Steven Maijoor: Changing landscape, changing supervision - preserving financial stability in times of tech revolution

Speech by Mr Steven Maijoor, Executive Director of Supervision of the Netherlands Bank, at the 6th Annual Afore Conference, Amsterdam, 9 February 2022.

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Hello everyone. It is great to be here again at the Afore Conference 2025.

Yes, you heard me correctly. It is 2025, and it's already the third physical conference since the end of the COVID pandemic a few years ago. You may have come here by car. As you drove on the highway, your semi-autonomous vehicle was sending real-time data on your driving style to Google Insurance. Your insurance premium is adjusted accordingly every month, and the underwriting risk is sold to a white-label insurance company. Since you've had this car for almost three years now, you're soon expecting the first ads on your smartphone for the car models that your eyes have been scanning over the past few months. They will be accompanied by several personalised financing offers from banks and fintechs, based on your credit score data collected from a host of e-commerce and other data sources. Since the exchange rate has been rather favourable lately, it may be attractive to use the stable-coin savings you hold in your e-wallet attached to your favourite BigTech platform to make the purchase.

Sounds like science-fiction? I wouldn't be so sure. Some parts of this scenario are already becoming reality as we speak. And although it is notoriously difficult to make predictions about the future, technological developments are going so fast that it may be wise not to dismiss this, or any other, scenario upfront.

Now personally my tech-savviness has its limits. My son is friendly enough to remind me when I play FIFA with him on the Play Station. But believe me, I'm just as excited as you are about the tech revolution. Also as a financial supervisor. Because let's face it, fintech may offer large benefits to consumers in terms of new services, ease of use, inclusiveness, and costs.

Over the years, as a conduct supervisor at ESMA, and now as a prudential supervisor at the Dutch central bank, I've seen quite a lot of innovations. I see innovation as a good thing. Throughout history, financial innovation has often been a driver of economic growth and prosperity. That's why in a market economy, the challenge for financial supervisors has always been to adapt to innovation. So that we can benefit from the good, while keeping in check the bad. Nothing new, you might say.

But still, amid all the excitement, I understand the nervousness of financial supervisors about fintech. Because right behind the high-tech picture I just painted for you, all kinds of new risks and uncertainties are looming, many of which go to the very heart of our mandate, which is to safeguard the stability of the financial system. For example: Will the well-known market power of BigTechs increase concentration risks in finance? As the value chain gets sliced between various parties, is it still clear who bears the ultimate financial risk? And how can we be certain it's still managed and priced adequately? What if a major incident relating to data privacy triggers a loss of trust in a

BigTech? These are just a few questions. There are many more. Some have no doubt already been mentioned by previous speakers.

But perhaps the most fundamental question is this: in a system where so many new, previously non-financial, players are becoming instrumental in offering financial services, how are we, as financial supervisors, going to ensure that the financial system remains robust and consumers stay safe? How can we make sure that we continue to have the right mandate and effective instruments to ensure that outcome?

Let's take for example the rise of platforms. Banking and insurance are increasingly offered as a service on a platform that offers all kinds of other products and services. Platforms are often active across various sectors, and here financial regulators are not the only, nor even the primary regulator as they used to be. This makes it more complicated for them to have the full picture of the activities and risks of the entire platform. It also raises questions about the extent to which financial regulators should look at a platform's non-financial activities.

Next to the issue of having the full risk picture, financial supervisors will have to act more and more on the basis of what I call horizontal rules and regulations. Rules that are not specifically designed for the financial sector, but have a much broader application. Like for example on data privacy and Artificial Intelligence. But financial policymakers and regulators do not have a seat at the table where and when these rules are set.

Blockchain-based platforms pose even more profound challenges. These are often a great deal more decentralized than traditional financial intermediaries. What is the supervised entity here?

Next to the rise of platforms, another important development is stablecoins. The use of private stablecoins is still limited, partly because of their risks to users. But stablecoins also have features that could make them attractive, for example in countries with weaker institutions and unstable national currencies, and for cross-border payments. As soon as the conditions are right, things could go very fast. Based on the experience with dollarization in developing countries, we know there is a tipping point beyond which adoption of a new currency increases exponentially. Without regulation, such a steep rise in the use of private stablecoins could pose a threat to financial stability.

Given the nature of this new wave of innovation, the guardians of the financial system will have to be innovative themselves in redesigning regulation and reorganizing supervision.

