Edition 5 - Ecosystem research in the Dutch financial sector

Reinventing business models with new partnerships in Banking, Insurance and Pensions

AI and Open Finance expected to significantly impact future ecosystems

April 2024 | Whitepaper Ecosystems

Edition 5 - Ecosystems in the Dutch financial sector

This study is an update (edition 5) of our PwC research regarding the Dutch ecosystems within the financial sector.

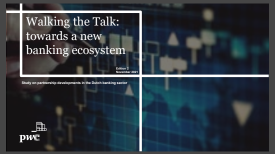
In the previous four editions, our focus was on banking. In this edition we expanded our research by including the insurance and pension ecosystems. With our analysis we aim to provide factual insights on how the ecosystems within the Dutch financial sector have been developing. Moreover we provide our view on the ecosystem landscape and shed our light on questions that organisations should consider when thinking about building ecosystems.

This study is based on public announcements of partnerships between Dutch organisations and Third Party Providers. The sources we used are publicly available sources such as newspapers, websites and forums available in Dutch and English.

See appendix for definition of terms used in this study (e.g. definition of a partnership).

Content

Previous editions



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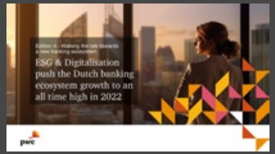

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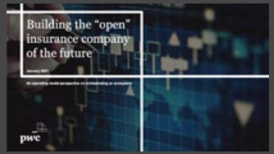


Open insurer of the future

Key findings and insights of our study

Within the Dutch financial sector's landscape, **67%** of the new partnerships in 2023 contributed to business model innovation. The **banking ecosystem has emerged as the most mature compared to insurance and pensions** with the highest number of new partnerships and the highest strategic significance.

The **key trends for partnering are different** between the banking, insurance and pension sectors. Banks focus on improving products and services, insurers prioritize preventive strategies and pensions are actively involved in partnerships that were related to the Future Pensions Act.

Looking ahead, **the EU is moving towards an Open Finance and Open Data ecosystem**. It is anticipated to further accelerate the creation of new services and foster even deeper collaboration between financial institutions and a variety of third-parties.

Gen-AI offers extensive new possibilities within the ecosystems. PwC's SPARTA framework is a useful tool for effective Gen-AI implementation, consisting of six steps to optimize integrations within ecosystems.

Banking ecosystem emerges as the most mature. Key trend varies per ecosystem: improving products & services *(banks)*, preventive strategies *(insurers)* and transition to Future Pension Act *(pension)*

The financial services (FS) industry has witnessed significant transformations in recent years. Banks, insurers, and pension organisations have expanded their ecosystems to adapt to new trends and challenges. In 2023, 67% of the new partnerships by banks, insurers and pension organisations contributed to the **innovation of their business models***. Despite the shared interest of partnering to adapt to the changing landscape, the level of ecosystem development varies. When evaluating the different ecosystems, **the banking ecosystem emerges as the most mature** given that it is the largest (*size of the ecosystem*) and has the highest strategic relevance (*share of partnerships that contribute to business model innovation*).

Size of the ecosystems
Banking, insurance and pensions are all expanding their ecosystems, but it is the banking sector that stands out with the highest number of newly formed partnerships. In the past year alone, the banking ecosystem welcomed 46 new partnerships, considerably higher than the influx of new partnerships in the insurance and pensions ecosystems combined (in 2022, the difference was even more significant). Within the financial sector, the banking sector accounted for a significant 58% share of new partnerships in 2023. Insurance comes second in terms of new partnerships formed in 2023, with pensions being third.

Strategic significance and key trends
In the dynamic landscape of the FS industry, strategic partnerships are of paramount importance for all key industries, yet it is within the banking sector where the strategic significance is most pronounced: 76% of banking partnerships in 2023 contributed to the to the innovation of their business models. **Banks** tend to seek for partnerships to leverage the knowledge and technology of their partners, in order to improve their product portfolio and elevate customer experience. AI-developments have also led to an increase in partnerships, for instance in the KYC domain, which is another major strategic pillar for banks. Within the **insurance** ecosystem, a key trend can be seen in the partnerships related to prevention. These prevention partnerships help to reduce costs for insurers, while also having an overlap with ESG (e.g. partnerships encouraging people to adopt healthy lifestyles). For **pension organisations** a key reason to partner has been the transition to the Future Pensions Act, especially in the form of jointly developing or outsourcing (parts) of their core IT systems. This prepares them for the upcoming transition to the new pension system. Time will tell if the pension organisations will consider new partnerships for other core activities.

