HOLLAND FINTECH

Dutch Fintech Landscape

Perspectives on the trends permeating the Dutch Fintech Ecosystem

With thanks to expert analysis from:

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Table of Contents

Dutch Banking Overview

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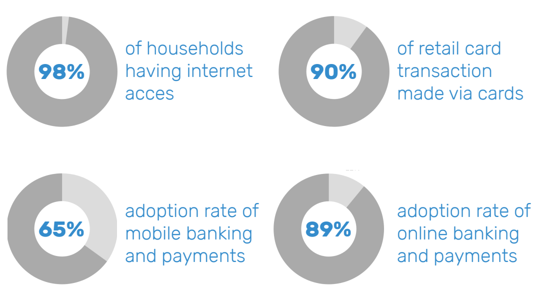
The Netherlands: A well-functioning banking market that still offers some interesting opportunities.

The Netherlands is home to a population of 17 million and has the 6th largest GDP in Europe. It's one of the most digitally advanced nations with:



It has a large e-commerce market worth EUR 25.7 billion in 2019, and growing at 8% per year; and an already mature payments market that continues to lead in terms of innovation, leading to a steady decline of cash usage and the near extinction of cheques.

The Netherlands is characterized by a small, concentrated banking market. The top 3 banks of ING, Rabobank and ABN AMRO have a combined market share of around 85% in Retail and Corporate Banking. These banks offer a similar, modern banking experience with a high emphasis on innovation.

ING for example, has a venture fund of EUR 300 million investing in fintech. Among others, it has created **Yolt**, an open banking platform active in the UK and other markets.

ABN AMRO successfully introduced **Tikkie**, a payment app that enables quick, simple payment requests to friends. The app is open to users from all banks, and has over 5 million users with 200 thousand '**Tikkies**' per day.

Other banks such as De Volksbank, Triodos, NIBC and Van Lanschot account for the remainder of the market. In general these banks offer slightly less advanced digital propositions and tend to focus on specific customer segments.

THE STATE OF COOPERATION

The Dutch market benefits from a large degree of cooperation between the banks and other industry stakeholders. For example, in 2005 banks and retailers united in the 'Convenant Betalingsverkeer' to lower the cost of debit card payments with unanimous support ('PIN'). In the same year, iDEAL was successfully introduced. Backed by the 'top 3' banks, iDEAL is an online banking enabled payment method for e-commerce. iDEAL nowadays accounts for around 85% of e-commerce transactions, and is largely able to fend off competition from credit cards and PayPal. In early 2019, the 'top 3' banks launched a cooperative effort to amalgamate the ATM network under the name 'geldmaat'. Within 2 years this will fully replace the banks' own ATM networks.

The Dutch market is one of the best functioning; with one of the lowest cost banking markets internationally; consumers are well protected by supervision and an ombudsman; it's a relatively low-risk market that was able to keep defaults of retail mortgage to a minimum even during the peak of the financial crisis. With banks generally offering good, modern, efficient banking services.

However, the country is lacking a clear leader in banking innovation.

FEW CHALLENGER BANKS ARE ACTIVE ON THE DUTCH MARKET

Bunq is the 'most prominent' Dutch challenger bank. Founded in 2015 with the mission to be the most loved bank of Europe. Under the slogan 'Bank of the Free', it aims to revolutionise mobile banking and be fully transparent. The mobile-centric bank offers personal and business accounts, with a high focus on making transactions easy. Key features include budgeting, notifications, savings goals, automatic savings, payment requests, split payments, and a travel card, amongst others. With an estimated 35 thousand users, its market share and impact are still meagre – yet it's setting a benchmark for many other players.

KNAB is the other challenger bank in the Dutch market, founded in 2012 by insurance company Aegon, together with the former founders of Alex Beleggersbank. It offers a broad range of financial services, including current accounts, savings and mortgages, to Retail, Freelance and SME clients. With its motto '100% online yet personal' it aims to offer premium service including a clear financial overview with tools, alerts to plan and control your finances, and pro-active financial advice informing you about better deals. With over 225k thousand users and a good market share in the freelance market, it has made a decent impact.

In addition to these local challengers, there are a few foreign players available on the market. Amongst others, Revolut, N26, Monese and Rewire are also available to people in the Netherlands. However, other key players such as Monzo, Starling Bank or Fidor Bank are not (yet) available in the Netherlands.

Structured market research could help identify the unique opportunities for you.

