

The Importance of Banks for Customers and Society



INSIGHT INTO BANKS

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Foreword

BANKS AS STRONG PARTNERS FOR SOCIETY

Banks play a crucial role in society. Almost everything people buy, earn, spend and invest involves a bank. Customers have full confidence that banks are handling their money correctly within a secure environment. At the same time, there are many societal issues that need to be solved, and banks can, should and want to be part of this solution.

— **This brochure is primarily an invitation to dialogue.**

This brochure discusses how a bank works, the role of banks in the economy, the issues dealt with by banks, and how they relate to societal challenges. Banks form a bridge between societal challenges and the real economy. They are necessary for supporting the economy. Banks play a dual role, acting as both a commercial actor and a partner for society. And this is not always easy. To achieve this, we need strong banks, which calls for prudent deliberations by the banks themselves as well as by politicians. This, in turn, requires a sound policy vision for the future of the financial sector and the Belgian economy.

This brochure is primarily an invitation to dialogue since, despite the important economic and societal role of banks, the general public is often unaware of how banks really work. Therefore, the purpose of this brochure is to offer greater insights, create more transparency and show everyone what we do and what drives us. We are always open to dialogue, and as an important partner for citizens, businesses and government, we want to ensure that we are ready to address societal challenges.

The economic, geopolitical and technological environment has changed rapidly in recent years. We are living in a period characterised by higher inflation, limited economic growth, increased digitisation, climate transition, an ageing population, geopolitical uncertainty and a significant reshaping of the energy landscape. Several challenges await us in the coming years. Challenges that the financial sector, together with other partners, wants to face head-on to secure the future for coming generations.



Karel Baert,
CEO Febelfin



Michael Anseeuw,
President Febelfin

Brief introduction: we represent the financial sector in Belgium

WHO ARE WE?

Let us start by introducing ourselves. We are Febelfin. As a sector federation, we serve as the voice of the financial sector and represent our members in their dealings with policymakers, regulators, professional federations and interest groups. We represent a very large sector. The Belgian banking sector employs 52,000 people (including the employees of independent banking agents), representing 1.1% of total employment in Belgium.

— We want to create a positive impact on the economy and society.

Febelfin has a wide variety of members, from banks to credit providers, asset managers and funds, listed companies, stockbrokers and leasing companies. With more than 245 members under its umbrella, it represents the vast majority of the financial sector in Belgium. Based on this extensive representation of the sector, we want to work with our members to create a positive impact on the economy and society.

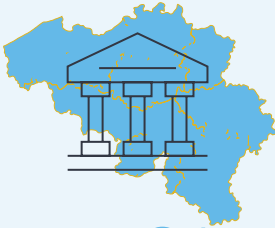
WHAT DO WE DO?

Febelfin represents the financial sector. In addition, Febelfin focuses on topics of great importance to society, whether this involves households, businesses or government. The future of society and the banking sector are inherently intertwined. The main goal is to enable saving and loans, facilitate investments and finance the economy. But it is also about the fight against financial crime, improving accessibility and increasing the level of digital and financial literacy. And, last but not least, banks have an important role to play in the transition to a sustainable society.

But what does all of this really mean? What are Febelfin's annual achievements and ongoing projects? You can read about this in the [annual report](#).



The Belgian banking sector in a few figures



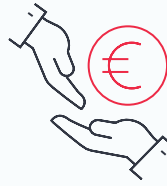
Belgium has **81** banking institutions ¹

In total, there are **3,243** bank branches ²

CORE ACTIVITIES

€ 292.2 billion

Credit to Belgian families



€ 175.1 billion

Credit to Belgian non-financial enterprises

€ 61.4 billion

Credit to the Belgian government (including securities except stocks)

(12/2023; on a territorial basis) ¹



A total of

52,000

people work in the banking sector ¹

3,120

people were recruited in 2022 ²



Excluding refinancing, more than 180,000 mortgage contracts were concluded in 2023, totalling almost

€ 30 billion ⁴



11.1%

return on equity ³



During the first half of 2023,

€ 5.2 billion

was granted in consumer loans ⁴

93.1%

of savings were converted into loans ¹

Around 265,000 business loan contracts were concluded in 2023, totalling almost

€ 56 billion ²



15.1 million

PC banking subscriptions ²



3.2 billion

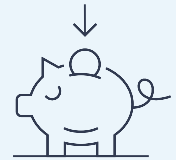
card payments in 2022 ⁶

of which **62.3%**

were contactless payments ⁷

€ 270 billion

in regulated savings passbooks ¹



12.9 million

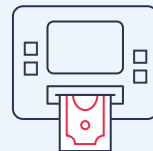
mobile banking subscriptions ²



In 2023, Belgians could access

4,055

bank ATMs ²



38 million

accounts (20 million current accounts and 17,8 million regulated saving accounts)

75%

of fraudulent transfers due to phishing were detected and/or recovered



€ 1.6 billion

in taxes and contributions (corporation tax and all other kinds of taxes (including local), VAT and contributions (including social security, DGS, SRF) ²

Fight against money laundering:

79,211

reports to the CTIF-CFI in 2023

Some key features of the Belgian financial sector

Belgium is characterised by a very **diverse banking landscape**. The sector is highly varied and heterogeneous, where some institutions offer a wide range of financial products and services for all possible customer segments while others prefer to specialise. Some institutions concentrate on traditional savings and payments for households or target a specific group of customers, such as persons in liberal and intellectual professions and SMEs or limit themselves to a niche activity such as private banking.



The Belgian banking sector contributes **significantly to the added value of the Belgian economy**. With a share of about 4.3% in the added value for a share in total employment of 1.1%, the financial sector is one of the most productive sectors in our country.



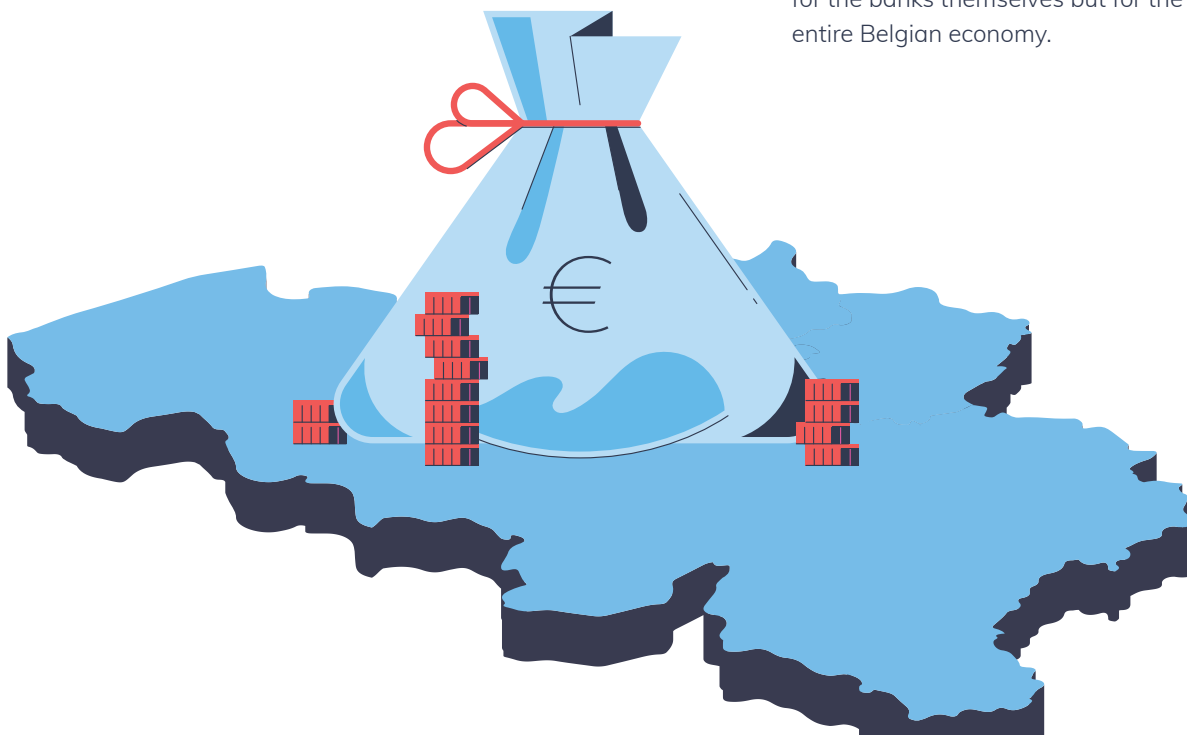
The sector is a strong **innovator**. In the 1970s and 1980s, thanks to extensive interbank cooperation, the sector was the European leader in digital payments (examples of this include the introduction of the structured payment reference, Bancontact, Euroclear, SWIFT, etc.). Over the past decade, the Belgian financial sector has successfully embraced the digital evolution. In the course of a few years, online and mobile banking have become indispensable. Moreover, Belgian banks are world leaders as far as the development of banking apps is concerned.



