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* Views expressed are those of the authors and do not necessarily reflect official positions of De Nederlandsche Bank.

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The changing composition of the supervisory boards of the eight largest banks and insurers during 2008-2014 and the impact of the "4+4 suitability screenings"*

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Abstract

In this article we describe the changes in the composition of management boards and supervisory boards that have taken place in the Dutch financial sector since 2008. In particular, we consider the effects of the introduction of suitability screening for executive directors and supervisory directors at the four largest banks and the four largest insurers in the Netherlands (the "4+4 screenings"). In the summer of 2012, the supervisory directors of these eight institutions were the first group to undergo suitability screening, enabling the impact of screening on the composition of the board to be examined in isolation. This article demonstrates that the composition of the management boards and supervisory boards of these Dutch financial institutions has changed substantially since 2008. Notable findings are the fall in the average size of the supervisory boards from 9.3 to 7.3 supervisory directors, the increase in the percentage of female supervisory directors to 27.6%, and the recovery in the number of foreign supervisory directors, which showed a constant decline after 2008, started to rise again in 2012 and reached 19% in 2014. There has been hardly any change in the average age of executive directors and supervisory directors, the average term of office or the size of the management board.

Keywords: corporate governance, fit and proper, suitability.
JEL classifications: G3, K2, M19.

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1. Introduction

The Dutch financial sector has undergone sweeping changes in the past ten years. The financial crisis, bank nationalisations and failures were investigated by a number of advisory committees, specifically the Parliamentary Committee of Inquiry into the Financial System (De Wit Committee), the Advisory Committee on the Future of Banks (Maas Committee), the Scheltema Commission and the Hoekstra Committee.[2] This led to changes in procedures, methods and strategies in regulation and supervision in the Netherlands. In this context, De Nederlandsche Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM) started to pay greater attention to the performance of the management boards and supervisory boards of financial firms.

One of the conclusions of the investigating committees was that the suitability of executive directors and supervisory directors was inadequately assessed. For this reason, a more stringent assessment of suitability, known as the Policy Rule on Expertise 2011, was introduced in 2011. In 2012 the name of the policy rule was changed to the *"Policy Rule on Suitability 2012"*. Under this policy rule, suitability is assessed on the basis of knowledge, skills and professional conduct. The scope of the policy rule was extended to include supervisory directors as well as executive directors with effect from July 2012. Since then, supervisory directors have also undergone screening based on their knowledge, skills and professional conduct.

The act that introduced the suitability requirement for supervisory directors[3] specifically instructed the supervisory authorities, i.e. the AFM and DNB, to assess the supervisory directors of the four largest banks and four largest insurers by 31 December 2012. This screening was referred to as the 4+4 project. This article starts with a description of the events that helped shape the further definition of the suitability requirements for executive directors and supervisory directors, as set out in Section 2. Suitability screening is briefly described in section 3, and the 4+4 project in Section 4. Next, Section 5 describes the changes in the composition of the management board and supervisory board of the eight largest banks and insurers in the Netherlands during the period 2008-2014. As all the supervisory directors of these financial institutions (4+4) were assessed in the same year (between April and November), we examined whether the screening of the supervisory directors had any impact on the composition of the supervisory board, or whether such changes had already begun some time previously.

Given the number of internal and external developments that affect the composition of a supervisory board, it is hard to examine the direct causality between screening and the composition of a supervisory board. That said, the 4+4 screenings were a significant event in terms of the governance of the relevant supervisory boards in recent years. For this reason, we have paid specific attention to these screenings in this examination.

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[2] Maas Committee: www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2009/04/14/rapport-advies-commissie-toekomst-banken.html; De Wit Committee: www.tweedekamer.nl/kamerleden/commissies/pefs/rap-port; Scheltema Commission: www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2010/04/29/ rapport-commissie-scheltema.html.

[3] This alludes to the Act amending the Financial Supervision Act, the BES Financial Markets Act and the Trust Offices Supervision Act in connection with the introduction of the suitability requirement and improving cooperation between the supervisory authorities in the context of suitability screening and integrity screening *(Wet tot wijziging van de Wet op het financieel toezicht, de Wet financiële markten BES en de Wet toezicht trustkantoren in verband met de introductie van de geschiktheidseis en de versterking van de samenwerking tussen de toezichthouders in het kader van de geschiktheidstoets en betrouwbaarheidstoets)*, which came into effect on 1 July 2013.

2. Background to the introduction of suitability screening

The major events in the Dutch financial sector during the period 2008-2010 are shown in Table 1. Three committees analysed and described these events in the Dutch financial sector, based on which they subsequently drew conclusions. These committees were the Maas Committee (2009), the De Wit Committee (2010) and the Scheltema Commission (2010).[4]

Table 1: **Major changes in the Dutch financial sector 2008-2010**

FINANCIAL INSTITUTIONS	**2008**	**2009**	**2010**
	Nationalisation of Fortis/ABN Amro Capital injections provided to - ING (10 billion) - Aegon (3 billion) - SNS Reaal (750 million) Icesave deposits guaranteed	Failure of DSB Bank	
COMMITTEES AND REPORTS		Maas	De Wit Scheltema

2.1 The Maas Committee

In 2009, the Advisory Committee on the Future of Banks (Maas Committee) published its report "Restoring trust".[5] The report contained recommendations focusing on governance, risk management and remuneration that were aimed at improving the functioning of the Dutch banking sector. The Maas Committee emphasised the importance of thoroughly assessing not only the integrity of executive directors and supervisory directors (integrity screening was introduced in 2005) but also their expertise. In doing so, the Maas Committee provided the initial impetus for suitability screening.

