Edition 4 - Walking the talk towards a new banking ecosystem

ESG & Digitalisation push the Dutch banking ecosystem growth to an all time high in 2022

September 2023 | Study on partnership developments in the Dutch banking sector

Edition 4 - Walking the talk towards a new banking ecosystem

This study is an update (edition 4) of our PwC research regarding the Dutch banking ecosystem.

With this study we provide factual insights on how the Dutch banking ecosystem has been developing over the years 2012-2022 by focusing on partnerships between banks and third parties. 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 banks and Third Party Providers. The sources we used are publicly available sources such as newspapers, bank websites and bank forums available in Dutch and English.

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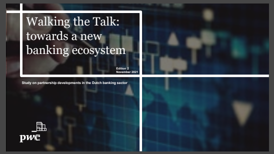

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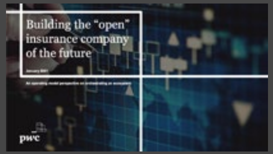


Open insurer of the future

Payments 2025 and Beyond

Asset & wealth mgmt revolution

Uncovering value in embedded finance

Key findings and insights of our study

The growth of new partnerships in 2022 **is at an all time high**. In the past year Dutch banks have entered into 82 new partnerships. This is a 46% increase compared to 2021 and shows that the overall growing trend of the Dutch banking ecosystem continues.

Just like in 2021, **ESG was the main driver of growth** in 2022, with 52% of the partnerships being ESG related. A new trend is that **ESG related Minority Equity Alliances have grown significantly**, indicating that banks want to have a seat at the table at these innovative ESG focused partners and that ESG within banking is maturing.

Next to ESG, banks continue to develop new partnerships that **support their digital transformation**. The main goal of these partnerships is to **improve the bank's product offering (38%)** in particular in the payments and investment/asset management domains.

Embedded finance is a new trend and expanding its presence within the Dutch banking ecosystem. Several interesting embedded finance partnerships formed in the past year, with 17% of the total partnerships being related to embedded finance. Firms urgently need to rethink their business models to unlock the potential for new growth.

The Dutch banking ecosystem has reached an all time high in 2022 with 82 new partnerships; ESG is the key driver of growth in 2021 and 2022

Interpretation of the data

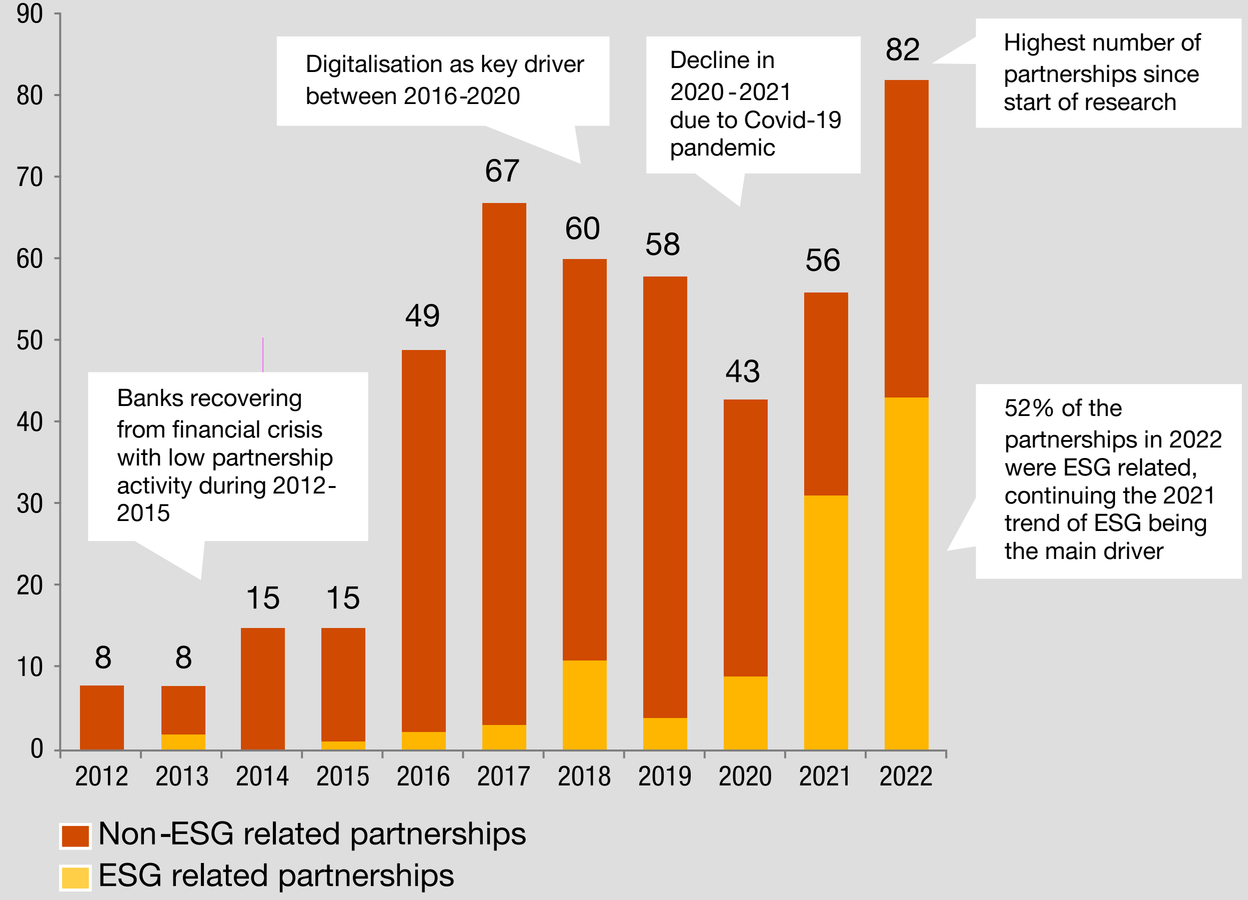
The Dutch banking ecosystem has reached an **all time high in 2022**. In the past year Dutch banks have entered into **82 new partnerships**. This is substantially higher than the average of 56 partnerships in the 2016-2021 period, and a 46% increase compared to 2021. This shows that, after a slight decrease during Covid-19 times, the overall growing trend in the number of partnerships within the Dutch banking ecosystem continued in the last year.

