

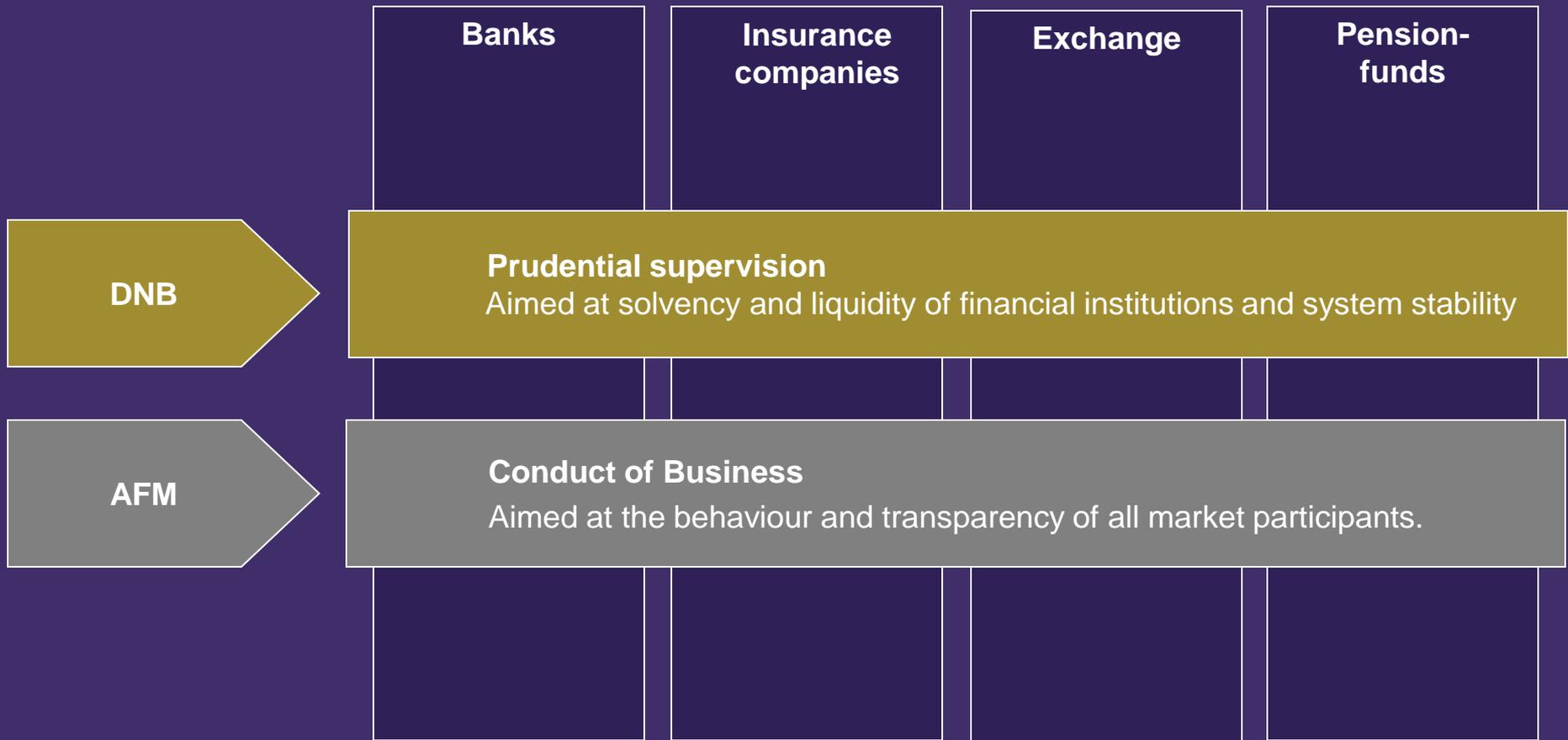
Promoting responsible conduct by financial institutions

A Dutch perspective

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A decorative graphic at the bottom of the slide, consisting of several overlapping, curved, ribbon-like shapes in various shades of purple and white, creating a sense of movement and depth.