In recommendation 1.2, the Maas Committee stated that DNB "should assess not only the *integrity* of each member of a bank's supervisory board, but also *the expertise* of each Board member". It followed this by stating "this expertise assessment by DNB should be legally enshrined as soon as possible".

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[4] In 2014 the Hoekstra Committee has also reported on its investigation into the nationalisation of SNS Reaal. This investigation goes beyond the period considered in this article, however.

[5] *The Advisory Committee on the Future of Banks, Restoring trust,* The Hague, 7 April 2009, www.nvb.nl/publicaties-standpunten/publicaties/1623/code-banken.html

According to the Maas Committee, it is crucial that the supervisory board is aware of the basic risks to which banks are exposed, the public role of the bank and the interests of shareholders. The recommendations relating to supervisory boards also focused on whether members had sufficient time to devote to their role, diversity and the supervisory board's evaluation of its own performance. Furthermore, the Maas Committee issued a guideline for the minimum number of members of the supervisory board: at least ten in the case of large banks, and at least six in the case of smaller banks, "in order to ensure a balanced distribution of the multitude of duties and to have sufficient qualified members for the various committees of the supervisory board" (recommendation 1.3). It did not mention any minimum number of members of the management board.

2.2 The De Wit Committee

In 2010 the De Wit Committee published its report on its investigation into the causes of the financial crisis and the Dutch government's intervention in the Dutch financial sector between 2008 and 2009.[6] The report, "Lost Credit", contained 27 recommendations. Almost 40 bankers, civil servants, politicians and academics were heard by the De Wit Committee. According to the De Wit Committee, management boards of financial firms "underestimated risks, were not aware of their existence or deliberately took them, possibly encouraged by variable remuneration structures and share and option packages. This seriously damaged the interests of their institutions, the financial sector as a whole and society at large".

"In addition, the supervisory boards did not fully live up to their responsibility of fulfilling their supervisory and advisory duties. Moreover, the shareholders of financial firms had too strong a focus on the creation of short-term shareholder value."

In recommendation 6, the De Wit Committee addressed the role and quality of supervisory directors: "The Committee endorses the elements of the Dutch Banking Code that aim to strengthen the supervisory board's quality." The De Wit Committee also warned against "a focus on professional expertise that is too one-sided", and noted that while the supervisory board as a whole needed to have knowledge and expertise relating to the banking business and the financial sector, this requirement did not necessarily have to be satisfied by every supervisory director. An emphasis on professional expertise could result in the supervisory board being predominantly composed of insiders from within the financial sector, a situation which the De Wit Committee believed should be avoided. In view of this, the De Wit Committee emphasised the importance of a "healthy diversity in background, knowledge and expertise within the supervisory board".

For this reason, the De Wit Committee argued that the AFM and DNB should take account of the composition and background *of the entire supervisory board* when assessing expertise. The De Wit Committee also asked that specific attention be paid to the time spent by individual supervisory directors and their independence.

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[6] *Parliamentary Committee of Inquiry into the Financial System, Lost Credit,* The Hague, 10 May 2012.

2.3 The Scheltema Commission

In 2010 the Scheltema Commission published its report on the collapse of DSB Bank.[7] According to the Scheltema Commission, the checks and balances in the governance structure including director/majority shareholder Dirk Scheringa, combined with inadequate supervision by the supervisory directors, led to the problems at DSB. Moreover, Mr Scheringa lacked expertise in the area of banking and spent too much time on commercial activities. A more stringent and proactive attitude was required on the part of DNB in order to correct governance at DSB. The Dutch government was asked to learn lessons from the collapse of DNB, focusing on the behaviour-related aspects of supervision.

The Maas Committee, De Wit Committee and Scheltema Commission were crucial to the development of the *Policy Rule on Expertise 2011* and *Policy Rule on Suitability 2012* of DNB and the AFM. The recommendations of these investigating committees led to reforms in the area of supervision. The supervision of conduct and culture/board effectiveness and suitability screening became an important element of financial supervision. Prior to the publication of these reports, the assessment of suitability focused mainly on integrity and knowledge, whereas after their publication this assessment covered knowledge, skills and professional conduct. Moreover, in addition to executive directors, supervisory directors were also subjected to suitability screening with effect from July 2012.

3. Suitability screening by the AFM and DNB

Since 2010, the AFM and DNB have developed a number of methods for their own external supervision of management and the internal supervision at the institutions that are subject to supervision. On 16 December 2010 DNB and the AFM published the *Policy Rule on Expertise 2011*. This was followed in 2012 by the *Policy Rule on Suitability 2012*[8]. The Policy Rule on Expertise 2011 was amended following the entry into force of the Suitability Requirement (Introduction) Act (*Wet introductie geschiktheidseis*), with the AFM and DNB making a number of minor amendments that included replacing the term “expertise requirement” with the term “suitability requirement”. The amendment did not involve any substantive changes, since the change was related to the replacement of the term “expertise” by the term “suitability”, and the policy rule still covered the same elements (i.e. knowledge, skills and professional conduct). The other change was the introduction of the screening for supervisory directors with effect from that date (July 2012).

