Dutch, digital and doing nicely

ING, a Dutch bank, finds a winning digital strategy

An approach that came unstuck in the crisis has provided the foundation for success


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GERMANY'S third-biggest retail bank has no branches. It is also Dutch. And it is highly profitable. ING-DiBa, an online bank owned by ING, the Netherlands' biggest lender, looks after €133bn ($154bn) of deposits for over 8m customers. In a fragmented market—most Germans entrust their savings to small, local banks—that means a share of around 6%. ING-DiBa's lack of branches keeps costs down, allowing it to resist charging for current accounts and offer savers a tad more than rivals, despite a recent cut; and it has won a name for good service in a country not renowned for it. While other banks struggle after years of ultra-low interest rates, ING-DiBa thrives. Its return on equity exceeds 20%.

ING as a whole is in fair shape, too. On November 2nd it reported net third-quarter earnings of €1.4bn, slightly more than a year earlier. The group's return on equity was a healthy 11%, nearly two percentage points up. Since 2014 the number of "primary" customers (with an active current account and another product) has climbed by 25%, to 10.5m. By 2020 ING aims to have 14m. They are especially valuable because they want further services and because frequent transactions yield reams of data.

Banks prattle a lot about digital strategy. At ING, the talk is far more convincing than in most. Last year Ralph Hamers, the chief executive, unveiled a plan costing €800m to bring the whole bank onto one digital platform and to save €900m a year by 2021. It is closing 600 Belgian branches; 7,000 jobs will go.

Roel Louwhoff, who is overseeing the digital transformation, explains that ING aims to build "components"—processes and products—that can be used across the group, so that costs can be saved and customers better served. Examples include the way new customers are taken on, and security procedures. The bank has borrowed from other industries, for instance by studying how carmakers use common parts in several models. In ING's honeycomb of a headquarters in Amsterdam is an "Obeya" room (Japanese for "big room": Toyota was a pioneer of the idea) in which plans are co-ordinated and updated. (It is closed to visiting journalists.)

One fruit will be Model Bank, the standardisation of processes in European online banks (except in Germany), based on those already followed in Spain and Portugal. A 180-strong team in Madrid is developing Model Bank, which ING will deploy next year in the Czech Republic before moving on to Austria, France and Italy.

It helps that ING has for years been on the digital trail abroad: it bought 49% of DiBa in 1998 and has owned all of it since 2003. Yet the early start was almost ING's undoing. Before the financial crisis, says Koos Timmermans, the chief financial officer, it managed the balance-sheets as well as the operations of the foreign online banks and the conventional business separately. The online banks attracted plenty of deposits but lacked assets; they bought lots of bonds, many backed by American mortgages. The domestic bank had ample loans but relied on wholesale funding.

When the crisis struck, this dual exposure to capital markets proved calamitous. The Dutch government bailed ING out to the tune of €10bn in 2008 and later took over the American mortgage securities (on which it eventually made a profit). As a condition of state aid, the European Commission obliged ING to sell its insurance arm and its online bank in America. Other businesses, including online banks in Britain and Canada, were also offloaded. ING finished repaying the aid in 2014. Dividends restarted the next year.

Dutch treat

Nevertheless, says Mr Timmermans, branchless banking was "a smash hit". ING has learnt its lesson, he adds. Now the balance-sheets "are more in sync". At the foreign online banks, savings still outstrip loans (mostly mortgages). Trying to lend more where people are more inclined to save may not pay. But today's ING is wary of bonds. "Never, ever, will we collect savings and invest in the bond market," Mr Timmermans says, except for liquidity needs. Instead, ING smooths imbalances internally—for example, by putting $5bn of loan assets generated in America onto its German balance-sheet.

There are gaps. ING hopes to lift the share of revenues from fees and commissions from 15% to 20% in the next four years, reducing its dependence on interest income. Stefan Nedialkov of Citigroup notes that European banks averaged a 24% share last year—but also that ING is picking up the pace. In the first nine months of 2017 fees rose by 12% year on year.

The online banks are pushing into more sophisticated products than current and savings accounts and mortgages. ING is happy to find allies. In September it formed a partnership in Germany with Scalable Capital, a robo-adviser. Last year, with Kabbage, an American financial-technology company in which it has a stake, it started offering online loans, available within minutes, to small and medium enterprises (SMEs) in Spain. It has recently started doing the same in France and Italy. In October the bank launched a €300m fund to invest in fintechs.

This shift is a test for branchless banking. “The jury is still out on whether we will accomplish the same on the SME side” as in basic retail banking, says Mr Timmermans, though he believes young entrepreneurs will be keen. ING has not yet “cracked the nut” of avoiding bad credits. But, he adds, it makes no sense to open branches just for SMEs. With ever fewer people visiting banks, the online model must move on. How far and how fast? ING will be among the first to find out.

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