OPPORTUNITIES STILL AVAILABLE IN THE DUTCH MARKET

There is an opportunity to differentiate as a front-runner in innovation, providing payments with a broader set of innovative banking services.

One could also look at Dutch mortgages, which have above-average interest rates and relatively low-risk compared to other European markets. While plain-vanilla mortgages are heavily competed for by all sorts of players, specific segments such as reverse-mortgages for the elderly or buy-to-let are growing segments with few players.

Third, wealth management is increasingly digitised and democratized to the mass affluent population.

And there are yet more opportunities when you look closer, depending on your objectives and key assets. We believe that selecting the right niche, tailored to both your organisation and the market potential, is key for long-term success. Structured market research could help identify the unique opportunities for you.

KEYS TO SEIZING OPPORTUNITIES

The lack of many challenger banks and few clear front-runners suggest the country potentially still offers an attractive opportunity for banks looking to expand into new geographical markets.

There are three important generic success factors for challenger banks to successfully capture their position on the market.

First, an extensive focus on a specific niche allows to offer a winning solution tailored to that segment.

Second, a clear differentiation with unique position and proposition.

Third, rigorous control of execution to successfully realize the strategic goals enables to deliver on the potential.

Open Banking Landscape

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accenture

Dutch Open Banking market perspective: A reticent start to a promising future.

Microsoft founder Bill Gates is often attributed as saying:

> **We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.** Source: Forbes

This contrarian outlook to innovation has strong parallels to how Open Banking is shaping up in Europe today.

The market response to imminent disruption that experts predicted has largely been lukewarm in the short term. However, we see a gradual shift in dynamics that promises significant returns in the years to come – with open ecosystem players and an intense competition creating better outcomes for consumers. The reality thereby justifying the hype in the long run.

We review this observation from the viewpoint of the Dutch financial services market, highlighting some of the recent major themes, while also underscoring the key lessons for realizing long-term success.

COLLABORATION IS DRIVING MOMENTUM

Close collaboration continues to be an absolute necessity for exploring the opportunities of Open Banking.

ABN AMRO partnered with Swedish Fintech **Tink** to develop **Grip**, a leading personal finance solution in the Netherlands.

Rabobank has joined forces with **Peaks**, an investment assistant that allows users to invest their spare change on each transaction they make.

Rule-based automated payment opportunities ('if this, then that') are being tested by challenger bank **Bunq** in collaboration with Dutch fintech **Flow.**

And leading Dutch airline **KLM** has partnered with **Adyen** to offer PSD2-compliant direct bank payments, allowing alternatives to traditional card-based ticketing.

ITERATIVE APPROACH TO MAXIMIZE LEARNING

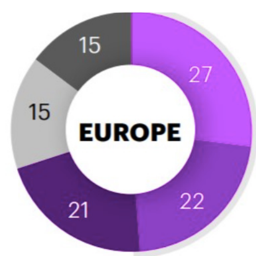
Dutch players are complementing their partnership journey using a planned 'test and learn' approach - being open to failing fast, learning from it and moving on. For instance, **ABN AMRO** introduced 'risk as a service' solution **Gradefix**, which was eventually discontinued after a pilot. In the true essence of value iteration, the insights from the pilot were leveraged to launch a new SME lending platform **New10**.

FOCUSING BEYOND RETAIL BANKING

While the momentum of Open Banking largely started with retail banking, Dutch market players have correctly recognized the commercial banking opportunities that open ecosystems create. **ING** collaborated with lending marketplace **Funding Circle** to offer API-based alternative SME lending. Dutch startup **Cobase** has developed account aggregation capabilities for commercial customers to offer treasury management solutions through Open Banking.

Such initiatives also find resonance in the demand side of the market. A recent Accenture Open Banking survey reveals **35%** of the SMEs and large corporations already participate in Open Banking ecosystem platforms, and another **42%** plan to do so by 2019. Their top-two motivations: gaining access to innovative banking services **(27%)** and extending their market reach **(22%)**.

What are the most significant benefits of Open Banking Ecosystem platform for commercial customers? (%)



- To gain access to convenient and innovative banking services
- To allow us to reach more clients and partners
- To optimize efficiency of SME and corporate processes
- To reduce complexity and implementation costs for bank connectivity
- To reduce the cost of client acquisition
- My organization does not see benefits to using an Open Banking ecosystem platform

Source: Accenture Open Banking Business Survey 2018

VALUE CHAIN EXPANSION AND CONSUMER AWARENESS NEEDED

Despite the initial momentum we have seen in the Dutch market, Open Banking offerings remain fragmented with modest scales. We are yet to see the emergence of distinct marketplace models on the lines of UK and European challenger banks like Starling and N26. There has been limited penetration in customer everyday needs (beyond payments), such as integrated point-of-sale finance, digital receipts, loyalty, pension and mortgage solutions.

