More room for innovation in the financial sector

Options for market access, authorisations and supervision

AFM - DNB discussion document

9 June 2016

Introduction

FinTech developments are calling for a new perspective on supervision

Innovation is essential to maintaining a healthy market economy. Only by innovating constantly can businesses continue to meet consumer demands. The same applies to the financial sector.

In the Netherlands, we are seeing an increasing number of businesses developing innovative business models, based on new technology known as FinTech. To date, their efforts have been focused primarily on payment services and lending operations.

In a joint effort, the Authority of the Financial markets (AFM) and De Nederlandsche Bank (DNB) want to offer innovative market operators scope for contributing positively to the financial sector. The two supervisory authorities aim to achieve this based on their own specific mandates. DNB seeks to achieve solid and ethical financial institutions and a stable financial sector. The AFM's behavioural supervision focuses on orderly and transparent financial market processes, clear relations between market operators and diligent customer care. These objectives are best ensured in a financial sector that offers scope for effective competition and variety. Technological innovation may contribute to this.

The international and cross-sector playing field is becoming increasingly important as technological innovation is making the financial sector increasingly international. FinTech market players are often active in different countries and are thus faced with different supervisory rules. The rise of FinTech has prudential as well as behaviour, privacy and competition implications. This is why it is important to ensure that the policies pursued by the different supervisory authorities at home and abroad are carefully coordinated.

The AFM and DNB want to accommodate the said developments and have taken action and initiatives accordingly, of course never losing sight of sustained stability and solidity of financial institutions. The main joint actions concern the launch of an 'InnovationHub' and a related initiative to create a "Regulatory Sandbox". DNB and the AFM have also launched individual actions, which this document will discuss separately.

Objectives and structure of the document

This joint AFM and DNB discussion document presents various options for adjustments in supervision that may contribute towards achieving responsible innovation in the financial sector.

This document aims to gauge which adjustments market operators and stakeholders believe to be necessary. Their response will contribute towards developing effective policies and will help the AFM and DNB to align their policies with those of fellow supervisors and regulators in the Netherlands and abroad.

Part 1 of this document presents a summary of the current situation and the initiatives and actions that the AFM and DNB have launched. We will explain why we launched these activities. We are looking forward to receiving your feedback to our actions, and we are particularly interested in hearing what you think of our InnovationHub.
Part 2 of this document depicts three possible scenarios for the future of the financial sector, and gives a brief explanation of their implications for supervision.
Part 3 describes various options for policy adjustments with respect to granting authorisations to financial services providers, which may provide for better alignment with the market. These options are based on current laws and regulations.

We would like to hear from market participants whether the policy options explored in this document are helpful to them. And we would especially appreciate your feedback on possible other actions and measures that we may take in order to enable providers with innovative business models to launch their operations quicker and easier with the right (tailored) authorisation in hand.

How can you respond?

- You can respond to this discussion document until 1 September 2016 by emailing us at **innovationhub@dnb.nl** and/or **innovationhub@afm.nl** stating: "Future-proof market entry" in the subject line.
- We would like to publish selected responses on our website, stating the sender's name. If you object to publication of your response, or to our mentioning the name of your organisation, please state this specifically in your email message.
- The discussion document includes a list of questions. You would be doing us a great service by answering these questions clearly and specifically, but we welcome more general responses as well.
- We will also provide contact opportunities in order to discuss the options for improvement of market access in more detail. We will publish relevant information on the joint AFM and DNB InnovationHub website.

Which actions have already been taken?

Part 1

Market players want the supervisory authorities to respond promptly and to communicate clearly on authorisation applications.

This has emerged from the evaluation interviews that we had with different market players in the past few months, and it is reflected in Actal's advisory document that calls on supervisory authorities in the Netherlands to remove unnecessary barriers to market entry. For its part, society expects the AFM and DNB to enhance trust in the financial sector by means of their supervision on the financial industry. The rise of and variety in FinTech businesses also poses a new challenge for financial sector supervision and calls for a new approach. Hence, supervisors will have to find a balance between providing scope for financial sector innovation and monitoring potential risks arising from innovation. This also emerges from DNB's research report entitled "Technological innovation and the Dutch financial sector", published earlier this year, and Section 4 of the spring 2016 issue of DNB's Overview of Financial Stability entitled "The implications of technological innovation for financial stability."

