

# CHARTER FOR THE DUTCH FINANCIAL SECTOR



CFA Society  
Netherlands

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The Dutch financial sector plays a crucial role in driving the economy. It plays a key part in providing employment opportunities and makes us able to compete internationally. It is important for us to look more closely at the opportunities that the current crisis offers for making the financial sector stronger, more resilient and above all more distinctive. What is missing however, in the current discussion, is a coherent and clear vision for the future.

The Dutch financial sector needs to return to strengthened core values based on five main principles. A culture change from within is needed, to regain public trust and to deliver a stronger contribution to economic growth. By taking the lead in this internationally, the Netherlands, with its distinctive image and more small-scale diversity, can come out of this crisis stronger, as a financially knowledge- intensive country.

The professional association for Dutch Chartered Financial Analysts (CFA Netherlands) has taken the initiative in drafting a charter for the Dutch financial sector. This charter has five central principles:

1. Ethics should demonstrably be given a central role
2. The structure of the sector should be geared more towards small-scale operations and specialist areas of expertise
3. Long-term client interests must prevail
4. Variable remuneration can have a future
5. Acknowledging the potential for distinctive advantage in strategic sustainability policy

The financial sector is facing a bruised reputation, both internationally and nationally. More government regulation exists and is being developed, but this will not provide the answer to everything, since it does not take into account the diversity in the sector. A culture change from within the sector is necessary and more effective. The Dutch professional association for Chartered Financial Analysts supports a plan that is pragmatic and forward-looking. The starting point is the strengthening of the competitive advantage of the Dutch financial sector in the medium term. The aim is to have a positive effect on the employment possibilities in the sector, to contribute to the growth of the Dutch economy and contribute to the international debate about the future of the financial sector.

Hilko de Brouwer, President of CFA Netherlands: "There's a discrepancy between how clients formulate their financial requirements and how these are interpreted by the sector. In essence, communication about the added value of the existing financial infrastructure and transparency about the services on offer should play a central role. This requires an effort on both sides, but especially the sector itself has a lot to improve here. The increased complexity and quantitative modelling should be compensated by a convincing answer to the question of how the financial sector can meet specific needs with its structures and processes."

Frans Verhaar, Board Member CFA Netherlands: "The Dutch financial sector is increasingly seen as one single, completely connected group. It is alarming that with regard to supervision and regulations, hardly any distinction is made any more between the large diversity of players and activities within the sector. Insurers, pension funds, banks, asset managers and real estate companies are fundamentally different."

# THE 5 PRINCIPLES FOR THE DUTCH FINANCIAL SECTOR IN MORE DETAIL

CFA Netherlands has taken the initiative for the drafting of a charter as a contribution to the wider discussion about the future of the Dutch financial sector. This charter consists of 5 principles, each outlined in more detail.

## 1. ETHICS SHOULD DEMONSTRABLY BE GIVEN A CENTRAL ROLE

Besides health, finances are a dominant factor in everyday life. Compared with the health sector, the financial sector for a large part lacks connected ethical principles. CFA Netherlands backs a framework within which individuals publicly subject themselves to the highest ethical values, as defined over the years in the CFA Institute's of Ethics and Standards of Professional Conduct. Standardisation will only be effective if linked to a sanctions policy. An individual's ethical standing, should, in the worst cases, be able to be revoked.

In the current structure of financial training, not enough attention is paid to ethics. This creates a lack of ethical awareness at the core of the industry, something that should be dealt with more proactively by the educational institutions. The Code of Ethics and Standards of Professional Conduct <sup>1</sup>, already observed by over 110,000 professionals worldwide, should serve as the highest standard in this regard.

The mutual knowledge and understanding of ethics requires a personal effort and obligation. Financial organisations can however facilitate by offering internal courses for example. In this regard, ethics must be supported at the highest levels within an organisation and therefore management must take their exemplary role seriously, both in words and deeds. An ethical framework becomes more effective when individuals are periodically made aware of their responsibilities, for example through the signing of a code of conduct. Clients of the financial institutions also have their responsibilities. Nothing works more effectively to stimulate an ethical framework than clients consciously selecting their advisors on ethical aspects.