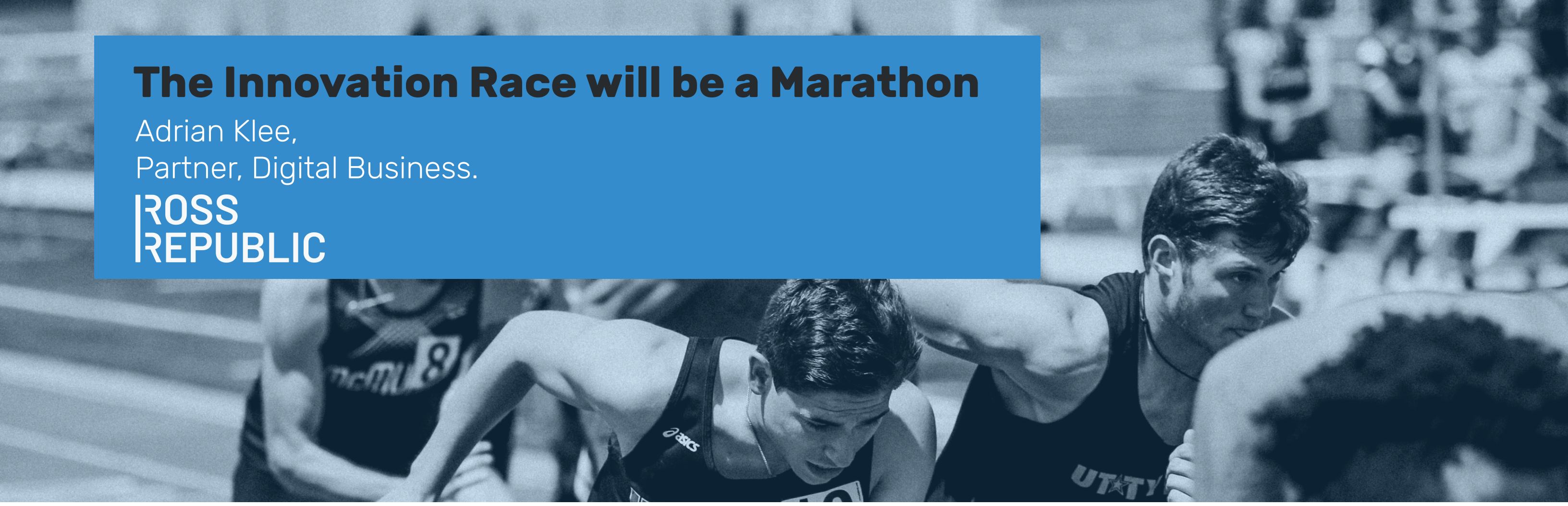
It is noteworthy in this instance that Spanish banks like BBVA and Caixa have embarked into augmented services such as shopping platforms to expand the traditional value chain and realize incremental revenues via purchase financing.

Consumer awareness and trust also remain unaddressed for Open Banking adoption in Netherlands. Given such sentiments, increased co-operation between regulators and supply side players to accelerate adoption will be needed in the Dutch market. A reference case could be UK's Competition and Markets Authority (CMA) and other leading consumer groups joining forces to set priorities for the domestic market, ensure efficient adoption and build trust.

A recent survey by ING shows 82% of Dutch consumers are unacquainted with PSD2. Data privacy concerns – partly fueled by strong media focus on GDPR – have further created skepticism in the market.

PARTING THOUGHTS

The Dutch Open Banking landscape is in its nascence, and it's too early to validate its journey yet. However, it is largely true that market players have till date: *focused more on compliance, and less on innovation* often because of regulatory uncertainties and legislative delays. Despite this reticent start, there is a directional shift to new business models, promising significant value creation opportunities in the future.



