

Big changes, new opportunities



Agenda for the Dutch banking
sector for 2019 and beyond

Foreword

We are pleased to present the medium-term agenda of the Dutch Banking Association. The banking sector has undergone unprecedented changes in the past 10 years. Not only in respect of higher capital buffers and more risk management or more customer-friendly products, but also in terms of culture and conduct.

The Dutch banking sector is in a much stronger position than it was 10 years ago. In terms of core capital (known in the industry as CET1), the buffers of Dutch banks have on average at least doubled since 2007. According to De Nederlandsche Bank, the relationship between the banking sector and the economy has also become healthier – the total assets of banks now amount to 336% of GDP – and especially the major banks have become more efficient.

At the same time, the banks face many new challenges and responsibilities. Large changes such as increasing digitalisation are bringing new players to the market and providing new opportunities for further improving customer service. The banks want to support consumers and businesses with good services. The financing of the transition to a more sustainable economy is an issue requiring special attention. The banks can also encourage their business customers to operate in a more environmentally friendly way.

There are also still areas where improvement is needed. The banks have to strengthen their role as gatekeepers for the financial system where necessary. The public-private cooperation in the exchange of information that is needed can be improved. Prevention of and combating financial and economic criminality should be a priority for the banks. The reputation of the banking sector is very gradually recovering. But there is still much to do in this respect, as shown by the regularly flaring discussions of remuneration at the banks.

A dynamic banking sector is important as a platform for finance and information. Every day, the banks have to show that they are improving their services and are deserving of trust. The sector has set itself the target of achieving a high score on ethical, sustainable and efficient customer service. We want to be a sector that contributes to the stability of the financial system and to sustainable economic growth and prosperity.

Chris Buijink
President of the Dutch Banking Association

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1 Where is the sector now?



The Dutch banking sector is an essential part of the economy. Households entrust their savings to the banks, which in turn lend this money to citizens and businesses. The Dutch banking sector is a large player in the hedging of all kinds of risks by businesses, such as currency and interest rate risk, and plays a major role in the foreign operations of Dutch companies through the financing of exports and investments. The Dutch banks are also the largest providers of finance for the Dutch housing market. We will first present a snapshot of the sector and then ask: where is the sector at the beginning of 2019?

● Size and resilience of the sector

Small decline in the number of banks

The number of banks in the Netherlands declined slightly last year. In 2018, there were a total of 76 banks in the Netherlands. Around a third of the number of banks are located in the Netherlands and – in relevant cases – have a Dutch parent (24 ‘Dutch’ banks). There are 52 foreign banks operating in the Netherlands. The number of banks has declined slightly since 2010.

Number of banks in the Netherlands

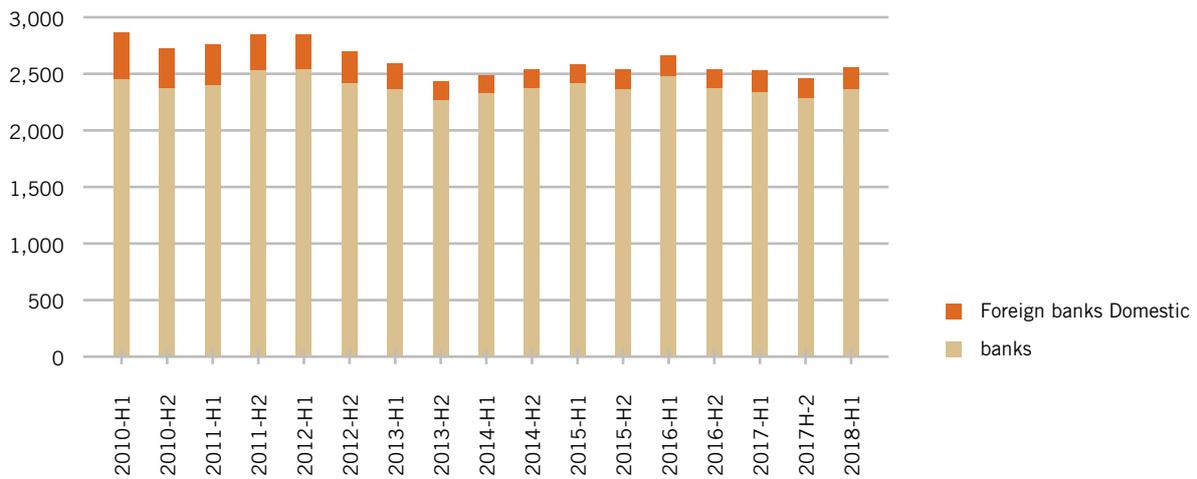


Source: DNB

Dutch banks serve the Dutch market

The Dutch domestic economy is served mainly by the Dutch banks. The many foreign banks operating in the Netherlands focus mainly on facilitating international trade relations with companies in the country where their head office is located. The Dutch banks are also very active in other countries, partly because the Netherlands has a very open economy.