The Belgian banking landscape has a very international character. Of the 81 banks in Belgium, only 15 have a majority Belgian shareholding. This gives **the sector an internationalisation rate of 80%**. At the European level, this is only surpassed in Luxembourg (93%). Moreover, Belgium is home to certain major European and international players, such as **Euroclear, BNY Mellon and SWIFT**.



The sector is **very reliable** with strong solvency and high liquidity. It is crucial that this reliability is maintained in the future, not just for the banks themselves but for the sake of the entire Belgian economy.



Insights from various stakeholders about the importance of the financial sector

“

The Belgian financial sector demonstrated its **outstanding resilience** during the pandemic, the severe floods in the summer of 2021 and the period of sharply rising energy prices in 2022. This resilience also enabled the sector to provide solutions to severely affected customers where necessary. This was achieved thanks to the solid financial position and accumulated reserves.”

— National Bank of Belgium ¹

“

Financial literacy is essential for young people. In school, we don't always learn about it enough. The more financially informed a person is, the more problems they can avoid.”

— Alexia Bertrand - Secretary of State for Consumer Protection ³

“

Major societal transformations such as the **digital evolution** and **sustainable transition** driven by customers (households and companies) are supported by banks. Without them, this would not be possible.”

— Etienne De Callatay - economist ²

“

Digitalisation is now part of our daily lives, especially when it comes to the use of banking services. Unfortunately, we have to recognise that these applications are a problem for many people in our society. Initiatives such as “J'adopte la banque numérique/lk bankier digitaal” will make it possible to familiarise many people with a wide range of banking transactions, but also make them aware of online fraud. It is a collaboration that I support and which I believe is essential.”

— Willy Borsus, Minister responsible for Digitalisation from 2019 to 2024

¹ Annual Report National Bank of Belgium, p. 219

² Interview of Etienne de Callatay by journalist Sébastien Buron for Trends 23/10/2023

³ Quote of Alexia Bertrand, Secretary of State for Consumer Protection in Sudinfo 26/03/2024



How do banks operate?

The operation of the financial sector is actually quite easy to explain but people are often unaware of how banks operate and the role they play in society.

We would like to take a moment to show how banks work, what they do and how they help build society and tomorrow's world together with their customers.

— As customers save (with their banks), beautiful dreams and projects are achieved for other customers.

It is important to realise that savings don't just lie there in a bank vault. On the contrary, as customers save (with their banks), beautiful dreams and projects are achieved for other customers who take out loans from their banks.

Besides offering **savings opportunities and loans**, a bank also offers products for **making investments**. The bank extends help as a mediator or adviser, for example, in building wealth or selling a company. They also think about tomorrow and provide opportunities for **retirement savings and sustainable investments**. In addition, banks play a

crucial role in the **flow of payments**. This includes all the transactions required to pay for products and services. Banks make it possible for customers to transfer money to a merchant quickly, efficiently and securely.

Banks are **strictly controlled** by the government. They are supervised by the European Central Bank, the National Bank of Belgium (NBB), the Belgian Financial Services and Markets Authority (FSMA) and FPS Economy. Together we are working to create a safe and stable financial sector. A robust and reliable financial sector is necessary for the growth of the Belgian economy and the preservation of our wealth.



OUR CORE BUSINESS: FINANCING THE ECONOMY

TRANSFORMATIVE ROLE

Banks fulfil a number of important functions. One of its tasks is to bring together the supply and demand of money. You can think of a bank as an intermediary. On the one hand, there are people (and companies) who have money to spare. They want to set that money aside safely for later or get more returns from it: in other words, save or invest. On the other hand, there are people who need money. They want money now, which they will pay back later: in other words, borrow money.

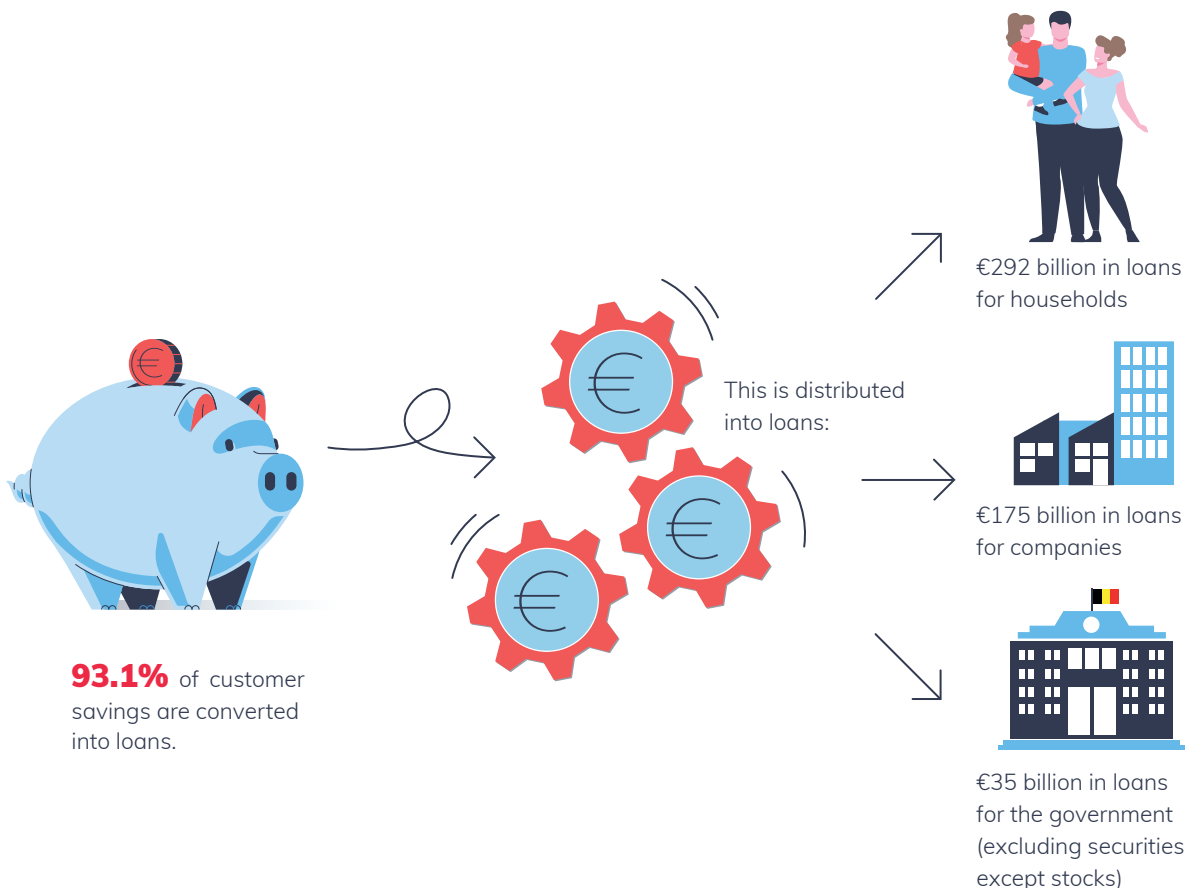
Funds from savings are used to keep the economy going, because banks convert the funds from all savers and investors into loans to households, companies and public bodies. This keeps the money circulating in the economy. For example, at the end of 2023, about 93.1% of savings were converted into loans for households, businesses and public bodies. So, savings in a bank are definitely not just lying there doing nothing.