We have undertaken several actions and developed new activities, in the area of FinTech-related supervision issues and market access in particular, in order to respond better to market developments and serve market entrants as best we can. Our interviews with market operators have revealed that they value regular contact with the supervisory authorities. Market entrants have also informed us that they often don't know which financial regulations apply to particular services and which regulatory trajectory they can expect.

Joint AFM and DNB actions

1. ***The AFM and DNB are launching a joint InnovationHub***
   A recurring wish expressed by the market is that the AFM and DNB work together more. At the same time, we are seeing that an increasing number of innovations are subject to supervision by both the AFM and DNB. In order to respond better to questions from market operators, the AFM and DNB are launching a joint InnovationHub[1]. The new joint AFM and DNB InnovationHub wants to give space to positive innovative contributions to the financial

[1] The AFM has already launched a ‘pilot InnovationHub’: https://www.afm.nl/nl-nl/professionals/doelgroepen/fintech-ondernemingen - the AFM's experiences have been incorporated into the joint InnovationHub.

sector. The main objective of the InnovationHub is to answer any questions that new and existing financial operators may have concerning regulations and policies in the context of innovative concepts or ideas.
The Hub is primarily intended to provide informal support to new entrants at an early stage of operationalising an innovative product or financial service, i.e. preceding the costly and time-consuming authorisation trajectory. In the early stages of inception, it is especially helpful if the supervisory authorities share their thoughts about innovative concepts in relation to financial supervision. We expect that this will provide additional support for new market entrants, e.g. in finding out which authorisation, if any, fits the launch of an innovative product or financial service. Both the quality standard and speed of support play a crucial role here. The InnovationHub aims to provide these facilities.

Secondly, the InnovationHub wants to facilitate access to the supervisory authorities for financial market operators by offering a central point of contact on the websites of both supervisors, and providing a coordinated approach to possible support.

Thirdly, the InnovationHub creates a central site for innovation-related issues. These include consultations, policy proposals, frequently asked questions and other useful information for new and current market players.

And finally, in this way the AFM and DNB will intensify coordination and cooperation on all matters related to innovation in the financial sector, which should enhance knowledge sharing between the two supervisory authorities and ultimately boost the understanding of innovations.

For now, the InnovationHub will concentrate on providing support to market operators. The InnovationHub will expand its activities in the second half of this year. These may include specific events relating to FinTech themes or more general question time for market operators and supervisors. As part of this effort, we are also looking to cooperate with other relevant supervisory authorities, such as the Netherlands Authority for Consumers & Markets and the Data Protection Authority.

The AFM and DNB are looking forward to receiving specific feedback on the objectives and activities of the InnovationHub.

2. ***DNB supports an active dialogue with market operators, supervisors and regulators***

We regularly speak to a range of different market operators, including supervised institutions and newcomers as part of our activities and examinations relating to innovation in the financial sector. FinTech companies are playing an increasingly important role. The InnovationHub is expected to further enhance the dialogue between supervisors and market operators and to contribute towards bolstering the exchange of knowledge and insights with peer supervisors in the Netherlands and abroad. In view of the international arena in which financial services providers operate, it is crucially important for supervisory authorities and regulators to coordinate their policies on an international level. The AFM and DNB have taken an active role in this, for instance by taking part in international working groups and emanating their viewpoints.

Actions taken by DNB

The current authorisation trajectory has shown that processing the applications of innovative market operators and the related communications are very time consuming both for DNB and for the applicants. This is in part attributable to the fact that we do not make sufficiently clear to these applicants what it is exactly that we want them to submit and what they can expect to happen during an application process of this kind. This has emerged from the evaluation interviews that we had with different market operators in the past few months, and it is reflected in Actal's advisory document referred to above. This has led us to take the following actions.

3. ***DNB is reviewing its internal consideration process for authorisation applications.***
   This is based on evaluations made in the first half of this year and the Actal report referred to above. Our evaluation centres on the question which improvements could be made in order to process applications for authorisation as smoothly and efficiently as possible from start to finish. DNB evaluated and adapted its own operational approach, which has culminated in improvement proposals that have been or will be implemented this year. We are developing a digital portal for submitting documents and forms for market entry.

