Retail banking market investigation

Dutch retail banking market case study

31 July 2015

This is one of a series of consultative working papers which will be published during the course of the investigation. This paper should be read alongside the updated issues statement and the other working papers which accompany it. These papers do not form the inquiry group's provisional findings. The group is carrying forward its information-gathering and analysis work and will proceed to prepare its provisional findings, which are currently scheduled for publication in September 2015, taking into consideration responses to the consultation on the updated issues statement and the working papers. Parties wishing to comment on this paper should send their comments to retailbanking@cma.gsi.gov.uk **by 14 August 2015**.

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Executive summary

1. This paper is a review of recent regulatory studies in the Netherlands which looked at the retail banking market. The aim is to identify any relevant insights which may be useful for the CMA's investigation in the UK.

2. The three studies we considered were carried out by the Netherlands Authority for Consumers & Markets (ACM) and the Dutch Central Bank (DNB) in 2014 and 2015, on the Dutch retail banking market, specifically:

   (a) *Barriers to Entry in the Dutch Retail Banking Sector* (ACM, June 2014);

   (b) *Competition in SME Loans* (ACM, June 2015); and

   (c) *Structure of the Dutch Banking Sector* (DNB, June 2015).

3. The Dutch retail banking market displays many similar characteristics to the retail banking market in the UK, including:

   (a) high level of concentration in key product markets (eg PCAs and SME loans);

   (b) a number of large, systemically important banks, some of which required government assistance following the financial crisis;

   (c) low levels of customer switching in the PCA, savings, and SME loans markets;

   (d) complex national and European regulatory frameworks; and

   (e) high levels of consumer technological savvy and an increasing use of digital banking.

4. When comparing the Dutch and UK markets at a more granular level, there are clear differences (eg the Netherlands does not use the 'free-if-in-credit' (FIIC) PCA model, political interventions such as the Dutch giving tax relief on mortgages, and higher population density in the Netherlands), but the Dutch market remains a reasonable comparator to the UK, and this view appears to be corroborated by the Dutch regulators (ACM and DNB), who have closely observed recent initiatives implemented in the UK.

5. In their studies, the regulators considered a number of areas which may be reducing the level of competition in the Dutch market, resulting in worse outcomes for customers. A number of the findings provide useful insight for our investigation:

(a) customers who pay for their current accounts remain relatively price insensitive;

(b) new entrants are not providing sufficient competitive constraint on incumbents;

(c) there are distortions from the implicit government guarantee provided to the large banks ('too big to fail') and capital holding requirements (limiting supply for loans); and

(d) there is poor transparency of information for customers, particularly SMEs, which results in lower searching/switching activity.[1] At the same time, the publishing of some partial information risks tacit coordination occurring between the major banks.

6. There were also a number of relevant areas which were found not to represent significant barriers to entry:

(a) a national branch network is not a barrier to entry in the market due to the increasing digitalisation of banking and digital operating model of some new entrants;

(b) IT and marketing costs are relatively high, but not prohibitive, and therefore, they do not constitute a barrier to entry; and

(c) third parties can provide credit information on SMEs, and therefore, access to this information is not a barrier to entry.

7. We intend to consider the work of ACM and the DNB in the context of our market investigation, remaining particularly aware of the different circumstances which may exist in the UK compared with the Netherlands.

Introduction

8. The purpose of this case study is to the review the recent work of the ACM[2] and the DNB[3] on the Dutch retail banking market, in order to assess the extent to which (if any) of its findings and recommendations may be relevant to the UK retail banking market and our market investigation.

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[1] The ACM has launched a cost-benefit analysis into European account number portability, which it believes could improve switching.
[2] ACM (Autoriteit Consument & Markt) is the primary competition authority in the Netherlands, providing consumer protection and market oversight.
[3] DNB (De Nederlandsche Bank) acts as both the central bank of the Netherlands (with duties regarding monetary policy), but has additional regulatory duties such as banking license authorisation.

9. In June 2014, ACM reported that the financial crisis had led to increased concentration in an already concentrated Dutch retail banking market.[4] It was concerned that this indicated a lack of competition which would have a detrimental impact on personal banking customers and SMEs, so it carried out a study to investigate the level of barriers to entry or expansion.[5]

10. More recently, ACM conducted another study looking specifically at the SME loans market (including overdrafts from business current accounts (BCAs)), which it published in June 2015.