On the contrary, by the end of 2023, Belgian banks had transformed savings of €655.9 billion into **€610.9 billion in loans** (on a territorial basis).

— Savings are used to keep the Belgian economy going

The bank forms a bridge between these different needs. It ensures that people who have money to spare can save and that people who need money can borrow. We call this the **transformative role of a bank**.

- €292.2 billion in home loans for households
- €175.1 billion in loans for companies
- €35.2 billion in loans for the government (excluding securities except stocks)
- €108.4 billion to other parties (foreign countries, other financial institutions and insurers)



93.1% of customer savings are converted into loans.

CONSUMER CREDIT

Furthermore, consumer credit made available by banks and credit institutions should not be forgotten. In 2023, a total of €26 billion was granted in consumer credit.

In this way, demand deposits are converted into long-term loans. Any associated risks, such as credit risk, are actively managed by the bank and also remain the bank's responsibility. This makes it possible to offer credit tailored to customers while protecting savers. **Hence, all long-term mortgage loans for households, liquidity lines or investment credit for SMEs and larger companies are only possible thanks to the savings of ordinary savers.**

This transformative role stimulates the economy and adds value to society by actively bringing money into the economy. Moreover, it allows financial institutions to use their leverage to give the economy a strong boost. With €100 of additional capital, banks can give out more than €2,000 in additional loans.



THE REVENUE MODEL OF BANKS

Banks are complex organisations and their profits come from various activities.

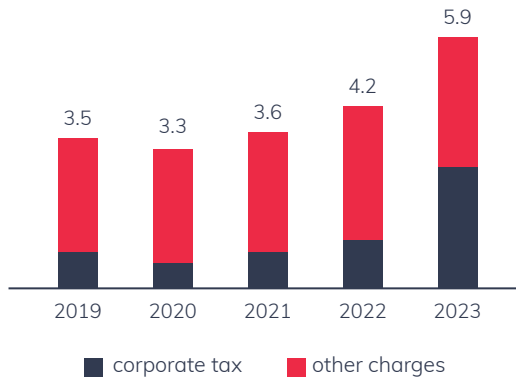
When banks lend money, they charge a fee for it in the form of interest. Customers who place money with a bank receive interest on savings. The difference between the interest rate charged by a bank and the interest rate it provides is called the **interest margin**. The bank itself also incurs expenses, for instance, for IT systems and staff. These expenses help explain the difference between savings interest and loan rates.

Besides their core activities, banks also make money by offering specific services (e.g. providing investment advice), from participating interests they hold, and from proceeds from interbank receivables, i.e. interbank money market transactions.

Banks use these revenues to:

- Cover costs, such as for IT systems, personnel, security etc.
- Build necessary equity buffers to keep the banking system stable and safe.
- Hedge risks such as:
 - Credit risk: the risk that borrowers will be unable to repay their loans, e.g. in case of bankruptcy
 - Liquidity risk: the risk that savers may withdraw their money at any time
 - Interest rate risk: the risk that the interest rate paid by a bank becomes higher than the interest rate received by it
- Meet obligations, such as contributions to the Deposit Guarantee Scheme and the European Resolution Fund.
- Perform certain societal tasks, such as detecting financial fraud and reporting atypical transactions to the anti-money laundering cell.
- Pay taxes: ordinary corporate taxes and charges and specific banking levies.

Tax burden (in billion euro)



Banks pay different types of **taxes and contributions**, namely:

- Corporate tax
- Employers' social security contributions
- Property taxes (real estate tax, car park tax)
- Contribution to the Deposit Guarantee Scheme
- Contribution to the Single Resolution Fund
- Annual tax on credit institutions (bank tax)
- Non-deductible VAT
- Other regional and local taxes on ATMs, agencies, billboards, etc.

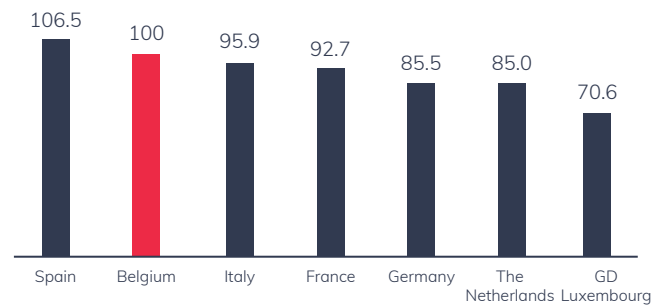
HIGH TAX AND PARAFISCAL BURDEN

The specific banking levies (contribution to the Deposit Guarantee Scheme, contribution to the Single Resolution Fund and the bank tax) are not based on the profitability of the sector but on the amount of **savings deposits** held by banks. A steady growth in regulated deposits therefore automatically increases the tax burden on institutions even if sector profits do not rise along with it.

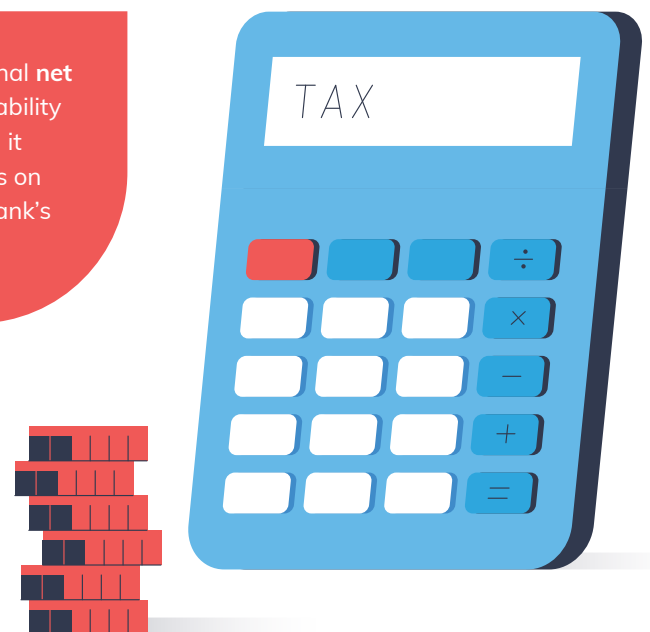
A KPMG study (2023) indicates that the Belgian banking sector has the second highest tax and parafiscal burden in Europe, after Spain.

Moreover, this second place is only due to a temporary windfall tax in Spain. Once this Spanish tax is withdrawn as planned, Belgium will take first place.

Tax and parafiscal burden expressed as an index



Naturally, this has a significant impact on the final **net profits** of Belgian banks and therefore on their ability to support the Belgian economy. In this context, it is important to realise that any increase in taxes on banks has an immediate negative effect on a bank's ability to support the economy.



HEALTHY AND PROFITABLE BANKS: GOOD FOR EVERYONE

WHAT HAPPENS WITH THE PROFITS?

The profitability of banks is sometimes the subject of intense discussions. Are profits too low, too high, healthy or unhealthy? Banks perform essential functions for society and it cannot be denied that banks are, first and foremost, **companies** that need to make a healthy profit to ensure their continuity.

