Will FinTech be the future?

“Service will become the means to compete”
Roel Louwhoff

“The ‘crowd’ always knows best”
Pieter van der Harst

“We need to approach our own business model disruptively”
Maarten Edixhoven
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The FinTech industry is a rapidly growing worldwide industry that has abruptly changed the order of financial institutions and is set to change it even more in the future. FinTech businesses often start out small, with some pioneers focusing on a specific niche, process or issue. This always proceeds via a mix of entrepreneurship, innovative use of the Internet, new technology (e.g. blockchain) and data.

But will FinTechs continue to be entrepreneurial and innovative, even following vigorous growth, after an IPO, after receiving support from private equity or after changes in leadership? Or will they eventually come to resemble regular institutions? Will traditional financial institutions absorb them or will developments in fact trend the other way? Can banks, insurers and asset managers take the key characteristics of the FinTech industry on board? These and similar questions will certainly engage us for some time to come.

The FinTech industry in 2020 will no doubt be larger, more concentrated, more influential and more closely interlaced with traditional financial institutions. How exactly, time will tell. But that is what keeps doing business exciting! The articles in this Eye on Finance provide an overview of the roles FinTech plays in the financial sector.

Corporate governance expert Jaap van Manen discusses the impact of data and digitalization on business models of financial institutions and the contribution that internal supervision can make. Roel Louwhoff, COO at ING, explains that data will increasingly become the linchpin of service provision, compliance and improving operational processes. We spoke with Pieter van der Harst, CFO of FinTech-bank bunq, about FinTech and daring to think uncompromisingly. In our section on sustainability, Aegon director Maarten Edixhoven shares his views on FinTech, innovation and sustainability.

Naturally, there are also contributions from EY’s specialists. Tony de Bos describes the need for “Dynamic Threat & Risk Management”; Lisette Ens has contributed an essay on the Netherlands as FinTech hub and Marianne van Rosmalen has written a column on how the increasing focus on user experience is forcing banks to innovate. Lastly, Menno Bonninga answers seven questions on Managed Services.

As always, we hope you will enjoy reading this issue and that it will inspire you towards “a better working world”.

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“Accountability needs to be central”

Developments in the field of data and digitalization sometimes assume almost hype-like proportions. They will have a major impact on the way businesses operate in the years ahead. But traditional financial institutions will be less able to keep up with these developments than desired, partly because of the abundance of regulations. These matters currently dominate the agenda of supervisory boards and may require fundamental adjustments of the model of internal supervision. André ten Damme (EY) asked Jaap van Manen a number of questions about these issues.

How would you characterize the current situation in the financial sector?
“Matters such as big data, public information and digitalization call the business model of many financial institutions into question. This is a major strategic issue. And yet the ‘burning platform’ is perhaps not clear enough, partly because of the protection of the market by regulation and supervision.”

How can members of supervisory boards contribute?
“Supervisory boards need to look for people who can ask unsettling questions during the supervisory board meetings, for instance about cybersecurity. These people do not read the reams of paper on supervision and compliance, but spend their time collecting and reading matters that other members of the board do not read. They are able to look at the world in a different way and come up with very difficult questions that get the board thinking. But the problem is - to put it in the bluntest of terms - that those people are probably so unhappy on the board that they will attend once and then never again. The major diversity issue at the level of supervisory board members is therefore how people with a unique perspective can play a role in the board and feel comfortable there. Perhaps members of supervisory boards should be able to acquire shares, which will engender a different kind of affiliation with the institution, but that is often still seen as heresy.”

What role does the chair of the supervisory board play in recruiting such talented people?
“The chair of the board, unfortunately, is often still someone beyond retirement age who is astonished by everything that is currently going on. It would be remarkable if that person could reach out to people who operate on the basis of a different perspective. There are only very few people who are genuinely able to do that. I think this will turn the model of internal supervision on its head.”

What would be a good solution?
“I have given this a great deal of thought, but I don’t necessarily have an adequate answer. If someone opts to spend part of his career as a chairman of a supervisory board of a financial institution, I think he will need to start thinking at an early stage about how to prepare for this. For instance, how he should address the issue of diversity when he is a chairman. Moreover, this calls for head-hunters who are less traditional than today’s head-hunters and who think outside the box.”

