

Good Afternoon,

Today's theme is " Fit for the Future ". Top sport and business. It seems they have something in common. Companies like to associate themselves with sports: football , marathons , rowing, hockey , tennis , golf and cycling. Our three major financial institutions all have their own sport niche.

Marketing like to convince us that also sponsors are playing top-level sport and are ready and in top condition to serve the consumer.

However, motives are often questionable. It is all in the famous book The Prooi for you to read up why ABN AMRO wanted to sponsor the Volvo Ocean Race. It was about the glamour and the international image and ego . The Managing Board meetings were held in the ports of the race, Rio , Sydney , Southampton. It is of course a good marketing tool , especially to treat your best customers or attract new customers. But watch out, also on this subject the regulators are active. The UK Financial Conduct Authority is prohibiting financial institutions to invite clients to the Formula 1 Grand Prix in Monaco.

And what about ING, who thinks to sell more investment funds by hiring female swimmer Ranomi Kromowidjomo to promote them or who equates the performance of ING with the achievements of the Dutch National Football Team. It can go badly wrong. Sometimes, it seems as if the doping affairs of the RABO cycling team had more impact than the LIBOR scandal .

Also, the corporate sector discovered the elite athletes as coaches. It is with good reason that after my talk Hein Vergeer will give a speech. I am associated with BNR as a columnist and often I have listened to the inspiring stories of skater Ben van der Burg. Paul will certainly agree with me .....

During my time at University I was a fairly good middle distance runner. I was a member of top athletic club AAC and I was trained by a fanatical coach, Will Westphal, who already in the seventies knew that the only way to the top was to practice on a very systemically basis and where knowledge is power.

The sport has shaped me to what I am today and still does. My son spends five days a week on soccer and that is sometimes a challenge to schoolwork . Still, I encourage him to continue. Sports is also an investment in yourself, like school and I think that it can give you higher returns. You learn to overcome failure and that problems are there to be solved.

It has definitely contributed to the success of Alex Beleggersbank. Co-founder Rene Frijters and I both used the slogan: "A healthy mind in a healthy body " and we liked to contract athletes as employees.

So I seem to have this in common with Jelle, although our sports are quite different. I prefer the warm sun to get more flexible muscles, rather than frozen toes and fingers. However, skating produces really beautiful heroic images, that I will admit immediately.

By the way, I always thought the good cooperation between Alex and Optiver mainly came from our shared passion for good wines ...

But is it realistic to compare the world of sports to the one of business ? No, not really. Top sport is clear, straightforward, almost uncompromising with clear goals and a high level of ambition.

Any business would like to have that, but reality is different. In many companies , especially bigger ones, politics always creeps in and the objective to be achieved gets blurred. And in business, the ambitions of employees are very diverse.

Did all those investments in top sporting events make our financial institutions 'fit for the future'?

I 'm afraid I have to diagnose them as " unhealthy ".

What are current shortcomings of our financial sector ?

Almost too many to mention.

Far too large balance sheets, an inappropriate trust in internal risk systems, excessive investments in over priced government loans and subprime mortgages instead of productive debt, a deposit guarantee scheme that ultimately puts risk at the taxpayer, far too high hidden costs and perverse remuneration incentives by rewarding sales turnover instead of customer interest.

In November of 2012, a paper of Rens van Tilburg, a member of the Sustainable Finance Lab, a group of high level critics of the financial system, came out, entitled 'the Financial Overweight of the Netherlands'.

Please, do not jump into the stress mode directly, I know that the Sustainable Finance Lab wants to make us all civil servants, well, at least give us a civil servants salary, and make bonuses a relic from the past.

However, we should not disqualify the report right away. It puts the finger on a weak spot . The report reads like a summary of the Guinness Book of Records.

A few records.

Our banking system is much too large. The balance sheets of our 4 largest banks are four times the national income. For the five largest banks in the U.S., this is only half of the national income. And our banking system is much too concentrated. Nowhere in the world, the four largest banks have a market share of 90%. And we are the world record holder in mortgage debt. Fortunately, there is also no country that has saved so much pension assets.

Our banks suffer from financial obesity on the debit side of the balance sheet. And just like with humans where obesity can lead to diabetes, our banks also suffer from 'financial diabetes'. The insulin of the credit side of the balance sheet, common equity, is not created anymore and the patient needs to grab other instruments.