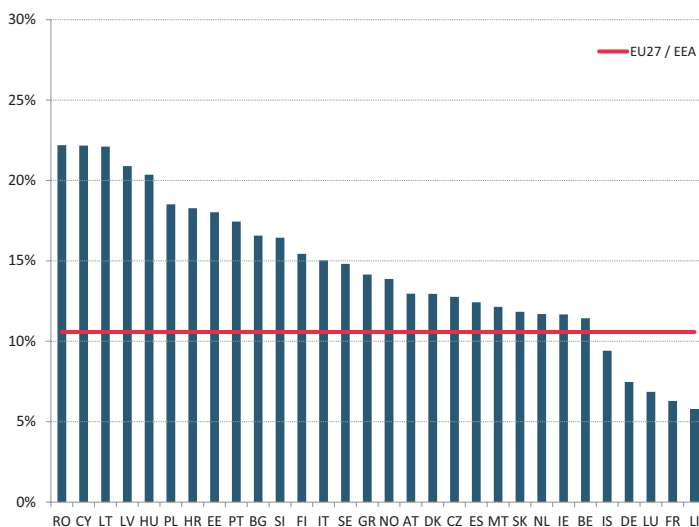
So it is important to understand that a profitable banking sector is a good thing. Only when banks are healthy and profitable can they assume their role in the economy and society, to properly protect homeowners with home loans, support the transition to a sustainable future, and step in during adverse times or a real crisis.



Healthy profits ensure that, even after paying costs and taxes, banks have enough left over to invest in innovation and maintain their competitiveness within Europe. It is essential to have strong and locally anchored banks in Belgium that can serve the Belgian economy, particularly in times of crisis and major transitions."

Karel Baert, CEO Febelfin

Country dispersion (as of March 2024)



Weighted averages by country

BENCHMARK

The net profit of Belgian banks is considered "average" and therefore not at all excessive. In its recent Financial Stability Report (published on 16 May 2024), the **National Bank of Belgium** (NBB) stated: "With a bottom line of €9.3 billion, a return on assets of 0.8% and a return on equity of 12.5%, the Belgian banking sector posted very good, albeit not excessive, profits in 2023.... This level of profitability was sufficient to allow a return on equity in line with market expectations."

This is also the case at the **European level**. Within the European Banking Union, Belgian banks score average. According to the European Banking Authority's (EBA) Risk Dashboard for the first quarter of 2024, Belgian banks have the sixth lowest return on equity.

RELIABLE BANKS AND BUFFERS

By generating profits, banks build a solid capital base. This is needed for **hedging** the **risks** inherent in banking operations, and therefore for building and maintaining **confidence** in banks. Slightly less than half of profits are spent on this (i.e. reinvesting in its own operations and building buffers for contingencies). To protect customers' assets, banks must be robust and be able to absorb losses and for this, they need to maintain buffers. The actual amount is determined based on **international agreements**.

With a **solvency ratio** of over 17.7% and a **liquidity ratio** of 160.5%, our banks are equipped to withstand even the most **severe economic shocks**. These figures not only exceed regulatory requirements but also position Belgium globally as a **model of financial stability**. While the American banking sector was shaken up in the spring of 2023 by the failures of Silicon Valley Bank and First Republic, Belgian banks were never under any pressure.

The NBB's Financial Stability Report recently referred to the strong and stable foundation of Belgian banks:

“The Belgian financial sector is one of the strongest in Europe, with substantial capital and liquidity reserves. It is therefore capable of absorbing potentially major shocks.”

A sufficient level of profitability also ensures that banks have adequate funds to engage in **R&D** activities. This has allowed them to become world leaders in the development of digital banking apps.

Finally, the profits can also be used to compensate **shareholders**. Especially now that bank valuations have been under significant pressure for a long time, it is important to compensate shareholders with dividends. After all, shareholders must remain willing to keep their capital invested in the banks. The shareholders within the sector are very diverse, ranging from large institutional investors to ordinary private investors and the government. For example, for the 2023 financial year, the government received €805 million in dividends from its participating interests in the banking sector.



Banks as crucial partners in society:

a summary of the key challenges

Banks play a crucial role in society. Banks make it possible for people to save, buy homes, do business and invest. They play an important role in the transition to a more sustainable society and the fight against financial crime, and they work towards building an inclusive society. Hence, banks perform a number of important functions, and in this process, they also face a number of challenges. What are these challenges, how do they relate to societal issues and what does the future look like?

THE HOUSING MARKET: PROVIDING CREDIT TO PRIVATE INDIVIDUALS

PROVIDING CREDIT TO HOUSEHOLDS: WHAT IS THE ROLE OF BANKS?

The strong partnership between Belgian banks and Belgian society expresses itself primarily through the provision of loans such as **consumer and mortgage loans**. For households, the most concrete example is home loans. Even in 2023, a year with a low number of new mortgage loans, more than 180,000 new home loans were granted for a total value of almost €30 billion. In November 2023, the total outstanding amount of home loans at Belgian financial institutions was €291.7 billion. For consumer loans (e.g. for purchasing a car), this was around €26 billion.

A characteristic of the Belgian market is the large number of loans with **fixed interest rates over longer maturities**. This approach is unique in Europe and it gives Belgian homeowners an important form of financial security as well as ensures **unprecedented protection of purchasing power**. For the past decade, interest rates have been at very low levels. This has allowed Belgian banks to offer home loans at extremely **low interest rates**. Given that home loans in our country have an average term of 20 years, borrowers enjoy these low interest rates for a long time even if interest rates increase later.



180,000

new home loans were granted in 2023.



Owners with a home loan at a **variable interest rate** also enjoy significant protection in our country since this variable rate can at most double.

Contribution to a stable housing market

These characteristics contribute to the **stability of our housing market** and the home loan **arrears rate** is historically low (0.64%; NBB figures). Moreover, they prevent financial turmoil and instability in case of interest rate increases and spare Belgian borrowers social dramas, unlike what sometimes happens in other countries such as the United Kingdom, Spain and Italy.

For example, in the UK, hundreds of thousands of households recently found themselves in financial difficulty due to the increase in the variable interest rate of their credit agreement, while in Belgium several billion euros worth of purchasing power was preserved in 2023 due to the protection offered by the fixed interest rate against interest rate increases.

Various options when interest rates fall

The borrower also has a number of **options** if **interest rates fall**:

- One option is to request the current lender for an **interest rate revision** (= internal refinancing). However, the lender in question may or may not respond to this request. Since the credit agreement has a fixed interest rate, the lending institution is not obliged to respond to such a request. Moreover, there are certain costs involved, such as administrative fees.
- Another option is to **repay** the loan **early** and take out a **new loan** with another lender (= external refinancing). There are also additional costs associated with this option (including notary fees, mortgage registration, administrative fees and a reinvestment fee).

Up until recently, lenders usually asked for a maximum of three months reinvestment fees as compensation for allowing internal refinancing. After all, lenders must secure long-term financing and protect themselves against the risks of interest rate reductions while being unable to

break their commitments. Between 2014 and 2022, a massive wave of refinancing occurred in Belgium, allowing the sector to preserve hundreds of millions of euros in purchasing power for consumers.

New legislation

The Federal Parliament approved a law this spring prohibiting lenders from charging this maximum of three months reinvestment fees in the case of internal refinancing. Febelfin does not think the introduction of this law is a good idea because it does not take into account the reality in the credit market, where lenders incur actual losses when interest rates are revised. The question then arises as to what extent lenders will still be inclined to revise fixed interest rates in the intervening period without a limited compensation being permitted for this.

Febelfin stresses that the adoption of this measure could have a major **negative impact** on our present stable Belgian housing market which is characterised by a unique form of protection for households.

WHAT ARE THE CHALLENGES FACED BY BANKS?