According to you, what is the key to addressing all these challenges in the financial sector?
“Corporate governance codes usually assume that people are able to bear responsibility for themselves and for others and are prepared to hold each other accountable for those responsibilities. The players in the financial sector must likewise allow themselves to be driven by that responsibility and not by compliance pressures and short-termism. The crux is to find a way of giving greater priority to that accountability again. We will have to do that together.”

Jaap van Manen is a member of several management and supervisory boards, including the supervisory board of the Dutch central bank (De Nederlandsche Bank). Van Manen is also chairman of the Monitoring Committee of the Dutch Corporate Governance Code. He is speaking in a personal capacity in this interview.
Roel Louwhoff is Chief Operations Officer and member of the Management Board Banking at ING. He is globally responsible for operations & IT, data, change management and procurement within ING Bank. Marc Welters (EY) asked him for his views on developments in the field of data and FinTech.

**What is the role of data at ING?**
“For us, data is increasingly what it’s all about, especially with an eye on the future. On the basis of data, we work with customers to consider how we can further improve our services. A greater focus on data is also required to meet the regulator’s expectations, to identify operational opportunities and weaknesses and to determine the next steps.”

I assume that improving services is also affected by developments in the field of FinTech?

“New technology arises in every industry. It only started a little later within the financial services industry, which has led to the current wave of small FinTech businesses. ING has always had a close affinity with FinTech. ING Direct was launched as a brand in 1997. You could say that ING Direct was a FinTech business. That is how we became the third-largest bank in Germany with ING-DiBa, serving almost 9 million customers, without having a single office there for our retail customers. ING Direct is still mentioned as an important example of innovation in financial services. To me, FinTech is an attractive industry. It is not a passing hype. There are huge steps to be taken and that will continue to be the case for some time.”

IT is actually the heart of a bank. Does that mean that a FinTech business with a good platform can go straight to the market?

“They can try, but they would still need a banking licence. And even if they have a license, they would still lack a crucial factor, namely customers’ trust. The crisis caused a major trust breach. Yet, surveys show that customers still trust banks more than anyone else when it comes to important financial decisions and the safety of their personal data. A business may excel as a FinTech business or as ‘digital disruptor’, but that does not mean that it is a good bank. That is exactly where our added value lies and that is also the reason why many FinTech businesses are seeking alignment or alliances, in one way or another, with existing banks.”

“Service will become the means to compete”
So FinTech initiatives are not a threat?

“I’m not saying that FinTech does not pose a threat, but I take a positive approach to them. We can learn from their entrepreneurial drive, agility, technological know-how, and how that can be translated into better services for customers. It makes us faster and more alert. But they are also learning from us. We work with various FinTechs and also invest in them, for instance, the US company Kabbage with which we are running a pilot project in Spain, and the Chinese company WeLab in which we are investing. Financial service providers are increasingly realizing that particularly young customers have been raised differently in terms of how they want to be addressed and served online. Banks need to work on that. In the future, customers will choose their bank on the basis of the convenience of the technological options that the bank offers.”

Does customer knowledge give you a head-start, as compared with start-ups that have yet to start building up data?

“The key is the relationship with the customer that you have already developed over time, the trust that a customer has in you. On the other hand, studies have shown that customer loyalty is not unlimited. If a reliable party offers a better product, the customer will leave. But the question is whether that will be a FinTech that has started from scratch. We don’t think so. A FinTech with a comprehensive range of banking services and a payments platform won’t materialize in the near future.”

What impact will FinTechs have in the next five to ten years?

“Many of the billions invested will evaporate because many FinTech businesses won’t make it. But we will still learn a lot. Take Bitcoin, for example. The initial response was that we could not, or should not, do anything with it. Bitcoin was for criminals. A great deal of money went down the drain in the first Bitcoin activities, but nowadays you can use Bitcoin at many banks. And therefore the supervisory institution needs to take this into consideration as well. In fact, the underlying technology, the block chain technology, is the great ‘disruptor’. At the same time, it also offers opportunities. Therefore, we always explicitly look at the opportunities that the FinTech developments present to us. FinTech businesses are important innovators.”

Block chain technology is the great “disruptor”

What developments are you expecting in the field of payments, in connection with FinTech?

“Many processes still proceed batchwise. The challenge is to convert this into real-time processing. Pressure from FinTechs is certainly forcing banks to focus intensely on this issue.”

Can all banks keep up with this trend? RBS, for instance, is retracting to its “homeland”, due to excessive costs.

