



Seamlessly exploiting human weaknesses

How to ensure that technology serves customers' interests?

Second annual conference on FinTech and Digital Innovation: Regulation and Disruption
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Ladies and Gentlemen,

- Thank you very much for inviting me to speak at your Conference. We meet each other in unprecedented times. Financial markets are in flux. I am sure I will not be the last person to acknowledge this today.
- Before speaking about the challenges posed by the digitalisation of the financial sector for our supervision, let me start by telling you about a scene from one of my favourite series on Netflix, The Crown. It's a wonderful historical drama about the reign of Queen Elizabeth II.
- In the second season, we see how the royal family struggles with the changing times. It is the 1960s and Great Britain is in crisis. Values and norms are changing, and the institution of the monarchy is coming under scrutiny. But the changes in the country are mostly passing Queen Elizabeth by. Her influence is waning, and she has faded to the sidelines.
- That is, until a certain Lord Altrincham tells Queen Elizabeth that she has to start mixing with what are called 'ordinary' people. Because if you want to reign effectively, you have to know what's going on. Hesitantly, Queen Elizabeth starts taking notice of these critical advice. For the first time, her Christmas speech is broadcast on TV, she mingles with the people and even opens the doors of Buckingham Palace.

- Lord Altrincham had great foresight. Only if you are *in* the playing field and understand what is going on around you can you reign effectively. Or in our case, supervise effectively.
- And this is very necessary, as our challenges may even be greater and more difficult.
- The financial playing field continues to change rapidly. The driver behind these changes is the combination of low interest rates and technological developments that make it possible to design digital services that play to our individual situations and our human emotions.
- The result is new players and new revenue models that take no account of national borders.
- Because, ladies and gentlemen, money flows. Products, services and data in the financial sector are moving freely across national borders and across the boundaries of the traditional sectors. More and more parties are offering their financial services across borders. Since all these factors are international in nature and transcend the influence of individual countries, we need everyone in Europe to work together to protect the public interest and avoid circumvention of regulation of regulatory arbitrage. Therefore strengthening EU-supervision (commission action plan) is only a small step. We need to go even further.
- These developments present new opportunities, but also new risks.
 - I want to look *first* at the opportunities. Because let me be clear: innovation is a wonderful thing. Without innovation, we have no economic growth. As a market supervisor, we want to encourage innovation wherever we can as long as technological development is leading to products and services that *are* in the customer's interest and have a positive effect on efficient and orderly markets.
 - The rise of comparison sites for financial products is one example. The benefit is greater transparency and lower margins, resulting in cheaper products and services.
 - And because data are being made accessible and linked in the right way, many more people are able to properly understand their own financial situation. Formerly, this was something reserved for the happy few. Now personal finance planning is available for a wider public.

- I also see many positive innovations in payment services. At many banks it's now possible that if you pay the bill your friends can pay their share to you via WhatsApp.
- But innovation also has another side. My 13-year-old son told me a few weeks ago that some of his classmates were investing in bitcoin. Amazingly, one boy in the third year at one point had lost 3,000 euros.
- Are you shocked? You should be! Trading in cryptocurrencies, driven by the Fear Of Missing Out, leads to a dangerous form of speculation, especially for private investors. Actually, last week, I read that there are now 865,000 owners of cryptocurrency in the Netherlands.
- Painfully enough, it is also not a coincidence that young people are going for these risky investment products. This is due to the gamification of the financial sector: more and more financial products – also products involving significant financial risk – are being offered with tempting techniques we know from the gaming world and the online gambling industry and that are being cunningly adapted for this purpose.
- Gamification – the word itself says it all – begins as a game. Just search online for 'start investing'. You will be offered plenty of sites where you can start with a free demo version without losing money straight away.
- On the face of things, this is playing without risk. Indeed, you will probably win a few virtual euros at the beginning. A boost for your self-confidence. And this kind of dopamine shot of course makes you want more. People believe they are ready to play for real, so they play on, but this time with real money.
- Speculating in markets for professionals with the look and feel of a game, under the guise of investing with the promise of making money.
- And more bait is offered: Paris Hilton recommending bitcoin. Big discounts when buying binary options. Anything that will encourage consumers to make impulse buys, while sleeping on a decision to purchase financial products or services is much more sensible. This kind of impulse buy can have very negative consequences, especially when made with borrowed money.
- The advertising for these products does not go through the traditional channels. Surely you don't think that the boy at my son's school has received a

brochure from a respectable bank? Of course not. The marketing machines of these companies make clever use of social media networks.