The continued and steady increase in the price of houses and apartments is also a major challenge for banks. As a result of this, the dream of having a home of one's own is in danger of becoming unaffordable for many, especially young, first-time buyers. This has prompted banks to look for an **adapted product offering**, with loans at longer maturities, but this must be done **based on proper risk management** and with respect for **prudential supervision rules** that take into account the repayment capacity of borrowers. Moreover, this trend toward loans with longer maturities further underscores the importance of continuing to offer fixed interest rates: **since a 30-year variable-rate loan carries too much risk for borrowers.**

The **climate transition** also requires massive **investments** to increase the energy efficiency of our homes. An estimate made by Febelfin shows that 20% to 25% of our citizens will probably never be able to afford this investment. It will

be a major **challenge** for the government, in cooperation with the banking sector, to develop financing systems that do not leave this group of citizens out in the cold.

HOW DO WE SEE THE FUTURE?

For banks, providing home loans involves taking on long-term risks, where there is a possibility of default during the average 20-year term and a bank needs to hedge against interest rate risk. A bank must be able to adequately handle these risks. In Belgium, we have one of the healthiest housing markets in Europe with a particularly low number of payment defaults. We are fortunate to have this since no one benefits from a credit one cannot repay. It is our **goal to maintain this healthy mortgage loan market in the future as well.**

RESILIENCE IN TIMES OF CRISIS

The close connection between banks and the society wherein they operate is evident even during **periods of severe crisis**. During the COVID-19 crisis, when temporary unemployment peaked during a period of great uncertainty, banks took on their **responsibility** and extended a helping hand to citizens who were working in hard-hit industries and businesses and who had mortgage loans. They granted these citizens **payment deferrals** totalling more than €13 billion. A similar solution was developed for citizens with a consumer loan.

Belgian banks also allowed a payment break during the energy crisis. Until the end of April 2023, 12,000 payment deferrals were granted for an average of €470 per month. This enabled households to pay for the higher energy bills and more expensive groceries during this period. In addition, to prevent companies from undergoing financial difficulties due to the high energy prices, Belgian banks also developed tailored solutions for them.

All of this was only possible because of the **healthy profitability** of our Belgian banks.



CORPORATE LENDING

WHAT IS THE ROLE OF BANKS?

The loans granted by Belgian banks to our companies also strongly demonstrate their commitment to society. At the end of 2023, the total amount of loans issued amounted to just over €175 billion.

These loans allow our companies - from the baker around the corner to a large multinational - to **invest and innovate**. As a result of this, our economy grows, our **prosperity** increases, and solutions to present and future problems become available to all.



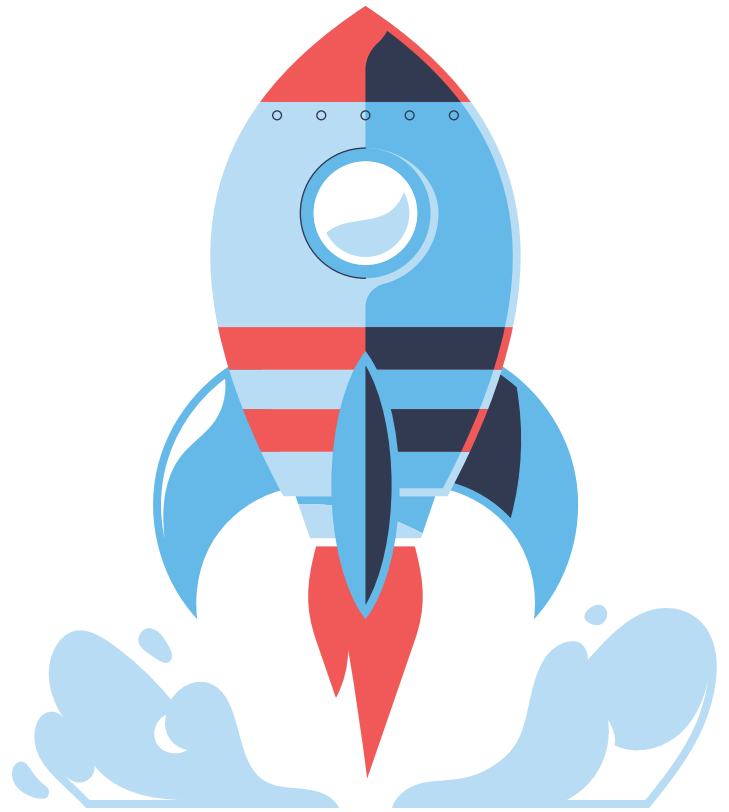
€175 billion

in loans granted to companies at the end of 2023.

WHAT ARE THE CHALLENGES FACED BY BANKS?

In principle, financing is available for any good business plan. However, it is important to carefully check each application for **feasibility**. Every loan granted must be repayable. A start-up company or small SME in a challenging sector is more likely to struggle to obtain financing. In their case, there is a greater risk that a loan cannot be repaid. This also applies to companies with few physical assets. In addition to banks, non-bank financiers can also play a role here.

The **climate crisis brings this issue into sharp focus**. To achieve a carbon-neutral society, new production technologies will have to be developed. But it is impossible to know in advance which business plans will succeed and prove viable.



HOW DO WE SEE THE FUTURE?

Businesses are the main drivers of the economy, both now and in the future. It is important that companies receive support for the challenges they are facing, especially in terms of access to financing.

It is for this reason that, in May 2024, Febelfin signed a **Charter** in support of entrepreneurial financing: a concrete **commitment to further improve access to various sources of financing for entrepreneurs**. Through this, the banking sector commits to including **alternative forms of financing** in the training programmes for its advisers, who can then communicate this information to entrepreneurs. If the bank cannot extend credit to an entrepreneur or finance the entire amount requested but considers the project to be sound, the financial institution will encourage its advisers to suggest other available financing options to the entrepreneur.

By pursuing such an approach, more projects with added economic value can be implemented. This also encourages a collaborative and inclusive approach: the bank remains a partner throughout the entrepreneur's financial journey.

Febelfin has also taken initiatives in the past to support companies in their search for financing. The website financieringvanondernemingen.be (only in Dutch/French) was created for this purpose.

RESILIENCE IN TIMES OF CRISIS

The interconnectedness between banks and Belgian companies is also evident during more challenging times. During the COVID-19 crisis, the Belgian banks worked with the government to provide the necessary relief to Belgian companies so that they could get through this difficult period in the best possible way. These relief measures

were introduced in the form of **payment deferrals for business loans**. At one point, deferrals were granted for more than 140,000 loans with a total value of over €24 billion. This had a clear effect: the number of bankruptcies during that period was much lower than in more normal times. In this way, Belgian banks helped cushion the impact of this major economic shock.

The way Belgian banks intervened during the COVID-19 and energy crises was quite exceptional in Europe. This was thanks to the capital buffers built up by Belgian banks that allowed them to provide credit to companies, grant payment deferrals and offer assistance during major crisis situations.

MANAGING SAVINGS

WHAT IS THE ROLE OF BANKS?

Most Belgians maintain multiple current and savings accounts with Belgian banks. Protecting the savings of these citizens is an important task of Belgian banks. And subsequently, banks can use these savings to **provide financing to households, businesses and the government**.

At the end of 2023, there were funds amounting to €290 billion in current accounts, €269 billion in regulated savings accounts and €97 billion in time deposit accounts.

WHAT ARE THE CHALLENGES FACED BY BANKS?

There has been much discussion over the past year about the **level of interest rates on savings** offered by banks to their customers. But this issue is far more complicated than how it is sometimes perceived or portrayed. The amount of savings **interest** a bank can pay is largely determined by the interest the bank receives on its **outstanding credit and bond portfolio**. A long period of low interest rates also implies that, during that period, home loans were granted for years at particularly low interest rates as almost all borrowers opted for a fixed interest rate throughout the life of the loan. Therefore, this protection against interest rate hikes enjoyed by borrowers plays a key role in the interest rates that banks can offer on savings. For a bank, due to these **protective mechanisms, rising interest rates only affect new loans, while higher interest rates on savings accounts have an immediate impact**



on the total savings balance. This explains why when interest rates rise, interest rates on home loans increase faster than those on savings accounts and deposits, without resulting in much higher interest earnings for the banks on their core activities. This is what happened in 2023.