Total assets of Dutch and foreign banks in the Netherlands

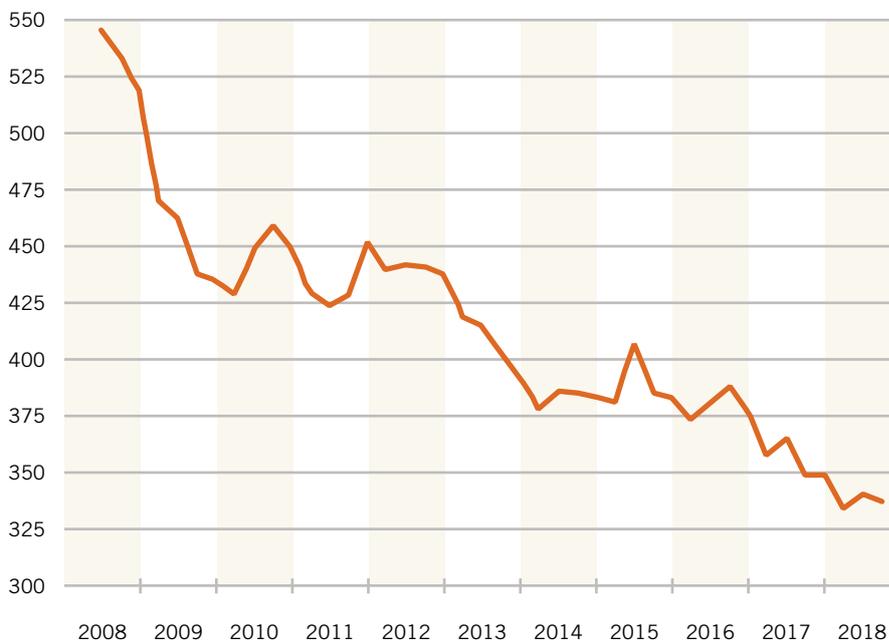


Source: DNB

Total assets

The economy has grown by more than 11% since 2013, but the total assets of the Dutch banking sector have remained at the same level in billions since that time. Accordingly, the role of other financiers has become more important for the growth of the economy. At the beginning of 2008, total assets stood at 550% of GDP, but this has declined to 336% in 2018.

Total assets of Dutch banks as % of GDP

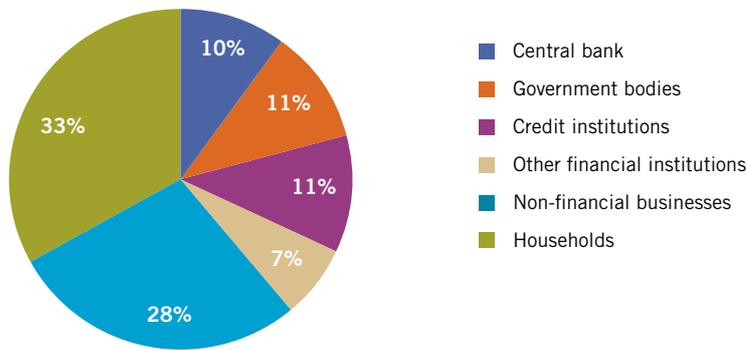


Source: DNB

Mainly retail customers and businesses

The composition of the balance sheet shown below shows that lending to households and businesses are the largest items. In total, more than 60% of the total assets is lent to retail and business customers. Loans in other countries account for roughly half of the balance sheet.