First, a few innocent pills were taken in the form of exotic hybride equity titles, but our patient was obstinate and did not adapt its lifestyle behaviours. Desperate, our patient knock on the doors of the foreign "bank-loan sharks ". However, these guys have a very short horizon and withdraw their money the moment they sense something is wrong. The result is that our patient collapses and ends up in hospital. The hospital decides the patient is too important to die, so only one solution remains: a substantial injection of 'State Insulin'.

No, our banks are not 'fit for the future'. The patient is now discharged from the intensive care unit, but kicking the habit of extremely high leverage ratios is slow and difficult .

And on top of that the patient ends up in discussion with the doctor and considers a leverage ratio of 3 % enough, while the European Federation of 'Financial Diabetes Experts' believe the banks really need a ratio of at least 4%.The aforementioned Sustainable Finance Lab is even much stricter and think banks should hold 10 % equity.

I have a degree in history and it enables me to put figures in perspective. Risk Weighted Assets Ratios of 30% and more were common before 1955, when these ratios were written in law. From 1955 onwards, the Dutch Central Bank decided on the solvency-rules. In 1975 the ratio was 10% and in 1985 approximately 6%. So the current low ratios are not unique and not due to 'psychopathic bankers behaviour'.

But OK, let's increase the pressure on the banks. My question is then, where does the money come from? One percent additional common equity is approximately 20 billion euros. In the Netherlands alone. And please don't compare the European banks with the U.S banks, because in the U.S, with its deep and sophisticated capital markets, it is much easier to raise equity. Perhaps our Finance Minister Dijsselbloem can lead the way and increase its stake in ABN AMRO or cancel his super dividend?

In the Netherlands, we have been punished disproportionately by the credit crisis. Three banks bailed out by the government and the fourth largest bank is in trouble by a serious fraud ?

And last week, the commission Hoekstra/Frijns was very critical of the Dutch Central bank and Ministry of Finance. The supervision was sloppy, slow and too accommodating. This was not the first time.

Professor Scheltema made the same observation in the DSB-case.

More and more I'm convinced that we are dealing with a cultural issue. Because of the international nature of our financial institutions, the Anglo-Saxon way of doing business entered our boardrooms. And unfortunately, only the benefits, like excessive bonuses but not its countervailing power: layoffs.

In the Netherlands we don't have, like in the U.S., an strict separation of investment banking and commercial/retail banks. In the 'universal banking concept', the two activities and their very specific cultures are mixed. To maintain a balance of power between both activities should be addressed in the Boardroom.

And although the TV series The Prooi was dreadful, especially compared to the book, the battle between these two planetary systems was clearly visible.

How do we get this patient 'fit for the future' ?

Politicians and Brussels mainly seek the solution on the credit side.

More buffers. So bankers and academics have vigorous debates about the definition of a buffer and the percentage of the different types of buffers.

I prefer to look at the debit side.

First, the largest banks have on average a large diversified loan portfolio. Just adding up all assets is of course a very simple and straightforward solution, but it gives no merit at all to the specific knowledge of banks. And a loan to Royal Dutch is different from a mortgage.

On the other hand, in my view, banks need to slim down and get rid of the anabolic steroids. The balances should be smaller, 'too big to fail' should be 'too fit to crumble'. And loans should become productive again, so fewer mortgages and more corporate loans.

It's going to happen. Through compulsory and voluntary sales of activities. Through automation which will strike the front office functionality of banks. And through, I hope, our regulator and supervisor, who now finally is going to bet on competition and permits new innovative parties.

And then to conclude this chapter. The European regulators finally discover the 'skin in the game'. It is Nicholas Taleb's idea. In plain Dutch: "Those who burn themselves should sit on the blisters'. In technocrats jargon: the bail-in. It is about time and is partly applied to rescue SNS REAAL .

At Optiver you do not know otherwise. You put your own capital at risk and lose it when too much risk is taken. Tax-payers, the darling pet of the politicians, will never need to jump in.

To act with 'skin in the game' the company must be 'super fit' and also its employees. And to continue in sports terms. Companies like Optiver and his major competitor, IMC, are world champions.