The Appendix to the Policy Rule on Suitability 2012 contains a description by DNB and the AFM of the background to the Policy Rule on Expertise 2011 and the necessary amendments in 2012 (Section 3 of the Appendix). They state that the “turmoil on global financial markets had damaged confidence in the financial sector” and that “the weak elements of the financial market were exposed by issues related to takeovers, failures, government intervention in the banking and insurance sector and a steep decline in funding ratios at occupational and other pension funds”. “The risks and effect of the products that firms in the financial sector sold or purchased were not always understood, and customers were not always properly informed about these risks.” DNB and the AFM also referred to the many national

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[7] Scheltema Commission, *Report of the Commission: investigation into DSB Bank,* The Hague, 23 June 2010.
[8] Policy Rule on Suitability 2012, www.toezicht.dnb.nl/4/4/50-226297.jsp.

and international studies that mention the unfitness of executive directors and supervisory directors as one of the causes of the aforementioned problems (p. 9).

Given this, DNB and the AFM made the joint decision to evaluate the existing policy on suitability screening and prepare a joint policy rule for policymakers at firms. According to DNB and the AFM, the most important results of the evaluation of the suitability screening policy as it existed at that time were as follows (these results have been taken from the notes to the policy rule, p. 9):

- Suitability is more than just knowledge; skills and professional conduct are crucial aspects of an individual's suitability.
- A joint assessment framework is required for suitability screening. This framework needs to be applied consistently by DNB and the AFM, making due allowance for their specific supervisory roles (prudential supervision and market conduct supervision, respectively).
- Suitability needs to be a constant point for attention, for the firm and for the supervisory authority. If specific facts and circumstances give grounds to do so, the supervisory authority will require that a policymaker undergoes screening again and, where appropriate, may issue an instruction to dismiss the policymaker in question.

When assessing suitability, the composition and performance of the group is taken into account. Screening covers four elements, for which sixteen competencies have been formulated. The four elements are (see p. 1, 1.2):

1. management, organisation and communication;
2. products, services and markets;
3. sound and ethical operational management; and
4. balanced and consistent decision-making.

The competencies that are important for this, and therefore need to be assessed (see the Appendix to the policy rule for an explanation), are as follows:

Table 2: **Competencies to be assessed (Appendix to DNB Policy Rule 2012)**

Authenticity	Independence
Decisiveness	Negotiation skills
Ability to communicate	Persuasive power
Helicopter view and judgment	Ability to cooperate
Focus on customers and quality	Strategic management
Leadership	Ability to cope with stress
Loyalty	Responsibility
Sensitivity to environment	Ability to chair meetings

4. The 4+4-project

In addition to the Policy Rule on Suitability 2012, the Dutch House of Representatives also wanted to see short-term action being taken. An amendment to the law came into effect on 1 July 2012[9] that specifically instructed the supervisory authorities, i.e. the AFM and DNB, to assess the supervisory directors of the four largest banks and four largest insurers by 31 December 2012 (also known as the 4+4 project). This resulted in 68 supervisory directors being screened for suitability starting in April 2012[10]. The 68 supervisory directors worked for the holding companies of the four largest banks (ABN Amro, Rabo, ING Bank and SNS Bank) and the holding companies of the four largest insurers (Achmea, ING, Aegon and Delta Lloyd). DNB and the AFM assessed the individual supervisory directors as well as the functioning and composition of the supervisory board as a whole.

By the end of 2012, all supervisory directors knew whether or not they had passed the suitability screening. The evaluation of the 4+4 project in February 2013, which was carried out by DNB and the AFM for the Minister of Finance, revealed that 61 of the 68 supervisory directors were found to be suitable, meaning that seven were rejected.[11]

The assessment of suitability is based on:
1. desk research
2. talks with several referees; and
3. an interview.

The evaluation by DNB and the AFM revealed that one interview was sufficient in almost 75% of cases, while in 25% of cases a second interview was required in order to form an opinion. The Governing Board of DNB and the Executive Board of the AFM were always involved in the second interview, either directly or indirectly. The boards were also responsible for the final assessment and decision-making. In the evaluation, DNB and the AFM state that on the whole the chairs of the supervisory boards were positive about the screenings (p. 3). One shortcoming that was mentioned, however, was the fact that some supervisory directors felt as though they were being required to sit an exam. Moreover, the supervisory directors felt that the interviewers from DNB and the AFM were relatively young and inexperienced when it came to boardroom dynamics and that their lack of knowledge and experience of the dynamics within a supervisory board meant that they lacked authority.