4. ***DNB is producing additional and more easily accessible information on authorisations that meets market demands.***
   The information targeted at payment institutions on DNB's website has been refreshed - e.g. by adding new and readable texts and a transparent application form. For exempted payment services providers, an improvement effort of this kind was already completed last year with the introduction of a notification form. This has led to better quality notifications. Content-related support before and during the authorisation application process will be tuned better to the applicant's requirements. Examples are online information supply and the traceability of information, in addition to aligning contact during the application process better to applicants' needs, in order to provide them with clear information on the progress of their application and what is still to come.

5. ***DNB recently set up an Innovation Steering Group***
   The Innovation Steering Group (ISG) combines various innovation-related projects that DNB is implementing. The ISG consists of the directors of three supervision divisions and representatives from the Payments, Legal Services and Financial Stability divisions. For subjects relevant to the AFM, the AFM manager of the Innovation and FinTech programme team (see under 8) joins the ISG.

Actions taken by the AFM

6. ***As part of the effort to intensify coordination and cooperation between DNB and the AFM, the latter is also improving the user-friendliness of its website***
   The website has specific information for each type of financial institution. The information included for crowd funding platforms is a case in point. As there is no specific legal framework in place and as there is a need for using a kind of "phased model"[2] for these platforms, we found it important to provide accurate information to stakeholders.

7. ***AFM crowd funding team***
   Crowd funding is a major new area within the AFM's supervision mandate, which is why a dedicated crowd funding team has been set up to deal adequately and swiftly with general questions and applications for authorisation. The team also monitors the tenability of the current "phased model". The AFM's legislative letter to be published shortly has more information on the crowd funding team.

8. ***AFM "Innovation and Fintech" programme***
   In addition, the AFM formed a dedicated "Innovation and Fintech" team at the start of this year. The team closely monitors FinTech developments in order to get an understanding of its consequences for the capital and retail markets, and to have the rest of the organisation anticipate on the changing environment. The AFM will accommodate innovations that serve customers' interests. The team also makes a constructive contribution to the development of new regulations for innovative concepts and players.

Questions

1. What do you think about the actions that the AFM and DNB have launched?
2. Do the objectives and activities of the InnovationHub respond to your needs?

[2] The AFM has not asked the legislature to develop a comprehensive authorisation regime. Depending on the development and phase of the innovation, we look at which type of supervisory requirements should apply.

Implications of FinTech for the financial sector

Part 2

DNB's report entitled "Technological innovation and the Dutch financial sector", published early this year, uses a scenario analysis to estimate the possible impact of technological innovation.

Our analysis generated three scenarios for possible future situations (see Figure). We will explain these scenarios briefly and discuss a number of opportunities and risks for the financial sector.

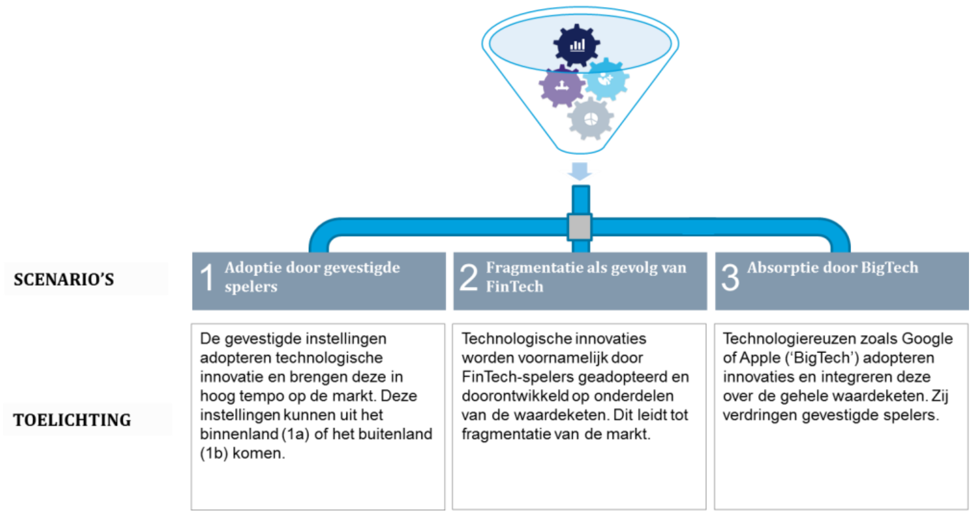

Figure: Three scenarios

<u>Scenario 1</u> - *Adoption* sees further implementation of innovative applications, both by traditional financial firms and FinTech operators. We expect these parties to work together more and more, with traditional institutions increasingly using the services of new market players. We are already seeing this trend in cloud services and Software as a Service (SaaS).