The drivers of the growth in the Dutch banking ecosystem have developed over time. Before 2016 there was relatively low growth in partnerships as banks were recovering from the financial crisis. Since 2016 there has been a tremendous growth in partnerships, which has been driven by **digital transformation**. Since 2021, **ESG** has been the main driver of growth with more than half of the partnerships being related to one of the pillars of ESG.

Conclusion & looking ahead

In 2021, ESG replaced Digitalisation as main driver for partnership growth. This trend has continued in 2022. In 2023 we foresee that ESG will remain the key driver of partnership growth due to 1) new regulations that are coming up (e.g. CSRD), 2) a growing pool of consumers willing to pay more for healthier, safer, more environmental friendly and socially inclusive products and services and 3) a growing majority of employees that prefer to work for companies that care about the same issues as they do. This provides an opportunity for fintechs and other third parties to contribute to the ESG transformation in the banking industry. Furthermore, we believe digitalisation will continue to be an important driver of new partnerships as well to keep up with emerging technologies (e.g. AI).

Figure 1 Number of newly formed partnerships (based on public announcements) of Dutch banks 2012-2022



Within ESG, partnerships related to environmental impact were most common in 2022

Interpretation of the data
As presented on the previous page, more than half of the total partnerships were ESG related. The percentage of ESG partnerships that focused on **"Environmental"** rose from 40% in 2021 to 49% in 2022 and now forms the largest part of the three ESG-pillars. The share of **"Social"** partnerships remained at 44% while **"Governance"** partnerships accounted for 7% in 2022.

Environmental - *(Minimizing the impact of a firm on nature)*
In the past year, Dutch banks were eager to partner with parties **to make products, services and processes more sustainable**. One example of this is a bank partnering with a startup aiming to reduce the carbon emission for cloud solutions that can be used by fintechs and financial services.

Social - *(The contribution of a company to fairness in society)*
As for the social pillar, banks tend to collaborate with companies that **contribute to the financial wellbeing of customers**. One example of such a partnership is a bank partnering with a company that created a digital solution to help people understand and manage their finances.

Governance - *(Processes for decision making, reporting and ethical behaviour)*
We see that most of the governance focused partnerships are multi-party partnerships formed to **create common standards for reporting on ESG** related topics and to enable organisations to report on these standards. For example, a bank partnered up with an ESG ratings agency that is specialised in digital risks. One of the topics they focus on is Artificial Intelligence (AI) and the possible risks this poses on the environmental and societal part of our society.

Conclusion & looking ahead
Overall, the distribution of the ESG partnerships has been fairly stable, with the biggest difference being that "Environmental" is now the largest pillar. We expect that partnerships that focus on environmental impact remain important going forward, since banks have to intensify their environmental efforts to meet both regulatory requirements and demands by customers.

