

**Speech by Frank Elderson at DNB Banking Seminar “The art of transformation - will banks keep up?”, Amsterdam, Hermitage, 8 February 2017**

Ladies and gentlemen,

Throughout time, mankind has been shaped by wave after wave of changes. Economic boom and bust. Social and political upheaval. Scientific developments that transformed how we travelled, produced and consumed.

These changes were reflected in - and influenced by - the evolution of banking. In Babylonia, merchants made grain loans to farmers. In ancient Greece, lenders began to accept deposits and change money. And in the 17<sup>th</sup> century, Amsterdam became a centre of derivatives, short selling and proprietary trading.

Today, banking is a global industry. One that sells complex financial products and executes trades over high-speed networks using algorithms. Banks have a systemic impact on every aspect of our lives. They catalyse commerce between nations, enable businesses to grow and enable people to buy a house.

Now, the banking industry is facing several challenges. Fintech is rising, consumer trust is damaged and Basel 3.5 is on the horizon. Then there is doubt about the future of Europe, growing criticism of globalisation and uncertainty about the geopolitical landscape. Meanwhile, the world is trying to achieve the Sustainable Development Goals and implement the Paris Agreement.

Banks will have to adapt – perhaps contribute – to this and the question is how. What is an appropriate business model or strategy?  
And what is the best form for the key functions that banks perform, such as safeguarding money, providing loans, and determining risk and return?  
Or is there a future in which non-banking entities perform banking functions?

In discussing these questions, perhaps it's worthwhile to distinguish between change and transformation. To me, change implies an increase or decrease over time of something while its nature remains constant.

Money was first metal, then paper and now digital, but it's still money.  
And today's stock exchanges are in essence quite similar to those established centuries ago.

Transformation is different. It implies something essential changes and a new order emerges. A caterpillar transforming into a butterfly.

A child transforming into an adult. Philips, as Hans de Jong so eloquently described it, transformed from a consumer tech company into a health tech one. Transformation takes time, vision and the courage to take tough decisions. And it is anything but easy to genuinely transform an organisation's culture.

Having said that I wonder: is the banking industry changing or transforming? Perhaps both? I am sure this is something we can debate at our tables later on. For now, I would like to stress that transformation is not just an inspiring concept, but also a practical and operational process.

People and organisations have a capacity to transform that can be nurtured. In today's turbulent environment, banks would do well to evaluate this capacity.

It could mean the difference between relevance and irrelevance.

But what exactly influences the capacity of organisations to transform?

How can you grow this capacity?

DNB has conducted research into the capacity of pension funds to transform and we found several things I am sure apply to other industries.

For example, we found that leadership is key. Specifically, individual leaders with the capacity to identify changes in the landscape, develop best-case and worst-case scenarios and create a compelling vision. Also leaders who are able to develop a strategy around this vision and then execute it.

The leadership team is of importance, too.

There needs to be openness, trust and diversity in terms of personalities and competences.

We also found that pension funds need to be appropriately equipped.

They need to be agile, have an up-to-date IT infrastructure, have sufficient budget and task the right people with the transformation process.

And pension funds need to have their house in order.

For unless everything runs smoothly, the organisation will focus its attention on managing the present rather than designing the future.

Finally, we found that pension funds need to be proactive. If they wait until the environment forces them to change, they are at risk.

Instead, they should proactively adapt.

Some pension funds began to transition from a defined benefit to a defined contribution system years ago and they are now in a good shape.

Those who haven't, are struggling to adjust to changing realities.

So transformation is a process that can be managed. But the process needs to lead to something. Transformation is a means, not an end.

So what is or should be the end result of a bank or the whole banking industry transforming?

In exploring possible answers to these questions, it may be worthwhile to make another distinction, this time between goals and purpose.

The way I see it, goals are operational and action-oriented. Bigger returns. More efficiency. Lower risks.

Goals can be quantified and our progress towards them can be measured.

Goals are important: they focus our attention and our resources.

Purpose to me is different. Purpose answers the question: why do we exist?  
And who or what do we serve?

If we live and work purposefully, we serve the greater good, an ideal, or future generations. It means acting in line with our deepest values and beliefs, our sense of humanity, our personal calling.

So if goals are about doing and achieving, purpose is about being and becoming.

Over the past decade or so, an increasing number of businesses have embraced purpose.

Philips strives to make the world healthier and more sustainable through innovation, and by improving the lives of 3 billion people by 2025.

DSM's purpose is to create brighter lives for people today and generations to come.

Unilever's purpose is to make sustainable living commonplace and the company believes this is the best long-term way for its business to grow.

What about banks? Do banks have a purpose and, if so, what place should it have in their culture and strategy? And should banking transformation have a purpose? Or is it sufficient for a bank to focus on changes that will help them increase profit, mitigate risk and comply with regulations?

These questions warrant passionate debate and clear answers.

Answers that banks need for themselves, but also that society expects.

In recent years, consumers have felt that banks served only themselves at the expense of society at large.

Perhaps purpose can help to restore trust, by bridging the needs of a bank with the needs of society.

De Nederlandsche Bank believes in the value of having a purpose and we cherish ours. We are in this world to contribute to the sustainable welfare of the Netherlands by promoting financial stability.

Through this, we also contribute to the realisation of the Sustainable Development Goals. This inspires us and guides us in relating to our stakeholders. And it seems we are not alone in this.

Last December, the Dutch Banking Association published a report in which it explored how banks can contribute to the Sustainable Development Goals. I wholeheartedly encourage such explorations.

Ladies and gentlemen,

Genuine transformation is hard. It means letting go of what we know, what is comfortable, what we are used to.

It means submitting to a long, and often perilous journey. And it means committing to a path whose outcome is far from certain.

Whether banks change or transform, and whether they embrace purpose or not, their functions and functioning are crucial.

As banks adapt to a changing world around us, their decisions will impact all of us for a very long time.

I wish banks courage, perseverance and vision as they plot their course to the future.

Thank you.