Figure 1 Number of newly formed partnerships (based on public announcements) within the financial sector in 2023

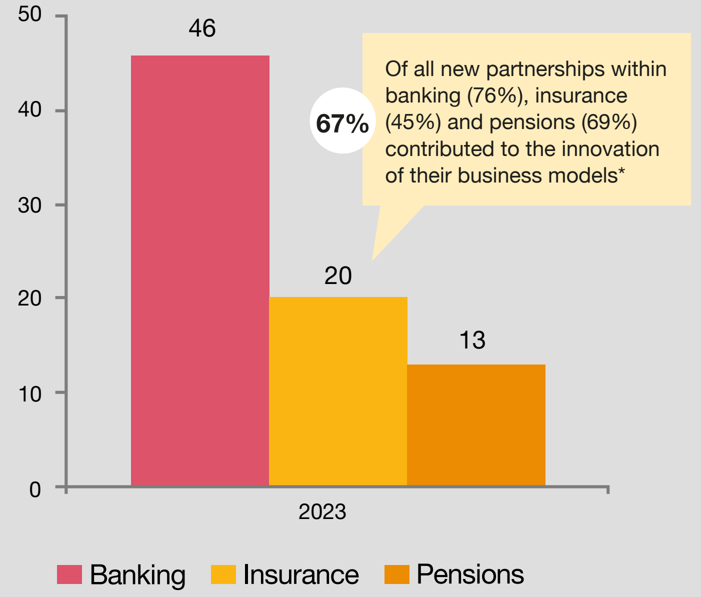
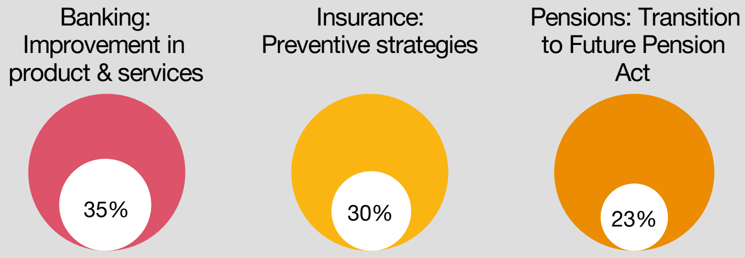


Figure 2 Key trend per ecosystem in 2023



* Business model innovation is defined as the process of creating or modifying the structure and components of a business model (i.e. improve product & service offering, increase efficiency by innovating cost structure with new tech, innovate distribution channels, strategic minority investments to execute the strategy on ESG and innovation)

AI-related partnerships are on the rise within the banking ecosystem. Renewed focus on AML/KYC partnerships

In the past two years, banks entered into 128 new partnerships, of which 46 in the last year alone. This trend suggests a stabilization in partnership activity within the banking sector, following a record-breaking surge in 2022. In the past three years, roughly 50% of the new partnerships were related to **ESG**, making it the most important driver for growth in the banking ecosystem. Apart from ESG, the **enhancement of their products and services** has been a key motive for banks to partner: More than one third of the banking partnerships in the past year were related to the improvement of product and services. Another noteworthy trend is the **increase in AI-related partnerships**. The drive for innovation and efficiency (cost reduction) could potentially make AI the main reason to partner for banks in the coming years.

Improvement of products and services

Last year, banks were eager to form partnerships that improve the products and services they offer to customers. Challenger bank Bunq for instance partnered with embedded insurer **Companjon**[1], giving Bunq customers the possibility of getting access to (digital) insurance on a selection of items they purchase with their Bunq card. This illustrates how banks are trying to improve their product offering by partnering and integrating third party services, in order to create a better customer experience and competitive advantage.