“Partly based on my experience in the telecom industry, I expect that a limited number of players will eventually remain. International payment transactions require specific expertise and ‘scale’. ING has developed an online-platform for computers and tablets. Controllers and CFOs can now anywhere use biometric authentication to log in and handle their payment transactions on a PC or tablet. That is fairly unique in the market. However, incorporating this kind of technology worldwide requires enormous investments. Not all parties can realize that.”

Will the developments above lead to a change in ING’s strategy?

“We presented our Think Forward strategy to the market in 2014. We recognized that we needed to take major steps in the field of new technology and data management to provide a distinctive customer experience. That is the core of our strategy. The substance of that strategy has not changed in 2015, but the pace of developments in our day-to-day service delivery keeps on accelerating. So the strategy is right, but needs to be executed even faster. One thing is clear: service for customers will become the means to compete.”

So FinTech initiatives are not a threat?

Will the developments above lead to a change in ING’s strategy?
EY FinTech Adoption Index

The EY FinTech Adoption Index shows that consumers are relatively quick to adopt and use innovative FinTech services and to combine them with existing services of financial institutions. FinTech solutions that are developed by players from outside the financial sector offer a variety of innovative services, from behaviour and usage analysis to financial planning. Over 15% of the digitally active banks’ and insurers’ customers worldwide already use these FinTech services.

Compared with insurers’ customers, bank customers are relatively quick to adopt innovative FinTech services, particularly regarding peer-to-peer payment services, international money transfers or online investment advice. Customers of insurers, by contrast, are driven mainly by opportunities for reducing premiums, for instance by means of “telematics” solutions that reward good driving conduct or on-body metering instruments that encourage healthy behaviours. The early adopters of FinTech innovations are relatively young and have an above average to high disposable income. Notably, FinTech adoption is stronger in urban than in rural areas. These developments might appear to pose a threat to existing parties in the financial sector, but in practice they often prove to be effective additions. Banks and insurers with a clear vision concerning innovation are able to utilize the technological potential and increase the quality of their services, in conjunction with these FinTech organizations.

The question for many organizations in the financial sector therefore is whether they can successfully set up these alliances themselves or whether they will continue to leave the lead to FinTech businesses.

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Global Information Security Survey 2015

The recent EY publication “Creating trust in the digital world” presents the results of our Global Information Security Survey 2015. The worldwide survey, in which 1,755 senior executives from all sectors participated, was performed to identify the principal cybersecurity challenges that organizations face. The Global Information Security Survey addresses matters such as the crucial role played by cybersecurity in making the digital world a safer place. Organizations need to learn how to recognize the subtle signals that can indicate a cyber breach and must have an “Active Defence” approach to identify threats and neutralize attacks.

The 2014 survey showed that combating cybercrime needs to be approached step by step: (1) implement a basic approach; (2) determine the impact of environmental signals; and (3) pro-actively anticipate those signals.

The results of the 2015 survey show that all steps should be improved. The implementation of those steps, however, turns from a matter of choice into a matter of crucial necessity. The results for financial institutions state that they only invest in Data Leakage if the priorities are considered from an investment perspective. In answer to the question whether Dutch financial institutions are able to detect security incidents, around 40 per cent replied, worryingly, that it is unlikely or very unlikely that they will be able to detect an advanced attack. Lastly, we conclude from the survey that a large number of Dutch financial institutions do not really know the financial impact of a security incident.

For more information, also visit www.ey.nl/fsadvisory

Solvency II and financial statements

Solvency II became effective January 1, 2016. Much has already been written about its effects on the way insurers are managed and on the reporting to the Dutch central bank (DNB). It may be less widely known that a number of other rules concerning reporting have been changed as of the same date. A fairly fundamental change is that financial statements have been uncoupled from supervisory rules. However, the use of the supervisory rules as a basis for valuation (or as qualifying minimum) in the financial statements (according to the Dutch Civil Code (Burgerlijk Wetboek)) will generally remain possible. Depending on their size, insurers are required to publish a Solvency and Financial Condition Report (SFCR), possibly in combination with the financial statements. Or they must include a number of elements of the SFCR in the financial statements. The group of insurers that are Public Interest Entities (PIE) has been limited to some extent. That is important, partly because a number of exemptions for PIEs have been discontinued as of 2016 (the options in Sections 2:402 and 2:403 of the Dutch Civil Code).