Netherlands one of the few economies to adopt twin peaks supervisory model

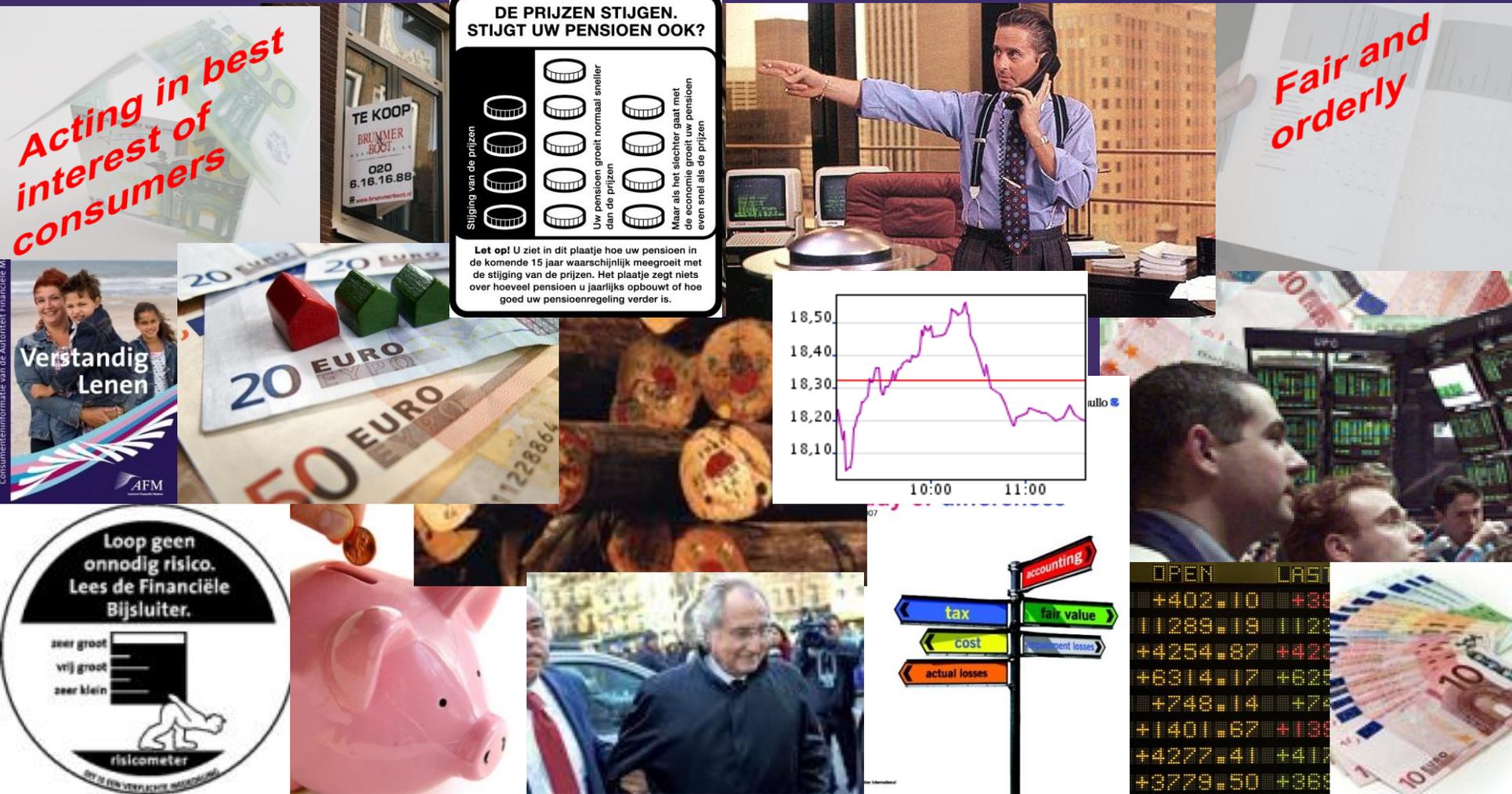


Supervisory remit of the AFM is very broad



Financial services

Capital markets



Large number of financial institutions under supervision requires a smart approach



Type of institution	Number
Banks	210
Insurance companies	570
Investment companies	260
Investment funds	120
Pensionfunds	550
(Insurance) intermediaries	9,000
TOTAL	≈11,000

- The AFM supervises the conduct of around 11,000 firms
- These firms carry out a wide range of services in the retail and wholesale banking, insurance, pension, investment and securities markets.
- They cover a broad spectrum, from consumers taking out an insurance policy to major companies raising capital in the global capital markets

The NL has an extensive consumer protection regime but not found the silver bullet as yet!