I think cooperation is key here. Since the tech revolution crosses both geographical and sectoral borders, regulators and supervisors from various jurisdictions, remits and sectors will have to join forces.

Now, again you might say this is not new. Regulation and supervision have always followed the changing structure of finance. In the 1980s, regulators responded to the internationalisation of banking by forging an international agreement on minimum capital requirements: the Basel Accords. And in the 1990s, the rise of financial conglomerates was followed by regulations on consolidated solvency and the cross-sectoral merging of financial supervisors.

But at the same time, these examples immediately make clear what the scale of the current challenge is. Because this time change does not take place across one, but across multiple dimensions: national versus international, financial versus non-financial, entities versus activities. And that all at the same time. This is not Basel 3, this is Basel to the power of 3. So whatever we do, we'd better start by ordering a couple of very big meeting tables. Or, in the spirit of this conference, tick the large gallery view.

So how to proceed?

Let's look at regulation first.

As we have seen, both platforms and new technologies do not operate exclusively in the financial sector, but do play an increasingly important role there. I think we should therefore recognize that horizontal regulation is often the best way to regulate them. For instance, the European Services Act and Digital Markets Act are important tools for regulating platforms. Similarly, the expanding automated access to data cannot just be addressed within the confines of the financial sector. Increasingly, non-financial data, like for instance the data your car produced on your way to this conference, are key to innovation in the financial sector. Developing a framework for data access must therefore be done at the horizontal level.

But that means that financial policymakers do have to have a seat at the table when these regulations are being developed. This requires a shift in the thinking of both financial and non-financial regulators.

More horizontal cooperation needs to be mirrored by more international cooperation. For example, the rise of platforms comes with the risk of regulatory arbitrage, far more so than was the case in traditional finance. International consistency is needed in how platforms are regulated, for instance in the regulatory approaches to BigTechs. Another key example is stablecoins, where we have seen different jurisdictions moving towards regulation, and where consistency is especially needed. This will only become more important as decentralized finance grows.

And given the pace of developments, it might be wise to build flexibility into the regulatory framework. This could be done by adopting a more principle-based regime at the level of the primary legislation while delegating more to the European Supervisory Authorities (ESAs). I know very well that there are legal considerations making it difficult to achieve this. But we should push the boundaries here to ensure that the regulations of fintech are as effective as possible.

At global level, the FSB has a key role in ensuring an overall consistent approach, and for bringing all the necessary expertise together.

Next to regulation, the sector's changing structure also calls for us to rethink supervision. First, I believe we should look more towards the EU-level, and where necessary move financial supervisory tasks related to fintech to the ESAs. A good example of this is MiCAR. Moreover, the remit of financial supervisors may have to be expanded so they can continue overseeing key parties in the financial value chain. The DORA Regulation makes this possible by introducing financial oversight of non-financial Critical Third-Party Providers. To make that oversight as powerful and efficient as possible, I do believe it should be properly resourced and as much as possible centralized with one of the ESAs.

In addition, as the lines between financial and other sectors blur, we need cooperation arrangements with other types of supervisors. These can take different shapes depending on the issues at hand. In the Netherlands, for example, supervision of payment service providers under the PSD2 Directive is conducted by the two financial supervisors jointly with the data protection and competition authorities.

In the future, we may even have to move towards joint, centralized supervision in newly formed entities. And by centralized I mean not only across financial subsectors, but also across the financial and non-financial sectors. That may be the case for supervision of cloud providers. In order to prevent fragmentation and duplication in cloud supervision, we should consider a new European horizontal cloud supervisor that would have a mandate regarding the resilience of cloud providers and their compliance with privacy rules. The board of this horizontal cloud supervisor could consist of representatives of the ESAs, the European Data Protection Board ENISA, and possibly other relevant supervisors. This, of course, will not happen overnight. Over the next few years we have to work to make cloud supervision under DORA as effective as possible. But I think the centralization option is something to keep in mind when we will review the DORA framework in a few years time.

As the financial sector transforms, the stakes – and gains – from cooperation are high. As financial regulators and supervisors, we have a responsibility to make sure that we can continue to deliver on our mandate to safeguard financial stability. We want no holes in the global financial safety net, however much it gets stretched and reshaped.

So let's live up to that responsibility and take the first steps now. So that people can drive to the Afore Conference or elsewhere three years from now, knowing that their money, in whatever shape, is safe. And that as finance proceeds further into the digital age, we continue to have a stable and efficient financial system that works for all.