The evaluation included the following lessons that had been learned (p. 3): With regard to diversity, DNB and the AFM stated that supervisory directors with experience and knowledge of the financial sector are important, and so are supervisory directors with backgrounds in other sectors as they provide different perspectives in the boardroom. That said, a certain basic knowledge of the institution's products, services and markets is necessary. For example, supervisory directors must be informed about

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[9] This alludes to the Act amending the Financial Supervision Act, the BES Financial Markets Act and the Trust Offices Supervision Act in connection with the introduction of the suitability requirement and improving cooperation between the supervisory authorities in the context of suitability screening and integrity screening *(Wet tot wijziging van de Wet op het financieel toezicht, de Wet financiële markten BES en de Wet toezicht trustkantoren in verband met de introductie van de geschiktheidseis en de versterking van de samenwerking tussen de toezichthouders in het kader van de geschiktheidstoets en betrouwbaarheidstoets)*, which came into effect on 1 July 2013.

[10] Although the Policy Rule did not come into effect until July 2012, the first group of financial institutions agreed to cooperate on a voluntary basis.

[11] Letter to the Minister of Finance dated 27 February 2103, DNB and the AFM.

social developments that are relevant to the firm, have an understanding of main features of the firm's business model and the principal risks, and have a basic understanding of the checks and balances that are required for the set-up and control of a financial firm (p. 3).

Moreover, DNB and the AFM expect that supervisory directors consider critically the information supplied to them, and are able to ensure they are provided with other relevant information. It is important that the supervisory board's role goes beyond merely providing advice; supervisory directors must be able to act as a sounding board and ask critical questions, taking action and pressing ahead where necessary, without taking over the role of the executive directors.

With regard to the size of the supervisory board, DNB and the AFM recognise that the amount of time taken up by supervisory board positions has increased over the years. This can create a tendency to increase the number of supervisory directors. According to DNB and the AFM, a larger supervisory board offers more possibilities because more knowledge is available, but it also reduces board effectiveness. In the case of large supervisory boards, there is a risk that vital discussions will be restricted to a relatively small group, such as the audit committee. Given this, DNB and the AFM would prefer to see a smaller group of supervisory directors who have a relatively large amount of time in which to carry out their work (p. 4).

5. The most recent figures

In January 2015 DNB published the results of the suitability screenings for the entire financial sector.[12] A total of 5,469 people had been screened since 2011, of whom 614 were found to be unsuitable (11.2%). In the accompanying press release, DNB stated that suitability screening contributes towards improving the quality of the financial sector. Table 4 shows the number of persons who underwent screening during the period 2011-2014, broken down by sector, and the average percentages of rejected persons per year. A breakdown by sector of the 234 persons rejected in 2014 is contained in Table 5.

During the period 2011-2014, the average percentage of executive directors/supervisory directors who were deemed to be unsuitable was 11.2%. However, this average percentage was higher in the last two years of this period (14.0% and 13.5%) than in the years 2011 and 2012 (7.2% and 9.7%, respectively).

In 2014 the average percentage of rejected persons was 11.2%, but this percentage ranged from 5.3% for institutions covered by the Financial Supervision Act (*Wet op het financieel toezicht* or *Wft*) other than banks and insurance corporations to 37.8% for payment institutions. In 2014, the percentages for banks and insurers were 11.2% and 16.8%, respectively. DNB found that "large institutions and institutions that already have experience with proposing candidates for the DNB screening procedure often have professional recruitment and selection processes in place. As a result, they are able to propose more suitable candidates." It explained that one reason why candidates may be rejected is that they are insufficiently prepared for their new position and the institution where they will be working.

[12] www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/dnbulletin-2015/dnb317904.jsp#.

***Table 3*: Number of persons screened and rejected (or withdrawn), 2011-2014**

	2011	**2012**	**2013**	**2014**	**Total 2011-2014**
Number of persons screened					
Credit institutions (banks)	252	185	166	224	**827**
Insurers	335	256	337	404	**1.332**
Other institutions covered by the Wft	100	162	124	151	**537**
Pension funds	354	379	367	672	**1.772**
Payment institutions	104	117	73	82	**376**
Trust offices	167	143	111	118	**539**
BES and settlement agents				86	**86**
Total number of persons screened	**1.312**	**1.242**	**1.178**	**1.737**	**5.469**
Rejected and/or withdrawn					
Total number rejected	**94**	**121**	**165**	**234**	**614**
%	**7.2%**	**9.7%**	**14.0%**	**13.5%**	**11.2%**

(Source: DNB press release, January 2015)

***Table 4*: Rejected persons in 2014 by sector**

	2014	
Rejected and/or withdrawn	**n**	**%**
Credit institutions (banks)	25	11.2%
Insurers	68	16.8%
Other institutions covered by the Wft	8	5.3%
Pension funds	52	7.7%
Payment institutions	31	37.8%
Trust offices	42	35.6%
BES and settlement agents	8	9.3%
Total	**234**	**13.5%**

(Source: DNB press release, January 2015)

6. The examination

This section describes how the composition of the management boards and supervisory boards of the eight largest Dutch banks and insurers (which participated in the 4+4 project) changed during the period 2008-2014. We also looked specifically at whether the introduction of suitability screening for supervisory directors in 2012 (the year all supervisory directors underwent screening between April and the autumn) resulted in real change. We analysed five variables: age, gender, number of foreigners,

term of office and size of the supervisory board. We also looked at board turnover, i.e. the number of supervisory directors who step down each year. Data for the management boards is also shown to ensure completeness.