- The warning against the influence of these companies last month in Davos was not issued without reason. I was therefore pleased to hear that Facebook will no longer be showing advertisements for cryptocurrencies and related products for the time being.
- It is good to see that a network is apparently taking some responsibility. Just as I also believe that consumers also have a responsibility.
- And what should a supervisor do about this? How should we design our supervision to deal with this combination of gamification techniques, marketing via social media and complex high-risk products?
- Should we issue warnings? Do they do any good? We have to realise that many people, and particularly young people, see us as the old guard. A warning from a supervisor? So what? They see us as prehistoric... the nonentities on the sidelines.
- Of course we must continue to issue warnings, but I strongly support tightening our supervision.
- I am always being asked 'Merel, why don't you simply ban these binary options, CFDs, cryptocurrencies and ICOs completely'? And I always answer – and here as well – that the problem is not as black and white as it may appear. We must be careful not to take a blanket approach to deal with these products.
- Regarding binary options and highly leveraged CFDs, my view is clear. These products should be removed from the market as quickly as possible. The AFM and ESMA continue to strive for more measures to protect retail investors putting money or considering putting money into binary options and CFDs. And MiFID II gives us more options for product intervention.
- But how should we deal with cryptocurrencies and ICOs? This is an interesting question.
- Immediate prohibition, as in China? This is not my preferred option. Remember, this market transcends national borders, and we cannot put a fence around our country.

- Should we take no action at all, since most of these products are not subject to our supervision? This is also dangerous. A lot of people have put their money into cryptocurrencies and ICOs. So there is a good possibility that many people will suffer financial harm.
- There is good reason to issue warnings. But does this let us off the hook? I don't think so. Particularly when this phenomenon becomes permanent, we need to look carefully at the forms of supervision that are desirable for the various functions that cryptocurrencies and ICOs can fulfil. Blockchain technology is promising but has still a long way to go. ICOs could be interesting but not without the right level of investor protection.
- It is important to remember that we are not the homo economicus that we think we are. People's behaviour in economic terms is rational only to a limited extent. We are often impulsive and are tempted by greed. We pick up patterns from small rewards and put our confidence in the advice of others.
- The way in which these predictable 'imperfections' are abused is the new challenge for our legislature and our supervisors.
- This is why the AFM will work with experts on addiction next year. If you want to exercise supervision effectively, you have to understand how people are led astray. And we are already forming multi-disciplinary teams including data experts, scientists and psychologists.
- We are happy to share the insights thus gained. The exchange of knowledge and experience is an important first step, and is essential for close supervision of the risks in today's financial world. Among financial supervisors of course, but also between financial supervisors and non-financial supervisors, market participants, investors and youngsters.
- And the next phase is already upon us, being the increase in personalisation based on data on individuals and their behaviour. This also presents challenges for our supervision. And how are we dealing with this? Very practically, there is the implementation and interpretation of the GDPR. How does financial regulation relate to the GDPR, for example? We need to consult on this urgently.
- The same applies to PSD2; which payment data can be used or processed? How will financial supervisors or data protection supervisors deal with this, both

nationally and at European level? We need to consult on this urgently, and not only with respect to PSD2. The sooner there is clarity regarding the interpretation and focus of supervision with respect to data, the sooner we will be able to exercise supervision at European level more efficiently.

- Ladies and gentlemen, I now leave the fast-moving world of technology and return to 1961. Queen Elizabeth adopted Lord Altrincham's advice. Leaving the sidelines and entering the playing field was an inspired step. The people had a better understanding of the monarchy, and the monarchy – by adopting the advice - regained its place in society.
- Fortunately, we are not sidelined yet, but we do need to make sure that this will not happen in the future. This is why a conference like this is so valuable. It is excellent that the items of attention in supervision and regulation are being addressed now. Because one thing is certain: if we wait until someone else reminds us that we need to adapt, it will already be too late. The dynamic for this in 2018 is much greater than it was in 1961.

Thank you for your attention.