Supervisory Strategy

2025 - 2028

DeNederlandscheBank

EUROSYSTEEM

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Introduction

In our Supervisory Strategy 2025-2028, we set out for financial institutions and other stakeholders what they can expect from our supervision over the next four years. First and foremost, our supervision aims to ensure the stability and integrity of the financial system in the Netherlands. In a rapidly changing world, it is essential for financial institutions to be agile and innovative.

This document comes at a time when the geopolitical climate has become more inclement, increasing fragmentation of the global economy and division into national and regional blocs. Geopolitical tensions have implications for financial institutions and will therefore be an important focus of our supervision in the coming years. We also participate in European and global forums of both monetary and supervisory authorities. These forums promote European and international cooperation and confidence in the financial system. Geopolitical developments, together with the digitalisation of the financial sector, are creating a more dynamic threat landscape that requires additional emphasis on cyber resilience. Furthermore, digitalisation has a significant impact on the way the financial sector works, enabling, for instance, the provision of new kinds of services. While this presents opportunities for the sector, it also creates vulnerabilities as new risks emerge, such as concentration, privacy and security risks.

This Supervisory Strategy consists of three parts. The first part covers the core of our supervision. In it, we explain how we fulfil the responsibilities that come with our supervisory mandate. The second part of the strategy discusses three focus areas in supervision that will receive particular attention in the coming years: geopolitical developments, technological innovation and cyber resilience. In the third part, we highlight several themes that have received additional emphasis in recent years and that are now firmly embedded in our supervision. These include combating financial crime, managing sustainability risks, and governance and behaviour within institutions. While we continue to emphasise these themes, in light of the evolving landscape, it is imperative to devote additional attention to the three focus areas to ensure effective and efficient supervision, thereby upholding the stability and integrity of the system.

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Supervisory Strategy 2025-2028

The core of our supervision

- Risk-based, proportionate, independent and transparent
- European and international collaboration
- Forward-looking supervision
- Transparent guidance on open standards
- Effective enforcement of standards

Embedding themes in regular supervision

- Combating financial crime
- Grip on sustainability risks
- Managing governance & behaviour

Focus areas in our supervision

- Identifying and managing geopolitical risks
- Responding to technological innovations requires flexibility and agility
- Increasing resilience to cyber threats

The core of our supervision

The core of our supervision

DNB aims to ensure sound and ethical financial institutions that always fulfil their obligations and commitments. Our prudential supervision seeks to ensure the soundness of financial institutions and the stability of the financial system. Also, our integrity supervision involves maintaining a clean and ethical financial sector. Below we explain how we perform our supervisory tasks.

The fundamental set-up of supervision

Overarching ambitions

- Sound and ethical financial institutions that fulfil their obligations and commitments.
- An efficient and effective supervisory organisation, which is achieved in part through cross-sectoral prioritisation of available supervisory capacity and expertise, and dialogue with the sector and society.

DNB's supervision seeks to safeguard a sound, ethical and resilient financial sector that contributes to sustainable prosperity for everyone in the Netherlands. We supervise financial institutions in a risk-based, proportionate, independent and transparent manner. Our supervisory role helps to maintain public trust in financial institutions. Trust is an important precondition for the functioning of the financial system, which in turn is essential for the functioning of the real economy. Financial institutions should properly manage prudential risks, and have sound and ethical operational management in place. Safeguarding this is at the heart of our supervision.

DNB's supervision is probing and proactive. Supervision places high demands on financial institutions, including through on-site inspections, information requests and other types of interaction. By adopting a critical stance, we are able to identify larger risks in a timely manner and effectively deploy risk-mitigating measures to enforce compliance with standards and regulations. This set-up of financial sector supervision is important as the cost to society could be high when things go wrong.

DNB carries out its supervision effectively and efficiently. As an independent supervisory authority, we oversee institutions' compliance with laws and regulations and check that they identify and manage risks on a timely basis. Given that our supervisory capacity is scarce, we need to prioritise. Our supervision will be more intense when risks have a bigger impact on trust. We makes efficient use of our scarce supervisory capacity and expertise by deploying it where we identify the greatest risks. Such risk-based supervision requires us to leverage data and analysis to prioritise and deploy available capacity and expertise cross-sectorally. We are cost-conscious. In our supervisory capacity, we remain within the multi-annual cost framework set for the period 2025-2028.[1] While our supervision is justifiably probing, we are committed to keeping the regulatory burden on financial institutions in check.

Supervision cannot always prevent institutions from failing. Our risk tolerance for an institution's possible failure depends on the impact such failure has on the financial system and society as a whole. To this end, macroprudential risks must be carefully assessed for their impact on financial institutions, supervisory actions and policy adjustments, and vice versa. We accept the fact that we cannot always prevent a financial institution from failing. Market forces, and thus the possible failure of institutions, are essential for a healthy financial sector.