The Innovation Race will be a Marathon

Adrian Klee,
Partner, Digital Business.
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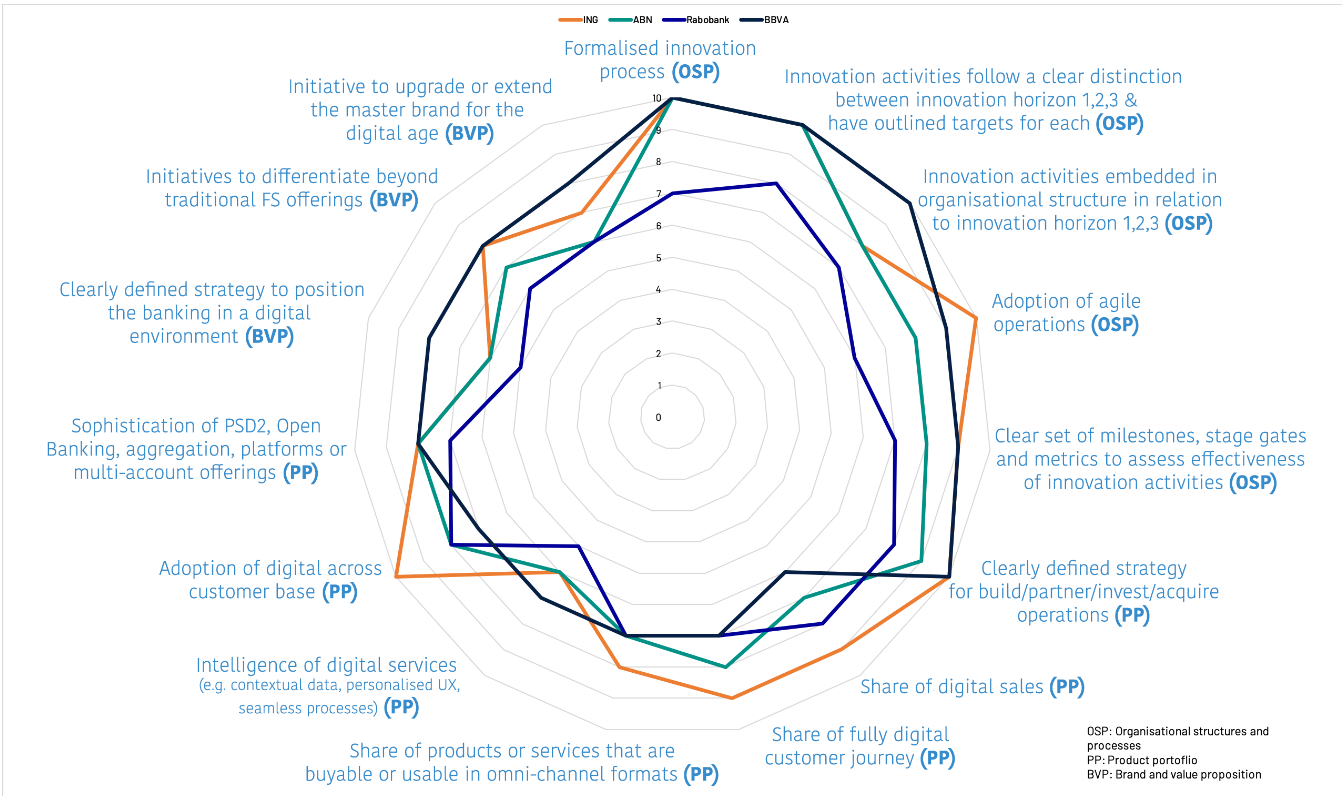
An outsider perspective on current innovation efforts of Dutch legacy banks.

While the banking battlefield is currently getting re-configured, many European financial institutions are in search for a future-proof growth narrative. The huge investments in digital transformation resulted in great PR, but often failed to deliver real revenue gains and merely resulted in catching-up with table-stakes capabilities. Related discussions often miss the point: innovation in banking is about redesigning the client experience, enabled, not defined, by digital. It's about pioneering intelligent products and business models, as new technologies create new possibilities. In order to achieve exactly that, banks need to establish client-focused organisational structures and processes, a modern product portfolio and a brand that al- lows to position themselves as a credible player.

We used these three dimensions to assess how Dutch banks are preparing for the future and benchmark them against the current innovation powerhouse BBVA. The data to assess each dimension originate from primary research (interviews) and secondary research, such as data available online and annual reports. We interviewed Duncan de Vries of NIBC Innovation Labs and Remco van der Veer of ING Labs, whom we'd like to thank for their valuable input.



LEAVING LEGACY STRUCTURES BEHIND

Transformation is as much about new technologies as it is about culture. Banks have conditioned their employees for decades to be biased against change and risk-taking. However, these are exactly the skills now urgently needed to develop new competitive advantages for banks. From our project experience with **BBVA** we know that the group started organisational transformation in late 2013 with the Digital Banking Area, a group of functional units with the mandate to boost digital transformation. Approximately 30,000 **BBVA** employees have been trained in agile techniques and 1,500 employees function as design thinking ambassadors.