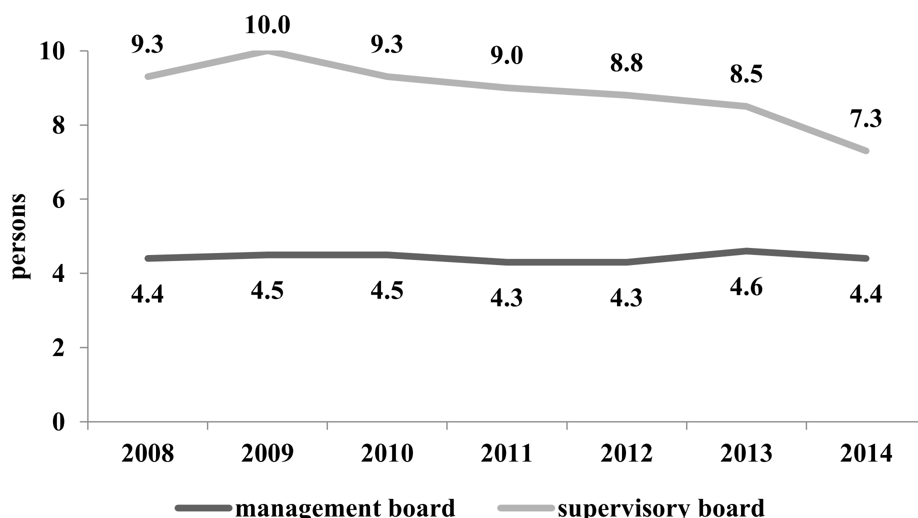
For each year, the situation as at 31 August is shown. The same date was also used for the purpose of age calculations. This date was selected because it is not close to the AGM season, when many changes occur. Moreover, this is also a relevant date in the context of this examination, since suitability screening took place in the period April-November 2012. No-one had received screening results in August 2012, but by August 2013 screening results had been received by all parties concerned.

6.1 Size of the supervisory board and management board

The total dataset covering the eight financial institutions for the entire period consists of 222 executive directors and supervisory directors: 109 in 2008 (35 executive directors and 74 supervisory directors) and 93 in 2014 (35 executive directors and 58 supervisory directors). The total number of executive directors and supervisory directors therefore fell by 16 people. A total of 34 people who were in office in 2008 were still in office in 2014. This means that 75 of the original 109 executive directors and supervisory directors (69%) had left, and not all of them had been replaced.

Figure 1 shows the average size of the management boards and supervisory boards of the eight banks and insurers. The management boards had an average of 4.4 executive directors in 2008, and this figure was unchanged in 2014. The average size of the supervisory board had fallen sharply, however: in 2008 the average supervisory board had 9.3 supervisory directors, but by 2014 this figure had fallen to an average of just 7.3 supervisory directors. This decline set in after 2010. The steepest decrease was seen in 2013-2014, when the average size of the supervisory boards fell by more than one supervisory director. The decline seen during the period when screening took place (2012-2013) was roughly the same as the decline in the preceding years.

Figure 1: **Average size of management board and supervisory board at the eight major banks and insurers, 2008-2014**

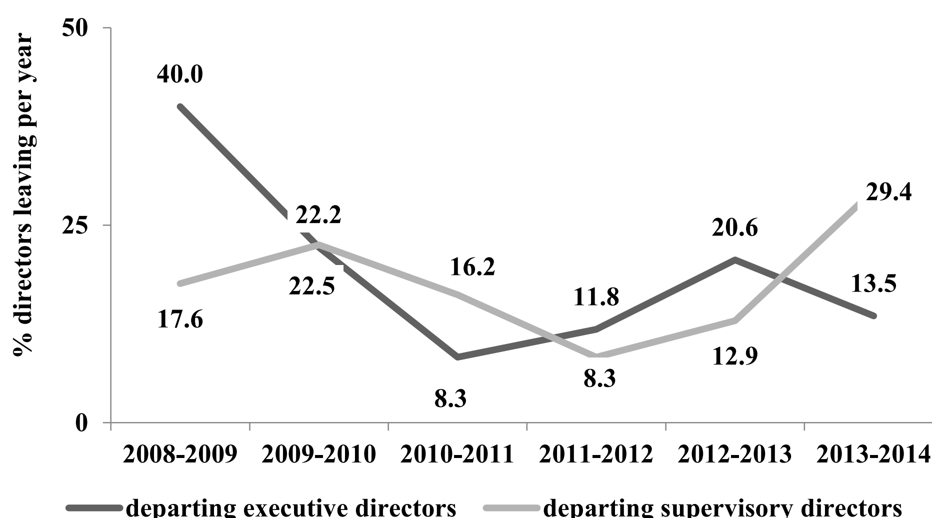


The smallest supervisory board consisted of four supervisory directors and the largest of nine supervisory directors (both were the supervisory board of an insurer), while the four banks had seven or eight supervisory directors. This is less than the minimum of ten supervisory directors as proposed by the Maas Committee.

6.2 Departing executive directors and supervisory directors

Figure 2 shows the percentage of executive directors and supervisory directors that left the management board or supervisory board each year.

