Trends, risks, and supervisory priorities 2025

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1. Background

As an integrated and independent supervisory authority, the Financial Market Authority (FMA) Liechtenstein supervises the financial market participants of the Liechtenstein financial centre. Through its supervisory activities, the FMA safeguards the stability of the financial institutions and the financial market as well as the protection of clients. In this way, the FMA strengthens the competitiveness and viability of the Liechtenstein financial centre for the future.

By exercising supervision, the FMA ensures that financial intermediaries adequately address potential risks. A key element in this regard is the assessment of the risk situation for the financial centre and the supervised financial intermediaries. The FMA's supervisory priorities are guided by the risk situation, strengthening resilience against the identified risks.

In this document, the FMA presents its supervisory priorities for 2025, updating certain priority areas defined for 2024. The FMA will monitor implementation of these priorities. The risks and supervisory priorities mentioned here are not exhaustive. Other risks not mentioned may also be important or may become important due to changes in the environment. Moreover, the FMA will always respond quickly and appropriately to unforeseeable events. It is important to note that these supervisory priorities do not cover the full range of work performed by the FMA, but rather serve as documentation of the issues on which supervision is focused in particular.

These trends, risks, and supervisory priorities have been identified in a careful analysis of the market environment, the regulatory developments, the Union Strategic Supervisory Priorities (USSP), the work programmes of the European supervisory authorities, the recommendations of the European Systemic Risk Board (ESRB), and the results of the supervisory activities of the FMA.

2. Risk-based supervision

In its supervision, the FMA pursues a risk-based approach that takes into account the potential macroprudential and microprudential risks as well as conduct risks associated with the supervised undertakings. In risk-based supervision, resources are deployed where the greatest threat to investors, clients, and financial market stability can be situated and where they have the greatest impact.

3. Current risk assessment

3.1 Macroeconomic environment

Each year, the FMA publishes a detailed report, the Financial Stability Report, which analyses the macroeconomic environment and developments in the financial sector from the perspective of financial market stability. The following therefore provides only a brief summary of the economic outlook and developments.

At the international level, financial stability risks have slightly diminished but remain elevated due to persistent inflation and geopolitical uncertainties. Global economic activity was subdued over the past year, largely as a result of high interest rates. Global trade stagnated in the face of sluggish investment activity and weak demand. Major central banks have eased monetary policy in response to declining inflation, even though inflation remains above target levels. However, sustained wage growth could delay further interest rate cuts by central banks. Overall, global financial stability risks did not materialise last year, and the outlook could further improve as interest rates decline.

The Liechtenstein economy continues to face challenges stemming from weak foreign demand and geopolitical tensions, resulting in persistently sluggish growth. Nevertheless, the labour market remains robust, characterised by low unemployment and numerous job vacancies, as companies face difficulties in finding qualified workers. Increasing protectionism presents a growing challenge for the export-oriented industrial sector. Liechtenstein's public finances remain a significant strength, with the country being debt-free and consistently achieving budget surpluses.

Financial markets remain susceptible to corrections against the backdrop of high equity valuations. Long-term bond yields have stabilised over the past year, while equity markets have posted strong gains since the beginning of 2023. However, recent volatility highlights the markets' vulnerability to negative surprises.

European real estate markets have recently stabilised, but vulnerabilities persist, particularly for low-income households and those with variable-rate mortgages. In Liechtenstein, the volume of mortgage loans continued to rise last year, although the debt ratio of private households declined slightly due to upward revisions in GDP. The overall debt burden on households has increased since the monetary policy tightening in 2022. Most mortgage loans in Liechtenstein are fixed-rate, however, mitigating the impact of rising interest rates. Commercial real estate loans play a less significant role in Liechtenstein and are characterised by stable lending standards and strong asset quality.

3.2 Liechtenstein's financial sector

Addressing structural and reputational risks is essential for the stability of Liechtenstein's financial sector. Liechtenstein's close integration with the EU and Switzerland offers significant advantages but also necessitates close cooperation with foreign authorities. As Liechtenstein does not have its own central bank, the financial sector lacks an institutional lender of last resort. The country's recent accession to the International Monetary Fund (IMF) provides access to additional financial resources during times of crisis. In light of rising geopolitical tensions and given the focus of the domestic banking sector's business model on private banking and international asset management, adherence to international standards and effective management of reputational risks are critical to maintaining the sector's stability.

The banking sector remains on a growth trajectory, supported by a strong capital base and robust liquidity ratios. However, profitability continues to be under pressure as rising operating costs outpace income growth at individual banks, while falling interest rates exert increasing strain on interest margins. Larger banks have benefited from economies of scale in recent years, but smaller banks face challenges from high regulatory requirements and declining profitability. These smaller banks are more vulnerable to operational risks due to limited resources and reliance on external service providers.