But the circumstances are therefore ideal at Optiver. A very transparent environment, albeit for the employees, not for the world at large; strictly controlled (I was not even allowed inside); very like-minded people all with one goal in mind: to be the best.

And I see another striking parallel. Athletes always want faster, everything aside to go that 0.01 second swifter.

And it is exactly this attitude that is being criticized by politicians and most of the media.

Because which definition you use, Optiver belongs to the guild of 'high frequency traders'. And to give my view right away, for principle and for commercial reasons, I don't have any problems with "high frequency traders".

Not everyone shares my view.

Columnist Mathijs Bouman of RTL Z and "Het Financieel Dagblad" thinks it is a 'brilliant' proposal when orders are not being handled in order of entry anymore. The advantage of the fast computer would disappear. With a straight face this columnist defends the statement that it is a good thing "that the order which enters first has just equal chance to be executed first as the order given a few milliseconds later". Bouman considers the investments in faster connections a waste of money.

I do not want make Bouman look ridiculous, but from where does he get the arrogance to write that fast connections could better be used to download the last episode of 'Game of Thrones' or to upload the latest cello suites by Bach.

Are these elitist talks from a columnist who was short of copy or wise words?

But also politics have a clear voice. Member of Parliament of the Labor Party Mr. Nijboer had questions asked in Parliament and demanded that HFT be curtailed, because flash cowboys ' threaten the real economy .'

I want to look at this problem from two sides.

In the first place, that nostalgic cry for less speed. It reminds me of the farmers in 1839, who were against the steam train between Amsterdam and Haarlem. Should we return to the stagecoach, Mathijs Bouman ?

Everything should accelerate, that is human nature, that gene is not only in elite athletes. Look at our mobile phone. From 1G to 4G and that is a good thing. And we all want more computer processing power. I saw the first computer at AMRO in 1983 and do not want to go back. How many people do not complain about the 'slow' transfers of money by banks. And I can tell you, that I am very pleased with the high speed drill of my dentist.

Brokerage is pre-eminently a sector that has been reformed completely by technology over the past 20 years. That was not due to the HFT, they have benefited. It was the answer to the requests from clients for faster and fair pricing.

I like to quote Bomhof from an article in NRC in November 1992:

"On the stock Exchange on other hand, the customers – investors and pension funds – have nothing to tell, because the power rests with the direct stakeholders who work there: the Amsterdam Stock Exchange is the only zoo where the penguins are in charge. In the interior the penguins –jobbers and other traders – do not tolerate any competition, so everyone who wanted to go to the zoo had to go to Amsterdam."

A year later, the electronic order book was a fact and power shifted to the customer. It was the start of the VEB Bottom-Line, the predecessor of Alex Beleggersbank.

And Thomas Peterffy , founder of Interactive Brokers experimented sometime in 1995, with predecessors of the current iPads. He was therefore faster and automated the manual work .

In recent months the debate about the impact of technology has again flared up. See, the recent article by economist Bartelsman in "Het Financiële Dagblad":

'in 30 years half of the "existing" jobs will disappear tanks to robot technology'.

In the securities business we say " what's new " ?

Alex first eliminated the sub-contractor in the branch and is now eliminating the financial advisor through Alex fully automated asset management product.

Back to Bouman and Nijboer. They do not answer the fundamental question, so who will then determine which order to be executed first? The Supreme Being or the regulator? I do not hope so. I prefer the guarantee of an unbiased chronometer .

It's as if I were to say to Hein Vergeer: "sorry Hein, four years of hard training, but today, the jury decides that no. 2 wins."

But the views of Bouman and Nijboer might be wrong from an empirical point of view. Because of the famous "flash crash" in 2010, the Dow lost 10 % in half an hour without any reason, many empirical studies on HFT were executed.

The overwhelming conclusion is that HFT increased liquidity and reduced cost of trading sharply. And participants like Optiver, who prefer to see themselves 'market maker' rather than HFT, did not withdraw in times of great volatility, and therefore did not destabilize the market.

One of the biggest pension investors in the world, Vanguard, has calculated that by the sharp fall in transaction cost, a pensioner will earn 30% more pension. Hey Mathijs Bouman, the welfare gain of HFT is nihil?