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Will FinTech be the future? 13
Bunq positions itself as an IT business with a banking licence. It is a FinTech bank. The linchpin of bunq is an app with which friends can arrange payments amongst themselves and jointly share a bill within a group. Withdrawing cash at an ATM is also possible. Jennifer van Eekelen and Daniël Smidts of EY interviewed Pieter van der Harst, Chief Financial & Risk Officer of bunq. A talk about FinTech, the excessive size of traditional banks, and daring to think “uncompromisingly”.

What is the revenue model of bunq?
“The basis is that, eventually, we want to be paid per service. In Dutch payment transaction services, products for consumers are generally free or virtually free. We apply the same model. By launching a distinctive product for private individuals in the market we generate volume, which in turn makes us attractive for business customers, such as retailers. The income then comes from the business customers. We charge a subscription fee for the connection to bunq and additionally a fee per transaction.”

How will FinTech businesses such as bunq affect the market?
“The traditional banks will be facing competition for all their services from new players who are able to offer better products at lower prices, without ponderous legacy systems. As a consequence, traditional banks will be continually reorganizing themselves to be able to work more efficiently. That will cause a great deal of turmoil, but that is necessary to bring the financial sector back to a size that is in proper proportion with the rest of the economy. The activities of Dutch banks represent around seven per cent of GDP. That is too much. Banks must become much smaller than they are now, and much more efficient as well. One per cent of GDP sounds much more reasonable than seven per cent.”

“Banks need to become much smaller than they are now”
Businesses must be able to fail

Which institutions will survive these developments?

“It will take several decades before it is clear which of the established parties will survive. Many people have no intention whatsoever to entrust their banking to someone else, so that supertanker will probably continue to cruise for some time. But the large banks will have to work very hard to remain profitable, for instance by discarding their legacy systems. But not enough has been invested in removing the legacy. The banks that will not make it in the end will be taken over. Or they will become affiliated with FinTech businesses. But that is not what we intend with our strategy.”

What are the traditional banks specifically struggling with?

“Customers expect the bank to be reachable and available around the clock and that transactions are processed immediately. The use of the “Customers expect the bank to be reachable and available around the clock and that transactions are processed immediately. The use of the process is essential for survival. Yet the latest genuine innovation within the established world of banking already dates back several years: the mobile payment app. This app is the right move for a generation that lives and breathes mobile technology. Using the mobile payment app has however proved to be customer-unfriendly, due to laborious payment procedures (including the use of random readers) and bothersome interfaces. Also, users of the app lose contact with the bank. The slow, and apparently even non-existent, innovation processes within the world of banking will cause the millennials to switch to other, more user-friendly alternatives. These are cheaper and faster.

The modern Dutch FinTech bank bunq is one of those alternatives. Bunq is the new mobile payment app that allows users to open a new bank account within five minutes and to share bills with friends by means of a selfie or pressing a button. User convenience is a priority for this FinTech. Moreover, bunq and similar payment apps only offer a part of the financial services, such as sharing payments. Consumers appear to be cutting loose from traditional banks and will procure different financial services from different providers, with a central focus on flexibility and user experience.

Millennials are switching to digital payment systems, crowdfunding platforms, peer-to-peer credit and new digital initiatives such as bunq. Innovations within banking are embraced if they are driven by a focus on flexibility, convenience and user experience. For example, the Venmo app, which is part of PayPal, recorded almost 2 billion euro in payments in November 2015. The successes of the FinTechs have not gone unnoticed. Google and Apple are now also developing mobile payment apps in order to enter the world of banking. And they are not the only ones. Increasing numbers of businesses are seeing that millennials are eager for innovations that make it easier to procure financial products and to integrate them into their digital lifestyles: ‘banking is not somewhere you go, but something you do’.

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‘Banking is not somewhere you go, but something you do’

The right culture is essential

Lastly, in your view, what is the main condition for successful innovation?

“Without a doubt that is the right culture within an organization. The reason that successful innovations can come out of small start-ups, is that their culture offers sufficient freedom and is also sufficiently ‘uncompromising’. That stimulates new ideas. That is much more difficult in a larger organization, because anything that is new will often encounter resistance within the business itself.”

Disintermediation will grow

Why is that fine?