Total loans by Dutch banks by counterparty

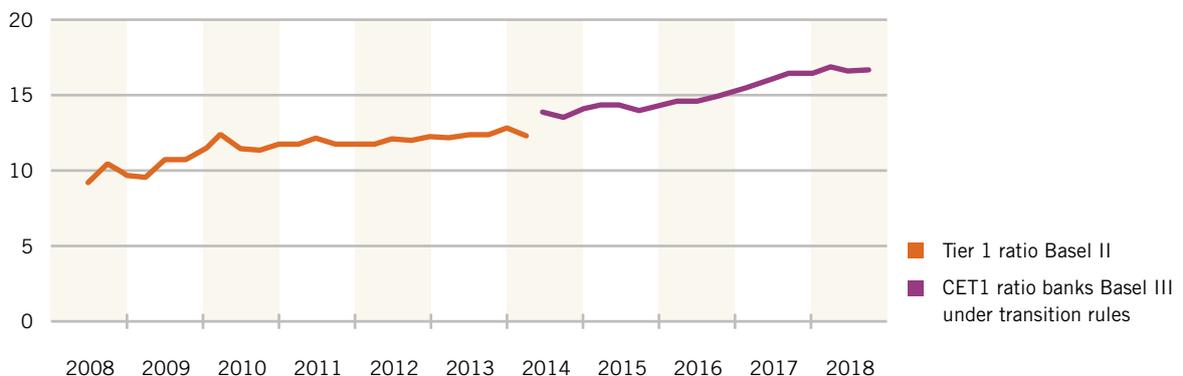


Source: DNB

Less risk, higher buffers

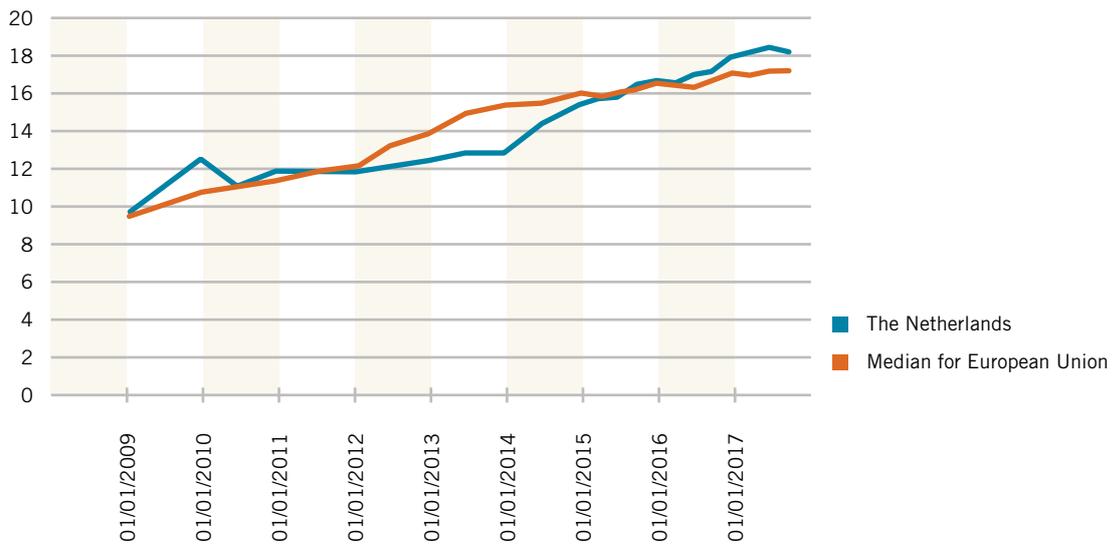
10 years after the crisis, the relative loans on the balance sheets have declined, banks have less risk in their balance sheets and their buffers have increased. This is shown in the figure below, which shows the levels of 'Common Equity Tier 1' as a percentage of the risk-weighted assets of banks since 2014. This provides insight into the stability of the banks. The next figure shows that Dutch banks hold more Tier-1 capital than the figure for the European Union as a whole. The figure after that shows the leverage ratio of the Dutch banks. The leverage ratio is the amount of unweighted capital as a percentage of total assets.

Capital buffers have increased



Source: DNB

Capital ratios of banks in EU and the Netherlands Tier 1 ratio



Source: DNB

Leverage ratio of Dutch banks (CRD IV fully loaded)



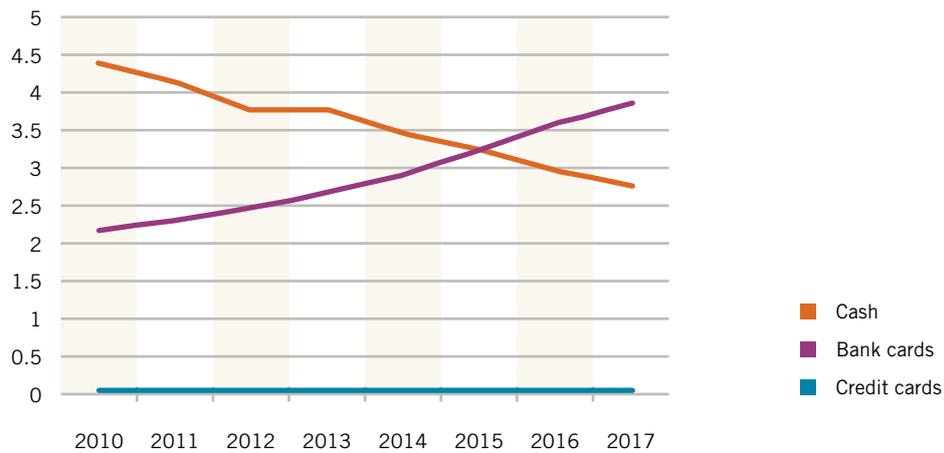
Source: DNB

Payments and Savings

Payments

The banks provide for payments traffic in the Netherlands, which features a high proportion of electronic payments. Payments transactions feature relatively low costs and electronic payments (by bank card) are more popular than ever. 60% of all payments at the check-out in 2018 were made using a bank card. An increasing number of payments are also made with mobile devices.

Total number of payments (in billions)