Artificial intelligence (AI) on the rise

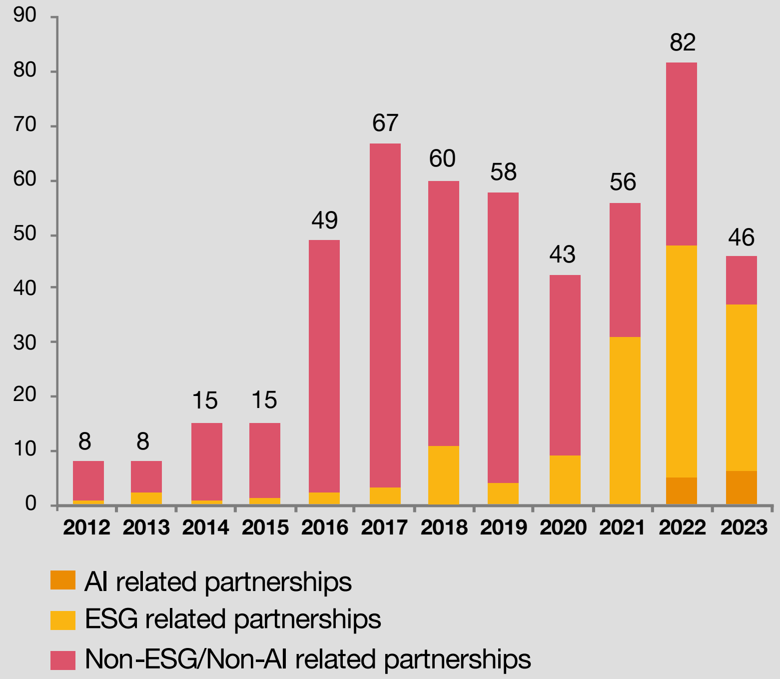
The number of AI-partnerships has grown from 6% of the total new partnerships formed in 2022 to 13% in 2023, indicating the growing momentum of AI adoption. Analysis of the data reveals that these AI partnerships are diverse, encompassing a wide range of areas including above mentioned product and service innovation as well as enhancements in AML/KYC. An example of service innovation can be found in the partnership of **Rabobank**, who partnered with **Genesys**[2] to increase customers' satisfaction and scale of their customer contact center, using the digital and AI innovation of the Genesys Cloud CX platform.

As mentioned, recent AI-developments also led to a renewed focus on AML/KYC partnerships. Between 2018-2021, banks had a strong focus on AML/KYC in order to mitigate the risk of potential fines. This focus led to an increase in operational costs associated with fighting financial crime for Dutch banks in recent years[3]. Recently, banks have been looking to use AI-solutions for increasing efficiency within this domain. An example of this is **ING** partnering with **Quantexa**[4], a data analytics software company that uses AI and advanced graph analytics capabilities to make the AML/KYC activities of ING more efficient.

1 Source: Companjon company website (2023).
2 Source: Genesys company website (2023).
3 Source: DNB article (2023). Banken in beweging.
4 Source: Quantexa company website (2023).

Banking ecosystem

Figure 3 Number of newly formed partnerships (based on public announcements) of Dutch banks 2012-2023



	2022	2023
% Share of AI-related partnerships in total new partnerships	6%	13%

Next to ESG, prevention is a hot topic in the insurance ecosystem. Embedded insurance has the potential to redefine role of insurers

In 2023, the number of newly formed partnerships in the Dutch insurance sector equaled **20**. Out of these partnerships, a significant majority, accounting for 65%, were ESG-related. The scale of ESG partnerships is largely driven by the pursuit of social initiatives. A noteworthy development is the increased focus on partnerships aimed at prevention, signaling a shift towards proactive risk management. Next to that the concept of embedded insurance continues to hold appeal, though it has not become the predominant force for ecosystem growth as previously anticipated. Despite high expectations, embedded insurance has yet to fulfill its predicted role as a major disruptor with regards to partnership development in the insurance sector.

Growing partnerships in prevention

In the last 2 years, the insurance ecosystem has witnessed a significant trend towards forming partnerships dedicated to prevention. Regardless of whether these partnerships are always explicitly connected to ESG, this uplift is a response to the necessity of mitigating damage from e.g. extreme weather events, safeguarding against floods, or addressing the rising challenges of (stress-related) illnesses. Insurers are now actively forging alliances to bolster their preventative capabilities, recognizing that a forward-thinking stance can lead to better outcomes for both their clients and their bottom line. Among the various initiatives, two partnerships stand out: a partnership between **Verbond van Verzekeraars** and **Royal HaskoningDHV**[1] with the goal to advice insurers and clients on flood risks using insights, prevention, and adaptation solutions for existing insurance policies, specifically targeting flood risks. The partnership between **Menzis** and **Huis voor de Sport Groningen**[2] focuses on promoting and improving the vitality of residents in the province of Groningen through physical activity.