1 DNB cost framework 2025-2028 (Dutch).

Proportionality is an important principle. Regulation and supervision should be tailored to the size and complexity of an institution, and to the risks it bears. Where allowed under applicable laws and regulations, supervisory requirements can be applied more or less stringently. While proportionality can make rules simpler and our supervision of smaller or less complex institutions more straightforward, it will not necessarily be less strict.

In our supervision we use uniform processes and data as much as possible. For instance, we divide financial institutions into impact classes based on the impact that solidity or integrity problems they might face can have on confidence in the financial system. For each impact class, we then use the same methodology to determine an institution's risk profile. This safeguards consistency and allows us to draw comparisons between institutions.[2] We also optimise supervisory processes by digitising them and making them more data-driven. To do so, we exercise due care in applying modern data analysis techniques such as artificial intelligence (AI) to support our judgement. Furthermore, technological solutions allow us to supervise institutions that have lower risk profiles without allocating a disproportionate amount of our resources.

There is room for dialogue in our supervision. As a supervisory authority, we strive to be approachable for dialogue and well-informed, without compromising our independence. We engage with institutions to hear how they apply existing regulations (and how they intend to apply new regulations) and we clarify our supervisory expectations of them. We share our visions, ideas and analyses in publications and open discussions. We also actively participate in public discourse to clarify our role as a supervisory authority and the public interests we serve. We periodically gauge our stakeholders' perceptions of us, and incorporate their feedback into our choices.

We perform our supervisory tasks as transparently as possible. We are bound by a duty of confidentiality and will communicate about individual institutions only in exceptional cases.[3] We do, however, explain our actions and the rationale for them as much as possible. We employ a wide array of communication tools, aimed both at the general public and at the financial sector and other stakeholders.[4]

The Dutch financial sector's European and international dimension

Ambition

- The Netherlands has a healthy financial sector thanks in part to the fact that cross-border risks are managed, level playing fields at the European and global level, and strengthening of the European banking union and capital markets union.

Both the Dutch economy and the Dutch financial sector are more connected than ever to European and international developments, thanks to such trends as digitalisation. In economic terms, the Netherlands is highly dependent on the free movement of goods, people, services and capital within the European Union (EU) and also has a relatively large exposure to trade outside the EU. This makes the Dutch economy sensitive to geopolitical risks and geo-economic fragmentation. Geopolitical risks also affect the financial sector. For instance, financial

2 See also Our redesigned supervision approach. For the purpose of prudential banking supervision, we allocate risk scores according to the Single Supervisory Mechanism (SSM) methodology, rather than our redesigned supervision approach.
3 For example, when we take certain formal measures. In such a case, our communication serves to inform or alert parties that operate in the financial markets. It also helps to inform and protect the general public.
4 For example Supervision in Focus 2024 – 2025 (Dutch).

market shocks can push up funding costs and fuel credit losses. In addition, financial institutions are being targeted more frequently by cyber attacks due to geopolitical tensions.

The dominance of BigTechs leads to opportunities and risks in the value chain. Financial institutions often work with large ICT service providers, known as BigTechs. These tech firms help financial institutions meet the digital needs of their customers and digitise their business processes, for instance through cloud services and AI solutions. This allows financial institutions to operate more innovatively and efficiently. However, they must be alert to the increasing market power of some very large (and often non-European) ICT service providers and the concomitant concentration and stability risks. Given the inherently cross-border nature of these service providers, national supervisory authorities can operate more effectively by working in unison at European and global level to address financial sector risks. We do so, for instance, by contributing at European level to the monitoring of the (financial) activities of BigTechs and to the European oversight regime for ICT service providers critical to the financial sector.

The European Union plays an indispensable regulatory and coordinating role for the financial sector. European regulation can set strict requirements for the soundness and reliability of the sector, while ensuring a level playing field. This promotes the efficiency of the financial services provided to consumers and businesses. Unnecessary regulatory complexity must be avoided and, where possible, reduced. To maintain the level playing field between European financial institutions while protecting customers' interests, laws and regulations need to be further harmonised, and the various national supervisory authorities must implement and enforce them in a uniform manner. Uniformity of supervision is further promoted by various types of European supervision, such as the Single Supervisory Mechanism for banks and a stronger role for European supervisory authorities. We are committed to completing the European banking union and deepening the European capital markets union to promote the broad availability of capital and strengthen financial stability.[5]

Previous financial crises show that maintaining the stability of the financial system is a global task. That is why DNB is an active player in partnerships with supervisors and other authorities outside the European Union. We are playing our part in opening up the dialogue and creating the standards needed to make the global financial system more stable. At the same time, we are promoting a level playing field with financial institutions outside the European Union.