Source: The Dutch Payments Association

Savings

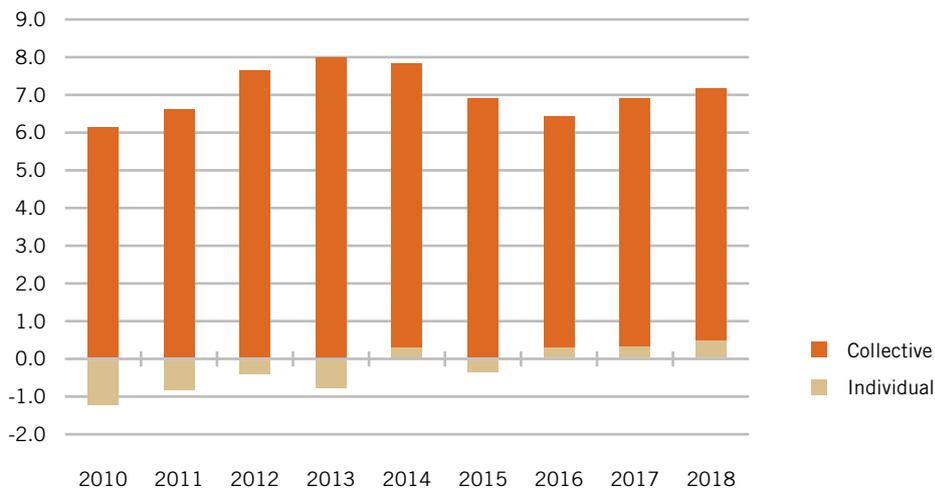
Dutch households hold a total of around EUR 350 billion in savings accounts ('voluntary savings'). This amount has increased in recent years. Dutch people also have savings through mandatory collective pension schemes. An average of 8% of disposable income was saved in 2018, with over 7% of this saved through group schemes (pensions).

Dutch household savings (in EUR x billion)



Source: DNB

Collective and individual savings as a % of disposable family income



Source: CPB

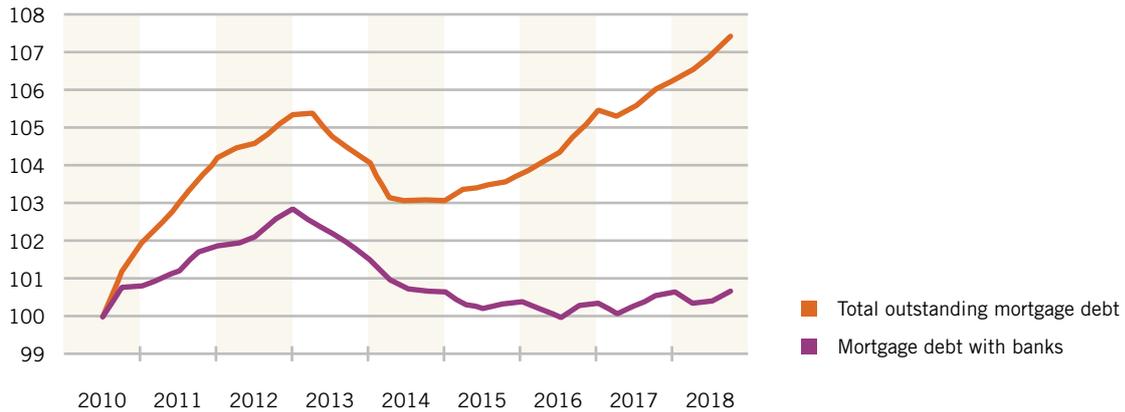
There is another side to the high level of mandatory savings. Due to the relatively low level of disposable household income and the high level of group savings, Dutch people have relatively low voluntary savings. This is also one of the reasons why our market for private investors is relatively small, as shown by the composition of assets held at Dutch investment firms. EUR 660 billion of the more than EUR 860 billion in assets entrusted is invested through pension funds. This is more than 75%. In future, we expect responsibility for saving for retirement to be shifted more to the individual, and the banks hope to play a central role in this process.

Housing

The biggest financier, market share is falling

Total mortgage debt has increased over the past 8 years while the proportion of this lent by the banks has fallen. The Dutch banks are, however, still the main source of finance for the housing market. Around 75% of the outstanding mortgages in the Netherlands are provided by Dutch banks. In 2010, this figure was 80%.

Development of total mortgage debt and mortgage debt with banks (index figures, 2010Q1=100)



Source: CBS and DNB, processed by NVB

Lending to businesses

Growth

Outstanding loans to companies declined in the years after the economic downturn. The average volume of loans outstanding was higher in 2018 than in 2017. Dutch banks currently have lent around EUR 260 billion to companies in the Netherlands. The banks have a crucial role with respect to lending to SMEs.

Total volume of outstanding credit to business (index figures, Jan. 2010=100)



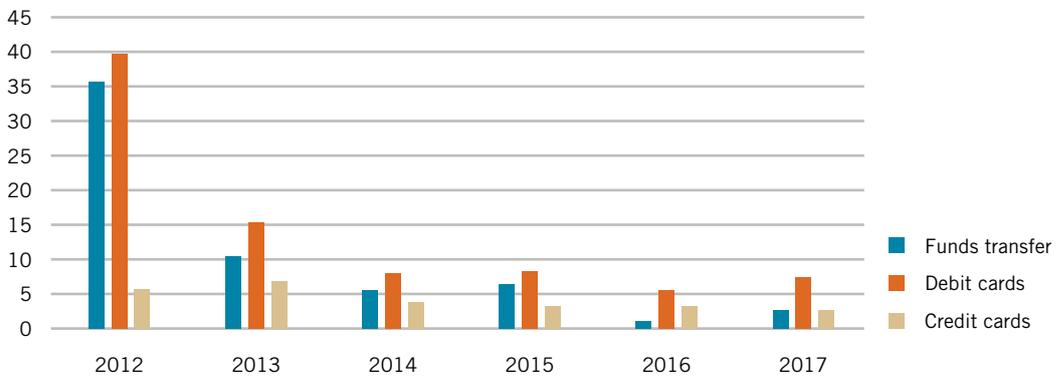
Source: DNB

Security and confidence

Security

Given their position and their access to information, banks are social actors and play a vital role in combating money laundering and the financing of terrorism. Banks and their customers moreover regularly have to deal with fraud and other forms of financial and economic crime, such as fraud in payments traffic, mortgage and real estate fraud and ATM gas attacks. The total losses due to fraud in payments traffic has declined as a result of technical measures and cooperation with the police. Combating fraud and ATM gas attacks continue to be important items of attention. Customers value the security of electronic banking and payment with an average score of 7.8. Non-bank fraud such as internet and invoice fraud is increasing annually, while fraud in internet banking continues to decline.