<u>Scenario 2</u> - *Fragmentation* assumes that mainly the new, specialised financial services market players will use innovative applications. Traditional financial firms will fall behind and lose market share to FinTech companies as a result. Contrary to scenario 1, FinTech companies will compete with banks, insurers and investment firms rather than cooperate with them. As FinTech companies tend to specialise in one product or service, this will cause fragmentation in the financial sector. Not only will the number of market players increase, but their variety as well. An example of scenario 2

is the rise of new payment institutions.

Scenario 3 - *Absorption* assumes that big technology companies (BigTech) will enter the financial services market and take over large parts of the value chain. Partly owing to their strong capital positions, their high name recognition among consumers and their technological edge, these players will succeed in competing effectively with the more traditional financial services companies. Contrary to scenario 2, there will be no fragmentation as BigTech companies offer various financial services (e.g. payment, investment, insurance) rather than concentrating on one single service as is usual among FinTech companies.

Without jumping to conclusions about the likelihood of these scenarios materialising, they show that technological innovations may substantially change the structure of the financial sector. Regulatory bodies and supervisory authorities must be alert to these developments. For the AFM and DNB it is important to have a full regulatory framework in place that is adequate and contributes to their supervisory objectives.

Implications and potential risks

Looking at the implications of the three scenarios, we note the following points. In scenario 1 we see increasing cooperation between different financial and non-financial companies. This may contribute towards growing efficiency and diversity in the financial system. Efficiency will increase as FinTech companies will induce traditional players to increase their competitive edge and customer focus. Innovation will also force traditional institutions to concentrate on profitable products and services. The arrival of new types of market operators will increase the variety of the financial landscape.

In addition to positive aspects like increasing specialisation and cooperation between traditional and new financial firms, we also see potential risks for the financial sector. In scenario 1, our concerns primarily have to do with operational risks related to contracting out of activities. Complex technology such as artificial intelligence and cloud computing is increasingly being offered as a service by third parties. As authorised financial services companies contract these services and functions out more to third parties, operational risks related to process and information management (e.g. customer details) increase. Financial services companies are responsible for compliance with supervisory rules by third parties to whom they contract out activities. From the moment FinTech companies start offering activities requiring authorisation, they are subject to supervision and all applicable requirements. Market participants must be aware of these requirements, regardless of the scale of their operations. Proportionality in supervision does not apply to safety and privacy; no concessions can be made here. In addition to operational risk, scenario 1 can also lead to new concentration risks if one or more parties start dominating specific segments of the value chain.

Scenario 2 implies a big change in the financial market. As in scenario 1, the changes discussed may benefit the efficiency and above all the diversity of the financial sector, but this scenario also brings new uncertainties and risks. We for instance see financial risks increasing if the current market players were to lose a significant part of their market share quickly, due to competition from FinTech. This may be a real threat to financial stability. The financial and operational robustness of FinTech parties cannot always be taken for granted, as was shown by a recent integrity incident at a US credit platform. A fragmented financial market may also be less transparent, which may cause concern over compliance with the duty of care, if consumers depend on a whole range of different services providers.

This scenario also has implications for the effectiveness of the current supervision of financial firms. Not only will the current supervised institutions be responsible for a smaller proportion of financial services, it will become increasingly difficult to fit new providers into the current legal framework. A fragmented financial landscape of this kind poses challenges for supervision.

Scenario 3 may offer consumers benefits in the sense of ease of use and costs. Today's large technology companies are at least doing well in these areas. So this scenario may benefit efficiency in the sector, but this will not apply to the same extent to diversity, if a small number of BigTech players start dominating the sector.