ING announced they will implement agile processes, the 'one way of working' in squads and tribes in June 2015, and has been executing the change process throughout the organisation rigorously: it's among the first banks to roll-out agile working across several countries and business divisions. Beyond that, all banks we analysed have formalised their innovation processes, e.g. "**"PACE"** at **ING, "DARE"** at **ABN AMRO** or **"3-6-9"** at **BBVA**. All of them incorporate the peak of the innovation hype-cycle: agile, lean and design thinking. Most of the banks analysed established clear activities across innovation horizon one to three.

Re-skilling of employees is another integral part: most banks, have trained a large number of employees (outside of IT) in agile or design thinking. On this front, many European banking players can learn from the Dutch banks' ability to redesign their established way of working.

Another factor for fostering innovation is how banks embed innovation activities into their organisational structure. For instance, the turnaround at **BBVA** was only possible through top management commitment from day one. Similarly, innovation at **ING** is directly reporting to the CEO, with innovation centres of expertise integrated into business units. **ABN AMRO** also set up several independent labs and later pivoted to one centrally dedicated department. Smaller Dutch banks follow this trend, for example at **NIBC** innovation is directly supported by the CEO and integrated at the core organisation.

These transformational efforts are already paying off, for instance **ING** has launched several new propositions to market that have originated from internal employees.

BUILDING SCALABLE PRODUCT PLATFORMS

Next to establishing customer-centric operating models, managing a digital product portfolio that maximises revenue potential and enables omni-channel user journeys is a pre-requisite for future growth. Compared to European competitors, Dutch banks are among the leaders in harmonising IT platforms and leveraging digital banking features and sales channels.

At **ABN AMRO**, already more than 70% of retail sales are closed digitally.

The way Dutch banks achieve this is by innovating the core business propositions through in-house build scenarios, stemming from agile operations and labs, and experimenting with partner or investment scenarios with external (fin)tech companies. For example, **ING, ABN AMRO, NIBC** as well as **Rabobank** have several ongoing partnerships with fintechs, and are not afraid to exit once they prove unproductive. Beyond providing basic digital layers around the standard banking products, initial launches of actual intelligent banking services are being born, for example **Peaks (Rabobank)** or **Grip (ABN AMRO)**.

ESTABLISHING A BRAND THAT CUSTOMERS TRUST

Most banks have built up their authoritative and top-down corporate persona for decades, however in the digital age it's the end customer who enjoys the most leverage. Thus, we also had a look at how Dutch banks aim to get the brand permission that allows them to become a more credible and trusted partner in their client's life beyond banking, which is the end-goal of building platforms and omni-channel journeys.

Most Dutch banks have industry leading NPS scores. The dual brand architecture strategy of modernising the core brand through coherent digital and hybrid customer journeys and simultaneously launching digital challengers **(Yolt** by **ING, Tikkie** or **Kendu** by **ABN AMRO)** seems to work out well. However, with an increasing amount of stand-alone banking services, the challenge will ultimately be to integrate all new offerings again in order to pre- vent fragmented customer experiences and to build brand equity towards a single entity. After all, no bank has yet placed a bold commitment or bet towards how the traditional bank will be positioned in the digital future.

'Brexiting' to Amsterdam

David Aston,
CEO.
Infinium

An update on Brexit, Amsterdam and the implications for the financial sector

AN INTRODUCTION TO AMSTERDAM

Amsterdam has a long history of trading. The Euronext Exchange, in the centre of Amsterdam, is the oldest in the World, having been established in 1602. However, more recently, since 2008, and with the takeover by RBS of the largest Dutch bank, ABN Amro, the Dutch financial markets and trading activities have been in decline. One of the main factors behind this systemic change was that a lot of the Dutch banks, and RBS, decided to centralise their financial markets activities in London, where they had access to deeper pools of liquidity, and a more specialised, larger, skill base. Examples of banks that have moved their trading businesses to London since 2008, include ING and RBS, which is now known as NatWest markets.

The Dutch market was left to focus on the payments and lending markets, and as a result a thriving fintech scene has developed focused on those product areas.

Due to Brexit, this is set to be bolstered further by the arrival of money transfer specialists, such as **Azimo**.