11. The DNB also recently published (June 2015) a report considering the structure of the Dutch banking sector, and its effects on diversity and competition.

12. This case study will mainly focus on the first ACM report published in June 2014, whilst considering the findings from the other two reports where relevant to our investigation.

Outline

13. In this case study, we:

(a) give an overview of the Dutch retail banking market, in particular its size, the levels of concentration, consumer behaviour and relevant trends in price and margins;

(b) summarise the findings of ACM's June 2014 study with respect to barriers to entry and expansion in the Dutch retail banking market;[6]

(c) discuss the relevance of these barriers to entry and expansion to our current market investigation, as well as the relevance of ACM recommendations to reduce or eliminate these barriers to entry and expansion for the consideration of remedies if appropriate;

(d) summarise the findings from ACM's study into the SME loans market in the Netherlands; and

(e) summarise the findings from DNB's study into the structure of the Dutch banking sector.

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[4] ACM (June 2014), *Barriers to Entry into the Dutch Retail Banking Sector*, p11.
[5] ACM defined barriers to entry as 'that which causes a smaller margin between the expected profits of entry and the sunk costs [cost incurred that can no longer be recovered]', as defined in ACM report (June 2014), p15 and the accompanying footnote.
[6] This summary includes those barriers to entry that ACM considered but subsequently dismissed.

Overview of the Dutch retail banking market

Overall market features

14. The Dutch banking market is large relative to the country's gross domestic product (GDP). For example, ACM's report estimated that the combined balance sheet of Dutch banks was four times the GDP of the Netherlands, whilst the average for Europe was approximately three times.[7]

15. It is also highly concentrated, with the three largest participants (ABN AMRO,[8] ING Bank, and Rabobank) being designated as 'systemically important'[9] and estimated as having over 80% share of the total retail banking market in 2011 (and 94% of PCA market from 2002 to 2012). Following the financial crisis, a number of prominent subsectors, such as mortgages, appear to have become even more concentrated due to a combination of mergers, bankruptcies and international banks scaling back their activities.[10] See Appendix 1 for estimated market shares of the different banks in the Netherlands.

16. ACM noted that in the period 1990 to 2007, Dutch banks became increasingly active internationally by acquiring foreign banks (eg British Barings Bank acquired by ING Bank).

17. Dutch consumers are generally digitally-savvy, having one of the highest percentage of internet users in Europe (94%) vs an average of 77% for the EU and 90% in the UK. In banking, online penetration in the Netherlands was the highest in the world at around 66% in 2012, with the UK reaching 53%, and the European average at 39%.[11]

18. There is significant public and political interest in the level of remuneration which senior management at these banks receive, for example, the recent announcement of large pay rises for state-owned ABN AMRO's management

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[7] UK equivalent is roughly five times; DNB (June 2014), *Structure of the Dutch Banking Sector* (in Dutch), p13 ('Verenigd Koninkrijk' = UK).
[8] The RFS (a consortium of banks including RBS, Santander, and Fortis) acquisition of ABN AMRO in 2007 resulted in the Dutch assets of ABN AMRO largely being acquired by Fortis. RBS received some small components which were subsequently sold or closed. After the nationalisation in October 2008, the Dutch government merged the Dutch activities of ABN AMRO and Fortis. In 2009 the merged entity continued under the name ABN AMRO.
[9] The report describes a systemically important bank as one where its bankruptcy would endanger the financial system and cause considerable damage to the real economy; ACM report (June 2014), footnote 6. A fourth, smaller bank (SNS Bank) was also designated as systemically important, primarily due to the large amounts of (guaranteed) Dutch savings it holds.
[10] ACM report (June 2014), p11.
[11] KPMG (April 2014), *Barriers to Entry, Growth and Exit in the Retail Banking Market in the Netherlands*, p14; internet penetration figures updated to December 2013 using the same source (Internet World Stats) and used to obtain comparison figures for other countries UK and Europe online penetration retrieved from the same article as used by the ACM.

caused such a public outcry that it even delayed a potential IPO (initial public offering).[12]

Impact of financial crisis

19. The financial crisis had a particularly adverse impact on the Dutch retail banking market.[13] For example:

    (a) the state nationalised the Dutch segments of Fortis/ABN AMRO;[14]