Figure 2 Percentage ESG partnerships of total (in 2022)

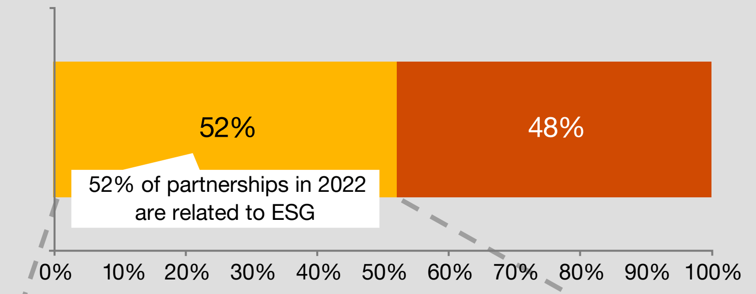
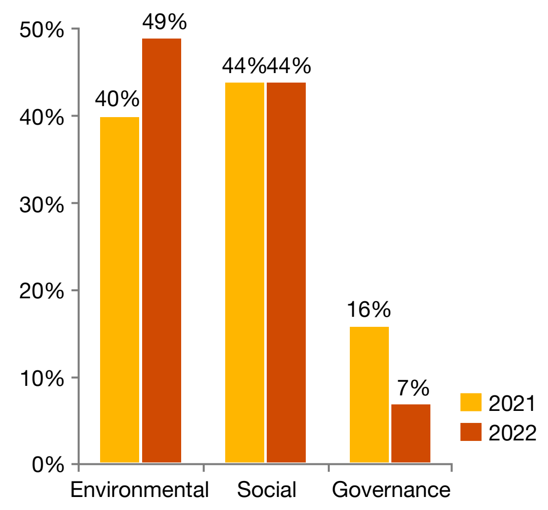


Figure 3 Distribution of ESG partnerships, 2021 vs 2022



Within ESG, “Access to partner network” is the main strategic goal to partner

Interpretation of the data
When looking at all 2022 ESG partnerships, the biggest driver and main strategic objective was **“Access to partner network”**. Banks engage in these type of partnerships to grow their knowledge with regards to ESG. They for example want to gain insights in how to determine ESG risks and integrate these risks in their credit ratings or how to bridge the gap between their ESG strategy and practice. A lot of these “Access to partner network” partnerships are several parties working together, often pursuing a societal or environmental goal. These kind of partners are popular within ESG, because societal and environmental issues are generally not something that can be solved by a single company. They require collaboration and the sharing of knowledge across different industries. An example of a partnership with this strategic goal is ASN Bank working together with the Fair Wear Foundation to fight for living wages in the clothing sector.

After “Access to partner network”, **“Access to new technology”** is the most seen strategic goal. An example of this is a bank partnering with a startup that has developed a software solution that compares companies and investors on sustainability metrics. Furthermore, **“Improve product offering”** ESG partnerships decreased from 16 partnerships in 2021 (52% share) to 8 in 2022 (19% share). Partnerships related to “Improve product offering” generally focus on providing customers tools to reduce their environmental impact (e.g. platforms to make houses more sustainable). An example of of this type of partnership in 2022 was ABN AMRO partnering with Lendahand - a platform that links impact investments in emerging countries to interested private investors, that can use this platform to reduce the environmental impact of their investment portfolio.

Conclusion & looking ahead
“Access to partner network” has taken over “Improve product offering” as the main strategic objective to partner within the ESG partnerships. We foresee that this trend will continue in 2023, with players from different sectors sharing their knowledge and resources to maximize their ESG impact.

Figure 4 Percentage ESG partnerships of total (in 2022)

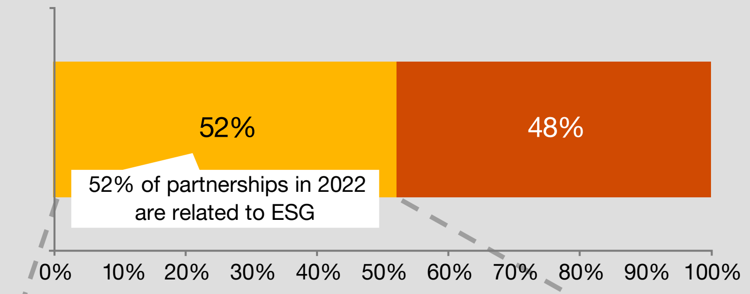
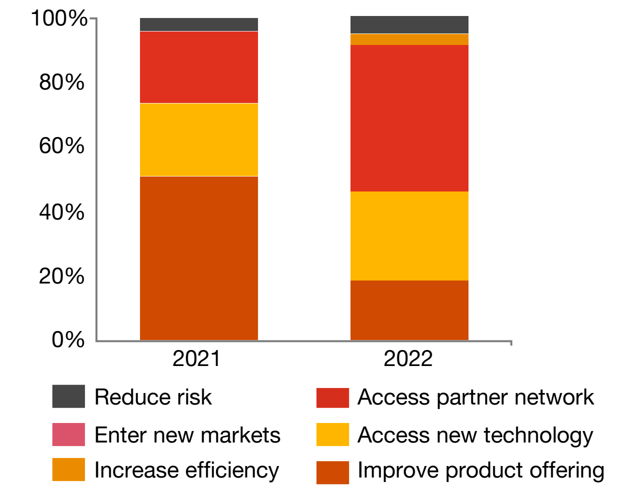


