

**“Foreign banks add diversity, provide alternative choices, and keep domestic banks sharp.”**

Educated as an economist, Sierd de Wilde entered the DNB in 1973 and held various positions in the fields of financial markets, internal organization, payments and security settlement, export credit insurance, and (since 1999) supervision. Until recently, he was responsible for the supervision of licensed small and medium sized banks in the Netherlands including foreign banks, prudential supervision of security and investment firms, and integrity supervision of trust companies, money transfer offices, credit card companies and casinos. In addition he headed the DNB expert centre on integrity.

In December 2006, FBA chairman Yves Sawaya and vice chairman Bart IJssel de Schepper interviewed Sierd de Wilde and looked back in retrospect. What are his views on seven years of supervision of foreign banks operating in the Netherlands? Here are some final questions for Sierd de Wilde before hoisting the sails and heading for new horizons.

All these years DNB has embraced the establishment of *FOREIGN BANKS* in the Netherlands. We asked Sierd why. His answer was clear. “The Netherlands have always been a trading nation due to their position as Europe’s gateway, and the international focus of large national banks also asked for reciprocity. This proved to be good for competition which is always healthy for all parties involved.. As far as *FOREIGN BANKS* are concerned, the domestic regulator acts as a partner in business (without losing sight of its responsibility as a supervisor) and understands the rationale of their businesses best: it is the diversity that counts.

**Until recently, you have been responsible for the supervision of foreign banks in the Netherlands. How does this supervision differ from the kind exercised with respect to Dutch banks?**

Generally speaking, supervision has been and will be exercised in the same way, since foreign banks are subject to the same rules and regulations as domestic banks. As far as their risk profiles are concerned, we take into account the fact that a foreign bank is part of a larger entity, which means mitigation of risk unless its parent company or owner gets into trouble. Finally, each bank; be it domestic or foreign has its own particularities.

**What is the difference in supervision, if any?**

On the whole, there are differences in cultural background and differences in ideas about corporate governance. Sometimes, there may be different attitudes towards supervisors and other authorities.

**What are DNB’s objectives in terms of supervision of foreign banks?**

Generally speaking, DNB is responsible for safeguarding financial stability by supervising the solidity and integrity of individual financial institutions and the financial sector as a whole as well as to protect customers in general and savers’ money in particular. DNB therefore continuously monitors financial institutions and the network they operate in.

**How would you picture proper supervision in ideal terms?**

This would of course depend on the type of institution under supervision, but in the case of banks I'd prefer a close and informal relation between supervisor and bank. From the supervisor's perspective, this would mean having a crystal-clear picture of what is going on, with details and depth depending on the risk profile.

**Does DNB welcome market entry of foreign banks?**

Yes, definitely! Closed shops are always harmful to competition. Obviously, sound competition will keep competitors sharp and add diversity to the supply of financial services and products, as well as provide the right kind of reciprocity.

**How would you describe the conditions for business development in the Netherlands?**

Although there may be complaints about over-regulation, the local conditions are favourable. Take, for example, a look at the presence of a considerable number of significant large and medium sized companies, both national and foreign. Most of them are renowned global players in various capacities. One should also mention in this respect the large institutional investors like pensionfunds and insurance companies. Obviously, this also has to do with the ample presence of the highly trained, English speaking labour force and the outstanding Dutch infrastructure, to name but a few additional advantages we have as a nation.

**Is the Netherlands as a business location for financial institutions able to cope with foreign competition?**

Yes, I think so. History has proven that the number of foreign banks has only slightly decreased over the years, on balance mainly because of mergers. The number of foreign banks with a physical presence has, in fact, decreased from 65 in 1996 to 62 now. Broadly speaking, these changes are the result of a decrease in the number of foreign banks from the Far East — because of mergers and outright termination of business in the Netherlands and elsewhere in Europe — and the increase in banks from Turkey and other European countries.

**Where do you see room for improvement and how could DNB possibly contribute to this?**

It would be arrogant to say that there is no room for improvement. As far as our role and involvement is concerned — and assuming that regulation and the enforcement thereof are elements in what makes a country attractive — the present steps to make regulation less rule-based and more principle-based, combined with an even more risk-based supervision approach, are to be considered improvements.

**Which pieces of legislation and regulation make it attractive for foreign banks to establish themselves in the Netherlands, and alternatively, which make it unattractive?**

That's hard to tell and it's not entirely fair to ask this to a regulator or supervisor. Having said this, the renewed legislation on financial supervision as of January 1, 2007, is supposed to be an attractive — or less unattractive for those that dislike regulation — piece of legislation, as it is much less rule-based and hence provides much more flexibility than under current legislation.

**What are the reasons that induce foreign banks to enter the Dutch market and what should these reasons ideally be?**

the Netherlands being an attractive hub for European activities; the presence of large communities of fellow-countrymen; the presence of other banks from the same country of origin; the presence of large institutional investors and multinational companies; well developed financial markets and infrastructure; the quality of supervision, language, labour market, et cetera. These are all good reasons

**Where do new market entrants come from in particular?**

Turkey has been the major provider of foreign banks, so to speak, since the beginning of the nineties, but we have also seen banks entering the Netherlands from elsewhere in Europe, particularly from Belgium and Germany.

**Is there a decrease or increase in the number of foreign banks residing in the Netherlands?**

There is a slight decrease, caused to a large extent by mergers, especially in the case of Japanese and Turkish banks.

**What are the possible consequences of this trend?**

Typically, this trend mirrors the global consolidation trend, particularly in countries of origin.

**How do foreign banks compete with Dutch banks in terms of segment and scale and what is your opinion of the competition between major banks and smaller ones?**

Competition is fiercest in wholesale and corporate banking, and merchant and investment banking, as well as in asset management and custody. There is less competition in retail although this segment is showing some increase. Major banks dominate the market, but in specific areas foreign banks are taken very seriously!

**What role do foreign banks play in the development of the financial system in the Netherlands?**

They add diversity, provide alternative choices, and keep domestic banks sharp.

**In April 2006, the Dutch independent adviser Erik van de Merwe said in an FD Strategie interview that small banks do not have a future in the Netherlands, putting the balance sheet total limit at EUR 50 million. What do you think of this view?**

I do not agree. History has taught us that smaller and medium sized banks can succeed in making profits in the long run, in spite of consolidation waves. These types of banks have proven to be an interesting alternative for the major ones as they offer diversity and provide the personal touch that is often lacking when dealing with large conglomerates. With regard to the EUR 50 million limit as mentioned by Van de Merwe, a large number of Netherlands-based small banks — including foreign banks — hold capital well below this amount and have proven to be profitable for a long period of time.

**What is the concept of lead supervision with regards to foreign banks? Does this imply that DNB would no longer exercise supervision of foreign banks? Would this have consequences in terms of public confidence and financial stability?**

If implemented, this would mean that our involvement in supervision of subsidiaries of European banks would be limited to the same level of supervision of branches of European banks – think of integrity regulation like MOT, WID and Sanction Law. They are now treated as any other fully licensed bank. Possibly, actual supervision is still taken care of by the host supervisor. However, ultimate responsibility has shifted to the home supervisor. Ideally, this would not have consequences in terms of public confidence or financial stability.

Sierd, thank you very much. We wish you all the best , fair winds and good sailing!