We anticipate financial risks, especially in case of a quick transition (see also scenario 2), concentration risks if one or more very big technology companies - like Apple, Alibaba, Amazon, Google, or Facebook – enter the market, integrity risks surrounding use of data (see also below) and risks beyond the scope of supervision. If a BigTech company enters the financial market, it could very quickly steal large numbers of customers from the existing financial services providers. These companies have big name recognition and enormous financial resources. BigTech companies are very influential anyway as customers depend on them for many different services. If a company of this kind starts offering financial services, concentration risk may emerge very quickly.
Where integrity risks are concerned, BigTech companies are currently not subject to regulations related to the issue of clear user and customer terms and conditions to the same extent that banks are. Anther important point to consider is how the financial services provided by BigTech companies will be separated from their other activities not relating to financial services. Non-financial services must not be allowed to compromise either the solidity of operational management relating to financial services or financial supervision.

As described in the notes to the different scenarios, the increasing use of technology-based customer data may create huge benefits for customers. Here you may think of aligning services and products to customer requirements, or giving customers updates on their financial behaviour or spending pattern. Another benefit is that fraud and whitewashing can be more easily detected. We also see risks, however, regardless of the scenarios. Data may for instance be abused, causing miss-selling and product pushing. Customers may also be refused based only on data analyses that may not always be correct (digital predestination). The use of complex technology can easily cause

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information asymmetry: customers do not always know all the whys and wherefores of financial services or products. The question is to what extent this will hamper the decision to opt for a fitting product or service. Other risks include possible data overkill, with systems only being able to produce very generic analyses, and forms of financial exclusion, whereby people who are not or reluctantly prepared to disclose data are excluded.

Questions

1. Do you recognise the above scenarios? Are there any other trends and risks related to innovation that you believe to be important for supervisors?
2. Do you recognise the identified implications of each of the scenarios? Which risks should supervisors earmark as high priority in your opinion?
3. Which other steps can the AFM and DNB take to accommodate innovative developments without obstructing their supervisory mandate?

Exploring the boundaries of current laws and regulations

Part 3

We are looking forward to hearing from market participants how, based on the current authorisation framework, we may better align our activities to current and new market requirements.

Our purpose is to facilitate easier market access for innovative financial services companies, while at the same time adequately supervising these new innovative players.

We have formulated three options that may facilitate market entry for new innovative financial services providers. The options presented below are rough sketches that have to be further refined.

We want to mention here that not all innovative financial services business models require authorisation from DNB or the AFM. There are also options for exemption and dispensation.

Options and descriptions	Companies eligible for this option	Conditions/points for elaboration
Option 1 **Regulatory sandbox** *A regulatory sandbox is a "safe space" in which businesses can test innovative financial products, services and business models without immediately incurring all the normal regulatory consequences of pilot activities.*	**Non-authorised businesses** Based on restricted "tailored authorisation", we will determine which supervisory requirements are essential to a responsible test, and which requirements lend themselves to temporary dispensation. **Authorised businesses** Authorised businesses will be granted permission to test financial innovations with the supervisor's support and dispensation from the rules applying to these innovations where possible. *This option does not apply for banks or financial services companies applying for a banking authorisation. Under the SSM, banks must comply with all the rules applying to banks.*	The rules and restrictions for tailored authorisation or dispensation are still to be specified. They may be case-specific. We approach interpretation issues in the application of rules pertaining to innovations by providing support (guidelines) and where possible dispensation from specific rules. A precondition for this is that the underlying statutory supervisory standards are complied with. This is highly case-specific and requires practical detailing.

Option 2 **Provisional authorisation** *A provisional authorisation whereby the applicant complies with the relevant authorisation requirements and has the option of ascending to full authorisation.*	**Authorised and non-authorised businesses** These businesses will be issued with a limited tailored authorisation that excludes the rules applying to the activities outside of the (partial) authorisation. This type of authorisation offers applicants scope for ascending to full authorisation. Applicants must comply with all rules applying to the activities permitted under the authorisation. *This option is also open to banks*	For the time that applicants are unable to comply with the requirements for full authorisation, the supervisor has the option of issuing a provisional authorisation. The options (policy frameworks) for provisional authorisation are still to be evaluated case by case and must be further detailed.
Option 3 **Opt-in authorisation** *Voluntary banking authorisation*	**Pseudo banking institutions** Institutions whose business it is to a or b: a. receive repayable funds, outside a restricted circle, from parties other than professional market operators, and to grant credits for its own account. b. receive repayable funds and to make investments for its own account, not being credits.	The businesses are liable to comply with the supervisory rules applying to banks. See Section 3:4 of the Financial Supervision Act (*Wet op het financieel toezicht - Wft*).