Figure 5 Distribution of strategic goals for ESG partnerships



Banks want to have a seat at the table with ESG partnerships; Building their ecosystem through Minority Equity Alliances (MEA)

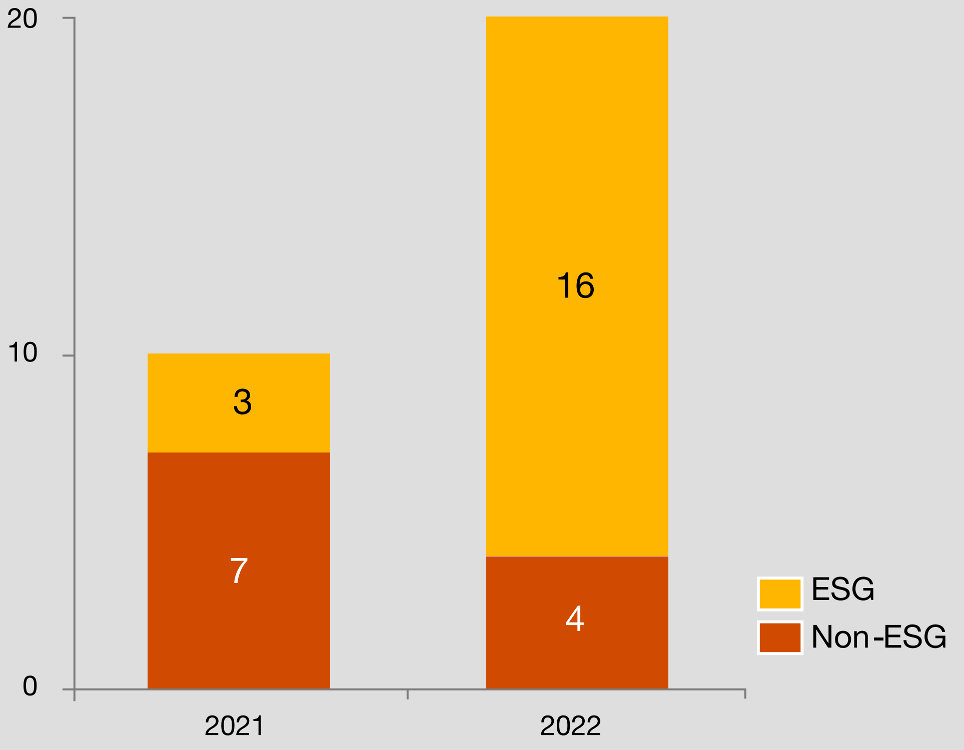
Interpretation of the data
As already briefly mentioned earlier, the spike in ESG related partnerships in 2021 was no coincidence and has continued in the past year.

The most notable difference in comparison to last year with regards to partnership structures is the increase in the number of “Minority Equity Alliance” ESG partnerships (see figure 6). This shows banks want to enter into partnerships that give them decision power and a seat at the table at innovative ESG focused startups and companies. The “Minority Equity Alliance” (MEA) structure also makes sure that banks directly profit financially when one of these startups grows and performs well. A minority investment also brings the advantage that the company can keep its innovative culture (compared to a 100% acquisition).

One of the underlying reasons of this rise in MEA’s can be found in banks launching VC funds (like ABN AMRO with their Sustainable Impact Fund) to invest in key transition sectors (e.g. energy, circular, etc.). The aim of these funds is to combine sustainable impact with financial return.

Conclusion & looking ahead
In 2022 there has been a significant increase in the number of ESG related minority equity alliances compared to the year before. This shows that banks want to have access to insights of innovative startups, with a MEA being their preferred structure to accomplish this. We expect this trend to continue in the coming years, especially through the rise of partnerships through Impact Funds, which ABN AMRO SIF is an example of.

Figure 6 Number of Minority Equity Alliance partnerships 2021 vs 2022, with all ESG related MEA partnerships in yellow



The number of ESG related MEA-partnerships has grown from 3 to 16, while non-ESG related MEA-partnerships dropped from 7 cases to 4.