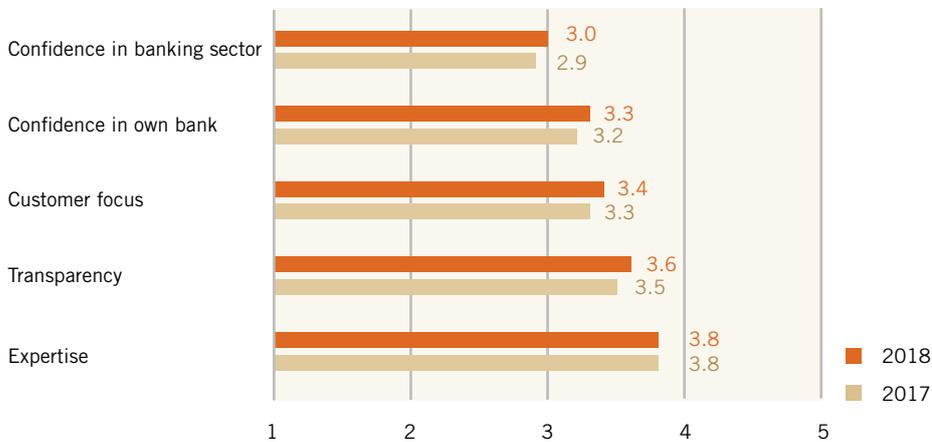
Fraud losses in payments traffic (in EUR x million)



Source: NVB/BVN

Customers

Independent consumer research for the Banking Confidence Monitor shows that consumer confidence in the banking sector showed another small increase in 2018, as has the confidence of consumers in their own banks. The following scores were achieved, on a scale of 1-5:



2 What are our challenges?



Data
Fintech
Artificial Intelligence
Digitalisation
Connectivity always and everywhere
Technological reality
Internet of things
Privacy

Urbanisation
Ageing population
More leisure time
Increase of single-person households
Demographic developments
Social uncertainty
Immigration

Energy saving
From ownership to use
Investment requirements
Sustainability
Changing consumer behaviour
Circularity of materials
New energy sources

Brexit
The gig and sharing economy
Making the labour market more flexible
The Netherlands in Europe
Decentralisation of government tasks
Political fragmentation
Personalisation

● Regulation and self-regulation



Kees van Dijkhuizen – CEO of ABN AMRO

‘Dutch banks are in much better shape and are totally renewing themselves, but at the same time they are part of a highly competitive ecosystem that transcends national borders.’

Where are we coming from?

- Enormous growth of the financial system and too much interconnection between banks and governments
- Not enough contact between the sector and its stakeholders
- No discussion of the value added by the sector with politicians and society
- From an international perspective, the sector has introduced leading initiatives with respect to conduct and culture in the form of the Banking Code, the Banker's Oath and disciplinary law

What is our challenge?

- Hold an open dialogue with the politicians and society regarding the development of the ecosystem and the expectations of society
- Demonstrate the renewal of the sector in our service provision and continuing to work on culture and conduct
- The Netherlands is an open economy, with an interest in good access without national barriers
- A uniform regulatory framework: continuing to work on supervision, resolution, and a European deposit guarantee system
- Strong and robust banks, also with awareness of an international playing field with non-bank competitors and dimensions in various regulatory frameworks



Kirsten Konst – member of the Group Management Board of Rabobank and chair of the Business Services Committee

‘Banks want to provide a good service to their customers. The sector has fully committed to observing the Code of Conduct for SME Finance (*Gedragcode Kleinzakelijke Financiering*).’

The Netherlands in Europe

Where are we coming from?

- Increasing criticism of Europe and polarisation in the public debate
- Discussion on the desired degree of solidarity within the eurozone
- Questions regarding the democratic legitimacy of European cooperation
- Discussion of the added value of international cooperation and geopolitical unrest
- Lack of clarity regarding the consequences of Brexit

What is our challenge?

- Europe is politically divided, but has to compete collectively in a global playing field
- Restoration of confidence with a banking union, further reducing the risk of state support
- The Netherlands has an open economy and Brexit will seriously affect us. The continued development of a European home market is in the Netherlands' interest
- Concerns regarding the business climate for financial and other companies
- Implementation of Basel 3.5



Dick Klaasse – Rabobank Markets Global Head Markets Trading and chair of the Financial Markets Committee

‘We cannot fully predict the consequences of Brexit for the financial markets, while the effective operation of the European market is very important for the Netherlands.’