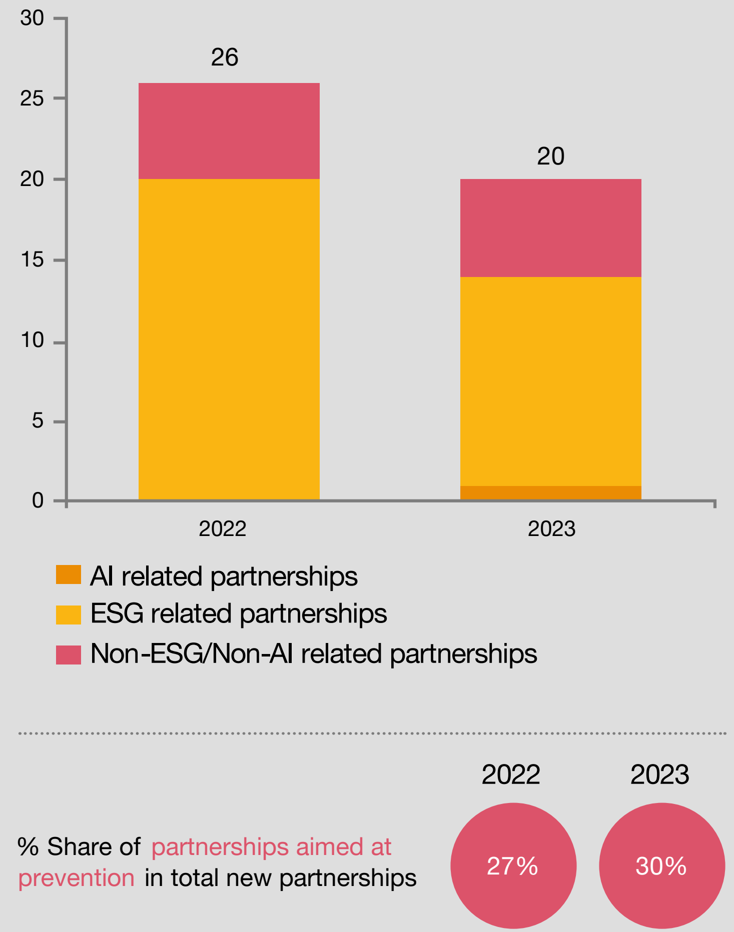
Embedding insurance into the purchasing journey

There is a growing emphasis among insurers to embed insurance coverage into the consumer purchasing journey, utilizing embedded insurance partnerships for a more cohesive experience. An example of this is the strategic partnership between **Centraal Beheer** and **fietsenvoordeelshop.nl**[3], which offers insurance in the digital sales journey, demonstrating the potential for a more integrated and convenient insurance model. In the coming years it will become clear whether this approach will gain greater traction, potentially redefining the role of insurers, in case non-financial companies like retailers and manufacturers start to pursue this play more aggressively themselves.

1 Source: Verbond van Verzekeraars website (2023).
2 Source: Menzis company website (2023).
3 Source: Centraal Beheer company website (2023).

Insurance ecosystem

Figure 4 Number of newly formed partnerships (based on public announcements) of Dutch insurers 2022-2023



Unprecedented transition fuels the pension ecosystem. Joint venture has become the preferred partnership model

The pension landscape is currently undergoing a significant transformation with the shift towards the new pension agreement. This unprecedented change has prompted pension organisations to actively seek collaborative efforts with expert partners. Specifically, there is a pronounced interest in forging alliances with providers of IT platforms that can be tailored to meet the requirements of the new pension system. Another notable trend is the use of joint ventures, that are rarely used as a partnership structure in the Banking and Insurance domain. Next to that, almost half of the partnerships within the pension domain are related to ESG. This shows that pension organisations, besides aiming to provide an optimal pension to individuals, also take a broader responsibility to support the environment and society.

Pension transition in full swing
As mentioned above, the new law (Future Pensions Act) has come into effect on the 1st of July 2023, with pension funds having until 2028 to switch to the new pension scheme. Last year, roughly a quarter of the partnerships were related to the Future Pensions Act. Pension Service Providers are increasingly looking for help in the form of joint development or in outsourcing (parts) of their core IT systems. An example of this is the partnership of **TKP** and **Keylane**[1]. Keylane helps TKP with renewing their pension administration system, to ensure a successful transition to the Future Pensions Act.