In principle, with a view to achieving a level playing field, we do not consider national rules imposed on top of European laws and regulations to be desirable. National discrepancies when implementing legislation have different causes. European regulations partly take the form of directives, which must be transposed into national laws and regulations. In the event of minimum harmonisation, countries have leeway to impose rules that may be more far-reaching. Another source of discrepancies are Member State options, whereby a Member State may deviate from European rules within the limits of that option. In principle, DNB does not favour national rules imposed on top of European laws and regulations. Specific national aspects of, for example, the structure of supervision or corporate law may be exceptions. Discrepancies in the national implementation and application of European rules can distort the level playing field, for instance by creating additional burdens for the financial sector and creating opportunities for regulatory arbitrage and policy competition.

5 See also the *position paper* on the capital markets union prepared by DNB and the Dutch Authority for the Financial Markets (AFM).

Forward-looking supervision

Ambition

- We anticipate new developments that are relevant to our supervision in a timely manner by carrying out research and analysis, engaging in dialogue with the sector and society, and taking action.

We anticipate new developments. Society may expect from us that we identify and initiate the debate about developments and risks in a timely manner. We monitor financial and economic developments that could affect institutions' risks, and we identify ways in which we can supervise them. Where developments have a potential impact on the sector's financial soundness, reliability and stability, we conduct further research and analysis. If such research raises concerns and we have the tools to intervene, we deploy them. If our supervisory toolbox is still insufficient to respond to new developments within our mandate, we may warn of such developments in public statements. Likewise, we may encourage the sector to address such emerging risks itself. Where appropriate, we interpret existing open standards (see below). We also regularly initiate the debate about such developments at European and national level, and occasionally we ask legislators to amend laws and regulations accordingly.

We have a sound basis for addressing changing societal norms and the future orientation of business models in dialogue with the sector and other stakeholders. DNB is open and engaged in society. We have an eye for social developments and the impacts they have on the financial sector. We believe it is important that institutions feel free to engage with the supervisor, particularly when standards are still under development. To this end, we engage in dialogue, both with sector and with civil society groups. We do so on topics such as equal access to financial services and solidarity in insurance. In addition, we provide room for innovation in the financial sector, within the limits of the statutory framework (see also Focus areas in our supervision).

Open standards and guidance

Ambition

- The guidance we offer with respect to open standards is transparent and adopted following sector consultation. It is up-to-date and provides clarity on how institutions can interpret open standards.

Open standards ensure that legislation is more future-proof and less rigid. Open standards give institutions the headroom they need to fulfil statutory requirements in a way that is appropriate to their operations and risks. We monitor compliance with open standards, taking into account the different ways institutions can comply with them. Open standards pose a challenge for institutions, as they can raise questions as to how the rules must be applied. Where useful, we provide guidance in the form of policy statements – policy rules, Q&As and good practices.[6] If an act provides that DNB must establish further rules, we publish what are known as supervisory regulations. With regulation mostly having a European origin, guidance is often provided at the European level rather than by DNB. We aim to ensure that the body of European and national statements is manageable for institutions and forms a logically coherent whole.

Where needed, DNB provides guidance to the sector to provide clarity on how institutions can interpret open standards. We always explicitly state that our guidance is not binding on institutions, and that institutions

6 For an explanation of the various types of communication, see Explanatory guide to DNB's policy statements.

have room to comply with a standard in a different way. As a rule, we put out our guidance for public consultation prior to adoption,[7] and we publish responses and our comments on them in a feedback statement. We use the guidance to engage with institutions, but do not use it as strict rules that *must* be complied with. If institutions should feel that we do, they may call us to account. Guidance must always remain as up-to-date as possible, which is why we review and update our guidance documents from time to time. We frequently engage in dialogue with the sector in such cases.

Financial institutions are responsible for the way in which they comply with laws and regulations. While guidance can support institutions in carefully dealing with open standards, it is up to them to determine their own approach to open standards. Guidance provides direction, but institutions are free to choose their own path. Some institutions will want to use guidance as a safe haven, whereas others will seek to develop their own methods for implementing laws and regulations more efficiently and/or more effectively as they see fit. There is room for both approaches.

Institutions that follow their own interpretation of an open standard must thoroughly substantiate why their approach adequately meets the standard. We are unable to provide full prior assurance as to whether a specific interpretation is sufficient. What we can do, is engage in a substantive debate, for example through sector associations. There is also room for a more collective interpretation of open standards through sector associations, in some instances with our involvement. One example is the NVB industry baselines for anti-money laundering policies.[8] Institutions are not bound by such collective interpretations, but they can serve as guidance.

Effective enforcement of standards

Ambition

- We take effective action against non-compliance with laws and regulations by deploying our intervention and enforcement tools.