Amsterdam offers a lot of plus points when considering it as an option for relocating business...

- Is less than 50 minutes flight from London city airport.
- Has a highly skilled workforce that has the highest level of English literacy outside of native English speaking countries.
- Has an excellent quality of life, regularly being voted one of the top five places to live in the world.
- Is one of the top three places in the world to bring-up children.

The Amsterdam business district (Zuidas) has continued to steadily grow despite the shift of financial markets activities from Amsterdam to London over the past 11 years, and is supported by another main business district (Amsterdam Bijlmer Arena), which is now much smarter and safer to work in. Both are within 15 minutes of Schiphol international airport.

Major players based in these two business districts include **ABN Amro**, **NatWest Markets**, **ING**, **Deutsche bank** and **APG**, to name a few. The business districts are thriving and there is real energy and focus.

Brexit has already had a major impact on the financial sector, and specifically London. Whilst a lot of the jobs have yet to move to new post Brexit locations, that is not to say that banks, venues and other market participants have not been planning and investing for the future. Especially so now, due to the hightened risk of a Hard 'No deal' Brexit.

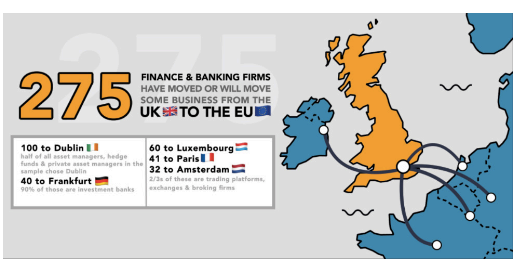
One of the main drivers is the fact that the European Union has been very clear that when the UK leaves the European Union, the right to passport financial services from the UK to the EU will be revoked.

In simple terms, this means that financial organisations, based in the UK, with no European entity, cannot continue to offer regulated financial products to clients based in the remaining EU 26 countries.

In other words, business models have to change as a result of Brexit.

WHAT DOES THIS MEAN FOR AMSTERDAM, AND THE NETHERLANDS?

Since the referendum result in 2016, UK based financial institutions have been examining a number of options across Europe, in the search for a new location to base their regulated businesses, once the UK leaves the European Union. A recent study found that 275 financial and banking firms have moved or are moving some of their business from the UK to Europe.[1] The 'winning' cities include Frankfurt, Paris, Dublin and Amsterdam, but is it not a 'one size fits all' approach with businesses and activities being fragmented across multiple locations.



The pattern that is emerging shows the majority of the banks have chosen either Frankfurt and Paris (or both), with 90% of firms that chose Frankfurt being investment banks, such as UBS and the European investment banking arm of JPMorgan Chase. In terms of overall numbers, Dublin is leading and expects to welcome more than 100 firms, with half of all asset managers, hedge funds and private equity firms selecting the Irish capital, along with many of the major insurers.

Continuing its rich trading history, Amsterdam is set to welcome a swathe of market participants, specifically venues, with two thirds of their 32 business migrants being trading platforms, exchanges or broking firms.

What more could Amsterdam & The Netherlands do to make it a more attractive Post-Brexit location to the financial sector?

Depending on who you talk to in The Netherlands, there are differing opinions as to what the country as a whole and especially Amsterdam could do to attract more financial players, and indeed whether it should try at all. The government bail-outs of ABN Amro and ING are still at the forefront of peoples' minds, and this is reflected in the strict bonus rules. The Netherlands operates a policy that restricts bonus payments to 20% of annual salary, the rest of Europe allows payments of up to 100%. ***One controversial option would be to align the bonus cap rules with those of the rest of Europe***, however this looks unlikely as there is currently strong political opposition to doing so.

Another option that the Dutch government could consider would be to ***extend the duration of the 30% ruling***, this is a tax break that is offered to skilled workers who are hired into roles in the country, although again this looks unlikely given that the duration for the ruling has recently been reduced.

A third option could be for the Government to ***offer a number of incentives, similar to the ones offered to the EMA (European Medical Association),*** for whom a new office is being built in the south of the city, but this has to make economic and business sense and also comply with EU laws and regulations.

It very much looks like The Netherlands and Amsterdam has for now opted to become a focused and specialised centre for trade execution and clearing, building on the existing focus areas of payments and lending. These new market entrants do not pay large bonuses, are able to attract local staff, building on the rich trading heritage of the country, once again breathing new life into Amsterdam as a European centre for trade.

1 https://newfinancial.org/the-impact-of-brexit-on-the-city/