Transparency in the savings rates offered is of key importance. The government and Febelfin have signed a **protocol**, which entered into effect in January 2024, to make the offer of savings accounts more transparent. This limits the range of regulated savings accounts offered per bank, increasing transparency and the comparability of different types of accounts. Depositors can visit the standardised web page of their bank to compare the savings accounts offered. It is now also easier for them to **compare the savings**

accounts of different banks and choose the most attractive offer.

HOW DO WE SEE THE FUTURE?

Each bank has a different business model and must be able to make its own risk analysis and estimate what savings rate it can offer. This will remain an important principle in the future as well. **Any additional regulations imposed on the deposit market, such as the introduction of minimum interest rates, make it more difficult and expensive for banks to finance the Belgian economy.** Banks will always strive to provide the necessary transparency about the savings rates offered as well as do everything in their power to offer maximum protection for savings.

THE TRANSITION TO A MORE SUSTAINABLE SOCIETY

WHAT ROLE DO BANKS PLAY?

Among the numerous issues and challenges facing society today, one of the most important is sustainability. The financial sector contributes to the sustainability of our society in various ways and it holds a **key position as a facilitator in the climate transition.** Banks, as an important link in this transition, primarily play the role of **channelling financial resources to green projects and guiding citizens and companies** through this process.

In essence, banks play a dual role here. On the one hand, they provide **transparency about the sustainable nature of savings and investment products**, therefore allowing consumers to make a conscious and informed decision regarding their investments. This mobilises and directs capital toward investments that support the above-mentioned climate goals. For this, the financial



sector has developed the **Towards Sustainability label** that aims to familiarise consumers with the range of sustainable products available. With the Towards Sustainability label, the sector has created the most comprehensive and respected sustainability label in Europe. On the other hand, via an **innovative credit offering**, banks can assist and guide consumers and companies in carrying out energy-saving renovations or help companies make the shift towards sustainability with their business activities.



WHAT ARE THE CHALLENGES FACED BY BANKS?

Over the coming years, the transition to a more sustainable society will pose many **challenges**.

To meet climate targets, Belgium's existing and ageing housing stock will require energy-efficient renovations on a massive scale. As a result, private individuals, businesses and the government will need to invest heavily in the energy transition. Yet not everyone has the resources to fund this energy expenditure.

Credit provision will, therefore, be crucial for making the climate transition successful, through the development of specific and tailored credit formulas for households, in dialogue with the government. The financial sector estimates that at least €400 billion will be needed to make Belgium's private housing stock fossil fuel free



€400 billion

will be needed to make Belgium's private housing stock fossil fuel free by 2050.



by 2050. So **this will require a huge amount of resources**. Febelfin's analysis shows that 20% to 25% of households neither have sufficient capital of their own and nor do they have a sufficient repayment capacity to take out a loan for the necessary renovations. **We are proactively seeking solutions for this, and a dialogue and partnership with the government is urgently needed.**

It will also be necessary to create sufficient **awareness** regarding the urgency of starting the necessary **renovation works** now in order to achieve the 2050 objectives. This will make this objective more practically feasible by spreading it out over time. A massive wave of renovation within 10 or 15 years will only result in a scarcity of building materials (and therefore higher prices), manpower and financing. The only way to improve the energy performance of our housing stock is to take action now and proceed gradually towards the end goal.

Climate change and the transition to a low-carbon economy also have more **indirect implications** for banks. Exposure to sectors or companies that are directly or indirectly susceptible to the physical impacts of the climate transition could pose **increased risks to credit and investment portfolios**. If global warming affects the economy, banks should factor this into their risk assessment and lending strategy. To assess these new risks, banks need **data concerning the sustainable nature of their customers' activities**. Febelfin, together with other entities, is examining how these data can be collected in an efficient and customer-friendly way. In addition, Febelfin is also trying to raise awareness among companies about the future importance of sustainability reporting.

Banks are often asked to make tougher choices, such as immediately stopping the financing of fossil fuels. But this kind of drastic decision has a major impact on society and can lead to an energy shortage. Clear and **consistent public policy** is essential. It is crucial that the government sets ambitious goals and is crystal clear about the long-term transition path. Which companies and products will have a place in the future economy? Every sector needs a transition path that actively manages carbon emissions. Once this path is determined, banks can sit down with each company and decide on the financing the company needs to successfully navigate this transition path.

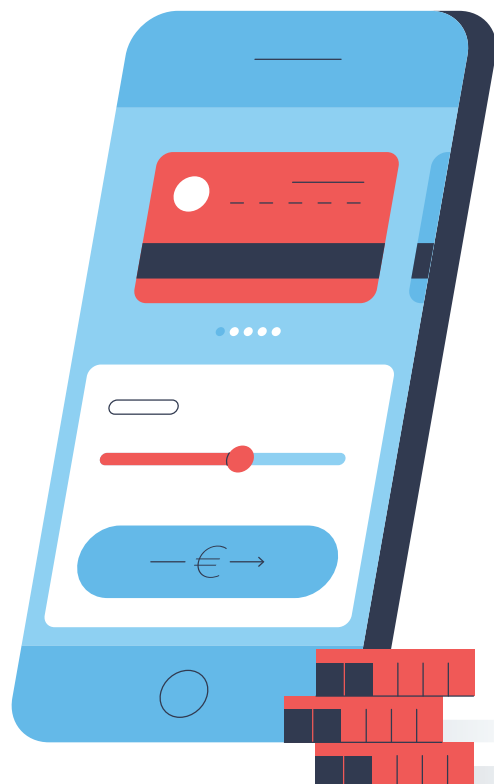
HOW DO WE SEE THE FUTURE?

It will be important to work together as partners to address sustainability challenges. Every party has a role to play in the transition to sustainability. Banks, companies, households and governments will bear a significant, **shared responsibility** in the future. Only by working together can we keep the economy running, secure our future prosperity and protect our planet for the future. Febelfin is happy to enter into **dialogue** with federal and regional public bodies for proposals to encourage energy-saving renovations and their financing, improve the quality of the Energy Performance Certificate (EPC) and ensure the necessary access for banks to the EPC databases.

ACCESSIBLE SERVICES & PAYMENTS

WHAT IS THE ROLE OF BANKS?

Everyone should have easy access to payments and banking services. Banks are generally working towards a **multi-channel approach**, where both **digital services** and **in-branch physical services** continue to play a role. This is being done to best meet the expectations and needs of different groups in society. Belgian banks are at the forefront of innovation and are among the world leaders in digital banking apps. In addition, from a European perspective, Belgium still has a wide network of bank branches. The banking landscape in Belgium is also extremely diverse, and the approach differs from bank to bank.



In addition, customers in Belgium can also count on **low-cost, innovative and secure payment transactions**. A comparative European [study by KPMG](#) (2023) shows that Belgian banks offer the best value for money for all customers, both digital and non-digital citizens and merchants.

WHAT ARE THE CHALLENGES FACED BY BANKS?

Due to the general trend of digitalisation in our society, the services provided by banks as well as those of all other sectors in Belgium and the government have changed profoundly in recent years. First of all, this is due to the greatly changed behaviour of customers. For example, in the case of the banking sector, the number of visits to bank branches has decreased significantly. Customers' needs vary widely in terms of the services provided by banks: some like to manage everything via the app, while others prefer to visit a bank branch. Digitalisation offers huge benefits to the customer and is essential to our prosperity, but we are also aware that not everyone is on board at present.

A nearby bank branch or ATM remains important to a large proportion of Belgians, even though fewer and fewer are making an appointment at the branch or collecting cash. In 10 years, ATM cash withdrawals have been reduced by half. **This means that we need to come up with new agreements and solutions to continue ensuring access to cash in a secure manner in the future.**

— In 10 years, ATM cash withdrawals have been reduced by half.

