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Netherlands Authority for the Financial Markets (AFM)

Session: Market innovation and the challenges for regulators

Intro: different types of innovation over time

Ladies and gentlemen,

Goodmorning and thank you for inviting me to speak here at the Eurofi-event. As you might be aware financial markets are in flux. I would like to share my story on disruptive technology and innovation, on fintechs, new business models and so on. But let me first start by telling you about something from my past.

Let me share a story on the movie 'Back to the future' featuring Michael J. Fox, that came out in 1985; yes, this is 31 years ago. And I recently watched it with my youngest son, Kik.

For me the movie is off course all about nostalgia, and I figured that my eleven-year-old son, who is always playing the most high-tech video games, would be bored by the movie. Yet, to my surprise, he loved it! He loved the car, the flying skateboard and he loved the idea of the future and the way things change or not. After all, there are still no self-tying shoelaces, instantly drying cloths or flying cars. For me, the fact that he loved the movie, teaches me that although we are not always good at predicting the future, we should always try.

New developments in the financial sector arise every day, which makes times exciting as well as challenging. New forms of technology are disrupting the traditional models of finance, a re-arrangement of the role of traditional key-players in the sector is taking place and new participants are emerging in the markets. These developments give rise to new opportunities but also come with new risks and a great degree of unpredictability and insecurity. Including for us as a supervisor.

Trends in technology and e-commerce

I would like to kick-off with mentioning a view trends in technology in combination with the major paradigm shift in e-commerce we currently find ourselves in. The increase of big data in combination with new tools for data-analytics, will not only make it possible to structure processes more efficient, but will eventually have the ability to predict aspects of our lives and our businesses. If I talk about new techniques I predominantly think of blockchain, artificial intelligence, advanced identification, authentication and encryption techniques. Tech-driven companies will hit traditional financial services, like investment analysis, investment advice, estimation of credit and insurance risks, and the sale and distribution of financial products, at its hart.

The ability of the technique is amplified by the ever growing engagement of consumers with their mobile phones. Did you know that people check their phones on average 150 times a day? Now it won't come as a surprise that 90% of the time people have their phones within arms reach.

New generation in payment services: PSDII

What if we combine these trends in technology and e-commerce with new forms of regulation that will boost competition and create new opportunities for both incumbents and fintech parties?

PSD2 which will foster a new generation in payment services. The most interesting thing about this regulation is that it will allow third parties to access account information of consumers and businesses. We expect this to be very promising as it will allow consumers and businesses to get better overviews of their financial situation and their spending behavior. Furthermore it will create the opportunity to offer traditional financial services (loans, investment, savings advice etc.) more seeming less and frictionless. Let alone more digitalized and therefore more efficient. But as a regulator we can't just let ourselves be carried away by these promising effects. Unfortunately, we do not have a crystal ball that will show us what the future will look like.

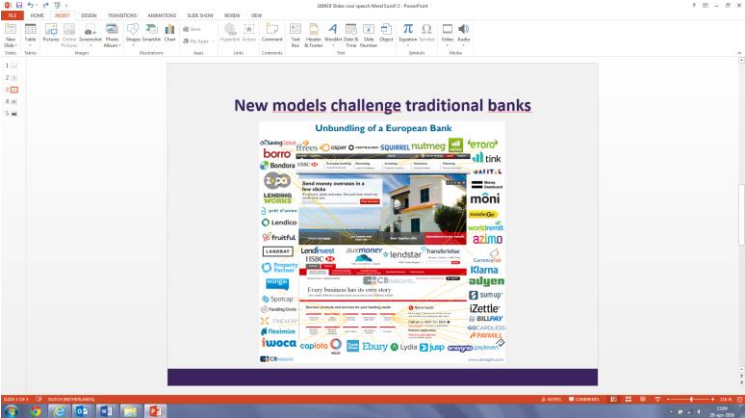
Disintermedition & New Supervisory landscape

I talked about the effects of big-data, trends in e-commerce, associated IT and privacy issues and the questions supervisors should try to find some answers to.

The PSDII example shows how the efficiency of chains by disintermediation and automating processes create opportunities for new players and new business models. Of course this is not only relevant in the context of PSDII. Traditional banks and other financials have to face the fact that their business models are

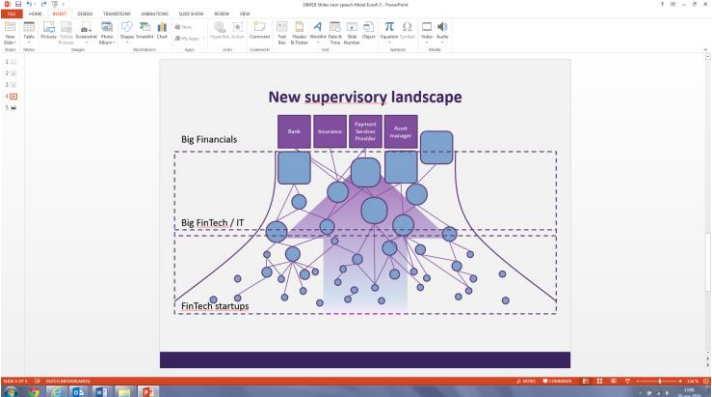
being challenged by new players such as fintech companies that implement new technologies like blockchain, artificial intelligence and so on. Innovative parties and fintechs have the advantage of being relatively small and flexible which makes them more able to constantly adapt their models

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This causes changes in the supervisory landscape that is both important to regulators and supervisors.

Slide 4:



On top of that we need to be aware of new companies entering the financial services space without being part of the regulated space yet.

Good examples can be found in the area of marketplace lending, where policy makers and supervisors struggle to develop the right form of regulation and

supervision. These phenomena make it possible for consumers and businesses to lend and expand by getting funds directly from the public or institutional investors through funding platforms or service providers. As with other financial products, platform-based lending products have a number of key risks which may have impact on investors and borrowers. These include: fraud and cyber security risk, the risk that conflicts of interest of the platform (provider) are not adequately managed (which may lead, for example, to reduced credit assessment standards) and the risk that investors and borrowers do not have sufficient understanding of the product when deciding to participate.

These developments require supervisors to make new interpretations of existing regulations. One way of dealing with these new challenges is by investing in expertise and knowledge, shift our focus and time from the large and traditional banking to new players and think from a broader perspective.

At the AFM we therefore started a specific program to build up our expertise on Innovation and Fintech, so that we can also carry out our supervisory duties. Our goal is to prevent unnecessary barriers and high costs, while at the same time maintaining a level-playing field. We also invest in knowledge on cybersecurity and IT. An important requirement for the EU regulatory process is to keep away from single-perspectives; the silo-based approach is simply not effective when regulating capital and retail markets. The purpose should be to keep the balance between stimulating innovation and safeguarding the interests of customers and society. This balance is essential for contributing to a sustainable financial system and prosperity.

Thank you and I wish you a very interesting seminar.