The use of Impact Funds has grown in popularity in the past years; Banks are integrating ESG into their investment strategy

Global trend of sustainable impact funds being established
The ABN AMRO Sustainable Impact Fund, referred to on the previous page, is part of a larger, international trend of Impact Funds that have been established by banks in the past years.

Impact Funds typically invest in new companies that have a positive impact on environmental, societal, or governance practices. These impact funds are not like green ETFs, where clients can invest in and the bank then invests this money for them in green companies. These green ETFs have been around for quite some time, and mainly have the goal to attract 'green' customers. Sustainable impact funds are part of the commercial/core investment strategy of the bank, with the money coming directly from the banks' investment budget. The Impact Funds do not only focus on making ESG-impact, but are also commercially driven.

Typical examples of Impact Fund investments are Barclays (Sustainable Impact Capital) investing in Airex, a company which delivers smart technology for accelerating the decarbonisation of the UK housing sector[1], and the Citi Impact Fund investing in Flume Internet, an enterprise that brings premium fiber services to lower income communities across the U.S.[2]

Examples of sustainable impact funds
The founding of Impact Funds has been a global trend in the past years.
In the table below a few examples of these sustainable impact funds can be found:

Fund	Total asset size bank	Current commitment fund	Year of launch
ABN AMRO SIF	380B	425M	2021
Citi Impact Fund	23T	500M	2020
Sustainable Impact Capital (Barclays)	1,5T	84M (500M by 2027)	2020

When looking at the commitment of the fund relative to the total asset size of the bank, the ABN AMRO SIF is a relatively large fund compared to their international counterparts. The fund has a value of 425 million and focuses on making investments between €500k - €30 mln in companies that positively contribute to society, either environmentally or socially[3].

1 Source: "Sustainable Impact Capital", Barclays company website.
2 Source: "Citi Announces New...", Citigroup company website.
3 Source: "ABN AMRO Sustainable Impact Fund", ABN AMRO company website.

Within non-ESG, digital transformation is the main driver, with Payments innovation being the most important product category

Interpretation of the data
"Payments" remains the largest product category (32%), followed by "Investment/asset management" (29%). Below some examples of partnerships within the different product categories can be found.

Payments - *(Direct transfer of funds from one party to another through any means)*
Examples of partnerships include 1) enabling bank customers to use a third-party payment platform 2) software to make payments easier.

Investment/asset management - *(Enabling customers to make investments or manage their assets)*
Examples of partnerships include 1) third party trade platform for customers to manage assets 2) new opportunities to link fund providers with startups seeking funding.

Lending - *(The transfer of funds to a borrower with predetermined repayment agreements)*
Examples include 1) new ways to lend funds to smaller-sized borrowers, who normally are not eligible for regular bank loans, and 2) experiments with using credit for small purchases.

Insurance - *(A monthly premium in exchange for large one-time payouts under predetermined terms)*
Example included a business travel insurance (for the self-employed) being introduced by a bank.

Non-banking/other - *(Any partnership that is not directly related to a core bank activity)*
Most partnerships in this category focus on improving efficiency for general administration.

Conclusion & looking ahead
The categories "Payments" and "Investment/asset management" accounted for more than 60% of the partnerships in 2022. We expect "Payments" partnerships to remain popular, due to European cashless transactions expected to more than double in a span of 10 years[1]. We expect that the "Investments/asset management" category remains popular too. A PwC survey shows that 90% of industry leaders believe technologies (like big data, AI and blockchain) will continue to disrupt the market leading to the need for banks to include these technologies in their daily operations.

1 Source: PwC, 2021. Payments 2025 and Beyond

Figure 7 Percentage non-ESG partnerships of total (in 2022)