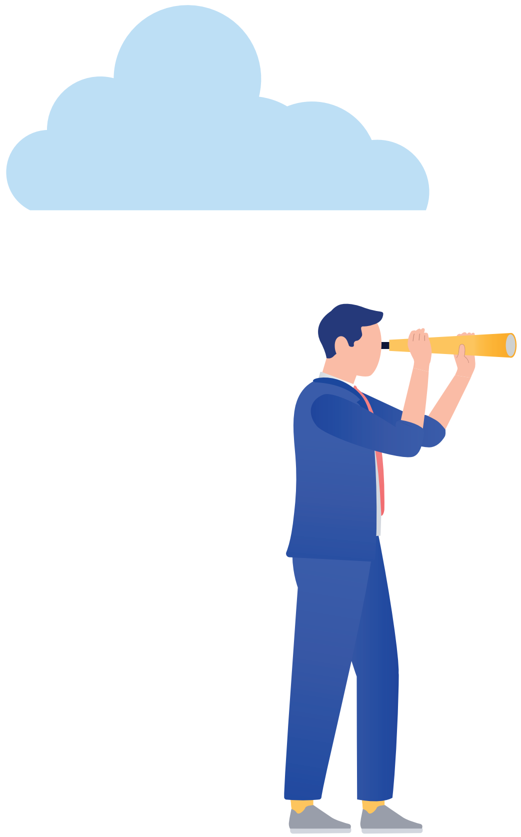
The primary focus of our supervision is on prevention. Compliance with laws and regulations and maintaining public trust are first and foremost the responsibility of the institutions themselves. As a supervisory authority, DNB supervises this and encourages institutions to identify and adequately manage risks.

We act as soon as we identify instances of non-compliance. We do not tolerate. If we find that applicable prudential, integrity or market access requirements are not being met, we will intervene. We do set risk-based enforcement priorities, given the scarcity of our resources.

We act against non-compliance with laws and regulations through effective interventions and deployment of enforcement tools. Depending on the nature and scope of both the risk and an institution's non-compliant behaviour, we may decide to intervene and enforce compliance as part of our supervisory activities. Taking into account the specifics of the situation and the institution's non-compliant behaviour, we determine the intervention strategy based on the enforcement policy.[9] The measure(s) we impose and how we impose them will depend, among other things, on the gravity and culpability of the situation and on the institution's compliance attitude.

7 We always put out supervisory regulations and policy rules for consultation. In principle, the same applies to Q&As and good practices, but we may occasionally refrain from doing so, depending on their significance and impact.
8 A more risk-based customer due diligence.
9 DNB/AFM enforcement policy (Dutch).

As part of enforcement, we may impose measures aimed at remedying non-compliance, as well as measures of a punitive nature. For each situation, we determine which enforcement tool will be most effective in achieving our objective. Our interventions are primarily aimed at encouraging compliant behaviour (e.g. by issuing an instruction), but they can also be punitive in nature (e.g. by imposing an administrative fine). In this way, we primarily ensure that non-compliance is terminated but will also punish the offender where needed. If we publicly disclose imposition of a measure, this also has a sector-wide preventive effect.



Box 1 The Dutch financial sector

Financial services are an integral part of our society. Financial institutions ensure, for example, that consumers can borrow money for a home and that businesses can make investments. In addition, they help hedge against risks and enable workers and entrepreneurs to save for their retirement. The financial sector also contributes to safeguarding public interests, for instance by combating financial crime and facilitating the transition to a sustainable economy. The combined assets of Dutch banks, insurance firms and pension funds represent some five times the gross domestic product of the Netherlands. This means the financial sector plays an indispensable role in the Dutch economy.

There have been sweeping reforms of financial regulation and supervision since the 2008 financial crisis. New or more detailed – mostly European – statutory frameworks have been introduced for all sectors. For example, banks must maintain significantly higher buffers in terms of both capital and liquidity. Regrettably, the capstone of these reforms, Basel III, is being implemented in Europe in a watered-down variant, which means enduring commitment to strengthening the banking framework remains needed. For insurance firms, the risk-based Solvency II framework came into force in 2016, expanding the existing quantitative capital requirements and qualitative requirements for operational management. In addition, stress tests are regularly carried out at banks, insurance firms and pension funds to test their resilience and take early action where appropriate.

DNB has also been given wider options to intervene using macro-prudential tools when systemic risks increase, for instance by imposing additional capital requirements on systemically important banks on top of the regular (microprudential) capital requirements. In addition, the supervision of European banks has been centralised at the European Central Bank (ECB)[10], the three European Supervisory Authorities (ESAs) have been established[11] and we consider the arrival of the European regulator AMLA to be of great added value. The AMLA will supervise anti-money laundering and countering of terrorist financing efforts.

Viewed from an international perspective, the Dutch financial sector is resilient. Once every five years, the International Monetary Fund (IMF) subjects the Dutch financial sector to a comprehensive analyses in its Financial Sector Assessment Program (FSAP). Its analysis focuses on the resilience of the financial sector, the quality of the regulatory and supervisory frameworks, and the options available to manage and mitigate a financial crisis. The 2024 FSAP showed that Dutch financial institutions are generally resilient to negative economic and climate-related scenarios. The IMF also found that the supervisory approach in the Netherlands is generally well thought-out and risk-based.[12]

10 The ECB carries out direct supervision of large banks, and indirect supervision of small banks. DNB carries out direct supervision of small Dutch banks.
11 The ESAs are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).
12 See IMF: "Dutch economy and financial sector are in good shape" (Dutch).