***Figure 2*: % of departing executive directors and supervisory directors at the eight large banks and insurers, 2008-2014**



The average annual board turnover rate among the executive directors was 19.8% during the period 2008-2014. For the executive directors, the period 2008-2009 was a year of great change. During that year, 15 of the 35 executive directors (40%) left the management board. This relatively high percentage of departing executive directors was due in part to the merger of Fortis and ABN Amro. In the following years, the percentage of departing executive directors ranged from a low point of 8.3% in the period 2010-2011 to a high point of 22.2% in 2009-2010.

The average board turnover rate among the supervisory directors was 17.8% for the period as a whole. On average, thirteen supervisory directors stood down each year. However, as the total number of supervisory directors in office fell from 74 in 2008 to 58 in 2014, each departure in 2014 represented a higher percentage than in 2008. In absolute terms, the number of supervisory directors who left in each period ranged from six in the period 2011-2012 to twenty in the period 2013-2014. The average board turnover rate during the period covering the introduction of suitability screening for supervisory directors (August 2012 to August 2013) is relatively low at 12.9%. In absolute terms, this means that nine supervisory directors left during that period. This does not mean that they were all assessed as unsuitable by DNB, as differences arose owing to the fact that supervisory directors who had yet to be appointed also underwent screening but were not included in our dataset, and because rejected

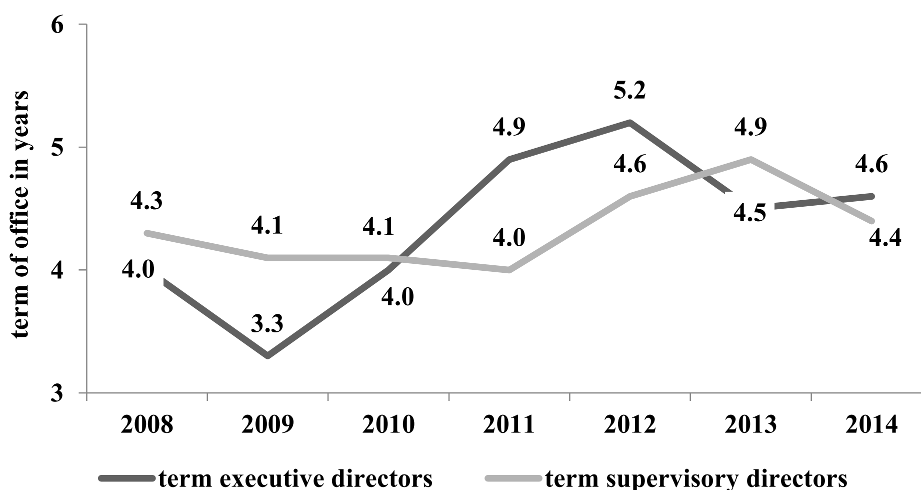
supervisory directors also resigned before and after the relevant period (August 2012-August 2013). Interestingly, in the period immediately following this (2013-2014) the board turnover rate reached its highest point since 2008, with 29.4% of all supervisory directors stepping down from their positions during that period. The following section explains that these supervisory directors had, on average, nearly reached the maximum term of office of twelve years, and therefore the high board turnover rate in 2013-2014 would appear to be natural turnover rather than a delayed effect of suitability screening.

6.3 Term of office

Figure 3 shows the trend in the average term of office of the executive directors and supervisory directors. In 2008, the 35 executive directors had been on the management board for an average of 4.0 years, and this rose to 4.6 years in 2014. The average term of office of executive directors reached its lowest level of 3.3 years in 2009. This was primarily due to the high percentage of executive directors who departed in 2008, which led to the appointment of a relatively large number of new executive directors. The average term of office subsequently rose to 5.2 years in 2012, but fell again to an average of 4.6 years in 2014.

The average term of office of supervisory directors shows a more stable pattern, rising slightly from 4.3 years in 2008 to 4.4 years in 2014. Surprisingly, there was a sharp rise in the average term of office starting in 2011, which reached its highest level (4.9 years) in the year following the 4+4 assessment (August 2013). This is in line with the relatively low number of supervisory directors who left in that period (2012-2013). The decline seen in 2014 is also directly attributable to the relatively high percentage of supervisory directors who left during the period 2013-2014.

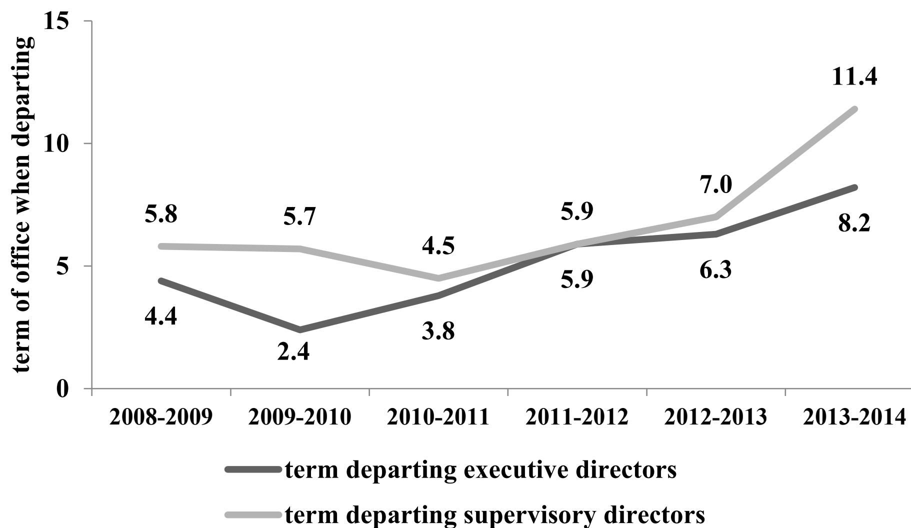
Figure 3: **Average term of office of executive directors and supervisory directors of the eight major banks and insurers**