The general rule for option 1, and to a lesser extent option 2, is that supervisors want to make the process of market entry more flexible. Flexibility that offers more scope for compliance with supervisory standards within the boundaries of the current legal framework. This does not change the fact that new entrants and providers of new and innovative products and financial services are required to comply with the rules and regulations applying to their activities. That said, it is important for supervisors to have a clear understanding of the business model. The authorisation procedure is more than just a formal legal process. These considerations come together in the application of the following three options.

Option 1 Regulatory sandbox

A regulatory sandbox is a useful instrument for shortening the time to market for innovative products and services, or to offer more scope within the existing authorisation for experiments and innovative ideas that are not fully compatible with the current supervisory regime. The supervisory authority closely monitors the activities of the business taking part in a regulatory sandbox. In this way, the measures that business have to take to comply with all authorisation and supervisory requirements can be adequately prepared and implemented. The concept of "sandbox" is interpreted differently in different countries. This is why it is important to emphasise that a regulatory sandbox in the interpretation of the AFM and DNB is a controlled experiment where market operators can test innovative concepts with the approval of the supervisory authorities. The authority issuing the authorisation assesses each experiment on a case by case basis. AFM or DNB. So depending on the type of application, the requirements may differ for each case.

The British Financial Conduct Authority (FCA) set up a regulatory sandbox on 9 May 2016. A testing ground of this kind may also be beneficial in the Netherlands in order to facilitate market entry for innovative financial products and services. The AFM and DNB are in contact with the FCA about this and are closely monitoring relevant developments.

Option 2 Provisional authorisation

The option of a provisional authorisation gives the applying business the opportunity to start its operations at an early stage. Even if not all authorisation requirements have been complied with. The provisional authorisation is subject to limitations and conditions (requirements and restrictions) and is only valid for the activities for which the company complies with the supervisory requirements for authorisation. In this sense it is a full authorisation, but it is subject to limitations. This enables the company to start business while taking measures to comply with the requirements for full authorisation without limitations - comprehensive authorisation. The supervisor will issue the full authorisation after concluding that the applicant has complied with all the relevant requirements.
If the company decides to limit its operational activities permanently to those authorised under the provisional license, it will be in the possession of a partial authorisation. This is a tailored authorisation that only permits the activities for which it has been granted. The authorisation is in proportion to the nature, size, risks and complexity of the applicant's activities.

The Financial Supervision Act framework offers sufficient scope for applying this approach in the Netherlands, too. DNB has already issued several provisional authorisations, and the AFM has a comparable model based on the same principles that it uses for crowd funding platforms.[3]

[3] https://www.afm.nl/nl-nl/professionals/doelgroepen/crowdfundingplatformen

A provisional authorisation offers new entrants the following features.

- Certainty about the (provisional) issue of the authorisation prior to making large investments to incorporate a business, e.g. investments in IT infrastructure, hiring staff, etc.
- The time and opportunity to get the necessary specifications from future service providers and suppliers in order to build the company's own IT systems.
- Better access to funding, owing to the real prospect of full authorisation.

This option is in principle open to innovative players, providers intending to enter the Dutch market, and traditional financial services providers like banks.

With respect to banking authorisations, in the initial (provisional) phase the applicant must comply with all requirements applying to the activities that banks are permitted to perform during the provisional phase of the authorisation. A full banking authorisation can be issued if the applicant also has its operational management in order with respect to the authorisation requirements with which it was unable to comply during the provisional phase of the authorisation.