Focus areas in our supervision

Focus areas in our supervision

We have identified three focus areas for supervision in the years ahead, which we discuss below.

A proactive attitude and close cooperation are needed to manage the risks arising from geopolitical developments.

Ambitions

- Financial institutions proactively identify and comprehensively manage geopolitical risks.
- The resilience of financial institutions to geopolitical risks is bolstered by strong public-private and European collaboration.

Geopolitical tensions have increased over the past few years.[13] Gone are the days when international relations with parties well-disposed to the Netherlands and Europe were a matter of course. In this inclement geopolitical environment, conflicts between countries and regions more often take on a hybrid character. For instance, trade barriers and industrial policy measures are used to protect strategic sectors. Cyber attacks carried out by state actors have become the new normal. There has also been a growing number of financial sanctions imposed, in particular by Western governments, on other countries. Access to international financial infrastructure and financial services is increasingly used to exert pressure in what is known as the weaponisation of finance.

Geopolitical developments impact financial institutions and the macroeconomic environment in which they operate through various channels. For instance, geopolitical risks involve high uncertainty, increasing the likelihood of new, unexpected shocks. Institutions are affected through their exposures to firms prone to disruptions in global supply chains and through investments in potentially vulnerable jurisdictions. Furthermore, they may also face deliberate digital or physical disruptions to their own business processes or to those of critical suppliers, or be hit by sanctions. Geopolitical tensions therefore potentially expose financial institutions to a variety of risks, such as inflation, credit, market, liquidity and operational risks.

Financial institutions would be well-advised to embed geopolitical risks fully in their risk management, as geopolitical developments can affect institutions through diverse and potentially mutually reinforcing channels. This requires being alert and anticipating how geopolitical risks may give rise to financial and non-financial risks. Geopolitical risks will be an important focus area in supervision in the years ahead, and we will challenge institutions on how they identify and manage them.

13 See: Resilience in turbulent times.

To bolster resilience, not only must financial institutions and the wider business community take action, but European and public-private collaboration must also be close. Financial institutions, like other businesses, must put their risk management in order and take preventive and mitigating measures to safeguard the continuity of their services. In addition, to increase the resilience of society as a whole, public and private parties must closely cooperate. For instance, sharing of information on developments widely and in good time helps put cyber threats in sharper focus. Lastly, the inclement geopolitical climate calls for close European cooperation. For example, a harmonised sanctions policy helps safeguard a more level playing field between institutions and facilitates sanctions compliance by institutions operating in multiple Member States.

The impact which technological innovation has on the financial sector requires the sector to be innovative and agile

Ambition

- An innovative and agile financial sector that responds to the changing environment, fully leverages the opportunities of technological developments and adequately manages risks, in part through the full, consistent and timely implementation of the AI Regulation, the Markets in Crypto-Assets Regulation, and, if passed, the Financial Data Access Regulation.

Innovation is essential to maintaining a healthy market economy. Only by innovating constantly can the financial sector continue to meet customer demands. Technological developments can have a sudden, major impact on the way institutions work or provide services to customers.

DNB will accommodate innovation in the financial sector, within the limits of the law and with a keen eye for the risks that may arise. In doing so, it is important to strike a balance between providing room for innovation (accommodating) on the one hand and mitigating potential risks (protecting) on the other. Striking the right balance is gaining importance as new innovative parties access the market and new regulations are developed to provide legal frameworks for technological developments. We act transparently and consistently in our supervision to ensure a level playing field. To this end, we weigh potential risks to sound and ethical operational management, financial soundness and stability against potential benefits in terms of, for example, the quality or accessibility of financial services, the sustainability of the financial system and the sector's competitive strength. We do not provide a regulatory sandbox in which rules and regulations are temporarily suspended, as the law does not give us any options to do so.

It is important for institutions to be mindful of their agility. The financial landscape is in constant flux, and is subject to a range of factors, often external. Insufficient agility can adversely affect a financial institution's soundness and continuity of service. This requires of institutions that they monitor the impact of the changing competitive landscape, the sustainability of their business model, and the management of risks in the outsourcing chain. Sufficient knowledge of digitalisation must be safeguarded in the various governance layers, as well as knowledge of the impact which digitalisation has on traditional prudential risks such as liquidity risk.

We keep on the lookout for developments in distributed ledger technology (DLT). DLT records transactions in a decentralised and transparent manner. It provides an important basis for innovations such as crypto assets and other forms of tokenisation, the Metaverse, decentralised finance and Web 3.0. In the traditional financial sectors adoption of DLT is still limited, but it may get a boost from the statutory framework created by the Markets in Crypto-Assets Regulation (MiCAR). MiCAR makes providers of crypto assets (digital values stored using DLT) and related services subject to financial supervision. Asset-related tokens and e-money tokens, also referred to as stablecoins, will come under our prudential supervision. Given the inherently cross-border nature of crypto assets, we will, in our supervision under MiCAR, work closely with the European Banking Authority (EBA) and national regulators in other European countries, thus promoting a level playing field.