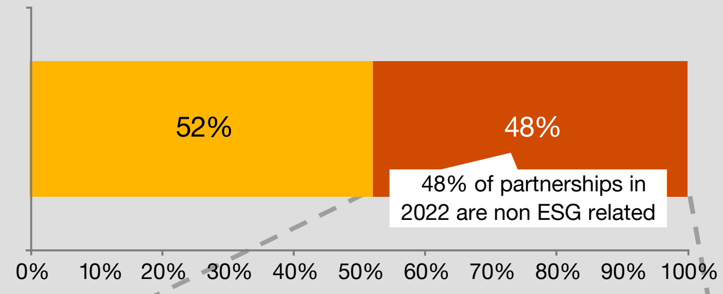
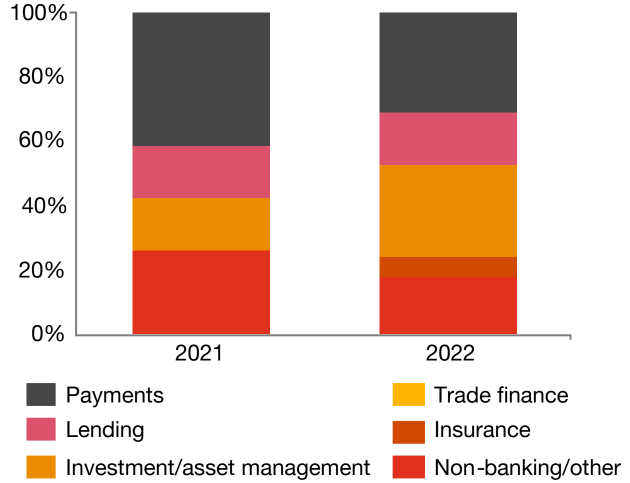


Figure 8 Distribution of non-ESG partnerships, 2021 vs 2022



As part of the digital transformation we see that banks use partnerships for various goals (Product, tech, network, etc.)

Interpretation of the data
In 2021 and 2022, the most common ‘strategic objective to partner’ was **“Improve product offering”**. An important driver of these type of partnerships are developments around payments. During COVID-19 lockdowns, many people adopted digital behaviours, accelerating the proliferation of mobile-first digital economies and rendering cash even less relevant to daily life than it already was. As **many innovative payment platforms are on the rise**, banks need to ensure that their customers can make use of these payment platforms too by partnering with them or by developing innovative payment solutions themselves. One example of this can be seen at ABN AMRO which, together with YoungOnes, developed the ultra-fast payment method and successfully piloted this. Now flexi-workers that work via YoungOnes can get paid immediately after their invoices have been approved by their customers instead of waiting for weeks.

Two categories that are on the rise are **“Access partner network”** and **“Increase efficiency”**.

One example of an “Access partner network” partnership is the set up of ‘Dragon’s Den’, where ABN AMRO, ING and Rabobank have joined forces with Oost NL and The Economic Board in order to get access to a network of potential interesting Dutch SMEs. An example of an “Increase efficiency” partnership is a collaboration between ING and de Hypotheker to digitalize the identification and verification process of their mortgage application journey using the software of Ockto.

Conclusion & looking ahead
In 2022 “Improve product offering” remained the main strategic goal to partner for non-ESG partnerships, while “Access partner network” replaced “Access new technology” as the second largest strategic goal. We expect that “Improve product offering” will remain an important strategic reason as more alternative players offering innovative service solutions are entering the financial services market by the day. In order to stay on top of the new entrants, banks will need to partner up with these new service providers, or engage in acquisitions.

Figure 9 Percentage non-ESG partnerships of total (in 2022)

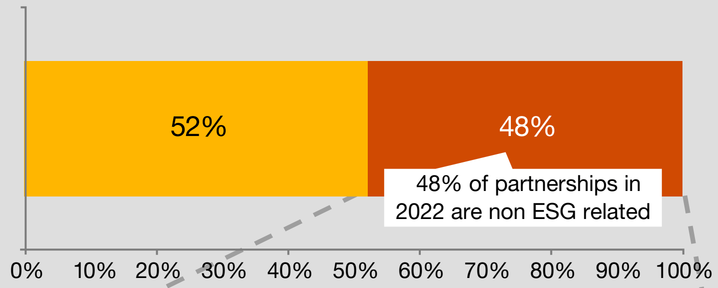
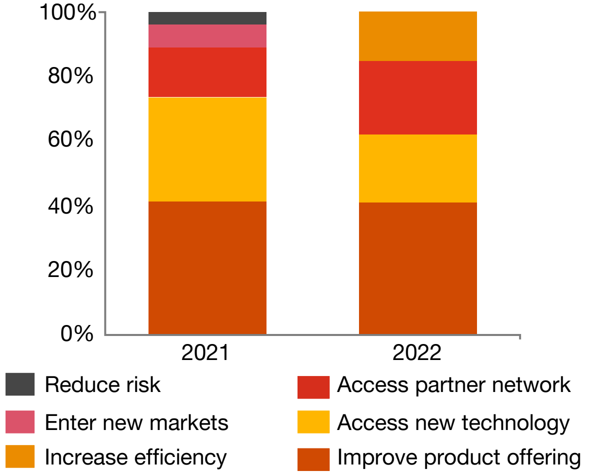


Figure 10 Distribution strategic goals of non-ESG partnerships



Embedded finance is expanding its presence within Dutch banks; In 2022 17% of the partnerships are related to embedded finance

The next disruptor
Embedded finance is the integration of financial services offered by a bank (like lending or insurance) into non-financial products and services. This includes everything from mobile payment wallets to loans, insurance, investments and a range of business services[1].

