



AFM Research Agenda 2021-2022

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The Dutch Authority for the Financial Markets

The AFM is committed to promoting fair and transparent financial markets.

As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

Contents

1.	Introduction	4
2.	Research themes for 2021-2022	5
2.1	The interaction between financial markets, regulation and the real economy	5
2.2	The impact of market behaviour on financial stability	6
2.3	The impact of digitalization on the financial sector	6
2.4	The protection of consumers in vulnerable situations	6
2.5	Effectively influencing the behaviour of financial companies	7

1. Introduction

The AFM conducts applied research that is relevant for supervision and regulatory policy. This research helps to answer big questions. How do markets work, how do consumers make decisions and what stimulates compliant behaviour of employees and decision makers in financial companies? Research helps us to understand both new problems and existing risks, and to develop effective solutions. It can provide us with insight into our own performance and thus provide tools for better supervision. Science provides us with the right methods for answering today's questions. And it can help us prepare for tomorrow's problems.

The AFM has been conducting research for some time to support what we consider an evidence-based approach to our supervision. Last year, for example, we published a [stress test](#) on the vulnerability of households together with the Central Planning Bureau (CPB). Our work in the field of corporate behaviour and culture is partly the result of a [research collaboration](#) with Utrecht University. And our work on [consumer behaviour](#) uses scientific methods and techniques.

We want to continue to harness the benefits of scientific research by conducting and publishing our own research. By being transparent about our research efforts, we also hope to encourage more relevant research by external scientists, industry associations and financial institutions. We use this to jointly develop relevant insights.

That is why we are publishing this Research Agenda. This contains the most important research themes for the next two years.

2. Research themes for 2021-2022

We have chosen to focus our research on five themes for the next two years. These are broad, overarching themes that reflect the strategic priorities of the AFM and will help us to achieve our supervisory objectives.

The five themes are:

1. The interaction between financial markets, regulation and the real economy
2. The impact of market behaviour on financial stability
3. The impact of digitization on the financial sector
4. The protection of consumers in vulnerable situations
5. Effectively influencing the behaviour of financial companies

Within and between themes we will give priority to research where the expected impact on our objectives is greatest in relation to costs. This means that we may do more research on some themes than on others. In general however, across all these themes there is important research to do. There may also be times when we research topics that fall outside of these themes. For example no one foresaw COVID-19, but it was an important topic for research in 2020. In the remainder of this chapter, we give a brief overview of each theme and some examples of relevant questions.

2.1 The interaction between financial markets, regulation and the real economy

The AFM monitors compliance with the rules. Compliance promotes fair and transparent financial markets and trust in the system. However, financial markets are only a means to an end: the efficient allocating of financial resources and offering consumers (and businesses) the opportunity to borrow, save, transact and insure themselves. The AFM's mission is to contribute to sustainable financial wellbeing in the Netherlands. That is why we focus our research on a better understanding of the interaction between financial markets and regulations on the one hand, and social developments on the other. Consider, for example, the interaction with trends such as climate change, increased labour flexibility and the tight housing market. We want to gain a better understanding of the effect of economic and psychological incentives on the behaviour of institutions and consumers.

For example, a 2020 study by the AFM provides insights into the possible magnitude and causes of financial problems as a result of the COVID-19 pandemic, including the implications of a more flexible labour market and the extent to which households are able to absorb a loss of income.¹ New research focuses on recent developments in mortgage lending and whether higher loan to income ratios (LTI ratios) at the start of a mortgage lead to greater financial vulnerability over the life of the mortgage.

¹ Joint publication with CPB: [Stresstest Huishoudens](#) (Dutch)

2.2 The impact of market behaviour on financial stability

A well-functioning financial system contributes to economic growth and ensures a good spread of risk between market parties. Risks that threaten the functioning of the system have potentially major consequences. The financial crisis ten years ago illustrates that, but also during the market shocks caused by COVID-19, markets dried up and central banks had to intervene to prevent large scale liquidity problems. The AFM's task is to contribute to a stable system through conduct supervision. In particular, the AFM focuses on systemic risks in capital markets, the asset management sector and to risks affecting large groups of consumers. Against this background, the AFM researches various potential sources of systemic risk in these sectors.

Research within this theme concerns, for example, the liquidity effect of Exchange Traded Funds (ETFs); the pressure on profit margins at Dutch asset managers during the COVID-19 market shocks; and, the effect of HFT on the functioning of capital markets.

2.3 The impact of digitalization on the financial sector

Digitalization has overlap with all aspects of AFM Supervision. Both with the supervision of financial services and capital markets, and with the way in which we supervise. Automation is the foundation of the current processes of the financial sector. Digitization creates a new approach and a different way of creating added value (data as a production factor). This also affects the design and distribution of financial products. Decisions of consumers are influenced by this. The AFM increasingly sees that the customer loses physical contact with the service provider: the customer contact becomes a digital contact. As developments continue, such as the use of machine learning and artificial intelligence, new opportunities and risks will arise. The technology perspective is therefore relevant in determining how vulnerable consumers can be protected, for example against undesired use of their data.

As a result of technological developments, shifts are also taking place in market structures and infrastructures. Such as the use of a shared IT infrastructure, often managed by parties outside the financial sector.

2.4 The protection of consumers in vulnerable situations

One of the AFM's goals is to contribute to the protection of consumers in vulnerable situations. With research in this theme we want to better understand where, when and how vulnerable situations arise. This helps supervisors prioritize risks in the financial services domain. We also pay attention to the contribution that financial products can make to increasing people's financial resilience. We are therefore interested in vulnerability and resilience: two sides of the same coin. For example: when does taking a loan lead to payment problems? And when does it prevent greater suffering? In our research we have an eye for the financial resilience of specific groups of people. Consider, for example, the increasing group of self-employed persons in the labour market who may not save towards their pension or who are not insured against being unable to work.

The AFM believes it is important that companies are steering in the customer's interest. All kinds of facets play a role in this. For example, the choice options made available by financial companies, the way those options are offered (online) and the information that is provided. The AFM encourages companies – sometimes also together with the AFM - to conduct research into the effect on decision-making behaviour. After all, insight into the effects of choice architecture contributes to making substantiated choices, for example about the structure of the new pension system.

2.5 Effectively influencing the behaviour of financial companies

The AFM has a wide range of intervention strategies available to promote compliant behaviour. Varying from the publication of guidelines for large groups of companies to conducting discussions with specific parties. Research can allow us to better understand the effect of our interventions in financial markets. We specifically focus on influencing the behaviour of people working at financial companies.

A promising research direction in this theme focuses on the question of which forms of supervision – principle-based and/or rule-based – contribute most to compliant behaviour and to the motivation of companies to do the right thing. Another relevant research question in this theme focuses on a better understanding of the cause of (non-)compliant behaviour within companies. And on the development of effective intervention strategies that aim to increase knowledge and the letter and spirit of the law. Field experiments can help here.

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