Should we ignore all criticism ? Even the above-mentioned Peterffy is worried. And I can understand that. It's the fight of machine to machine, and even for insiders, it is an intangible market and the number of orders/transactions and the speed is sometimes beyond our comprehension.

An example:

In an article in Forbes the 'ticker tape' was analysed on a day that poor Labor market figures were published. When the clock pointed out 8:30:01, so that is one second after publication, thousands of trades were done. And we do even not talk about quotes, because then you talk about 2 million per second.

It is no longer about the question whether people are 'fit for the future', but whether the machines are. The Brave New World by Aldous Huxley finally arrived .

How bad is this? And for whom this is a problem ?

Of course for the "daytrader". Bad luck for them. I would say, invest in high-speed connections too.

As a private investor, this has never really intrigued me. The spread goes to the provider of liquidity. It should be the intention of the investor to benefit from the shift in stock prices.

Apparently some institutional investors do not agree. Alex Otto, investment manager at Delta Lloyd, designated by "Het Financiële Dagblad" as Mr. 5 %, complains about the HFT.

The poor asset manager can no longer place an order without computers noticing and responding. Well, if the computer gives a better price, you improve that price .... or not, that is called investing 2.0.

Yes, it's annoying that you cannot trade in secret anymore. We, as investors, call that transparency. Who believed that the floor-based jobber never made a quick phone call if a large buy order arrived .....

Otto and also the ABP rather prefer the "dark rooms " of investing. This unregulated and non-transparent off-exchange trading is under discussion just like HFT. Strangely, I also don't have any difficulty with 'dark pools' , provided the deals are published. If two parties agree on a price, why would they not be allowed to do business as long as there are no entry barriers.

Our pension investors should not worry about the HFT. They invest for the long term. In terms of skating: they practice marathon skating, not the in-line skating .

Gradually, I have to finish my presentation.

I know, it's a farewell party, and I don't want to spoil the party. But I allow myself a few constructive criticisms, especially when a company like Optiver wants to be 'Fit for the future'.

Last week, euro commissioner Barnier prohibited the 30 largest banks to do "proprietary trading ". That closes a pipeline of potential liquidity. In the U.S., nearly 100 % of the retail orders are being internalized.

This gives an even greater responsibility to parties who have been allowed to continue proprietary trading, like Optiver and IMC, to give relevant and transparent quotes on a continuous basis.

And thus the regulator must be very alert to strategies like 'buy the order flow' and 'quote stuffing'.

And especially risk management should get all the attention to avoid events like the 'Flash crash'. And don't say that it's already being done, because the consumer has heard and seen enough in the past to know that that is a gotspe.

In the security business, it's ultimately all about free and equal access to markets and information.

In this context, the term 'inside information' is given a complete different meaning. Reuters Thomson is being accused of giving labor market data earlier to players that are willing to pay. The HFT would have received the data 2 seconds earlier; 2 seconds, that must feel like eternity for HFT.

The fact is that Reuters Thomson say that it were 'only' 15 milliseconds and that it was the result of synchronization of the clocks of Reuters and U.S. Labor Department. Nevertheless, 15 milliseconds is also an awful lot of time. And it makes you wonder, how this problem can be addressed.

Perhaps the stock exchanges and the information suppliers should connect to the atomic clock at the National Institute of Standards and Technology. This clock can divide one second into 430 biljoen particles. HFT "eat your heart out !"

At this very moment I even get sympathy for Mathijs Bouman; and the Regulators of course.

In their defence Optiver says that it has no customers. Strictly speaking, that is true, but the partnership with BinckBank in the alternative trading platform TOM, puts Optiver more into the limelight.

And to avoid misunderstandings, I 'm a fan of TOM . In fact, Jelle, Rob Staalstra and I, were at the very heart of the creation of the idea. I still smile when I think the idea got real at "Beursplein 5" 'in the lion's den' so to say.

The desire of the authorities to prohibit big banks to do "proprietary trading" and to restrict 'over the counter' trade will only benefit businesses like Optiver.

But you can be certain that society at large will demand a certain openness on your part. Not only behind the screens, but also in the public domain. Don't make the mistake, the banks made!

And Optiver does not need to feel ashamed, it's not a company for mediocre people satisfied with a six, only the best are contracted and may therefore be paid as 'tens'.

Show us customers that you are 'fit for the future' !

Thank you very much for your attention.