In the previous edition of this same research (2021), we expected embedded finance to emerge as the next disruptor in the financial industry in 2022. Although still in the growing phase, **embedded finance is expanding its presence within the Dutch banking ecosystem**. In 2021 around 11% of the new closed partnerships were related to embedded finance and in 2022 we see an increase to 17%.

Examples of embedded finance partnerships in Dutch market in 2022
One example of an embedded finance partnership is the one of Rabobank and Bizcuit. This partnership led to Bizcuit customers being able to finance an invoice through a Rabobank loan, without the need to interact with Rabobank or go to their website.

Another example is a partnership between Tikkie (ABN Amro) and Butlaroo. The partnership aims to support the catering companies with staff shortages by offering an extensive QR ordering platform where customers can pay via a Tikkie without the intervention of staff by scanning the QR code with a smartphone.

Conclusion & looking ahead
With the increasing integration of savings, credit, insurance and investing tools into non-financial apps or websites, **the market for embedded finance applications is projected to grow fivevold**, from US$54.3 billion in 2022 to US$284.4 billion, by 2032. Buy now, pay later (BNPL) schemes, are exploding in popularity. These models are estimated to reach a global transaction volume of US$596.7 billion by 2026, up from US$141.8 billion today. But embedded finance presents arguably the **greatest opportunity for big-tech platforms** with the reach and financial liquidity to make bold integration plays. These include extending their customer ecosystems through digital identity and payment wallets — with the total number of users of digital wallets estimated to exceed 5.2 billion globally in 2026, up from 3.4 billion users today. The most ambitious platforms, including some fintechs, are now vying for – and winning – banking licences[2].

The shift towards embedded finance has surpassed initial industry expectations. Companies urgently need to rethink their business models to unlock the potential for new growth. **Four key priorities** will help institutions great up to uncover the value of embedded finance:

1. Redefine where you can add value for customers
2. Set your course within the embedded finance chain
3. Commit to investing in partnerships
4. Build flawless tech, and upgrade data and analytics

1 Source: PwC, 2023. Uncovering value in embedded finance: Four priorities to jump-start ecosystem transformation
2 Source: PwC, 2023. Uncovering value in embedded finance: Challenging assumptions to chart new growth

In the first half of 2023 the focus remains on ESG, the Minority Equity Alliance trend continues and embedded finance is growing further

Looking forward into the first half of 2023

Until now (July 31th), we see less activity with regards to engaging in new partnerships than in the record year 2022. With regards to ESG, banks seem **to enter a new phase**. They walked the talk by investing in a large number of partnerships to gain quick wins in the last couple of years. Now it is the time to manage, develop and grow these partnerships to maximise their positive impact on society and ensure long-term value creation. With this, banks take the next step in maturity in this field with ESG increasingly being integrated into their core strategy.

When taking a look at the number of partnerships in the first half of 2023, we see that still around **half of the partnerships announced by Dutch banks are ESG related**. This is in line with the two previous years. A majority of the ESG partnerships are, again in line with previous year, focused on **environmental impact** (namely 75%). We also see that the trend of partnering via a **Minority Equity Alliance (MEA) continues in the first half of 2023**, with 35% of the new partnerships closed so far being structured via a MEA.

With regards to the non-ESG partnerships (e.g. digital transformation) there seems to be more focus on risk & compliance this year, with **20% of the new closed partnerships being compliance related**. The main focus areas of these type of partnerships are cyber security, fraud detection, anti-money laundering and knowledge sharing.

The trend of embedded finance is visible in the first half of 2023 with 15% of the partnerships being related to **embedded finance**. All of these partnerships focus on improving the product offering of the bank.