Risks in the non-banking financial sector remain limited. The Liechtenstein insurance sector has been significantly impacted by rising interest rates and high inflation over the past two years. While premium growth was positive last year, the sector faced profitability challenges. Nevertheless, it demonstrated resilience, supported by strong capitalisation and favourable combined ratios. In the occupational pension sector, rising investment returns improved funding ratios. The investment fund sector in Liechtenstein has expanded significantly over the past two years, driven primarily by alternative investment funds (AIFs). Risks in the fund sector remain very limited in Liechtenstein. However, the lack of transparency in umbrella fund structures presents a challenge for the domestic fund sector, as it complicates the assessment of underlying risks.

3.3 Foreign sanctions

Since joining the UN, Liechtenstein has been obliged under international law to implement UN sanctions domestically. Additionally, Liechtenstein participates in sanctions imposed by the European Union (EU) through autonomous implementation. While foreign sanctions are not directly applicable in Liechtenstein, non-compliance with foreign sanctions poses significant reputational, operational, and legal risks for the supervised entity in question, as well as for all those engaged in business relationships with it. This includes, in particular, the risk of the supervised entity itself being sanctioned, which could restrict its access to payment systems and ultimately threaten its economic viability.

The sanctions regulations of the Office of Foreign Assets Control (OFAC) of the US Treasury are particularly significant in this context, primarily due to the central role of the United States in the global financial market infrastructure. Ultimately, any sanctions connected to Liechtenstein pose a risk not only to the financial market but also to the country as a whole.

In 2024, sanctions were again imposed on professional trustees in Liechtenstein and an affiliated asset management company. These sanctions significantly harm the reputation of the Liechtenstein financial market and its participants. Such risks must be mitigated effectively. The Liechtenstein financial centre must not be exploited to circumvent foreign sanctions. In this context, reference is made to the supervisory priorities outlined in section 4.

3.4 Money laundering

Liechtenstein has a specialised, internationally connected, and stable financial centre that plays a vital role in the national economy. Due to the small domestic market, financial service providers are heavily engaged in cross-border business, with a primary focus on asset management services for wealthy individuals abroad. This international orientation offers numerous opportunities for Liechtenstein's financial market participants but also entails risks. The use of financial products that obscure the transparency of beneficial owners to third parties further increases these risks.

In 2021, Liechtenstein underwent a country assessment by MONEYVAL. In this evaluation of its national anti-money laundering system, Liechtenstein performed very well when compared internationally. Nevertheless, recommendations were made to further enhance the effectiveness of measures at both the public authority and private sector levels. The supervisory priorities outlined in section 4.3 are aligned with these recommendations.

3.5 ICT and cyber risks

The threat landscape has further intensified in recent years, with the number of cyberattacks nearly doubling compared to the pre-covid era. The financial sector is particularly vulnerable, accounting for one-fifth of all cyberattacks. Beyond cyberattacks, other ICT-related incidents can compromise the security of network and information systems, adversely affecting the availability, authenticity, integrity, or confidentiality of data. The Crowdstrike Falcon case in summer 2024 highlighted how events such as faulty updates can also cause extensive disruptions and restrictions. ICT-related incidents can pose existential threats to individual companies and jeopardise the stability of the entire financial system. Trends such as decentralised work arrangements, digital business models, and the adoption of cloud computing further exacerbate these risks. In this context, the management of ICT third-party risk is becoming increasingly critical.

The introduction of the Digital Operational Resilience Act (DORA) highlights the growing significance of these issues not only at the national but also at the European level. DORA will become applicable at the beginning of 2025, replacing FMA Directive 2021/3 on ICT security within its scope. It will be accompanied by further legal requirements, the implementation of which will entail additional challenges and effort.

Adequate consideration of ICT risks is crucial, particularly in light of the ongoing increase in networking and digitalisation initiatives. Every financial intermediary should therefore address these risks within their existing risk management framework, not least in their own interest.

4. Supervisory priorities

Based on the risk analysis, the FMA defines its supervisory priorities for the coming two to three years. In addition to the cross-sectoral supervisory priorities, the FMA also sets targeted, sector-specific priorities each year, which are generally aligned with the supervisory programmes and strategic guidelines of the European supervisory authorities (ESAs). This publication focuses on the cross-sectoral supervisory priorities.

4.1 Crisis prevention and management

In light of the significant uncertainties associated with macrofinancial and geopolitical developments, as well as structural and reputational risks, the FMA will maintain a strong focus on crisis prevention and crisis management in the coming year to effectively address the identified idiosyncratic and systemic risks. This includes, in particular:

- Ongoing analysis of macrofinancial risks at both the domestic and international levels to adequately assess the potential impact on the Liechtenstein financial sector should these risks materialise.
- Consistent monitoring of vulnerabilities in the real estate and mortgage sectors, along with a thorough evaluation of the effectiveness and efficiency of existing borrower-based measures, to ensure the effective mitigation of these risks.
- Close collaboration with the International Monetary Fund (IMF) and Swiss authorities following Liechtenstein's recent accession to the IMF, aimed at enhancing institutional capacity, increasing the availability of macroeconomic data, and expanding the framework for crisis prevention and management.
- Further development of recovery and resolution plans and options to strengthen effective crisis management practices.