We respond to the challenges posed by the advance of AI in the financial sector.[14] Although it provides substantial opportunities, AI also presents risks. On the one hand, it can make for better customer service and more personalised products, and offer institutions opportunities to increase their revenue and cut costs. Conversely, there are risks, including in the areas of data quality, data protection, explainability, incorrect results, discrimination and exclusion. Also, a high(er) degree of dependence on third parties can give rise to concentration risks and systemic risks. We will monitor the responsible use of AI by the sector. As things currently stand, DNB will assume the role of market surveillance authority under the AI Regulation jointly with the AFM, where AI applications related to financial services are concerned.

Open finance can have a beneficial impact on financial inclusion. To promote this, we encourage innovation and safeguard a level playing field. Open finance allows customers to benefit from better financial services if they share their financial customer data with other institutions. Risks such as privacy and security risks must be mitigated. The European Commission's Financial Data Access Regulation (FIDA) legislative proposal creates the possibility for EU citizens and legal entities to share their financial data with third parties upon consent. This allows consumers, for example, to benefit from comprehensive services to gain greater financial insight. This does require that the services provided are reliable and that access to institutions' data is legitimate.

14 See AFM and DNB – The impact of AI on the financial sector and supervision.

Increasing threats demand a sharper focus on cyber resilience from the financial sector

Ambition

- The digital financial landscape has become more secure because the financial sector and its entire chain of ICT service providers have boosted their resilience to cyber threats and their recovery capabilities, in part through the full, consistent and timely implementation of DORA.

With ongoing digitalisation, longer outsourcing chains, interconnectedness and a more complex threat landscape, financial institutions are more exposed to cyber risks than ever before. Important cyber risks for financial institutions include ransomware, system downtime and unauthorised access to systems through attacks on ICT service providers, advanced phishing techniques involving AI and the use of insiders by criminals and state actors. These risks keep changing: cyber criminals are developing new strategies, constantly looking for the weakest link in defence systems.

We will further intensify our focus on cyber resilience of financial institutions. For over a decade, we have had teams of experts supervising cyber risk management in the financial sector. We monitor the measures taken by institutions and promote knowledge sharing. It is important that institutions test their resilience to advanced cyber attacks and that they conduct cyber crisis drills.[15] Doing so will help identify strengths and weaknesses in defence systems and help them learn how processes can be quickly recovered following an attack. Over the next few years, we will devote due attention to compliance with the Digital Operational Resilience Act (DORA). DORA imposes binding rules to increase the financial sector's cyber resilience. Among other things, it requires financial institutions to report ICT-related incidents and keep records of outsourcing to ICT service providers. This creates a better understanding of (concentration) risks associated with ICT service providers and allows these risks to be managed more effectively and efficiently. We will also contribute to the European oversight of the largest ICT service providers to the financial sector. The oversight addresses systemic risks arising from the financial sector's exposure to a limited number of critical ICT service providers.

In the case of outsourcing, institutions remain responsible for risks and compliance with laws and regulations throughout the chain. Outsourcing risks have increased in recent years due, for example, to the high concentration of contracts with a limited number of third-party ICT service providers. As a result, issues affecting a single ICT service provider can manifest themselves widely in the financial sector with potential implications for financial stability. While the use of cloud services in the financial sector has grown significantly worldwide, for example, the market is largely dominated by three major cloud service providers. We also see a concentration of outsourcing to just a few AI application providers. As a result, potential flaws, (continuity) problems or inaccuracies in the models of these providers may impact many institutions simultaneously. It is important for the financial sector to manage its dependency risks. Too often, institutions still have no way of quickly switching to another supplier if the continuity of an existing supplier is no longer satisfactory. This is all the more true if external suppliers are used in core processes.

15 For example, by conducting Threat-Led Penetration Tests or the related TIBER-EU framework.

Going forward, quantum computing may affect the security of financial services. The areas in which quantum computing can be applied are as yet uncertain, and so is its potential impact. We will monitor developments in the coming years, keeping an eye on the probability of a disruptive impact from these very powerful computers. Quantum computing can be expected to impact the confidentiality of customer data, the continuity of vital systems and the security of payment systems. We also expect institutions to closely monitor developments and take action where necessary to further secure their systems and processes, including the transition to post-quantum encryption standards.

Box 2 Transitioning to the new pension system

On 1 July 2023, the Future of Pensions Act *(Wet toekomst pensioenen – Wtp)* entered into effect. This marked the start of the largest financial operation in the history of the Dutch pension system, as pension entitlements potentially worth up to €1.5 trillion will be converted to a new regime. This reform is intended to prepare the pension system for the future by better reflecting developments in society and the labour market. Over the past few years, we have paid considerable attention to the *Wtp* and will continue to do so in the years ahead.