Examples of partnerships in Dutch market in 2023

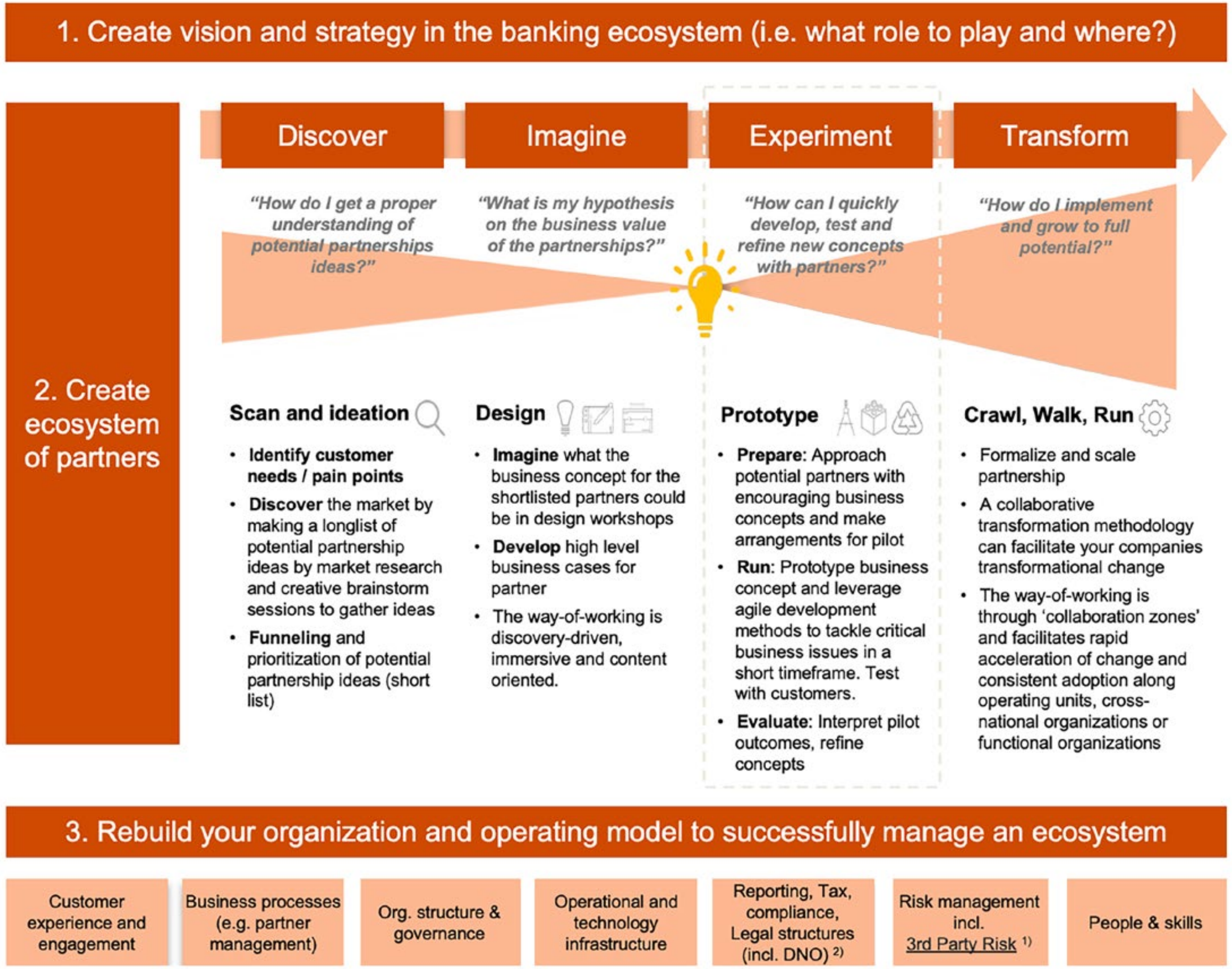
ABN AMRO invests in ethical hacker Hadrian, a fintech specialized in fraud detection and business investigation for the financial sector. The fintech looks, among other things, at the behavior of account holders and **identifies threats with the help of Artificial Intelligence (AI)**.

Bunq has partnered with embedded insurer Companjon to provide its customers with **access to digital insurance**. Users will automatically be covered when purchasing certain goods using their Bunq Metal Card.

Banxware and Rabobank are joining forces to develop an **‘embedded lending’ solution** that aims to make short-term financing more accessible to small and medium-sized companies. They want to make the financing solution available on e-commerce platforms, accounting software and purchasing and logistics platforms – digital places where SMEs can often be found.

De Volksbank has joined the **podcast Compliance Adviseert** as a partner. The partnership enables the podcast creators to take an “even broader perspective” to expose all the goings-on in the risk and compliance industry.

Figure 11 PwC's ecosystem approach in 3 steps



1 Link: *https://www.pwc.com/us/en/services/governance-insights-center/library/overseeing-third-party-risk.html*

2 Partnerships in the vital part of institutions might require a DNO (declaration of no objection) from the regulators.

How to position your firm for success

To be fit for growth, banks should let go of the – disrupted – idea of a vertically integrated bank and view banking as an ecosystem of partners. However, growing your business alone 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?

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 **organisation and operating model** (people, skills, structure, processes, technology) ready to build an ecosystem of partners in order to gain full advantage?

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