Term of office at time of departure

Figure 4 shows the average term of office of executive directors and supervisory directors who stood down during the period in question. (NB: No information is available for the period 2007-2008 as the first year in our dataset is 2008.)

Figure 4: **Term of office of departing executive directors and supervisory directors at the eight large banks and insurers, 2008-2014**



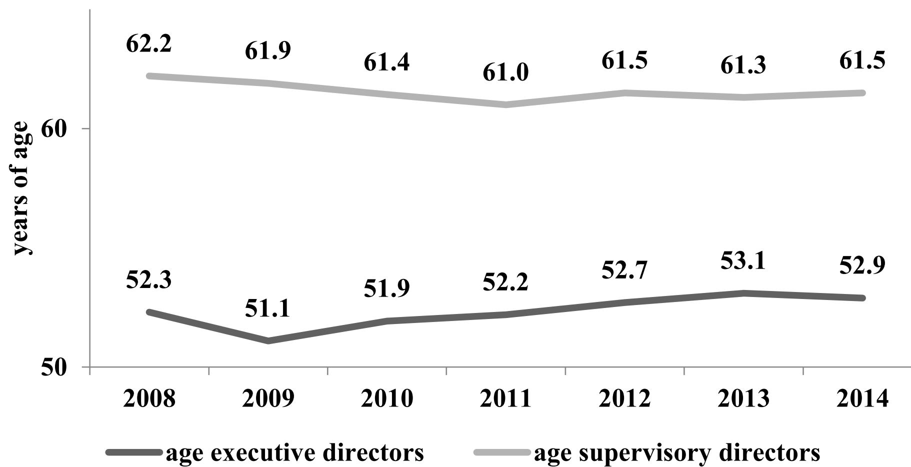
In 2008-2009, the twelve executive directors who stood down during that period had been on the management board for a relatively short time (4.4 year). This figure fell to 2.4 years in the period 2009-2010 when eight executive directors stood down, who, as a whole, had been on the management board for a relatively short time. After this period the management boards became slightly more stable, and average term of office of the executive directors steadily increased, from 5.9 years in the period 2011-2012 to 6.3 years in 2012-2013 and 8.2 years in 2013-2014.

With regard to the departing supervisory directors, the average term of office increased only in the last two periods covered by the examination. The average term of office of the nine supervisory directors who stood down in 2012-2013 was 7.0 years, and this increased to 11.4 years in the case of the twenty supervisory directors who left in 2013-2014. This would appear to explain the relatively high number of supervisory directors who left in the period 2013-2014, i.e. one year after screening: the maximum term of office permitted in the Netherlands was 12 years in 2014. The twenty supervisory directors who left had, on average, nearly reached their maximum term of office, and their resignation can therefore be considered to be expected rather than a delayed response to the screening.

6.4 Age

With regard to age there has not been a dramatic change in the composition of the management board (see figure 5). In 2008 the average age of the 34 executive directors was 52.3 years, and this figure was slightly higher in 2014 (52.9 years). By contrast, supervisory directors have become slightly younger, with their average age falling from 62.2 years for the 73 supervisory directors in 2008 to 61.5 years for the 58 supervisory directors in 2014.

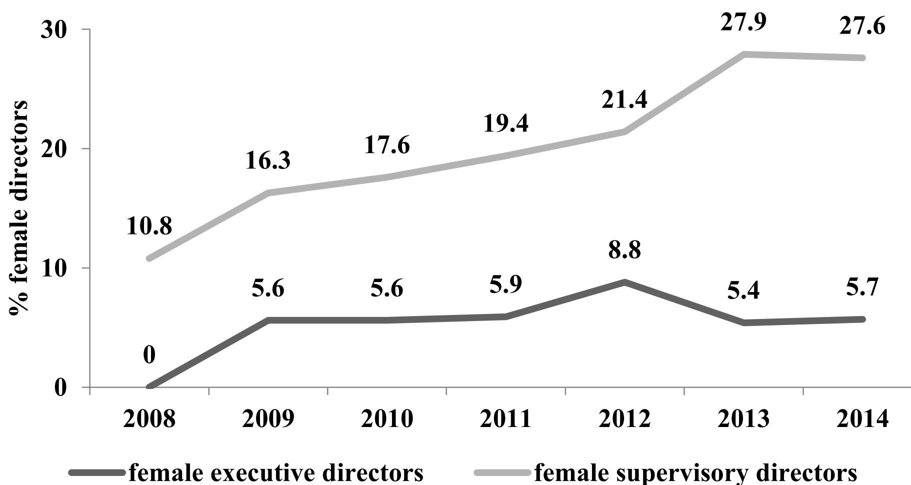
Figure 5: **Average age of executive directors and supervisory directors of the eight major banks and insurers**



