THE AFTERMATH OF THE FINANCIAL CRISIS: A VIEW ON THE DUTCH BANKING SECTOR
After more than a decade we could state that the Dutch banks got their act together. The banks are stronger from a financial perspective and less prone to turbulent and capital reducing events, yet the number of banks decreased and the returns are lower than before. Dutch banks are at the same time up for a major challenge due to the developments in financial technology. In this article we will look at how the Dutch banking sector changed after the financial crisis and what challenges the sector in the nearby future.

The number of banks declined

The number of European banks and the number of people working at a bank has declined tremendously. Yet, the average bank has become bigger than ever in terms of balance sheet size. The smaller banks in the market soon realized they were ‘too small to comply’. These banks were acquired or either seized their operations. The banks that were just above this group could be referred to as ‘too small to compete’. These banks started to focus more on one type of activity and carved out any other activity (ESB, 2018).

Better able to cope with unexpected losses

The reformations in the banking sector after the financial crisis changed the sector in a drastic manner. As of today Dutch banks allocate a significant portion of their capital as a buffer. Both the capital ratio and the quality of the capital increased. More specifically, the volume of Common Equity Tier-1 capital increased which makes banks better able to cope with unexpected losses to be absorbed. This enables banks to continue to play their role even in times of crises. The Core Tier 1 Equity ratio (CET1%) indicates the robustness of a bank based on the amount of equity capital over the risk of a bank run. Expressed in CET1%, the Dutch banks have become at least twice as strong since 2007 (NVB, 2017).

Still highly concentrated

As a result of the historic market developments and regulations, the Dutch banking sector is still highly concentrated with a few number of big players. This will not easily be changed. The banking sector of the Netherlands has a very high degree of concentration in which the three largest banks are ING Bank, Rabobank and ABN AMRO Bank. These three banks comprise 81.39% of total banking assets (Statista, 2018). In comparison to the banking sectors in other EU countries, the Dutch banking sector is relatively large in size and averages more than four times the size of the Dutch GDP. The Dutch banking sector is one of the most concentrated in Europe (thebanks.eu, 2018).

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Total Assets [in billion EUR]</th>
<th>% of Consolidated Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ING Bank NV</td>
<td>846.23</td>
<td>27.31%</td>
</tr>
<tr>
<td>2</td>
<td>Coöperatieve Rabobank U.A.</td>
<td>615.82</td>
<td>21.09%</td>
</tr>
<tr>
<td>3</td>
<td>ABN AMRO Bank NV</td>
<td>393.17</td>
<td>13.25%</td>
</tr>
<tr>
<td>4</td>
<td>ABN AMRO Bank NV</td>
<td>393.17</td>
<td>13.25%</td>
</tr>
<tr>
<td>5</td>
<td>RABO Bank NV</td>
<td>212.29</td>
<td>7.09%</td>
</tr>
<tr>
<td>6</td>
<td>Nationale Nederlandse Bank NV</td>
<td>180.07</td>
<td>6.04%</td>
</tr>
<tr>
<td>7</td>
<td>Van Lanschot NV</td>
<td>14.98</td>
<td>0.49%</td>
</tr>
<tr>
<td>8</td>
<td>Achmea Bank NV</td>
<td>14.20</td>
<td>0.47%</td>
</tr>
<tr>
<td>9</td>
<td>Friesland Bank NV</td>
<td>9.99</td>
<td>0.33%</td>
</tr>
<tr>
<td>10</td>
<td>Delta Lloyd Bank NV (closed)</td>
<td>5.34</td>
<td>0.17%</td>
</tr>
<tr>
<td>11</td>
<td>RABO Bank NV</td>
<td>4.20</td>
<td>0.14%</td>
</tr>
</tbody>
</table>
Lower returns

The regulatory developments that emerged after the financial crisis has its toll on the profitability of Dutch banks (ESB, 2018). The increase in capital requirements, low interest rates and more stringent requirements on risk weighting assets puts pressure on the returns. Prior to the financial crises Dutch banks were able to announce a return on equity of 10% and above (FRED St.Louis, 2018). According to the DNB these returns are unlikely to be met in the nearby future. Moreover, the market does not expect banks to pursue double digit returns anymore. However, from a banking perspective being able to generate a sufficient amount of return remains important to compensate capital funding parties and to attract funding. The Dutch banks can continue to be profitable by further focusing on cost reduction and by identifying innovative ways in which the costs of providing services are allocated to both consumers and organizations (ESB, 2018).