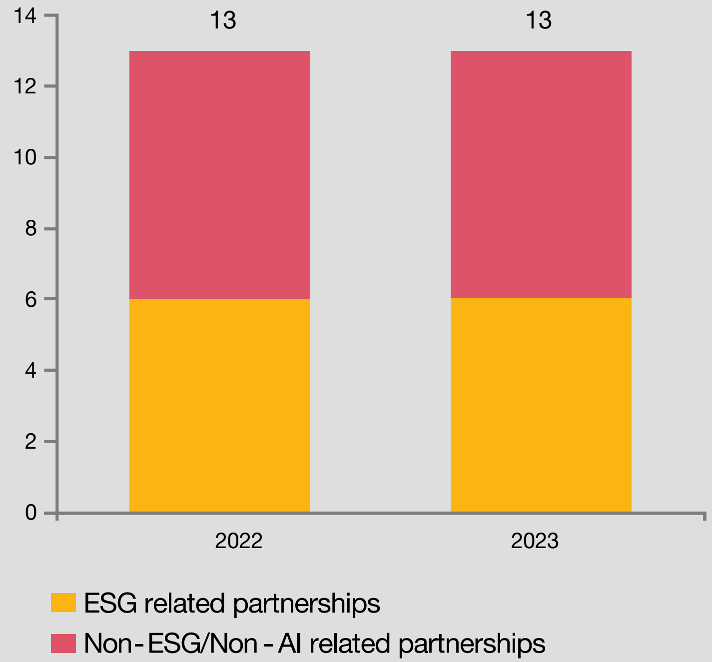
Joint ventures most popular collaboration structure
More than one fifth of the pension partnerships in 2023 were joint ventures. In contrast, this structure has been rarely used in the banking and insurance sector in previous years. This shows that each ecosystem is unique. An example of a joint venture partnership is the one between **APG**, **Bouwinvest** and **Scape Australia**[2]. The goal of this partnership is gain access to and invest in the Australian Build-to-Rent sector.

ESG within pensions
In recent years, pension organisations have been called to action in terms of ESG by activists demanding pension funds to stop investing in fossil fuels. Analysis of the data shows that almost half of the partnerships in the pension ecosystem were ESG-related in 2023. For example, **PME Pensioenfonds** partnered with **Achmea Real Estate** to invest in the research of a Biobased Design Team at the **Delft University of Technology**[3], whose research aims to boost the transition to biobased building.

1 Source: Keylane company website (2023).
2 Source: Bouwinvest company website (2023).
3 Source: Delft University of Technology website (2023).

Pension ecosystem

Figure 5 Number of newly formed partnerships (based on public announcements) of Dutch pension organisations 2022-2023



	2022	2023
% Share of Wtp-related partnerships in total new partnerships	15%	23%

Looking ahead: The EU is opening up. Working towards an Open Data economy is expected to accelerate creation of new services and partnerships within the FS ecosystem

The EU is moving towards an Open Data ecosystem, where customers have the freedom to share their own data with third parties of their choice. A first step was taken by introducing the PSD2 directive in 2019, which enabled payment account information and payment initiation services for (non-banking) third parties based on consumer consent. In the coming years, EU will focus on updating this regulation through new directives such as the Payment Services and Electronic Money Services Directive (**PSD3**), building upon the foundation laid by PSD2. Next to that the EU is going one step further with the upcoming Financial Data Access (**FIDA**) regulation and the European Digital Identity (**EUDI**). These are the next steps towards a comprehensive Open Data ecosystem, accelerating the creation of new services and fostering even more strategic relevant partnerships between financial institutions and third-party entities.