## 2. THE STRUCTURE OF THE SECTOR SHOULD BE GEARED MORE TOWARDS SMALL-SCALE OPERATIONS AND SPECIALIST AREAS OF EXPERTISE

In scaling up, Dutch financial institutions have shown to lack internationally distinctive qualities. Universal Banking and bank insurance are not entirely successful concepts. The crisis has revealed that the government has its limitations when it comes to offering a sustainable safety net. Due to the implicit state guarantee offered to several systemic banks, a crooked competitive climate has emerged, especially in the banking sector.

For the financial sector as a whole, the increased regulatory requirements are creating entrance barriers for smaller players. One goal should be for the financial sector to be geared more towards organisations with focus (possibly smaller) and sustainable entrepreneurship (possibly more ethical) and so create more perspective for the future. Regulators should be geared more towards this rather than (whether or not on purpose) the forcing of further scale enlargement.

Parts of the financial sector have been sold or transferred to foreign players. This partly gives us less grip on developments. One risk is that our internationally recognised financial expertise, that we've built up through our culture of saving in pension funds and insurers, seeps away. More room is needed for small-scale operations and initiatives to work within specialist areas of expertise. Especially the local investment industry is increasingly offering variety and job opportunities. Regulations are not the all encompassing solution, but should offer more support and stimulation for entrepreneurship and niche players. Currently there is too much emphasis on the fact that large institutions could offer more security and stability.

### **3. LONG-TERM CLIENT INTERESTS MUST PREVAIL ONCE AGAIN**

The financial sector has become caught up in a cycle in which short-term profitability, short-term funding and short-term risk reduction have become most important. These trends partly hamper one another, a fact that does not help improve the future prospects of the sector. The cause is not solely to blame on the regulators who have to correct what has got out of hand partly under their supervision. The sector itself must return to core values such as transparency, client interests and communications. There are opportunities for the Netherlands to be leading in this internationally because these are themes that will turn out to be important in the near future. We must move away from our 'fad of the day' thinking. Driven by deteriorating market outlooks, measurable risks (focused on the short term) are currently emphasised more than non-measurable uncertainties (focused on the long term). The room for proactive contra-cyclical reaction is therefore becoming smaller. This is a perfect example of an area in which the Netherlands should be able to play a more leading role.

### **4. VARIABLE REMUNERATION CAN HAVE A FUTURE**

There is no principal objection to making a part of the salary variable or to let employees participate in the success of a company. It can be a good incentive to motivate people or to gain access to limited knowledge or experience. A bonus, if this is being considered, should become a variable component of the salary again, and not a guarantee without its base in achievement. The now public discussion about bonuses reflects the lack of understanding for especially the disproportionate amounts of money awarded based on non-transparent goals. Added to this that bonuses seem to have an unconditional character these days. It must be clearer for all parties involved on which grounds a possible payout is based and it should be spread out over a longer period. Remuneration should contribute to equal interest as those of the ultimate client. Political opportunism should not offer a solution by intervening in individual employment contracts with non-governmental institutions. There where European guidelines are normally strictly followed, it is potentially detrimental to the employment opportunities in the sector that in the Netherlands, there's talk of a 20% cap.

### **5. ACKNOWLEDGING THE POTENTIAL FOR DISTINCTIVE ADVANTAGE IN STRATEGIC SUSTAINABILITY POLICY**

For a long time, the financial sector offered investors a conservative structure with stable dividend yield. The way ahead was then most importantly based on a greater focus on shareholder interests. We need to return however to a wider and more collective determination of interests in the way business is run. Besides the shareholders, more attention should be paid to the interests of clients, employee and not in the least society. Shareholder value must become stakeholder value. Shareholders, as owners, have an important role in influencing strategy. But in a world in which the average period that shares are held is becoming shorter, opportunism is lurking. A new balance must be found between shareholder activism and societal activism in areas such as sustainable company policy, sustainable investments, social impact and responsibility. The Netherlands has a potentially enormous differentiating competitive advantage, with its strong pension funds and educational institutions, with which we can be international front-runners when it comes to providing the new purpose for the financial sector.

<sup>1</sup> The CFA Institute Code of Ethics and Standards of Professional Conduct



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