The Fintech revolution

The pace in which financial technology develops puts pressure on the traditional role of banks (DNB, 2018). The existing activities of Dutch banks are changing due to the emergence of Fintechs that solely focus on one part of the value chain of banking services (e.g. Adyen – payments).

In short, the European Payment Services Directive (PSD2) enables organizations to access payment transaction information of consumers. Hence, unlike before this information is not bound for access by one Dutch bank only. They will no longer have the monopoly rights to their customers’ payment transaction information.

This results in a new form of competition and will increase the rivalry conduct as a whole. Smaller and relatively new organizations could easily enter the Dutch financial market. This level of specialization will enhance the efficiency and diversity of the Dutch financial market. On the other hand, it will affect the profitability of the traditional Dutch banks that focus on the entire value chain of banking services (ESB, 2018). Eventually this will lead to a situation in which different parts of the value chain of banking services will be reallocated to various organizations. The traditional banks will inevitably see that parts of the value chain will shift to other new players. This shifting movement could enable Dutch banks to integrate innovative solutions of new players into their existing value chain. By embracing this shift the Dutch banks can further reduce their cost and focus more on the banking activities in which they can add the most value.

The Dutch banks will remain to be differentiators when it comes to their core activities (ESB, 2018). These are parts of the value chain that cannot easily be replaced by new players due to the required level of knowledge and experience. These type of banking services are for instance assessing and managing risks of complex financial products and funding/hedging complex financial transactions.

Financial technology will cause a shift in the value chain

The technological developments such as mobile apps and new online platform business are challenging the traditional Dutch banks with their high cost structures, legacy IT systems and large organizations. Losing grip of the consumer clients is the biggest concern as this portion of the sector is their biggest source of income (ESB, 2018). The question is whether today’s consumer has a connection with their bank whether this is ING, ABN AMRO or Rabobank.

The Dutch banks were keen on releasing smartphone banking apps. The downside of these apps is that many consumers only interact with the bank via the smartphone app. There is a shallow
connection between the consumer and the bank. These gaps in the customer relationship could be filled by smart value adding innovative apps. These smart apps are referred to as ‘aggregators’ and will function as an intermediary platform connecting both consumers and banking service providers. The aggregator provides a catalogue of all financial services and products that could be provided to a consumer. In which the aggregator enables the consumer to receive offers from different parties (ESB, 2018).

The strategy of Dutch banks in a world of Fintechs

In the nearby future a handful of Dutch banks will remain to exist. These banks are able to compete due to their economies of scale, footprint in their local market but above all their experience with Fintech firms.

A few number of traditional banks within the Netherlands will be able to capture the orchestrator role. In this particular role either one or two banks will create a platform with open architecture through which their banking services among others find their way to the consumer. These banks will play a central role in the new financial ecosystem. This financial ecosystem bridges the existing value chains of various industries and is more customer-centric than ever. It is due to the familiarity of these one or two banks with Fintechs and their focus on the customer journey that enables them to capture this role.

On the other hand there is a bit of hope for traditional banking services. Services that are less prone to be substituted by innovative and digital apps will remain to exist. In the area of corporate and private banking there will always be demand for partnership banking. However, any banking organization that envisions to be active within this field must be ‘lean and mean’ and be recognized as a trusted advisor. Within these organizations only a few standardized banking services will be part of the banking proposition e.g. wealth management. Nevertheless, it will remain to be a challenge to generate a decent amount of return due to the limited offer of banking services. Providing independent expert advice to private banking clients without focussing on selling your own products puts pressure on the returns. In addition, the margins in this type of banking activities are less when compared to other types of banking activities in which an organization is able to focus on selling their own paramount products.

The recent developments in the area of financial technology combined with the market conditions will remain to challenge traditional banking organizations. It is only a matter of time that will enable us to identify which traditional banks positioned themselves well enough to prevail over a decade after the financial crises.
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