

RALPH HAMERS

Banking is Still Fun, Says ING Boss

The chief executive of Dutch ING bank told Handelsblatt why he still enjoys his job even as he grapples with regulation and the challenge from fintechs – and he spelled out what European ideals mean to him.

BY MICHAEL MAISCH AND MICHAEL BRÄCHER



Ralph Hamers says he isn't afraid of fintechs. Source: Marko Priske for HB

Ralph Hamers talked to Handelsblatt from ING's cosy office in downtown Berlin. The chief executive, who has led the Netherlands' largest bank since 2013, was in a bright mood about the outlook for his bank and the financial sector in general.

ING was bailed out by the Dutch government in the 2008 financial crisis but has recovered its footing since. It has since paid back the financial aid and now issues a dividend to investors. In the third quarter of this year, the bank earned more than €1 billion.

WHY IT MATTERS

Banks have to change in order to succeed in a changing landscape with more competitors and more regulations, says ING's Ralph Hamer.

FACTS

ING is the biggest Dutch bank and competes with Deutsche Bank, French bank BNP Paribas and Spain's Santander.

In the third quarter this year, ING earned €1.1 billion.

Ralph Hamers has worked for ING since 1991 and took the lead of the whole bank in 2013.

Mr. Hamers has been a part of the bank since 1991. In 2011, he became ING's divisional head for Luxembourg and Belgium, and two years later he took over the entire bank.

Despite his optimism, Mr. Hamers said the days of high double-digit returns on equity - the kind of levels seen before the 2008 crisis - are probably over for Europe's banks. He also had a warning for policymakers: Speak up to resolve the tensions in European society, or risk endangering the entire European project.

Handelsblatt: Europe's banks are under fire from all sides - the ECB is flooding the markets, regulators are coming up with evermore rules, and at the same time fintechs want to eat away your market share. Is it even still fun to run a bank these days?

Ralph Hamers: (Laughs) What an opening question! But honestly, I think you summed it up quite well. We have to face these challenges. Fintechs force us to be more efficient, as a consequence of which we can deal more easily with low interest rates and tougher regulations. If you open up to trends and try to make them yours, then it can still be fun to run a bank.

Looking at the levels of returns at European banks today, the fun factor seems to be shrinking. Will we ever reach pre-crisis levels of returns?

For the first nine months of the year, our return on equity at ING was 11.6 percent. Will the returns climb again towards 20 percent? I don't think so. Should they? I don't think so! But making a return of anywhere between 10 and 13 percent is achievable, at least from a business perspective. But there are also external influences, like regulation. The new plans for total loss absorbing capital for example. If we have to absorb that within two years, returns go down.

So regulators should calm down a bit?

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Let's not forget that banks also have to be attractive for investors too. If we want to make sure that banks have access to the capital market at all times, then their returns have to be at least similar to what industrial companies can offer. If investors turn away from banks, that doesn't help in creating a more stable financial system.

Do you see room for consolidation in the European banking industry?

I think consolidation will happen, because of all the challenges you already named. But I think there will be more in-country consolidation before it will be cross-border consolidation. We're seeing that in Italy and in Spain already.

How about at ING? Since May you're allowed to make acquisitions again, following a ban due to the state bailout.

If you look at the Dutch market, I don't think that a lot of consolidation will happen. We're one of three really large players. More consolidation would not be good for the market.

What about purchases abroad? You were talking about buying HSBC's business in Turkey, but that seems to have stalled.

I can't comment on that.

What about Postbank? Deutsche Bank is planning to spin it off, would you be interested in that?

Unfortunately I can't comment on this case either. But Germany is our fastest growing market. There's no real need for us to look for any mergers. We grow by 1,000 new clients a day. We also work very competitively in Germany. We spend less than 50 cents for every €1 we make. There is no German competitor that reaches these levels.

If you are not looking at mergers, what does ING's future look like?

We want to grow in the mortgage business and the consumer finance business, but also extend our commercial banking business for larger

German corporates. A lot of these clients we know very well from outside of Germany. In Germany, we are better known as a retail bank, but outside of Germany we have long had many commercial clients.

How are you planning to break into Germany's small and medium-sized companies, known as the Mittelstand?

It's a very competitive area and it's a market that is probably a bit more difficult to unlock. In Spain we are now piloting a project for small and middle-sized companies, in joint venture with a fintech, to use algorithms to score credit and grant loans in a completely different way based on digital information that's available on social media. That takes 10 minutes to process an application. We are always looking at how can we do things in a way that clients really feel the value in the experiences.

Do you think there's a bubble forming with these fintechs?

I think fintechs are for real. Probably there's a bit of hype - though no market changes without a bit of hype. You need a bit of hype for money to flow. Not all will succeed of course but if you want to change things, you have to have the courage to fail.

There seems to be no lack of courage. Fintechs are taking on banks on all fronts, from payments to loans...

... that's a good thing. Many banks see them as a threat but we don't see it that way. What we do is we open up to them. We regard ourselves as a bit of a disrupter. We compete with them but we also team up with them. You need to have the mindset to make it part of your offering.

Do you think banks realize that?

We don't have to fear them, we also have a lot of strengths. ING has an incredible brand value and trust. We know clients and client behavior very well. We can also combine new technology with local finesse, because from many perspectives, there are local elements and conditions, you can't just roll out one product across the globe which fintechs want to do. And if they do go into banking, they would get into the more regulatory side.

So regulation is protecting banks from new competition?

Only up to a point, only so far. In two years the payments area will be subject to PSD 2, the regulation from Brussels. In 2017, anyone will be able to offer payments and banks have to open up their data so any new player in the market can use it. So regulation will provide for a bigger market, not a local market. It gives fintechs access to a lot of banking knowledge. That's the biggest area where fintechs will be successful. That's why we should go after it ourselves. We can't sit back and wait for this to happen.

Many people don't hear much good about Europe right now. First there was the financial crisis, then the euro crisis, then the refugee crisis. Countries seem to be fighting as they rarely have done in the past and nationalist movements are attracting a lot of people. Does that worry you?

I think it worries us all. I think the whole reason that the euro zone became one is in the end to make sure we would never have war again. We know that the cause of war is generally nationalistic feelings that cause tensions, and if these aren't managed well, they can end up in war. Political and business leaders need to make sure we remember the past and make sure we make Europe successful. We should never give up on this because we know the risk of what can happen, so we should remember that it's our duty to make sure these tensions are managed.

How should they do that?

The whole issue of Greece, from a European perspective, is an incredibly small issue but we made it a big issue. It's not surprising that nationalistic tendencies gain strength.

Should politicians focus more on the European vision and less on the details, do you think?

The northern countries like Germany and the Netherlands benefited from the crisis in countries like Greece, Spain and Portugal, with low interest rates, because there was a shift to the less risky countries. Given

the fact that we benefited, we also owe it to those countries to try and solve it.

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