Auke Leenstra – Citi Country Officer, Head of Banking Benelux and chair of the Foreign Bankers' Association (FBA)

‘This is the time to show the attractiveness of the Netherlands, for both existing and new companies. We are doing well, but we still need to do better.’

Digitalisation



Hanneke Dorsman – General Counsel and Company Secretary
ABN AMRO and chair of the Legal Affairs Committee

‘Our society is changing rapidly as a result of internationalisation and digitalisation. Our legal system is gradually adapting to this, because even in a more international and digital world there has to be clear definition of responsibilities.’

Where are we coming from?

- Customers increasingly look for innovation: they want more digital services, more convenience and speed, greater transparency and all this at low cost
- Many questions and discussions about privacy: how will customers want their personal data to be used and what is the role of the bank? For example, the Payment Service Directive 2 is a driver of innovation and at the same time causes concerns among customers regarding the security of their personal information
- Ethics and technology are inextricably linked and raise new issues: what do you, as a bank, stand for?

What is our challenge?

- Renewal drives competition: banks are keeping a close eye on the essence of banking, that is the safe custody of money, payments traffic and the bringing together of supply and demand in the financial markets
- What is the position of new parties such as bigtechs in the financial ecosystem and is the regulation appropriate?
- Concerns regarding the ability to meet far-reaching obligations on the basis of available information: there is a lot of information, but are we as a society able and willing to actually make the connections



Mariëlle Lichtenberg – member of Group Management Board of
Rabobank and chair of the Consumer Affairs Committee

‘Our services must be accessible to everyone, including vulnerable groups. Technology offers us the possibility of better meeting the needs of every customer.’

● Employment practices



Sebastiaan Witkamp – Executive Director Mizuho Bank and director of the Banking Employers' Association

'It is no longer possible to imagine society without digital skills. We are seeing that the rapid obsolescence of knowledge and competences makes training and development important for everyone.'

Where are we coming from?

- Long-term decline in employment: 10 years ago, the sector employed more than 100,000 people. At the end of 2018, less than 70,000
- Many reorganisations at all banks
- High degree of job insecurity
- High staff costs compared to other businesses
- Much financial and little technical knowledge

What is our challenge?

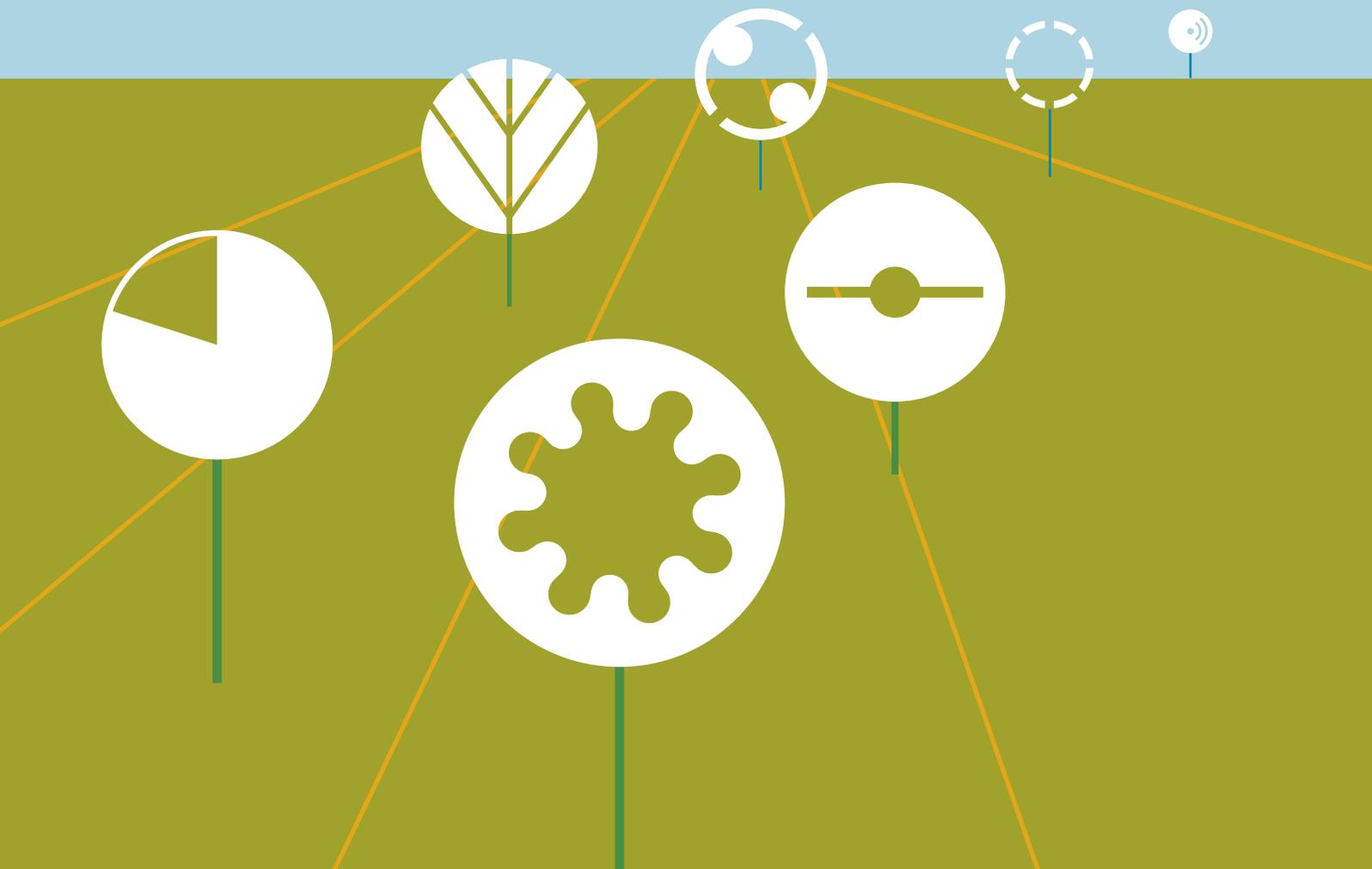
- Reputation as an attractive employer
- Diversity in gender and cultural background
- Motivation under pressure from restrictions from regulation, changed educational level, specific competences (including ICT)
- Highly competitive working environment demands flexible businesses and people
- Finding sufficient people with technical knowledge