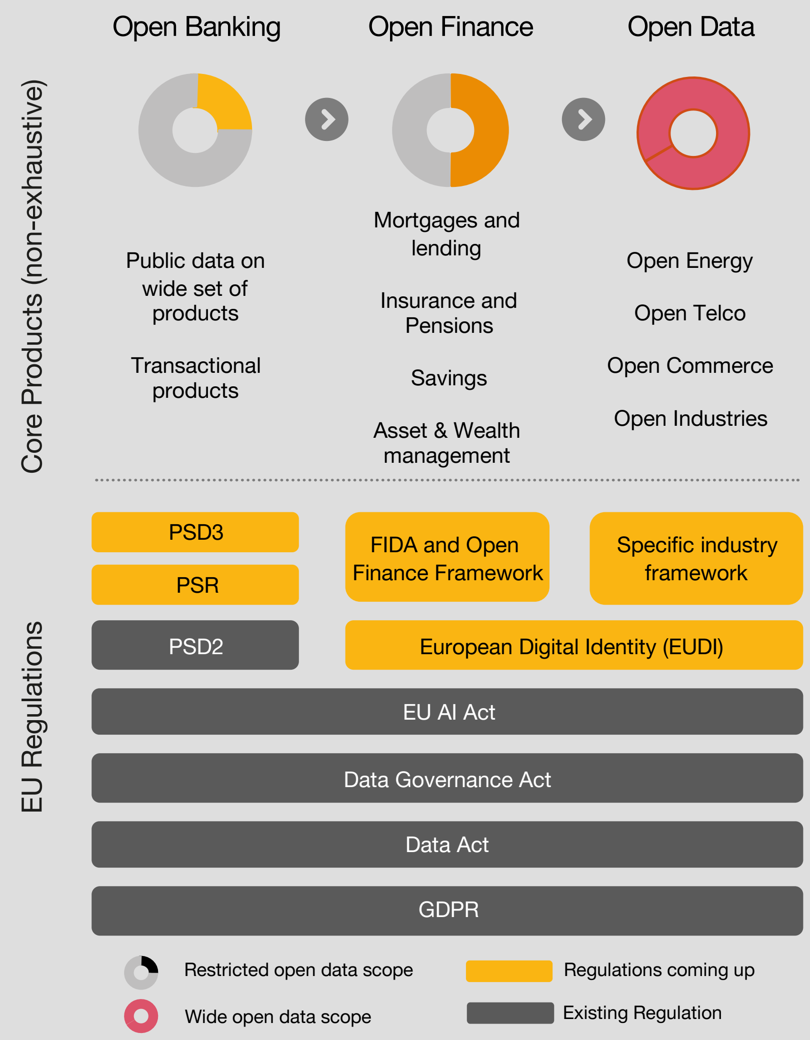
Next phase of Open Banking with PSD3

The **PSD2** directive (part of the Open Banking concept) has paved the way for innovations in account information services (AIS) and payment initiation services (PIS), significantly impacting the financial services ecosystem. **PSD3**, being one of the upcoming new directives, takes several steps towards creating an even more transparent (e.g. easily accessible overview of third parties that use your data) and secure (e.g. enhanced user protection with obligatory authentication rules) financial ecosystem.

Embracing Open Finance with FIDA and EUDI

New regulations will broaden the financial landscape by integrating a more extensive array of financial products and services. One of these regulations is **FIDA**, which expands the sharing of financial data, enabling the development of highly tailored financial products. FIDA is expected to drive growth and foster a more interconnected financial service ecosystem. It aims to grant authorized third-party service providers the ability to tap into an expansive pool of customer data. This data could span various accounts, encompassing savings, pensions, investments, insurance, mortgages, and more. Potential partnerships could include embedded finance and the orchestration of ecosystems with non-financial products and services. The **EUDI** plays a crucial role in updating regulations related to open finance by providing a standardized and interoperable digital identity in the finance sector. EUDI simplifies identification and confirmation processes, which also paves the way for the Open Data economy the EU is moving towards.

Figure 6 EU moving towards an Open Data economy



Looking ahead: Gen-AI offers extensive potential across several areas within the FS ecosystems, however ensuring successful implementation is crucial

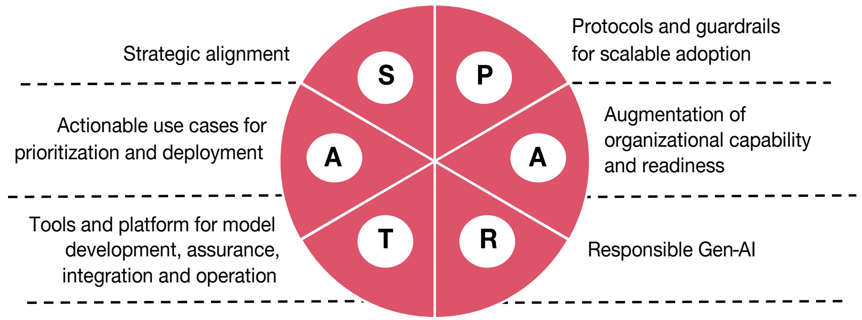
AI opportunities in the ecosystems (non-exhaustive)
Recently, financial institutions have begun to tap into Generative AI technologies to improve customer engagement with more sophisticated chatbots and accelerate tasks that traditionally require significant manpower. Looking ahead, we anticipate a surge in the application of Generative AI (Gen-AI) fueled by the **numerous opportunities for efficiency and innovation** across the various financial ecosystems.

Opportunities in the **banking domain** include predictive financial analytics, customized financial products, and advanced Anti Money Laundering (AML) initiatives. In the **insurance domain**, potential areas for Gen-AI utilization include premium determinations, enhancing the claims submission process, and Cross & Up sell initiatives. For the **pension industry**, the potential of Gen-AI lies in developing chatbots, handling customer inquiries and providing decision support with regards to the various available risk schemes. It is expected that Gen-AI advancements will not only contribute to an improvement in efficiency and slash expenses, but will also help to advance customer experience and creativity of employees across all ecosystems so that organizations can maintain a competitive edge in the ever-evolving marketplace.

