Netherlands AFM approach to risk based supervision

30 September 2014

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I. Problem-oriented approach to risk based supervision
II. How are we organised according to this approach?
III. AFM risk framework
IV. Challenges
Problem-oriented approach to supervision

- In selecting which issues to work on and how to organize our work our mission is leading, not the law.

- Our definition of a risk or a problem: every issue or development that (potentially) causes detriment (or can contribute positively) to our desired supervisory outcomes (consumer protection and fair and orderly markets). This could be, for example, a behavioral pattern, ‘bad’ product, or a flaw in the system.

- We believe that to be effective as a supervisor you need to be organized in such a way that it promotes a broad, multiple level analysis of the market and offers the flexibility to organize your resources around the problems that you detect. Every problem requires a tailor made solution.
Detect important problems and solve them

Our mission is leading: consumer protection and fair and orderly markets and a stable system.

Pick the most important problems

Carry out an integral problem analysis

Define metrics

Generate creative solutions

Influence behaviour in an effective manner

Need to have deep understanding of the size and the shape of the problem.

Determine how to measure success

Often a mix of tailor-made interventions and tools is required

Enforcement is means, not an end in itself.
Organisational structure

Executive board
- General counsel
- Penal fines officer

Compliance & integrity
- Internal audit

Supervisory divisions
- Treating customers fairly
- Audit & reporting quality
- Pensions & AIFM
- Efficient capital markets
- Market integrity and enforcement

Supervision
- Supervision relationship management
- Supervision service center
- Risk Analysis & project management

Support functions
- Legal affairs
- Strategy policy & international affairs
- Communications
- Facility management
- IT
- Human talent & organisation development
- Planning, control & finance
The activities of a supervisory division consists of three ‘building blocks’:

– Projects that are clustered around a specific overarching supervisory theme. These themes have a medium-term horizon (typically 2-5 years).

– ‘stand-alone’ projects that do not fit within the strategic objectives of the themes (this includes firm-specific projects)

– Continuous (legal) tasks we have to perform (inspections at accountants, approval of prospectuses)
Prioritization and staffing

Themes

- Once a year the Executive Board decides on the supervisory themes
- Strategy & Policy and International Affairs team leads this process

Projects

- Twice a year we prioritize projects within the supervisory divisions
- Supervisory divisions are responsible for their project portfolio
- Risk Analysis team assists with the prioritization process and puts risks on the agenda

Staffing

- Project Management team assists the divisions with the staffing of the projects
Risk framework (whole process)

- Within team RA: from idea to well developed risks

- Within the Supervisory division: from risk to intervention

A4 sheet

Priority settings (2x a year)  Projects
Identifying the risk or the problem

Ad hoc signals
- Observations account managers large institutions
- Publications in the media
- Signals we receive through consumers
- Complaints by market participants

Pro active research
- Research by team Risk Analysis

Structural analysis
- Business Intelligence tools
- Signal database analysis
- Self Assessments (questionnaires)

Other departments within the AFM
- License distribution
- Supervisory Service centre
- Transparency and information supervision
- Strategy, Policy & international affairs
Add risks to the long list

Main features:
- Online tool
- Purpose: prioritising, administering and monitoring risks. It gives oversight.
- Create an overall database
Qualifying the risk or the problem

- Is the problem clear?
  - Yes: Project proposal
  - No: Further improvement problem definition by analysis
    - Prioritize which problem to analyse
Analysis of the problem

Two types of analysis:
• Quick scan: typically days of work to get more insight in a problem
• Report: typically weeks of work to understand a market or dig deeper into a problem to get it clear

Goal of the analysis is to put it on the internal agenda (or to take it off)

The analysis consist of:
• Analysis on internal data
• External sources of research
• Input from other supervisors (central bank)
• Interviews
Main features:

- Should contain:
  - Key points; summary
  - Clear definition of risks
  - Proposal for follow up

- Balance between adequacy and effort

- Low key instrument to:
  - Spread/gather knowledge
  - Facilitate internal discussion
  - Put risks on the internal agenda
Challenges

• Putting risks on the internal agenda that do not fit in one of the supervisory divisions
• Flexible staffing
• Usage of data in supervision
Questions?