“At present, large banks need to be bailed out by the government, and hence the taxpayer, in the event of problems. Otherwise a systemic crisis will arise. But that is very bad for the economy. Businesses need to be able to fail. I hope that we will move towards a more liberal structure of the financial landscape, in which banks are less important and people can lose money because they have taken a risk. I think that is also why DNB is greatly in favour of technological innovation. It leads to more small parties, more competition, greater efficiency and less dependence on the large institutions.”

Does FinTech necessitate a different kind of oversight?

“Some have said that innovative banks deserve a lighter supervisory regime. That is not something that I would advocate. These parties must also meet capital requirements. Oversight needs a different perspective, however. It will have to be more about the stability of business models and IT. In five years’ time, there will no doubt be many more IT auditors at DNB than today.”

‘Banking is not somewhere you go, but something you do’ is a popular saying among Generation Y, the so-called ‘millenials’. The millennials’ approach to banks is completely different from that of earlier generations. They prioritize user experience. Primary banking services, such as opening an account and using it for payments, or closing on a mortgage, must take place in a matter of minutes and, of course, digitally. This forces banks to innovate their services and procedures.

A recent survey (EY FinTech Adoption Index, 2015) showed that 15.5 percent of 10,131 “digitally active” customers used at least two FinTech services in the past six months. These are financial products that have been developed by non-banks or non-insurers. The study also showed that this percentage could double within a year. According to studies such as Scratch and Microsoft’s “Millenials”, one third of the millennials expect that the way in which we pay and receive money will change completely within five years and that banks will become irrelevant in that regard. Millennials state that they have little trust in the established banks and 49 per cent of them hope that alternatives for banks will arise. All of the above indicates that innovation in the world of banking is essential for survival.

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FinTech Hub!

The Netherlands is one of the leaders in the global innovation index, has a central geographical location, an excellent infrastructure, a high level of adoption of online financial services and a solid financial sector. This does not only attract investors, but it also means that growing numbers of initiatives are being developed that facilitate doing business. There are ample opportunities for the Netherlands to become a FinTech hub. How can this be stimulated even more effectively in the changing landscape? In this article, we look at what we can learn from similar developments in the UK.

FinTech offers opportunities

FinTech is growing. And yet only one third of the people working in the financial sector in the Netherlands knows what FinTech stands for and what its impact could be. That is a pity, because FinTech offers numerous opportunities for the Dutch financial sector and has become essential to the future of its service provision. The financial sector has contracted by some 38,000 jobs since 2007 and this trend is expected to continue. In addition, technological developments do not only mean that fewer employees are required, but also that they need to have a different skill set. And the competition does not only come from the traditional parties. FinTechs that use innovative business models and technology to improve financial services are entering the playing field, while data giants such as Google, Apple and Facebook, but also large retailers, are adding financial products and services to their range of services.

Investments in FinTech

In 2015, worldwide investments in FinTech totalled $20 billion. That is six times as much as in 2012 and almost seventy per cent up from 2014. Although the USA still accounts for a large portion of FinTech investments worldwide, Europe achieved the highest growth in 2014. The UK and Ireland accounted for 42 per cent of European growth ($623 million), and in the Netherlands the volume of investments also increased significantly to $306 million. This can be stimulated further by measures to support businesses in the start-up phase. There are many FinTech-specific incubator- and accelerator programmes in the UK that are backed by major investors such as Level39, Deutsche Bank Innovation Lab and Seedcamp. This is mainly due to tax facilities. A range of initiatives has recently been launched in the Netherlands by large financial institutions, including the ABN Digital Impact Fund and the ING FinTech Village. And tax benefits for Venture Capitalists and Business Angels could make the Netherlands even more attractive for investors.

Attracting talent

The availability of properly qualified, enterprising, technological and financial talent is one of the preconditions for a FinTech hub. Fortunately, the appeal of FinTech to this talent is strong, given the opportunities for career advancement they offer and their image as a modern employer. The top three vacancies that are the most difficult to fill are all IT positions. To address this problem, substantial efforts have been undertaken in recent years to attract talent from abroad. In the TechniekPact, education and business have successfully partnered to raise the intake of technology students. Further measures could be taken, following the example of the UK. The UK prioritizes alliances between universities and business, visas for entrepreneurs, fairs and (Fin)Tech campuses to inspire students at an early stage to pursue a career in business, technology and innovation in the financial sector.