Anja Vester – head of HR at BNG Bank and chair of the Banking Employers' Association

'The banking sector is contracting and undergoing a heavy outflow. At the same time, there is increasing demand for specific and highly educated talent. Given these conflicting forces, being an attractive employer is a big challenge.'

3 Our contribution to social themes



Sustainability

As part of its role, the Dutch banking sector wants to contribute fully to making our society sustainable: we provide finance on the basis of a mission in which sustainability is important, we are facilitators and promoters of the transition to a CO₂-neutral society and a circular economic system. As a financial services provider, the sector wants to be a leader and a challenger, especially with respect to themes from the Sustainable Development Goals (SDGs) where it can make the most difference.

Actions and results so far

- ICSR covenant
- Green Deal/Expertise centre for finance of sustainable energy projects
- Finance of Solar Panels Instrument
- Sustainability of real estate (incl. accelerated sustainability improvements to offices)
- Common principles for the financing of circular businesses
- CEO climate statement
- Spitsbergen Ambition
- Sustainable and responsible investing
- Methods for measuring climate impact (incl. PCAF)

Our ambition

1 Sustainable competition

The sector aims to shape the process of making our economy and society sustainable together with our customers and other stakeholders. In an international context, the sector aims to be a leader in the integration of sustainability aspects in finance, for instance with respect to human rights.

2 Climate Agreement

The banks are contributing to the realisation of the Climate Agreement: by making the climate impact of loans and investments visible, and by helping consumers and businesses reduce their climate impact. We do this among other things by offering practical solutions for financing issues and by working more intelligently with customers, governments and other financial institutions.

3 Circular economy

We support initiatives to achieve an economy in which the reuse of materials is maximised and the use of commodities is kept to a minimum. New business models are needed, and this has implications for finance as well.

Key issues

Real progress on sustainability requires not only a financial sector that provides structural support, it also requires good cooperation with both customers and governments (national and regional - for example the municipal energy strategies) and other financial institutions.

Digital banking

Digital and mobile services are the new norm for many customers. As a sector, we want to provide innovative solutions for this changed customer demand. Technology is the catalyst for unlimited availability and use of information, but no one can as yet predict the social implications. The banks have to count on the confidence of their customers – also regarding the management and use of personal data. We want to add value as a reliable partner for our customers and society.

Actions and results so far

- Mobile banking is replacing internet banking
- Digital mortgage applications
- Online identification with third parties via the bank (iDIN)
- Facilitation of open payment data (PSD2)
- Online asset management
- Financial overview and information
- Peer-to-peer payment apps
- Use of video calls with customers
- Public discussions of the use of data

Our ambition

1 Dialogue on information technology

Information is everywhere in society and technology means that this information is used by everyone more. We want to contribute to the public debate and take the lead in the use of information and information technology in financial services.

2 The banks as a trusted digital platform

The banks connect parties in a new ecosystem in which an increasing number of non-financial parties are digitally connected. The banks are increasingly working with bigtechs, fintechs and other players and want to be a reliable party for the data and identity details of customers in this ecosystem.

3 Online 'legal system'

The use of algorithms and artificial intelligence can raise ethical issues. What conditions do we set for the inclusion or exclusion of people and the use of data? The responsibilities of the various parties need to be defined in the digital world as well. We want to contribute actively to these numerous issues and take the lead on the ethical issues that arise.

Key issues

Now that increasing amounts of data are being generated, expectations of the possibilities among customers and society in general are rising as well. This is changing the meaning of privacy and possibly also the duty of care of financial services providers.

Security

We want to contribute to the physical and digital safety of society. Banks contribute to the fight against financial and economic crime and will play their part as gatekeepers and guardians of the financial system as effectively as possible. We will cooperate more closely with the police and the judicial authorities in order to know our customers better and detect suspicious transactions. Safeguarding cyber security is the cornerstone of the modern bank. Given their position and access to information, the banks play a vital role in combating money laundering and the financing of terrorism.