4.2 Foreign sanctions

In response to the risks associated with foreign sanctions outlined in section 3.3, the FMA issued FMA Communication 2024/2 on risk management concerning foreign sanctions law in September 2024. This communication formalises the FMA's previous interpretation and expectations regarding the management of these risks. The FMA Communication emphasises that foreign sanctions must be considered as an integral part of risk management – this applies particularly to OFAC sanctions.

Monitoring the implementation of these expectations will be a priority of supervisory activities as part of risk management audits across all areas of supervision. This will specifically include audits of relevant governance arrangements, as well as the associated strategies, procedures, and controls for managing risks related to foreign sanctions.

As part of this supervisory priority, the FMA will focus particularly on the following risk exposures: (1) the geographical exposure of the client base and (2) risks arising from the economic or entrepreneurial background of clients. In this context, the numerous economic sectors identified by OFAC as supporting Russia's military-industrial base ("sector determinations") are of particular significance. To assess the risk exposure of institutions and intermediaries, the FMA will once again rely heavily on sector-wide surveys.

4.3 Money laundering prevention

Effective compliance with anti-money laundering regulations across all financial sectors will remain a key supervisory priority in 2025. The FMA will continue to place particular emphasis on implementing the recommendations from the MONEYVAL country assessment. On-site inspections will focus primarily on the risk-appropriate monitoring of business relationships and transactions. This will include assessing the quality of clarifications conducted and the reporting behaviour to the Financial Intelligence Unit (FIU). The FMA will pay special attention to sectors that – compared with other sectors – submit relatively few suspicious activity and transaction reports.

In this area, the FMA specifically examines the implemented reporting processes, and it analyses any anomalies, such as delayed FIU reports or a general reluctance to submit FIU reports. For investment funds, the supervisory focus is on the proper application of the exemption for mutual funds. Particular attention is paid to ensuring that this exemption is applied exclusively in cases of genuinely low risk.

As part of the MONEYVAL assessment, Liechtenstein received good marks regarding the identification and verification of clients and ultimate beneficial owners. In this context, the FMA will continue to focus its supervisory efforts on verifying information about the origin of assets through appropriate documentation.

Effective KYC measures are also a fundamental prerequisite for meeting the obligations arising from the International Sanctions Act (ISG). The review of the implemented control and monitoring mechanisms to ensure compliance with financial sanctions under the ISG sanctions ordinances will be another key focus of audits in 2025.

4.4 ICT security

The year 2025 will be shaped by the implementation of DORA. While audit reports from audit firms on the implementation of FMA Guideline 2021/3 on ICT security will still be available for 2024, implementation and further development of the adapted supervisory processes within the DORA framework will proceed simultaneously. These audit reports will be used to deepen the understanding of existing ICT risks and the measures taken in preparation for DORA. At the same time, risk-based audit activities and on-site inspections will be conducted to ensure that financial intermediaries have implemented measures to further enhance digital operational resilience and establish the new DORA reporting system.

4.5 Sector-specific supervisory priorities

In addition to the cross-divisional priorities, the following sector-specific supervisory priorities will be pursued:

For banks, the primary focus in 2025 will be the transition to Basel III and the EU banking package. This package, which implements the Basel III framework in the EU, entails a comprehensive revision of the CRR and CRD concerning regulatory metrics and introduces several updates to the supervisory framework for banks.

Crisis prevention will also be a key focus for banks in 2025. By reviewing and adjusting bank stress tests and conducting further analyses related to capital, liquidity, and reputation, banks should be able to identify and assess the growing economic and financial uncertainties. The results should enable banks, within the framework of the ICAAP, to recognise the risks of their current exposure, adjust their capital allocation and risk appetite to align with the threat landscape, and implement measures where necessary.

For insurance undertakings, conduct of business supervision will continue to focus on the issue of value for money. This entails identifying insurance products that fail to generate sufficient value for clients and implementing appropriate measures to improve these products. Additionally, it aims to ensure that products deliver adequate value to clients throughout their entire term.

Another priority for insurance undertakings is risk transfer, such as through reinsurance solutions to mitigate risk. In particular, risk assessments will be reviewed for their appropriateness and the presence of basis risks.

In addition to compliance with transparency and disclosure requirements (particularly under the SFDR and the Taxonomy Regulation), cyber risks and digital operational resilience will remain priorities in both the asset management and fund sectors, in line with ESMA requirements. Furthermore, the compliance and internal audit functions of management companies will undergo a risk-based focus audit. With the EEA MiCAR Implementation Act entering into force on 1 February 2025, another area of focus will be the authorisation of the first crypto asset service providers and the associated commencement of supervisory activities.

FMA

Abbreviations

AIF	Alternative investment fund
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DORA	Digital Operational Resilience Act
ESAs	European supervisory authorities
ESG	Environmental, social, governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FMA	Financial Market Authority
FIU	Financial Intelligence Unit
GDP	Gross domestic product
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and communications technology
IMF	International Monetary Fund
ISG	International Sanctions Act
KYC	Know Your Customer
OFAC	Office of Foreign Assets Control of the US Treasury
SFDR	Sustainable Finance Disclosure Regulation
USSP	Union Strategic Supervisory Priorities

Legal notice

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