Figure 7 Main FS domains where Gen-AI is expected to make an impact

PwC is well-positioned to implement Gen-AI successfully in your organisation
As ecosystems continue to embrace the transformative power of Gen-AI, the possibilities and innovation are boundless. However, ensuring successful Gen-AI implementation is essential. A useful tool for an effective Gen-AI implementation for organizations is the PwC SPARTA-framework. This framework consists of six steps which form an **iterative process** to optimize Gen-AI integrations.

Figure 8 PwC's SPARTA-framework for successful implementation of Gen-AI



- **S** Strategic alignment – Align strategy, evaluate processes, and consider ethics before GenAI implementation.
- **P** Protocols and guardrails for scalable adoption – Establish governance frameworks to ensure compliance and mitigate risks.
- **A** Augmentation of organizational capability and readiness – Improve readiness by comparing use cases with and without AI.
- **R** Responsible AI – Use responsible AI to balance opportunities and risk.
- **T** Tools and platform for model development, assurance, integration and operation – Monitor regulations, train employers, address data quality and planimplementation.
- **A** Actionable use cases for prioritization and deployment – Prioritize use cases based on impact and readiness for effective AI adoption .

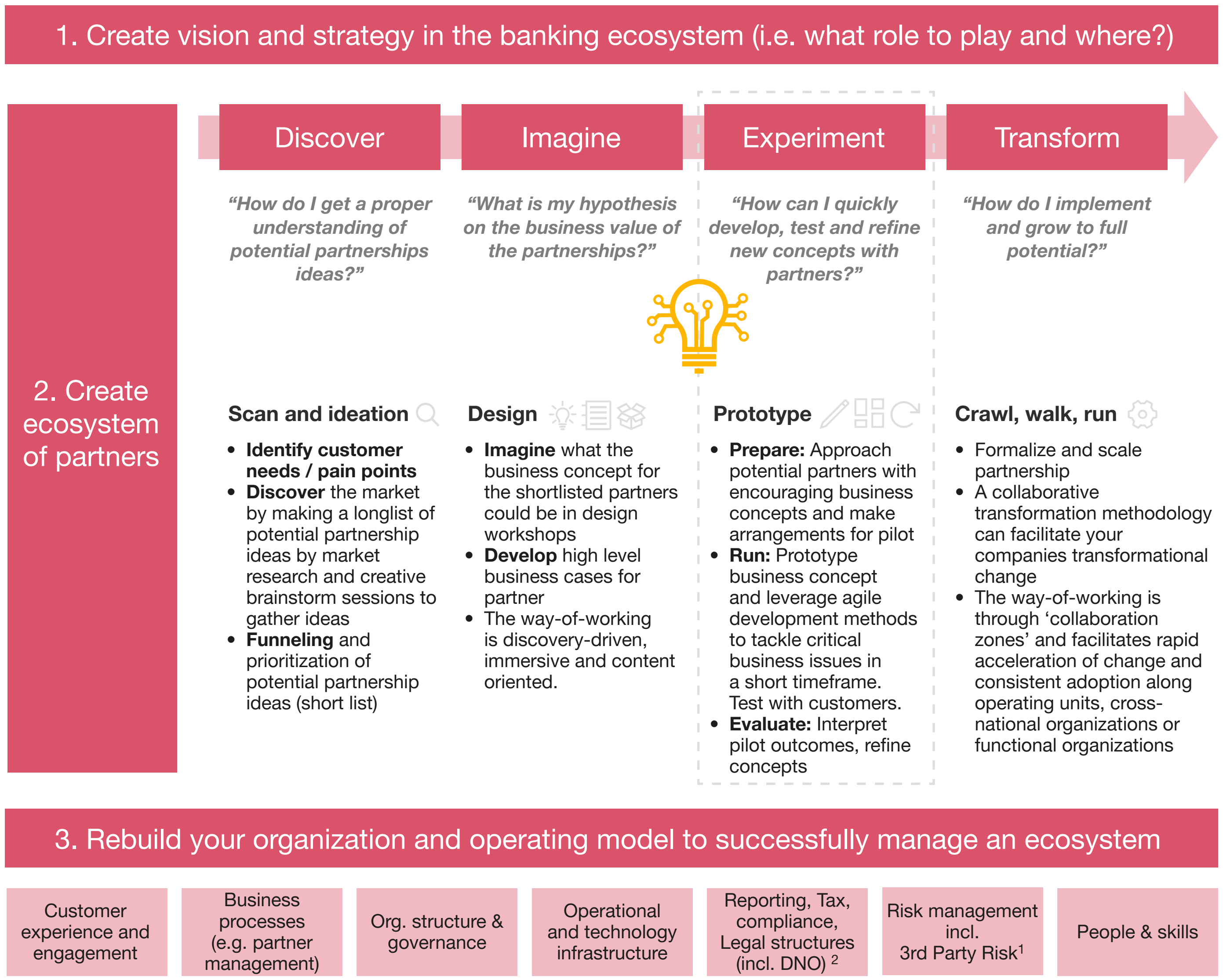
How to position your firm for success: PwC's ecosystem approach in 3 steps