Availability of talent is a precondition for a FinTech hub

Appropriate laws and regulations

Supporting policy is fundamental to an attractive FinTech climate. The Dutch Ministry of Economic Affairs has stated it will provide financing and “appropriate regulations”. Thus, new subsidy schemes are being planned and access to existing schemes is being facilitated for start-ups. As of 1 January 2015 a special visa for start-ups was introduced and local programmes are underway, such as Start-up Delta, aimed at securing a place for the Netherlands in the top 3 of the European start-up ecosystems. The Lower House of the Dutch Parliament recently discussed FinTech and the Dutch central bank DNB has issued a report on technological developments in the financial sector. DNB and the Netherlands Authority for the Financial Markets (AFM) state that new parties, which will make the Dutch financial sector more competitive and innovative, are very important. However, it is also important not to lose sight of the risks. The AFM wants to eliminate unnecessary legal bottlenecks wherever possible, and has opened an “innovation room” for brainstorming and briefings on the steps that are necessary to introduce new services to the market. In addition, a range of private-sector initiatives encourage and interlink FinTech initiatives, such as Holland Fintech. National and local government in the UK is setting a good example that we can also put to productive use in the Netherlands.

Developing into a FinTech hub should be higher on the agenda

Increasing transparency and competition

Together with business and universities, the government has entered into a dialogue on the developments, challenges and opportunities presented by FinTech. This gave rise to round table meetings, working parties, tax initiatives, incubators and the industry association Innovate Finance. The latter has an important role as a driver in the network of investors, government, financial institutions, universities and FinTechs. It deploys a multi-modal approach in seeking to make the sector more transparent and competitive. This includes the BankReferral Scheme under which it is obligatory to refer SMEs to alternative providers of financing if the traditional banks have rejected them. This is complemented by tax initiatives, such as the (Seed)Enterprise Investment Scheme (SEIS) and the Open Banking Working Group (OBWG).

The OBWG aims to assess the impact of open data for consumers, the legislator and business and to arrive at a standard. The OBWG also takes account of new legislation such as the Payment Service Directive (PSD2) and the specific Access to Accounts (XS2A), part of which is the ability to readily provide information on consumers’ bank transactions (if they provide permission to do so).

FinTech is essential to the future of financial service provision

A good basis. What next?

Partly due many good start-up initiatives, the Netherlands has created a good platform to develop into a FinTech hub. But for the Netherlands to fully develop a transparent, competitive and innovative financial sector, FinTech will have to move higher up on stakeholders’ agendas and collaboration will be needed to ensure sufficient investment, talent and appropriate laws and regulations.
“We need to approach our own business model disruptively”

Maarten Edixhoven’s is a member of the Management Board of Aegon. Among other things, he is responsible for the business market and is involved within the establishment of the policy on sustainability. Remco Bleijis (EY) asked him a series of questions on innovation and sustainability.

Which innovative themes are currently important for the financial sector?

“Primarily, of course, the developments in FinTech. FinTechs produce a huge acceleration in the market and also upset parts of the value chain, in which they also provide opportunities. In addition, developments in the technological, biotechnological and medical fields are highly important for large pension organizations. We are closely monitoring those technologies as they have an impact on how long people will be able to live. Those are the two types of innovation that have an impact on the core of our operations.”

How do the innovations affect Aegon’s strategy?

“Our strategy is set to shift from ‘providing guarantees’ to providing services with superior and scalable customer interfaces. We are developing innovative businesses ourselves, such as Eye open, Krooole and Krob. We are also financing businesses that meet a customer demand and can be disruptive. Aegon also has a venture fund, worth EUR 100 million, to acquire minority interests in FinTech start-ups throughout the world. Those minority interests comprise an investment component, but certainly also a learning component. We realize that we cannot do everything in-house. That is not fast enough and speed is of the essence. We are operating in a highly regulated sector with hefty capital requirements. That provides some protection, but not forever. We need to approach our own business model disruptively and should find new revenue models.”

Security monitoring 3.0:
managing threats and risks more intelligently and effectively

Tony de Bos
FinTech is becoming progressively more dominant in the business models of banks, insurers and asset managers. It is important to assess the threats and risks this entails.

In the past, organizations assessed at most once every quarter whether their measures mitigated risks effectively. That approach would be completely inadequate today, as new threats are emerging continually.

