with the purpose of a banking rulebook. The second is the Euro Banking Association, a sector organisation for banks and other operators in the European financial systems since 1985. The association's over 180 members discuss and analyse trends and changes in the financial markets.

EIOPA – European Insurance and Occupational Pensions Authority / One of the EU's three supervisory authorities. (See ESA – European Supervisory Authorities,) The purpose of EIOPA is to ensure stability, transparency and consumer protection within markets and products related to insurance and pensions. By drawing up drafts and recommendations for new legislation and creating tools to measure effects and consequences, EIOPA must help to ensure free competition and ward off any potential new financial crises.

EMV / EMV stands for Europay, MasterCard and Visa, which were the three card companies that originally formed the

EMVCo consortium, which specifies and develops standards for card-based payments – including for payment terminals, ATMs, online payments and contactless payments via card and mobile.

ESA – European Supervisory Authorities / In 2011, the EU revised the structure of its financial supervisory authorities and set up three overall supervisory authorities: EBA – European Banking Authority, ESMA – European Securities and Markets Authority and EIOPA – European Insurance and Occupational Pensions Authority.

ESMA – European Securities and Markets Authority / One of the EU's three supervisory authorities. (See ESA – European Supervisory Authorities,) ESMA's objective is to increase investor protection and ensure the stability of the investment market. ESMA is also responsible for the supervision of rating agencies.

F

FinanceDenmark / In December 2016, the three largest interest organisations in the Danish financial sector: the Danish Bankers Association, the Association of Danish Mortgage Banks and the Danish Mortgage Banks' Federation decided to unite their activities under one new joint association. FinanceDenmark thus represents all Danish banks and mortgage banks. The merger will also strengthen the organisation's ability to influence national and international legislation.

Danish Bankers Association
(see FinanceDenmark)

Finansforbundet / A union for all employees in banks, savings banks, mortgage banks, and other companies that work within and with the financial sector. The Financial Services Union strives to create the best possible working life conditions, irrespective of the type of job you have in the sector, or your educational background. Not only have we negotiated one of the country's best collective agreements, but we also know the financial sector inside out and can therefore help you to make the most of your career in the world of finance. Visit us and see for yourself at finansforbundet.dk/finanlish.

Financial Supervisory Authority / Every country has a financial supervisory authority. The Danish Financial Supervisory Authority is part of the Ministry of Industry, Business and Financial Affairs. Since 1988, the FSA has been the Danish overall authority with responsibility for all operators in the financial world: banks, mortgage banks, payment intermediaries, insurance companies, pension companies, etc. The Danish FSA cooperates closely with the EU's ESA.

FinTech / A combination of the words ”financial” and ”technology”. The concept designates a new encounter between the financial sector and the IT industry and is growing in leaps and bounds, yielding a wealth of new products and small start-up businesses. Software-based fintech solutions cover areas such as investments, loans, payments, and digital identity solutions. Larger and more well-established companies have also gradually discovered the field, and many banks have now entered the scene as investors and technology developers.

Futures / A financial product that was popular before the financial crisis. As the name suggests, it refers to agreements between two parties concerning future transactions. The parties enter into an agreement on a transaction at a fixed price on a fixed date in the future. The agreement typically covers commodities or financial instruments, such as shares or bonds – often in one comprehensive package. The difference between futures and options is that an option gives the right to buy or sell, while futures impose an obligation on the parties to honour the agreement.

G

Gearing / Just as other investments can be ”geared” by the investor borrowing to increase the investment, a bank’s gearing can be measured as the ratio between the bank’s capital and its assets. If the bank’s assets exceed its capital, the bank’s assets are considered to be geared. Basel III sets new requirements to limit gearing as a ratio of equity, and requirements for publication of the bank’s gearing ratios.

H

Hybrid core capital / Part of the capital base (see above) in a financial institution. To bolster the capital base of a bank, borrowed funds can be injected on special conditions. This amount then becomes hybrid core capital, with no risk of early repayment. This means that the hybrid core capital is considered to be just as secure as the rest of the capital base. The amount may not exceed 50% of the capital base.

I

IDD / Insurance Distribution Directive – EU Directive expected to be implemented in Denmark in 2018. The purpose of the Directive is to increase consumer protection and ensure equal terms of competition for various types of insurance intermediaries. A significant requirement under IDD is standardised fact sheets concerning general insurance products.

InsurTech / Abbreviation of Insurance and Technology. The fintech wave has stimulated a trend for the rethinking of traditional services and processes, and added a number of new technologies to the market. This approach and these technologies apply not only to banks and payment products, but also insurance. Tools such as AI and ML in particular present new opportunities to create a new generation of individualised insurance services and products.

K

KYC – Know Your Customer / "Know Your Customer" requires financial institutions to identify and verify their customers' identity – applying to both private and business customers. This basic proof of identity is an important element of AML and other fraud prevention measures. To ensure sound and correct advisory services, KYC typically also includes information concerning the customer's financial situation, risk exposure and fundamental knowledge of and experience with financial products.

L

Liquidity requirements / Regulation of the financial markets has increased in recent years, leading to higher requirements of liquidity and capital (see Capital requirements). In accordance with the EU's Capital Requirements Regulation, credit institutions must have sufficient liquid funds to resist 30 days' intensive liquidity stress – which means 30 days without access to other sources of financing.The requirement helps to safeguard the credit institutions' robustness in the face of a crisis in the financial markets that may impede and increase the cost of access to financing.

M

Machine Learning (ML) / For traditional statistics, human beings formulate the relations between data and outcomes. In ML, a computer analyses the data and draws up hypotheses concerning the relation between variables, and then tests these hypotheses. This ongoing testing of own hypotheses makes the systems more and more accurate. ML allows for new, very precise and personalised analyses (right down to what are called "segments of one"). ML is increasingly used in systems to monitor e.g. card fraud.