The transition is now in full swing and it affects all core processes, demanding a lot from the pension sector. We aim for a smooth, controlled and balanced transition to the new regime. To this end, we are in frequent contact with the sector, and we also provide relevant information in a variety of ways, including through seminars and newsletters and by releasing publications such as Q&As and factsheets.

The transition also demands a lot from DNB – we expect to have to assess around 145 conversion notifications. The target conversion dates of many pension funds has since been pushed back, with a limited number of funds and circles still opting to convert in 2025. Most of the converting pension funds or circles expect to convert in 2026, with a smaller proportion opting to do so 2027 or 2028. In anticipation of this we have recruited additional staff and will work in specialised teams to conduct the conversion assessments carefully and in a timely fashion. We are committed, in close contact with the sector, to making the transition as smooth and controlled as possible.

Embedding themes in regular supervision

Embedding themes in regular supervision

In recent years, we exercised a sharper focus on several themes as part of our supervision. Meanwhile, these themes have entered a more stable phase, and we embed them in our regular supervision. We will discuss these themes and ambitions below.

Financial crime is tackled more efficiently and effectively

Ambitions

- Financial institutions have adopted a risk-based approach to countering money laundering and terrorist financing, addressing high risks, not unduly burdening low-risk customers and ensuring access to the financial system for all groups of citizens in society.
- Both domestically and in the European context, we contribute to effectively countering financial crime through our risk-based and innovative supervisory approach.

Financial institutions have significantly stepped up their efforts to combat money laundering and terrorist financing. Integrity is a prerequisite for a sound and reliable financial system. This also means financial institutions are expected to contribute to preventing and combating financial crime. Over the past period, many financial institutions have tightened their policies and measures for the prevention of money laundering and terrorist financing. While important steps have been taken, we also see that several institutions still have a way to go before they adequately fulfil their gatekeeper role.

The path towards a more risk-based – and therefore more efficient and effective – fight against financial crime has begun. Both DNB and the sector have made further progress in countering financial crime, in part as a follow-up to our report 'From recovery to balance'[16] and assessments by the Financial Action Task Force (FATF)[17] and the European Banking Authority (EBA). The focus has been in particular on how the financial sector could better fulfil its risk-based obligations in preventing and combating financial crime. To this end, we have published the Q&As and Good Practices on the *Wwft*.[18] The banking sector has fleshed out its risk-based application of the Anti-Money Laundering and Anti-Terrorist Financing Act (*Wet ter voorkoming van witwassen en financieren van terrorisme – Wwft)* in the form of NVB Baselines.[19]

We expect institutions to base the fulfilment of their gatekeeper role on rigorous risk analysis. An institution must verifiably match customer due diligence to the risk of money laundering or terrorist financing of every type of customer, business relationship, product or transaction. Where risks are high, more scrutiny is needed, where risks are low, less. A truly risk-based approach ensures that institutions have the capacity to undertake further investigation where the risks are higher and take additional measures, without always necessarily parting with a customer or rejecting customers. This can prevent customers from being unnecessarily hindered from accessing banking services and the financial system. A more risk-based

16 From recovery to balance.
17 Mutual evaluation report The Netherlands (FATF).
18 DNB *Wwft* Q&As and Good Practices. These replace the old Guideline on the Wwft and the Sanctions Act.
19 A more risk-based customer due diligence (NVB).

approach also means that institutions do less where they can, such as requiring less extensive data from individual customers whose risk is low. We encourage financial institutions to use digital innovations to support their risk assessment.

We expect institutions to conduct customer due diligence while protecting confidential (personal) data and ensuring access to the financial system for all. Adequate protection of the privacy and security of personal data collected is an important safeguard in conducting customer due diligence properly. We are working with the Dutch Data Protection Authority to ensure financial institutions are aware of this and set up their examinations with the right safeguards. In addition, we are committed to a financial system that is not only accessible, but also inclusive: the system must work for all groups of citizens in society. Research shows that groups of citizens experience discrimination in their dealings with banks, most notably in the context of the customer due diligence and transaction analysis that banks must conduct under the *Wwft*.[20] Cases of discrimination have also been reported in the application of the Sanctions Act. It is important to ensure that the customer is not discriminated against or made to feel discriminated against when due diligence is carried out. Financial institutions can ensure this by taking appropriate measures in areas such as detection, training and policies.