    (b) domestic banks have reduced their range of services, partly driven by a decline in demand for products such as mortgages and SME loans. The domestic banks' combined balance sheets declined by 18.7% from 2008 to 2013;[15]

    (c) foreign banks which had a presence in the Netherlands have also scaled back operations to concentrate on their domestic markets (with more stringent capital holding requirements resulting in deleveraging, often through reduction of international activities);[16] and

    (d) there has been an increase in regulatory and legal requirements to mitigate a reoccurrence of the crisis.[17]

20. The Dutch government had to step in with a number of measures, such as nationalising certain assets, creating a capital injection facility for distressed banks and implementing a guarantee scheme for lending.[18]

Personal current accounts (PCAs)

21. **Overview:** Like much of Europe, and unlike the FIIC banking model in the UK, PCAs in the Netherlands require the account holder to pay a monthly fee. This can vary from €15/year to €160/year, but averages as around €70/year.[19]

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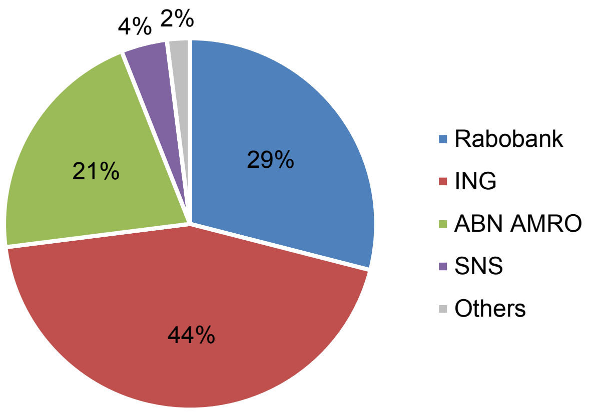
[12] Reuters (March 2015), *ABN AMRO remuneration committee head resigns over pay row*.
[13] Based on European Commission approved state aid for the financial crisis, the Netherlands requested 53.8% of its 2013 GDP in recapitalisation, asset relief, and guarantees/liquidity measures. This compares with 46% for the UK, and 44.1% average for the EU.
[14] ACM report (June 2014), p8; remains 100% owned by the state, but is considering an initial public offering (IPO).
[15] ACM report (June 2014), p20.
[16] ACM report (June 2014), p21.
[17] ACM report (June 2014), pp5 and 22.
[18] The European Commission allowed this state aid subject to a range of conditions (eg ING Bank was compelled to split into a separate bank and insurer, whilst other supported institutions had price leadership restrictions placed on them).
[19] €15/year based on ASN bank (part of SNS); €160/year based on Knab; estimates provided by ACM in response to CMA working paper. Average estimated as cost of a current account by users (those who did not answer 'do not know'), GfK (April 2014), *Consumer Survey on Personal Current Accounts*, p26. It should also be noted that there is some limited evidence that the cost of other PCA-associated services may be lower to offset

ACM also stated that European studies have shown that PCAs act as a gateway for other functional products, allowing for cross-sell opportunities.[20] ACM's own survey appeared to corroborate this by showing that consumers deposited the majority of their savings in the same banks as their PCA.

22. **Size:** There are 15.5 million adult PCAs in the Netherlands (compared to an adult population of around 13.4 million).[21] This implies an average of 1.16 PCAs per adult, although 70% of adults only had a single account.

23. **Concentration:** The PCA market in the Netherlands is highly concentrated, with the three major banks having an estimated 94% of the market (the largest four providers have a 98% market share). Figure 1 shows average market share estimates for 2002 to 2012.

Figure 1: Dutch PCA market shares based on number of existing accounts, 2002–12



Source: ACM (June 2014), *Barriers to Entry into the Dutch Retail Banking Sector*, Figure 21, p75.

24. **Margins:** Due to cost allocation issues, the margins on PCAs are very difficult to determine. ACM referenced some older analysis[22] which indicated that PCAs were loss making (estimated as €642 million across the industry), although it commented that even in this analysis some of the cost allocation assumptions were unclear, and that across PCAs and BCAs combined, the banks appeared to break even.

25. **Consumers:** Numerous studies have shown that consumers rarely switch their PCAs. In its 2014 study, ACM stated that 73% of PCA customers had

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this, for example, overdraft costs – see CEG (June 2014), *Overdrafts on Personal Accounts: A Study into Market Power* (on behalf of ACM report (June 2014)), paragraph 30.