Previously we aimed, in a manner of speaking, to protect our systems and data with thick walls and moats. Nowadays, it is a fact of life that an organization can be hacked, or already has been. The approach has accordingly moved from “prevent” to “detect”. Organizations are setting up Security Operating Centers (SOCs). Security analysts in these SOCs monitor screens with log-in information around the clock. We have learned that even this approach is not sufficient. Hackers are becoming smarter all the time. And given the large data volumes, a complicated attack can be easily missed. Annual surveys carried out by EY have shown that users instead of the SOCs make almost half of all reports of attacks or potential attacks. Making more intelligent use of data in monitoring makes it possible to address threats and risks more effectively.

To define a good risk profile, it is essential to shift the focus from policy and procedures to more technical aspects, as hackers will focus on the technical opportunities that make the hacking possible. Organizations must therefore know modern modes of attack and the vulnerabilities that hackers exploit. Once the level of threat is known, its potential impact on the processes, continuity and data confidentiality can be determined, and measures can be then put in place.

Financial institutions are making increasing use of FinTech, enabling them to become more innovative and to accelerate their digitalization. The use of innovative technology entails more security risks than does more mature technology. FinTech businesses are often relatively small and their budgets for security are often still limited. Concessions may have been made in terms of security under the pressure of new functionality.

In order to accurately assess the threats and risks, internal data as well as external data known as “threat intelligence” data must also be used for FinTech. New big data technologies can be combined with a smarter approach to risk assessment. Combining the various functions and dynamically analyzing threats and risks will make it possible to generate smart warnings and reports. This continual analysis and “hunting” for attacks, Dynamic Threat & Risk Management, is also referred to as Security Monitoring 3.0. Integration of Security Monitoring 3.0 enables FinTech businesses to respond more rapidly and more effectively if a risk arises.

More intelligent use of data will enable risks to be addressed more effectively

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Seven questions about Managed Services

Menno Bonninga, Senior Manager EY Financial Services Advisory, answers seven questions about Managed Services.

1. What are Managed Services?
Managed Services means that (parts of) business processes are transferred to a specialized business for a short or long period. That enables a business or institution to rapidly make use of specific knowledge, capacity and technical solutions that are not available in-house.

2. Are Managed Services new?
No. Managed Services have existed for a long time. They are used extensively in IT services in particular. We are now seeing a pronounced trend towards using the concept outside IT, as well. At first, this mainly pertained to activities involving substantial volume, but an interesting shift is going on in processes that are closer to the heart of the organization. New technology is making it easier to establish a platform on which customers and suppliers can jointly carry out processes.

3. Are you seeing a similar shift towards core activities at financial institutions?
We are seeing increasing pressure on financial institutions, for instance from oversight. Not just from the Netherlands but also from the ECB. This often involves complex issues that all call for attention at the same time: the required qualifications, making the required capacity available and the interlinking with operations. Furthermore, replies to questions or changes in the organization often need to be produced within a short timeframe. Recent examples of projects imposed externally include transaction monitoring, know your customer (KYC) programmes, model reviews and cybersecurity. The use of Managed Services offers greater possibilities for a financial institution to maintain its focus on "what matters most".

4. Are Managed Services the new outsourcing?
Not quite. Outsourcing is often used to reduce operational costs or to remove part of the "non-core" business. Managed Services are used for core activities of the organization, for which demand is driven to a greater extent by required skills, specific knowledge and qualities and capacity.

5. Are Managed Services driven predominantly by efficiency or by flexibility?
There are benefits on both fronts. Managed Services offer a wide range of options for increasing both cost transparency and cost control, while at the same time providing greater scope for upsizing or downsizing. That makes the consequences in terms of costs visible.

6. Is the actual work always done abroad?
It often is, but that depends on the type of work and the required qualifications of employees. There may also be restrictions, for instance that data may not be transferred outside your own organization or outside national borders. This can give rise to different models for the location where Managed Services are delivered: on-site at the customer, at the supplier or only in the customer’s home country, or also at the supplier in another country. It is particularly important for financial institutions that watertight agreements are reached on the governance concerning the services between the various parties, data management and data flows, processing and accountability reporting.

7. What place will Managed Services ultimately have within the financial sector?
The scope of Managed Services is widening all the time. The range already includes regulatory (Finrep, Corep, Solvency II), compliance (KYC/CDD, FATCA/CRS), performing recovery activities, “analytics as a service” and cybersecurity. At the same time it is also moving in other directions and is used for product pricing reviews, model assessments and assurance monitoring. Those are only a few of the possibilities within a range that is constantly growing.

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