Consequently, there has been a great deal of focus in recent years on this transformation and on the importance of maintaining physical services. In 2024, Febelfin and the individual banks have reinforced their commitment to **“accessible banking”**. With this, we guarantee that **non-digital customers can continue to use non-digital basic banking services for as long as needed**.

In March 2024, the banks themselves decided that the **universal banking service** - a limited-fee service for non-digital customers - **would be continued indefinitely**. The protocol with the



government would otherwise have ended on 1 July 2024.

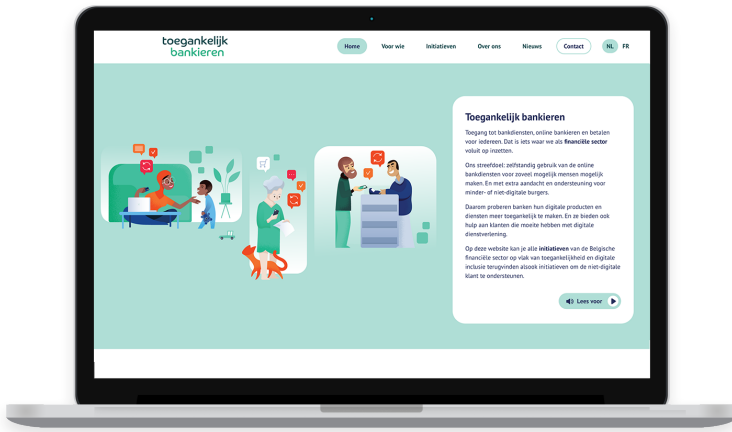
As far as ATMs are concerned, we are in a transitional phase, with a completely new network of cash points to be rolled out by the end of 2025. In this respect, the sector has listened to the concerns of political parties and the public and entered into a **protocol** with the government to **continue ensuring adequate access to ATMs in the future**.

HOW DO WE SEE THE FUTURE?

Access to banking services, online banking and payments must be ensured for all. This is something that we, as the financial sector, are fully committed to. And this is also a commitment we want to make for the future. The use of online banking services continues to rise. However, there is still a significant group of people who do not have the capabilities or skills for this and choose to do their banking at the branch.

To reach and assist greater numbers of people in vulnerable positions, we have set up the website toegankelijkbankieren.be (only in Dutch/French).

On this website, you can read more about the various initiatives being taken in the context of accessible banking and digital inclusion. In short, our goal is to **raise awareness of the available**



assistance and bring it further into focus. As far as payments are concerned, we must safeguard our Belgian **innovative payment solutions.** Whether now or in the future, consumers want to be able to pay quickly and, above all, securely. Banks today offer an accessible, efficient and innovative payment system but find themselves increasingly in competition with non-European players. This is where Belgian and European policymakers have an important role to play in **safeguarding autonomy in Europe** and ensuring that **all players in the payment system follow the same rules.**

AN INCLUSIVE SOCIETY WHERE EVERYONE COUNTS

WHAT IS THE ROLE OF BANKS?

Inclusion comprises various aspects. An important part of inclusion is financial inclusion. Having access to financial services is crucial in our society. This is often necessary for basic needs, such as making a payment or taking out a loan. It is therefore important for citizens to have the right skills, knowledge, and hence, a sufficient level of financial literacy. **Financial literacy is a basic social need because well-informed citizens make better financial decisions, today and in the future.**

— Digital inclusion has been a major focus area for the Belgian banking sector.

Apart from financial inclusion, **digital inclusion** is also equally important. The digitalisation of our economy and society is progressing rapidly. This trend is beneficial for our entire society and the best guarantee for safeguarding our

prosperity and welfare. More and more people are finding their way successfully in this digital world. But this is not true for everyone. Digital inclusion has been a major focus area for the Belgian banking sector for a long time now. Banks have been listening to their customers' concerns and problems and offering solutions, both at the level of the bank and the sector. In addition to an adapted product range, banks and Febelfin undertake numerous training initiatives to help citizens improve their digital skills. All information can be found on our website toegankelijkbankieren.be (only in Dutch/French).

WHAT ARE THE CHALLENGES FACED BY BANKS?

Currently, we note that the financial literacy and digital skills of our citizens are often inadequate. It is **essential to improve the level of digital and financial literacy in Belgium.** This applies to all age groups, but we must also pay special attention to our young people. Studies show that

our youth are particularly vulnerable and often lack appropriate digital and financial skills.

HOW DO WE SEE THE FUTURE?

For a long time now, Febelfin has been committed to organising **information sessions** for the improvement of digital skills and **developing educational materials and new initiatives** for young people to assist them as much as possible and improve their financial literacy levels. We will continue to do this in the future. But we are also

happy to join hands with **governments and local public bodies** to make this happen together. We are convinced that there is a need for a broad vision from governments to address this issue in cooperation with all parties on the ground.

Increasing the level of financial literacy and digital inclusion is a **shared responsibility** that needs to be fulfilled not only by the financial sector but also by various public bodies, the education sector and all other relevant stakeholders. We must collectively make this a priority.

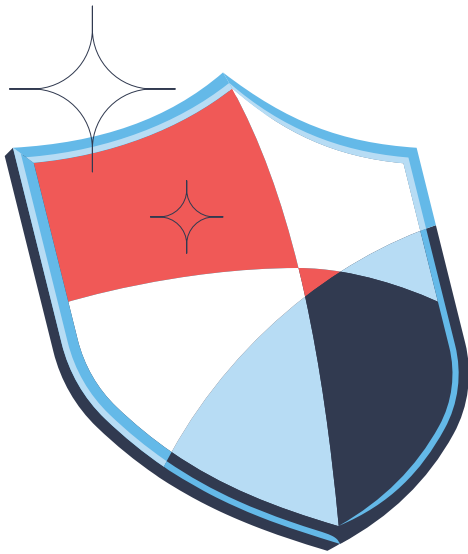
BANKS AS PARTNERS IN THE FIGHT AGAINST FINANCIAL CRIME

Security and trust are the fundamental building blocks of our society.

Managing the money and data of our customers securely is the number one priority of banks. This is why banks are fully committed to **cybersecurity** to protect their customers' money and data and guarantee **continuity of service**. Cyber risks are on the rise throughout the world. Banks participate in **national and international public-private partnerships** to strengthen the cyber resilience of banks, customers and suppliers.



ONLINE FRAUD



WHAT IS THE ROLE OF BANKS?

Ensuring security, reliability and efficiency is an absolute top priority for Belgian banks. Banks have built in various systems to ensure that transactions are secure and to prevent online fraud via phishing to the maximum extent possible. For example, since the past decade, a two-step authentication is required for online and mobile banking. The Belgian banking sector has led the way in this area. Banks are also continuously investing in **intensive monitoring** systems, thus preventing a lot of the damage that could potentially occur. These efforts are paying off: banks are able to detect and either block or recover more than 75% of all fraudulent transfers (for which a phished response code is used).

— The fight against financial crime, is a shared responsibility to be borne by various parties

The banking sector is also making increasing efforts to build a **technological “dam”** against fraud and develop an IBAN name check system in the fight against invoice fraud. The **IBAN name check** will verify whether the account number (IBAN) and beneficiary name correspond to one another. If not, the bank will report it because this may indicate fraud or a scam.

Maintaining security is also partly the responsibility of citizens and companies themselves, and therefore **awareness campaigns** in this area are very important. If citizens are properly informed and provided with the right tools to protect themselves from online fraud, they will also be better able to avoid all possible traps. Therefore, Febelfin focuses strongly on preventing online fraud by conducting frequent awareness campaigns in various media channels and warning against emerging forms of cybercrime.