- **The Netherlands has developed an extensive consumer protection regime over the past decade**
- **Elaborate rules regarding disclosure, suitability of advice, professional standards, fit and properness of individuals etc**
- **Realisation is growing that this is only part of the answer ...**

Some insights gained from experience and the financial crisis



- There is a need to get involved at the product design stage to avoid (large scale) consumer detriment**
- Incentive structures are deeply embedded in the structure of the financial system: simply managing or disclosing the resulting conflicts of interests may not be enough**
- For a consumer protection regime to be effective, we need to develop a good understanding of the way consumers behave and make decisions.**

Interventions should be designed to drive and facilitate cultural change



- **Getting the principles to work involves individual institutions and consumers undergoing a profound cultural change**
- **The nature of the rules and the way these rules are enforced should promote that:**
 - **Financial institutions take real responsibility for delivering fair outcomes for consumers and become more self-critical → It should not promote a ‘tick the box’ mentality!**
 - **Consumers become more engaged → the result should not be that they disengage (eg due to information overkill or moral hazard)**

Theme: “product providers are putting customers’ interests first”

A medium-term intervention programme aimed at the largest banks and insurers

How we try to promote long-lasting behavioural change within the big financial institutions



Key to our strategy is an intervention at two levels:

1. Promoting that a firm is changing towards becoming an organisation that puts the customer's interests first
2. Making sure that consumers are in practice are experiencing the outcomes of this change by getting a fair deal

How we see our role with regard to the change process



- Drive and facilitate the change process
- Clarify, debate and set explicit standards
- Target symptoms of harmful behaviour

Review method and peer comparisons appear to be powerful mechanisms in activating firms



Review method consists of two elements:

- The element Integral Change considers the change the firm is making in putting the customer's interests first
- The `Customer Interest Dashboard` measures the extent to which this leads to better customer outcomes in practice

Background material

‘Integral Change’ considers the change effort a firm is making



- In order to ensure that the change takes place in all parts of the organisation, several elements are involved.
- First of all, the AFM expects the enterprise to have a plan that describes how the change will be effected. This plan will then be carried out with a minimum of delay.
- In addition, a crucial element involves determining whether the organisation and its employees are guided by criteria that contribute to putting the customer’s interests first. The AFM thus focuses on these various elements in order to assess the change the organisation is making.

1. Organisational Control

- Quality of KPIs
- KPI-based Control

2. Learning Organisation

- Customer's voice is heard
- Supervisory Board involvement
- Proactive and self-critical attitude
- Willingness to change

3. Employee Management

- Exemplary behaviour
- Role of employees
- Performance and Encouragement Policy

4. Approach to Change Process (only for stragglers)

- Content of milestones
- Timelines

`Dashboard' considers the extent to which this change effort is leading to good outcomes in practice



- The 'Customer Interests Dashboard' shows the extent to which a firm is succeeding in putting the customer's interests first.
- Moreover, the AFM considers various products, processes and services offered by the enterprise.
- The Dashboard does not include all of these products, processes and types of service. The various elements that form part of the Dashboard give a good indication of the extent to which the firm is acting in the customer's interests. This indication can moreover be compared to the situation at other firms.