Option 3 Opt-in authorisation

The opt-in authorisation could be used as a basis for "tailored authorisation" for providers offering bank-like activities, as described in Section 3:4(1) of the Financial Supervision Act. At present, DNB does not issue opt-in authorisations. At the time of its inception, the opt-in regime was expressly intended as a temporary regime between the original Act on the Supervision of the Credit System (*Wet toezicht kredietwezen 1992*) and the current Financial Supervision Act. If market participants believe that the use of opt-in authorisations meets a demand, DNB and the Ministry of Finance will explore the option of also making new entrants eligible to apply for opt-in authorisation.

Opt-in authorisation currently comes in two forms, a and b as described above. The activities concerned vary from the activities that define a business as a bank. A bank is defined as a credit institution in the sense of Section 4 of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR). This means an undertaking the business of which is to receive deposits or other repayable funds from the public and to grant credits for its own account. A significant difference with standard banking authorisations is that DNB can issue these opt-in authorisations by itself without needing the ECB. This does mean, however, that opt-in authorisation does not come with a European passport, i.e. it does not provide for access to the financial markets of other Member States of the European Economic Area.

Opt-in authorisation offers the following features to new entrants.

- "Tailored" assessment of the envisaged activities.
- An authorisation that allows for activities to be performed in the Netherlands.
- Scope for shaping the business model to accommodate access to the Target2 interbank payment system.
- The option of attracting deposits, launching lending operations, or offering both these banking activities (within set boundaries).

Funds attracted by opt-in institutions are not covered by the deposit guarantee scheme.

Questions

1. Could a regulatory sandbox or a provisional authorisation simplify the launch of a financial institution, or facilitate innovation?
2. Does the concept of a regulatory sandbox, respectively provisional authorisation, respond to market needs?
3. Which business models would be suitable for provisional authorisation?
4. Does the market need opt-in authorisation?

Based on your response to this document, we will inform you later this year on our plans with the regulatory sandbox, provisional authorisation, and opt-in authorisation.

The bottom line: a good exit strategy

A generic precondition that applies to all of the above depicted options is that businesses must put exit strategies in place for orderly market exit, if market entry proves unsuccessful. New market entrants are already asked to provide for an exit strategy. The purpose of an exit plan is to identify how the firm can cease business operations in an orderly fashion without harming third parties and financial stability. Adequate exit plans could contribute towards an increase in new entrants, as authorisation may be granted when there are still residual risks. The exit plan guarantees that the public will not have to pay the bill and that financial stability will not be in danger if the business fails.

Which points should be included in an exit plan?

- The possible and most likely causes for the business failing.
- A list of triggers that ensure that the exit plan is set in motion.
- The decision-making process and procedure that follows after the exit plan triggers have been activated.
- The team or crisis team executing the exit plan.
- How the exit may be performed in an orderly fashion plus at least one alternative option if the basis scenario proves infeasible for any reason.
- Identification of the business's essential functions, which must be continued after the exit plan has been activated.
- Contracts that must be upheld and contracts that must be terminated.
- A communication plan to accompany activation of the exit plan.

The severance of customer relations in exit plans is within the remit of the AFM that is charged with market conduct supervision. The AFM and DNB work together on this.

Your response

We highly value your response. Your response will contribute to facilitating market access for innovative financial services providers, in order for us to increase the scope for innovation in the financial sector.

We look forward to receiving your response to this document by 1 September 2016 at the latest. You may give us a general response, or answer the questions at the end of the separate sections of this document.

List of questions

With part 1: Which actions have already been taken?

1. What do you think about the actions that the AFM and DNB have launched?
2. Do the objectives and activities of our InnovationHub respond to the market's needs?

With part 2: Implications of FinTech for the financial sector

1. Do market players recognise the above scenarios? Which other trends and risks related to innovation should supervisors pay attention to?
2. Do you recognise the identified implications of each of our scenarios? Which risks should supervisors earmark as high priority?
3. Which other steps can supervisors take to accommodate innovative developments without obstructing their supervisory mandate?

With part 3: Exploring the boundaries of current legislation

1. Could a regulatory sandbox or provisional authorisation simplify the launch of a financial institution, or facilitate innovation?
2. Does the idea of a regulatory sandbox, respectively provisional authorisation respond to market needs?
3. Which business models would be suitable for provisional authorisation?
4. Does the market need opt-in authorisation?