6.5 Women on management board and supervisory board

Figure 6 shows that over the years there has been a relatively sharp rise in the percentage of female executive directors and supervisory directors. The percentage of female executive directors increased from 0% in 2008 to 5.7% in 2014 (two female executive directors). The percentage of female supervisory directors rose from 10.8% in 2008 to 27.6% in 2014. The average annual increase during the entire period 2008-2014 was 2.8% a year. The largest increase was seen in the period 2012-2013, when supervisory directors underwent suitability screening. During that period, the percentage increased by 6.5% to 27.9% in August 2013. The percentage fell slightly to 27.6% in the following period (2013-2014). Based on the assumption that the suitability of the new female supervisory directors was also assessed, the sharp rise in 2012-2013 would indicate that suitability screening is not an obstacle for female supervisory directors.

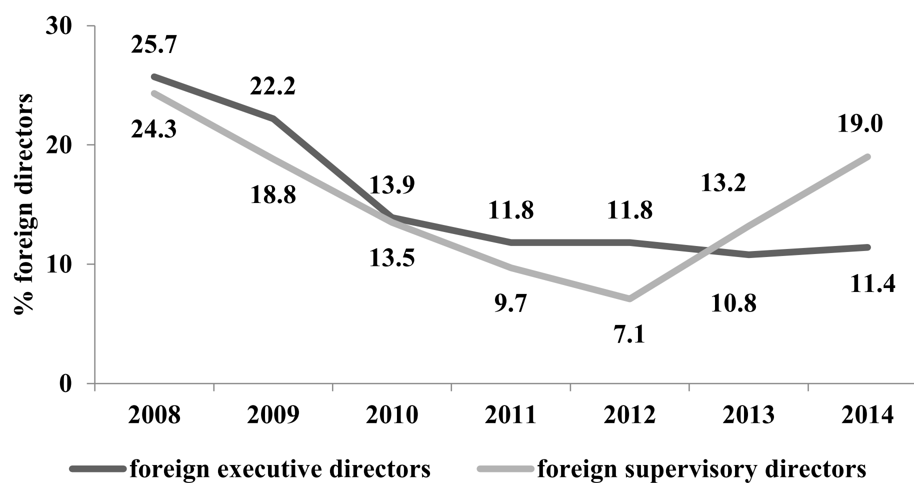
Figure 6: **% of female executive directors and supervisory directors at the eight major banks and insurers**



6.6 Foreigners on management board and supervisory board

Figure 7 shows there was a relatively sharp fall in the percentages of foreign executive directors and supervisory directors during the period 2008-2014. The percentage of foreign executive directors in particular fell sharply, from 25.7% in 2008 to 11.4% in 2014. In absolute terms, the number of foreign executive directors fell from nine in 2008 to just four in 2014. The percentage of foreign supervisory directors fell from 24.3% in 2008 to 7.1% in 2012, but over the next two years it rose again to 19.0% in 2014. These new foreign supervisory directors also underwent suitability screening.

***Figure 7:* % of foreign executive directors and supervisory directors at the eight major banks and insurers**



7. Conclusions and closing remarks

In this article we described the background to a renewed suitability screening for executive directors and supervisory directors in the Dutch financial sector. One of the conclusions of the three advisory committees was that the existing system for assessing the suitability of executive directors and supervisory directors needed to become more stringent. Following this, the Dutch legislator decided that both executive directors and supervisory directors needed to undergo suitability screening for their specific roles. In addition, a greater emphasis was placed on integrity and suitability, on conduct and culture, and on the knowledge and skills of executive directors and supervisory directors.

This article focused on the 4+4 project. Between April and November 2012, the suitability of all supervisory directors of the four largest banks and four largest insurers was assessed on the instructions of the Dutch House of Representatives. This article demonstrated that the composition of the management boards and supervisory boards of these Dutch financial institutions has changed substantially since 2008. Notable findings are the fall in the average size of the supervisory boards from 9.3 to 7.3 supervisory directors, the increase in the percentage of female supervisory directors to 27.6%, and the recovery in the number of foreign supervisory directors, which showed a constant decline after 2008, started to rise again in 2012 and reached 19% in 2014. There has been hardly any change in the

average age of executive directors and supervisory directors, the average term of office or the size of the management board.

With regard to this change, the trend observed started as early as 2008, and the year when suitability screening was introduced seems to have had relatively little impact. In fact, the number of changes in the supervisory board in the period 2012-2013 is relatively low compared to the preceding and subsequent years. That said, the composition of the management boards and supervisory boards of the eight largest Dutch banks and insurers has changed in recent years. Many reforms have been introduced, particularly in the last year, and diversity seems to have increased. Whether these reforms actually had the desired effect of ensuring effective management and supervision will become clear in the next few years. Unfortunately, influential committees rarely produce reports on periods when things are going relatively well.

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