Dashboard 2012



1. Savings Module

2. Mortgage Module

3. Investing Module

4. Insurance Module

5. Consumer Loans Module

6. Pensions Module

7. Transparency

Special Modules

**8. Complaints
Management Module**

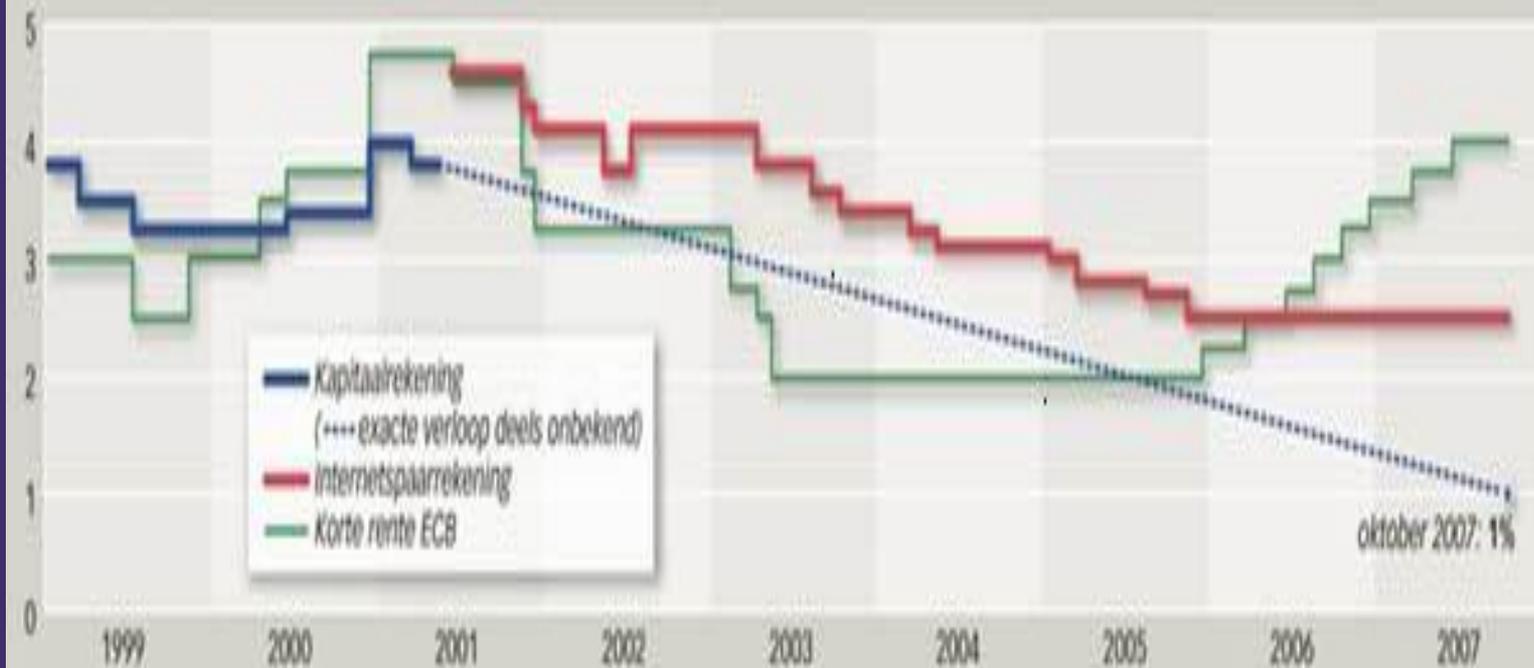
**9. Chain Management
Module**

**10. Customer
Empowerment Module**

Not practising what you preach: offering attractive teaser rates and covertly reducing them