Actions and results so far

- Financial Intelligence Unit cooperation in dealing with money laundering and the financing of terrorism
- Financing of Terrorism Task Force
- Stichting Fraudebestrijding Hypotheken: mortgage fraud
- Hemp Cultivation Covenant
- Brochure on banking for sex workers
- Crisis infrastructure banks/DNB/minfin (for instance in case of DDoS attacks)
- Threat Intelligence Based Ethical Red Teaming (TIBER)

Our ambition

1 To improve transaction monitoring and customer screening for high-risk customers

The banks do this by studying possibilities for mutual cooperation.

2 To increase cyber resilience

Safeguarding digital security requires increasing attention. Governments, institutions and businesses, including banks, invest much time and money in maintaining their digital security. This will continue to be the case in the coming years. The banks will accordingly continue to make their systems more robust, partly by actively exchanging relevant threat information and strengthening their systems on the basis of the results of the tests under the TIBER project of DNB.

3 Cooperation with governments

The banks strive to fulfil their gatekeeper role as effectively as possible. With over six billion payment transactions every year, this is a big task. There are possibilities for strengthening public-private cooperation, but also for strengthening cooperation between the banks themselves, for instance with respect to transaction monitoring and know-your-customer. The sector wants to commit to this.

Key issues

Much of the information that is needed for effective fulfilment of our role as gatekeepers and guardians of the financial system is held by governments. Privacy legislation can be an obstacle to the sharing of this information. Interbank cooperation also clearly has limits due to competition law.

Consumers

The sector wants to make its customers more financially resilient. For instance, the sector is actively contributing to easing the debt problem. The sector is also helping customers with the provision of a full financial overview. Banks are introducing new products that meet customer needs. The sector is also committed to providing more financial education to young people and children. After all, what you learn when young you will practise when you get older.

Actions and results so far

- Banks in the classroom (*Bank voor de klas*), Guide on money matters, 4,000 guest lessons a year
- The 'Enjoy Repaying Your Mortgage' campaign ("*Aflossingsblij*")
- Stakeholder information on processing of personal data
- Mortgage portal
- Annual survey of consumer confidence
- Social Forum on debt, with specific target groups of young people and older people
- Hyper-modern and innovative payments traffic (innovations such as contactless payment, geo-blocking and instant payments)
- Pre-completed tax return (*Vooringevulde Aangifte*, or "VIA")

Our ambition

1 *Guidance, insight and oversight in financial services*

We want to increase our efforts on providing insight and oversight for customers. We provide accessible information on matters such as payments, mortgages and also on a customer's financial situation if they so wish. We offer access to investing for private customers in a responsible manner. We are continuing our cooperation with the government with Banks in the classroom for children and young people.

2 *Cooperation on prevention and early identification of debt problems and abuse*

Proactive approach to (imminent) problems for customers, proactive partner in the general social debt agenda through early identification, implementation of administrative agreements on dealing with financial abuse of older people.

3 *Standing up for the customer's interests*

Engagement in a social dialogue on the future affordability of the housing market. The banks actively approach vulnerable customers, for instance with respect to interest-only mortgages. Applying knowledge to assist in finding affordable solutions for making homes more sustainable.

Key issues

The expectations from and demands on customers are increasing. Digitalisation offers many more possibilities, but does not always make the overall situation more comprehensible for customers. PSD2 offers many opportunities for customers, but it is important that customers are aware of the implications of sharing their personal data.



Entrepreneurs

Banks want to be the obvious partners for entrepreneurs, and stay with them while they realise their ambitions. Small and medium-sized enterprises are the engine of the Dutch economy. Responsible lending and good service to SMEs is a core business for the banks. From its own resources and in cooperation, the sector contributes to an improved business climate and the meeting of national financing requirements.

Actions and results so far

- Dialogue meetings with SMEs
- SME summit 2016
- National Financing Guide (*Nationale Financieringswijzer*)
- Code of Conduct for lending to small businesses
- Disputes resolution (Kifid) available for loans to small businesses
- Study of special asset management

Our ambition

1 *Investment capability of SMEs*

Insight into the development of the investment capability of SMEs is important for entrepreneurs and the Dutch economy. We are taking the initiative for an analysis and a broad dialogue on this issue. We want to assist our business customers in the timely meeting of structural challenges.

2 *The market for finance for small businesses*

The Code of Conduct for lending to small businesses is the guiding principle for our service to SMEs. We will monitor the application and proper operation of the Code of Conduct. We encourage entrepreneurs to increase their financial education and support the availability and professionalisation of alternative financiers.

3 *Cooperation on national financing requirements*

The banks are working together for a healthy business climate with a wide range of financing options. The Netherlands faces serious challenges with respect to the climate and energy in the coming years. We want to contribute to the national financing requirements associated with this. We will do this with knowledge, expertise and finance. We also support the foundation of the Dutch financing and development institution Invest-NL.

Key issue

The sector wants to see a quick and proper completion of the Uniform Compensation Framework for interest-rate derivatives sold to SMEs.



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