Finally, banks also offer **round-the-clock customer service** in case of online fraud. Banks can be reached 24/7 via dedicated numbers for reporting fraud. In case of fraud, banks can immediately block their customer’s banking applications if they suspect misuse. In addition, the 24/7 service Cardstop can also be contacted to block your card in case of loss, theft or suspected fraud. This service is **unique in Europe**.



WHAT ARE THE CHALLENGES FACED BY BANKS?

As we spend more time online than ever, crime is also increasingly shifting to the online space. The number of bank robberies has almost dropped to zero, while the number of cases of online fraud is

on the rise. This shift requires **society to adapt** with the help of concrete actions, adequate and appropriate legislation and continuous vigilance.

— **Intensive cooperation and shared responsibility are essential in the fight against financial crime.**

A lot is expected from banks when it comes to fighting fraud, and that is only as it should be. But combating fraud effectively requires joint efforts from a large number of parties. A fraudulent transaction often starts with fraudsters gaining information about potential victims via social engineering. This information can be used to manipulate victims. Online fraud is often conducted via a chain. The fraudster obtains confidential information and misleads the victim. Banks only come into play once the fraudulent transfer has been made. However, when it comes to compensating for the damage, the focus is often solely on the banks. **The fight against financial crime, is a shared responsibility to be borne by various parties, such as the telecom sector, social media platforms and the government.**

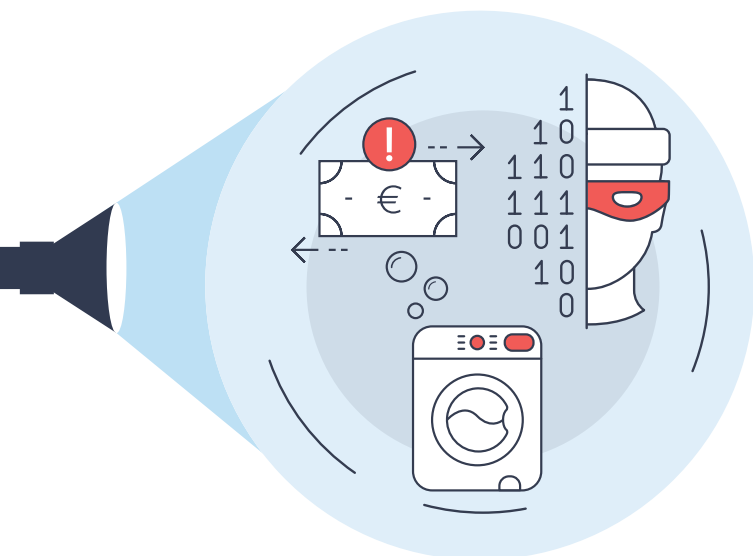
In addition, we also note with regret that the police and public prosecutor's office often do not have sufficient resources to pursue these fraudsters. This creates a sense of impunity among the victims and fails to provide an adequate deterrent for the perpetrators.

Sufficient resources and capacity must be made available so the police and judiciary can do their job and take down these criminal gangs at the highest level.

HOW DO WE SEE THE FUTURE?

Intensive cooperation and shared responsibility are essential in the fight against financial crime. An even greater level of cooperation is needed with all players on the ground, supported by legislation that strikes the right balance between fraud detection and prevention, on the one hand, and privacy, on the other. For this to happen, there is a need for a better **legislative framework with the possibility of sharing more information** and the **provision** of adequate resources.

COMBATING MONEY LAUNDERING



WHAT IS THE ROLE OF BANKS?

Today, banks play a key role in detecting financial and tax fraud. Banks are continually engaged in investigating customers, monitoring relationships and transactions, and reporting unusual transactions to the Financial Intelligence Processing Unit (CTIF-CFI). They do this to **prevent financial and economic crimes such as money laundering and terrorist financing.** Due to the complexity of the financial world and the multitude of transactions, it is impossible for the government to carry out this monitoring in a sufficiently effective manner. Therefore, the anti-money laundering legislation assigns this responsibility to the financial world, giving it an important **gatekeeper role.**

The banks take their responsibility extremely seriously and have made huge **investments** in **personnel and infrastructure** in recent years. Figures from the CTIF-CFI (Financial Intelligence Processing Unit) confirm the impact of the banks' efforts: more than 40,000 reports of suspicious transactions to the CTIF-CFI that form a significant part of the €2.8 billion worth of fraud reported to the judicial authorities.



> 40,000
reports of suspicious
transactions to the CTIF-CFI

WHAT ARE THE CHALLENGES FACED BY BANKS?

Banks cannot fight money laundering alone.

For this, it is necessary to further develop the cooperation between the government and banks. In 2021, the successful establishment of the AML Platform allowed key private and public stakeholders to meet and exchange best practices on how to combat money laundering. A positive development, but one which can be further improved. Only by working together can we step up the fight, especially by sharing information with each other, between banks and with public stakeholders (anti-money laundering cell, regulators, public prosecutors, etc.). Today, these options are extremely limited and often come up against **legal obstacles and privacy restrictions**. If we want to better protect citizens from money laundering and financial fraud, we must **develop a framework** that allows banks to share information with each other about suspected fraud and money laundering. This already exists in other countries (e.g. the Netherlands) and is also encouraged under the recently adopted EU AML Package.

In addition, Belgian banks must also be able to continue playing their gatekeeper role in society by **denying criminal organisations access to financial services**. This role is being compromised with the repeated expansion of basic banking service regimes (for private individuals and companies) and the excessive restriction on the

fees that banks are allowed to charge. Indeed, there is a conflict between, on the one hand, maximising the efforts to fight crime, and on the other hand, giving all companies access to current accounts. The **government** must also recognise this conflict and adapt its regulations accordingly so that the two principles can remain compatible.

Cash also plays a big role in preventing money laundering. The use of cash has declined in recent years but obviously, there is still a need in society for the cash option. A need that the banking sector appreciates but which does not always make the fight against money laundering easier. Therefore, it would be best to encourage the **further limitation of cash transactions between private individuals and merchants**.

In addition, customers are often faced with specific questions from banks, as is often the case with **politically exposed persons** (PEP). Under the anti-money laundering legislation, banks are required to verify the identity of customers holding a particular political position or mandate and apply enhanced due diligence measures (i.e. include more frequent anti-money laundering checks in their procedures). However, there are **no clear means of verifying** whether these customers fall into this category, which results in the blocking of a lot of relationships with PEPs. In this respect, a database of persons who qualify as PEPs could be developed.

In addition, banks are also expected to know the **ultimate beneficial owners** (UBO) of their customers. Business owners must provide this information to the bank if they want to open an account. However, they have already uploaded this information in the government's UBO Register. In accordance with the "only-once" principle, an **administrative simplification** is called for, whereby banks can draw on the information from the UBO Register. This way, business owners do not have to report the same information twice and the so-called onboarding process at the bank can be smoother.

HOE ZIEN WIJ DE TOEKOMST?

In the fight against money laundering and online fraud, banks are only one part of a broader picture. There is a need for a better **legislative framework** with the possibility of

more information sharing, and **adequate resources** must be made available for this. It is an important societal role that banks are taking on, for which they must be supported by a balanced regulatory framework. Only then can they fulfil their obligations by detecting cases of money laundering in a more efficient

manner and mitigating the side effects for customers. Moreover, it is desirable that the **government** highlights to the general public - even more strongly and in a more positive way - the important societal role taken on by banks in combating money laundering and terrorist financing.

AFTERWORD

So it is not just that the financial sector plays an important economic role, but rather that it is almost impossible to imagine a society without financial institutions. With this document, we show how a bank works and the issues banks deal with. We also describe the dilemmas facing banks and society, which often go hand in hand.

Febelfin hopes to engage in a dialogue about this subject with you. We welcome your **responses** and will be happy to hear about the topics you would like to discuss with us. The financial sector is eager to help build a prosperous, more robustly digital, inclusive and sustainable economy. Let's seize this opportunity together, as real partners.





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