To be fit for growth, Financial Institutions should let go of the – disrupted – idea of a vertically integrated organisation and view financial services as an ecosystem of partners.

However, growing your business in today's rapidly changing, tech-filled environment can be tough. Especially in the world of ecosystems, where success is no longer defined by traditional success factors, leaders should consider at least the following **three perspectives**:

1. Is your overall **vision and business strategy** in line with the new ecosystem development? What role do you want to play and where do you need strategic partners to be successful?
2. How to create an ecosystem of partners? Which type of (innovative) partnerships fits best with what you want to achieve and who are **potential partners** to team up with?
3. Are your **organization and operating model** (people, skills, structure, processes, technology) ready to build an ecosystem of partners in order to gain full advantage? What capabilities do you need to develop to grasp opportunities and manage the risks?

Figure 9 PwC's ecosystem approach in 3 steps



1 Partnerships in the vital part of institutions might require a DNO (declaration of no objection) from the regulators.
2 Link: *https://www.pwc.com/us/en/services/governance-insights-center/library/risk-oversight-series/overseeing-third-party-risk.html*

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Appendices

Appendix A | Definition of partnership

We define a partnership as any form of collaboration between a bank, insurer, or pension organisation and another party, including but not limited to collaboration agreements (e.g. joint product development), licensing, joint ventures, referrals, outsourcing and minority equity alliances. When a consortium of parties within an ecosystem is involved in the same partnership, we count this partnership once. Full acquisitions and sponsorships are not considered relevant partnerships for this study and are thus excluded.

**Appendix B | ** Partnership goals

Access new technology: engaging in a partnership with the goal of gaining knowledge or getting access to new technologies, such as: a partnership to expand knowledge about AI-powered identity verification and re-authentication solutions.

Access partner network: establishing a partnership to gain access to the network (i.e. access to FinTech incubators or accelerators) of the partner, such as: a partnership with an accelerator, so that the bank, insurer or pension organisation has access to a network of potential interesting startups.

Enter new markets: starting a partnership to expand products or services to a new country or region.

Improve product offering: setting up a partnership to increase the amount and variety of products offered to attract new customers or increase benefits realized by existing customers.

Increase efficiency: setting up a partnership with the focus on helping to run certain processes or operations with less time and effort.

Reduce risk: setting up a partnership with the goal of mitigating potential risks, such as: a partnership between a bank, insurer or pension organisation and a party that helps to manage and automate regulatory compliance.

Appendix C | Definition of partnership

Joint Venture: Setting up an independent company with a specific purpose, where risks, costs, revenues and customers of the venture are shared between participating partners

Minority Equity Alliance: Involves an equity stake investment by a bank, insurer or pension organisation in a third party provider or FinTech to have some kind of access to their intellectual property and also benefit from any rising valuation of their investment.

White-label: Licensing agreement where a bank, insurer or pension organisation uses a proven technology of a partner where they can customize the front-end such that it looks like it is offered by the bank, insurer or pension organisation.

Technical integration: Integration of third party provider or FinTech services into the existing infrastructure of the bank, insurer or pension organisation. It is not co-labeled by this company, leaving it under the name of the third party provider or FinTech.

Outsource: Involves the outsourcing to trusted partners such that the bank, insurer or pension organisation can focus more on their customer-facing (high value) roles while low value activities are taken over by a specialized partner; increasing operational efficiency and lower operating costs. This type of partnership is only counted for in this study in case both parties have to work together intensively.

Referral: Referral is an agreement between two parties where if one party cannot provide their customer/client with the specific financial solution needed, this party will refer them to a trusted partner who does specialize in whatever they need. Each referral is often rewarded with a referral compensation or discount for the customer.

Collaboration agreement: Collaboration covers a wider range of possible partnerships. These involve the co-creation of certain product or accessing each other's networks.

Start-up development: This includes any partnerships where the bank, insurer or pension organisation offers their guidance and expertise of the financial system to a start-up along with boosting the startup's access to their network and potentially customer base .