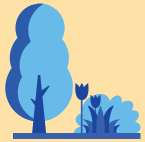
An important aspect of preventing and combating money laundering and terrorist financing is public-private collaboration involving the exchange of information and the sharing of knowledge and experience. We remain committed to this type of collaboration, contributing where we can be most effective under our mandate. All partners in the chain – market players, supervisory authorities, investigative authorities and legislators – can make the entire chain more effective by sharing their specific knowledge and experience. Furthermore, as we have previously pointed out, effectiveness may also be increased by obliging institutions to report transactions only when they qualify as "suspicious", rather than every time they are "unusual".[21]

In the European context, we are committed to a risk-based and innovative supervisory approach, and a more effective chain of supervision and detection. A new anti-money laundering framework has been set up in Europe, which will give the supervision of AML/CFT activities a stronger European focus. The new framework is expected to enter into force in 2027. Also, the new EU Authority for Anti-Money Laundering and Countering the Financing of Terrorism (AMLA) has been set up, and we will be closely involved in its work.

20 Brochure countering discrimination by banks in compliance with the *Wwft* (Dutch). See also: Discrimination by financial institutions is a common problem without targeted action: what goes wrong and what should be done? (Dutch).
21 See also: From recovery to balance.

Managing sustainability risks is embedded in financial institutions' processes and our regular supervision

Ambitions



- Financial institutions have achieved a mature level of sustainability risk management and report robust sustainability data.
- Sustainability risk management is fully embedded in our supervisory regulations and regular supervisory methodology.

Financial institutions have made progress in managing sustainability risks, in part on the basis of guidance provided by DNB and the ECB. Global societal and environmental challenges, such as climate change and the loss of biodiversity, have an impact on the Dutch financial and economic system, as well as on the Dutch financial sector. These challenges translate into risks for the financial system and for individual institutions. Such risks can arise from physical damage and losses caused by climate change and environmental degradation, but also from the transition processes through which the economy and society are going, such as the energy transition. While many institutions have already identified their climate and environmental risks, these often still need to be elaborated in terms of risk management. Action plans prepared by financial institutions contribute to risk management and provide insight into the impact which institutions have on their surroundings.[22] However, the strategies defined in the plans must be reflected in specific action, if only because non-compliance with voluntary action plans may give rise to increased legal, reputation and other prudential risks.

Sustainability risks are further embedded in specific laws and regulations. In recent years, the regulatory sustainability framework has been expanded and climate stress tests have been developed. Pursuant to new European rules, banks and insurance firms will need to prepare transition plans that set quantifiable targets. The financial assessment framework for pension funds explicitly makes management of risks in the investment portfolio that relate to environmental, social and governance issues (ESG factors) part of the requirements for sound operational management.

Financial institutions' sustainability reporting has also gradually become more mandatory. Indicators of ESG risks are part of the reports that we request from institutions in order to assess prudential risks. Many institutions must also comply with the European Sustainable Finance Disclosure Regulation (SFDR), and the Corporate Sustainability Reporting Directive (CSRD). They will need to make significant efforts to meet reporting requirements and provide robust sustainability data.
We fully integrate prudential climate and environmental risks into our regular supervisory methodology and will enforce compliance. We are embedding ESG factors in the assessment framework which we use for financial institutions. In the past few years, our efforts as a supervisory authority have mainly focused on driving improvement and encouraging the sector by providing guidance and good practices. In the coming years, however, we will increasingly monitor institutions' compliance with our expectations and their obligations. Where needed, we will enforce compliance with the new laws and regulations.

22 How do climate action plans contribute to the long term health of financial institutions.

Managing governance and behaviour effectively requires a sharp focus

Ambitions

- Financial institutions effectively manage their internal governance and behaviour to address root causes of serious problems, strengthen execution power and deal with the challenges posed by the current external environment.
- A focus on governance and behaviour is embedded in the supervisory process, including in other risk areas.

Today's challenging external environment requires good governance that fosters institutions' capacity for change and agility. Institutions face new laws and regulations, geopolitical tensions, ongoing digitalisation, cyber threats and the climate transition, among other things. Anticipating these developments and adapting themselves and the organisation in an effective and lasting manner demands a lot of their executives, and of their leadership. In addition to these general trends, the pension sector is facing the biggest change ever (see Box 2: Transitioning to the new pension system). The transition to the new pension system requires a balanced consideration of interests among all members of a pension scheme. Making that carefully balanced decision properly requires well-functioning governance in which the interests of all pensioners are represented.

A focus on governance and behaviour is an integral part of our supervisory approach. Governance is not just about how an organisation is set up, but rather how it functions in practice, which is reflected in actual behaviour. Serious problems at financial institutions often have governance and behavioural issues as one of their root causes. This is why, as part of our supervision, we devote attention to the relationship between governance and behaviour on the one hand, and persistent findings in other areas of supervision on the other. To address issues effectively, institutions need not only acumen and clout at the board level, but they must also analyse and act on the root causes to resolve findings in other areas, such as internal models, data quality and integrity, on a lasting basis. By conducting fit and proper assessments of board members and through other means we ask institutions to be aware of the impact which governance and behaviour has an institution's actions. We also apply behavioural insights in the mitigation phase, which is partly about influencing and changing behaviour. Our supervisors are equipped to recognise and interpret signals of underlying governance and behaviour issues and follow up on them effectively if necessary.

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