Rente spaarrekeningen begint hoog, maar zakt snel in

Rente in procenten



oktober 2007: 1%

Dashboard Scoring Method

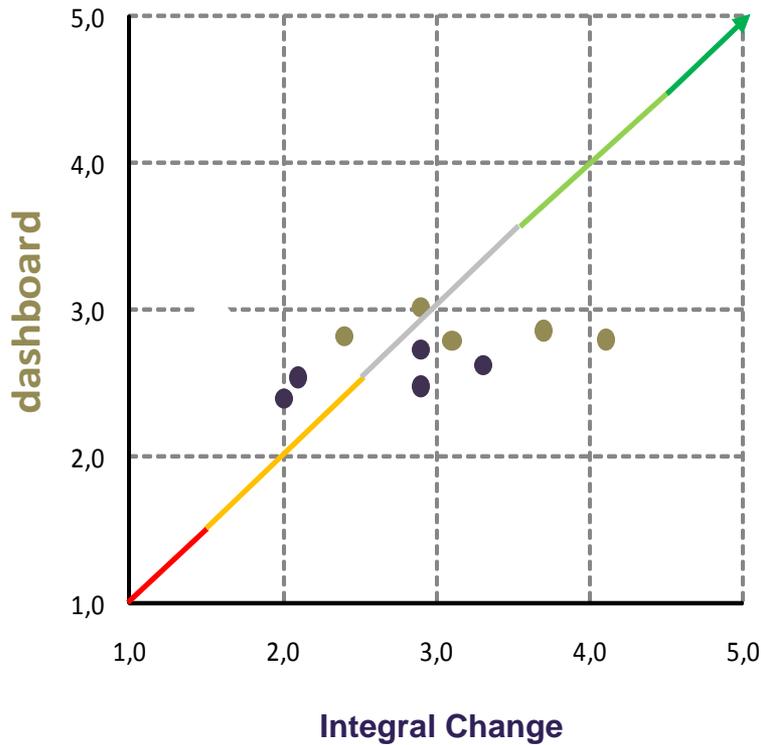


5	Customer Interest First idea is actively and consciously taken on board and practised; (best practice)
4	Customer Interest First idea plays a recognisable role; On the right road
3	Customer Interest First idea is present, But its practical application is still too non-committal
2	Customer Interest First idea plays no significant role; Requires more attention
1	Customer Interest First idea is insufficiently present; Reason for concern (poor practice)

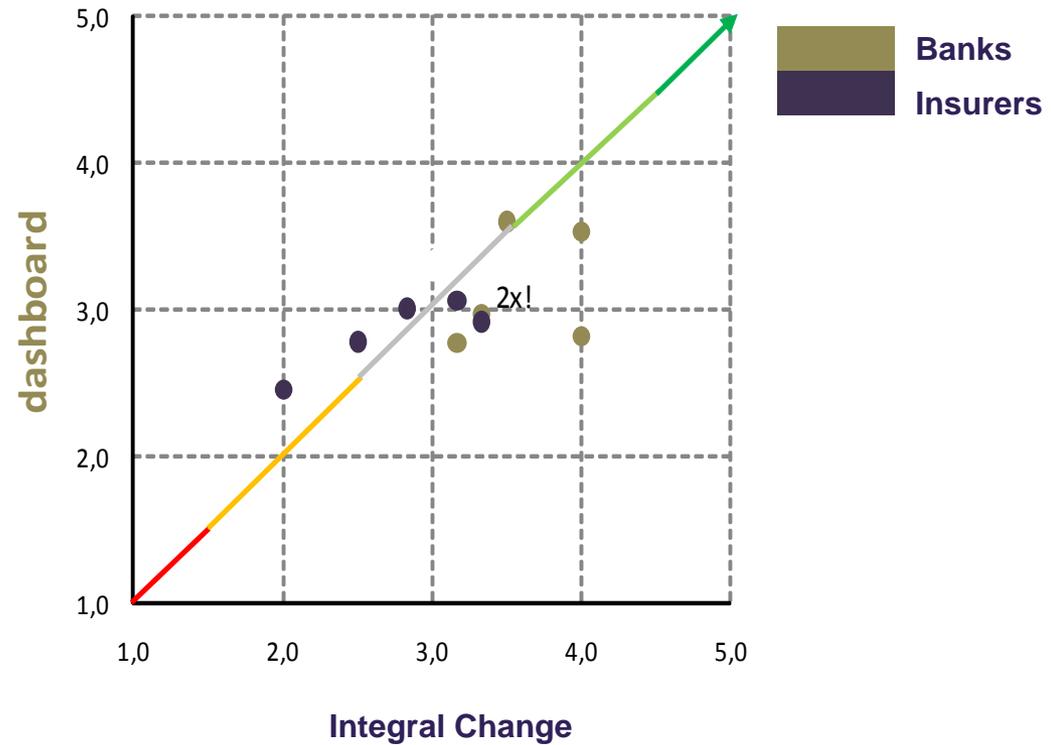
Customer Interest First Trends 2010 & 2011



Scores 2010



Scores 2011



Outcomes sofar



- Firms have made good progress with regard to putting the customer's interests first in 2011.
- Despite the positive developments, our reviews and observations, and the resulting scores, reveal that the large banks and insurers still have some way to go before it can be said that the entire organisation is giving the priority to customers' interests that these deserve.
- We note that the large firms are becoming increasingly aware of the importance of putting customers' interests first in order to achieve a sustainable recovery of trust in the financial sector.
- Many firms are clearly motivated to implement the principle of putting customers' interests first within their organisations.
- It is a challenge for the large banks and insurers to communicate more effectively to consumers and investors with regard to the steps they are taking in order to regain the trust of these parties in the future.