N

Neo-Banking / Where Challenger Banks seek to challenge actual banking operations, Neo-banks focus solely on challenging the user experience via innovative, well-designed mobile solutions based on existing banks' infrastructure. There are also a number

of new services within e.g. consumer overviews or savings purposes. We can see this in e.g. Denmark with Lunar Way.

P

PSD2 – Payment Service Directive 2 / In many ways, the new EU Payment Service Directive is one of the most interesting examples of new legislation affecting the financial sector in many years. PSD2's overall aim is to increase competition and innovation within financial services by requiring the banks to allow third parties to have access to payment and information infrastructure. PSD2 furthermore includes a number of enhanced security requirements concerning digital payments.

R

Rating / Rating is often used in the assessment of the solvency and risk of financial institutions and products. This assessment is usually made by one of the three global rating agencies: Standard & Poor's (S&P), Moody's and Fitch Group, which have an overall market share of 95% and thereby constitute the de facto credit rating standard. One lesson learned from the financial crisis was that these rating agencies play a central role in safeguarding the stability of the financial systems, and the rating agencies are therefore also subject to supervision – within the EU by ESMA.

Association of Danish Mortgage Banks (see FinanceDenmark)

RegTech / Abbreviation of Regulation and Technology. In step with increasing compliance requirements and the rising costs of operating financial activities, there is an emerging market for technological support for the new laws and regulations. Like Fintech and InsurTech, RegTech is also providing a basis for many new businesses and workplaces.

REPO (Repurchase agreement) / A short-term loan that can be compared to the loans issued by the pawnbroker shops of yesteryear: a loan is raised for a short period of time against the provision of security. In a REPO, however, the security is not gold watches or jewellery, but rather other assets such as bonds. The parties agree on when and at which price the borrower, who is also the seller, will buy back the bonds. Just as for the traditional pawnshop, the borrower buys back the asset for a slightly higher amount than the borrower received. The higher amount represents the "interest" on the loan and the profit of the other party. REPOs can provide opportunities for newly started businesses with poor credit ratings.

Robotics / Digitisation and automation have been on the financial world's agenda for many years. Robotics take this one step further, with more complex processes and simple advisory services being handled by machines, rather than human beings. Like Apple's Siri and Amazon's Alexa, robotics solutions may also use voice recognition technology. Robotics solutions are also increasingly taking over a number of analysis tasks – e.g. within investment advisory services. Even though robotics are an advanced technology, the solutions provided are simpler than AI.

S

SIFI banks / Some banks and mortgage banks are systemically important, which means that they are so important for the national economy that they may not be allowed to fail. They are called SIFI banks, which is short for "Systemically Important Financial Institution". In Denmark, the Danish Financial Supervisory Authority has identified Danske Bank, Jyske Bank, Nykredit, DLR Kredit and Sydbank as SIFI banks. A crisis faced by any of these banks could jeopardise Denmark's economic stability, and the State will therefore do a lot to help them get back on track. The flip side of the coin is that these banks are subjected to increased supervision and advisory services, and stricter capital adequacy requirements.

Stress test / How can it be ensured that a bank is bolstered against a crisis? By performing a stress test, to simulate a financial crisis. The test is a kind of "financial crisis exercise" to which the European Banking Authority (EBA – see above) subjects major banks. Based on a bank's financial statements, its robustness in a crisis situation is assessed. This helps to increase both security and transparency in the financial markets.

Subprime / Loans extended to home owners with low credit ratings. ”Prime” is the word for borrowers with a good payment history. Subprime denotes borrowers who are deemed less likely to be able to repay the loan and who must therefore take out home loans on less favourable terms. In the years leading up to the financial crisis, many of these substandard loans were granted in the US mortgage financing market. For as long as the market was expanding, the mounting mortgage debt was offset by accelerating house prices. However, declining house prices and rising interest rates led to many enforced sales. Many foreign banks – also Danish banks – had invested in pools of US subprime loans that suddenly turned out to be worthless. Most experts agree that the subprime loans were one of the main causes of the outbreak of the financial crisis in 2007/2008.

Pillars I, II and III / Basel III is a body of law which sets new and more stringent requirements of the robustness of financial institutions. These requirements are divided between three “pillars”. Pillar I concerns capital requirements and liquidity requirements. Pillar II extends the requirements to supervision and review of risk management and capital planning. Pillar III concerns the disclosure requirements related to risk and market discipline.

T

Supervisory Diamond / When the Danish Financial Supervisory Authority determines the maximum risk that Danish financial institutions and mortgage banks may take, they base their decision on five indicators which are collectively known as the Supervisory Diamond (because a diamond is often cut in a pentagonal shape). The indicators for financial institutions are loan growth and the total sum of large exposures. For mortgage banks, the indicators are the share of deferred-payment loans and the interest rate risk incurred by the borrower.

V

Currency option / A kind of currency hedging. Currency options give the right – but do not impose the obligation – to buy or sell an agreed amount of currency at an agreed exchange rate (the striking rate) at an agreed time. Currency options are used particularly in large international transactions, to reduce the currency risk. A premium is paid to buy the option. Option agreements may also concern other assets besides currency.

W

Whistleblowing / A whistleblower is a person who exposes illegal, dishonest or unethical activities within his or her organisation. After the financial crisis, many financial institutions have chosen to set up whistleblowing arrangements that provide employees with the opportunity to share their observations or concerns with a neutral party, typically a lawyer. The Danish Financial Supervisory Authority has a whistleblowing arrangement for employees in the financial sector whereby e.g. infringements of financial regulations may be reported anonymously.

Any new financial terms or concepts that you think we should share? Email them to us at interesse@finansforbundet.dk

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