[20] ACM quotes the Competition Commission, Office of Fair Trading (OFT), and European Commission as sources for this characteristic.

[21] Dutch population by age pyramid.

[22] ACM report (June 2014), p75. In 2006, on the instructions of the Netherlands Bankers' Association (NVB) and DNB, McKinsey conducted research into the expenses and revenues of providing current accounts. In 2010, the NVB performed an update on the basis of an extrapolation of the information from 2006 which reached roughly the same conclusions as the original study.

never switched banks, whilst another 24% had only switched once. On top of this, 35% of PCA customers stated that they would not switch PCAs for any price discount.

26. **Entrants:** There have been two recent notable entries into the PCA market, Triodos Bank (2006) and Knab (2012). However, combined, these players still have less than 2% of the market.

27. **Policy:** In 2004, the Dutch banks introduced an Interbank Payment Switching Service (IPSS) which aimed to ensure that direct debits and payments were forwarded to the switcher's new current account for 13 months. ACM stated that usage of the switching service is low, with only 60,000 to 100,000 PCA customers (ie less than 1% of all PCA customers) using the service per annum. It believes that this is partially driven by relatively low levels of awareness (only 37% of consumers are aware of the service, and half of these only know it by name), as well as ambiguity as to whether a customer's old current account needs to be kept open for the switching period (incurring a monthly charge for doing so). The IPSS was introduced instead of account number portability due to the alleged high costs of implementing the latter. However, ACM reported that advice at the time (2002) from NIP Capital[23] implied that account number portability could be implemented relatively easily and at low cost, and has launched a cost-benefit analysis of European account number portability.

Personal savings

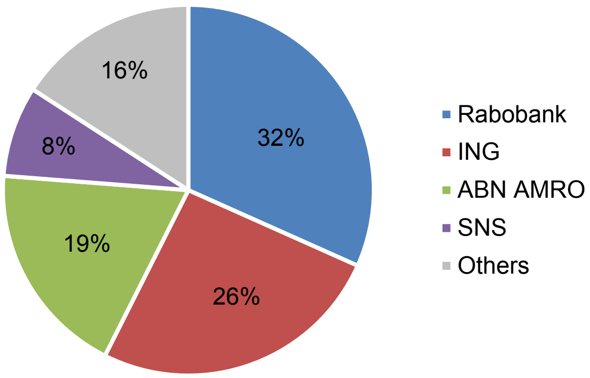
28. Although not included in our market investigation, personal savings were considered by ACM in its study on barriers to entry, and any conclusions were included in its recommendations. Therefore, this section is provided both to aid understanding of ACM's report and recommendations and to provide a more complete view of the overall similarity (or not) of retail banking in the Netherlands compared with the UK.

29. **Size:** The total value of Dutch savings is around €320 billion, which has been growing at approximately 6% per annum since 2004 (slightly slower since the financial crisis). The majority of this is held in instant-access accounts rather than fixed term products.

[23] Analysed the ease of implementation of account number portability, to provide evidence to the market forces, deregulation and legislative (Marktwerking, deregulering en wetgevingskwaliteit) parliamentary working group.

30. **Concentration:** The savings market is relatively concentrated with the three major banks having around a 77% share (the largest four providers have around an 84% share). Figure 2 shows market share estimates from 2011.

Figure 2: Dutch savings market shares, 2011



Source: ACM report (June 2014), Figure 18, p67.

31. **Price:** The interest rate in the Netherlands is relatively high compared with neighbouring countries (eg on average 60 basis points higher than Germany), and has remained so over the past 10 years. This is usually linked to the large 'funding gap' in the Netherlands (the outstanding balances on mortgages and loans is greater than the value of customer deposits). ACM also noted that the interest rates offered by the major banks is 'structurally lower' than that offered by smaller banks (around 50 basis points).

32. **Consumers:** Consumer behaviour appears polarised; there is a large group of consumers who are not price sensitive and rarely switch (most are with the major banks), and a small group who actively look for the highest rates and will switch regularly to get these.

    (a) A survey showed that half of consumers had never switched their savings accounts.

    (b) When questioned, one major consideration consumers had around switching was concern for the safety of their savings.

33. **Entrants:** Although there have been some new entrants into the market, the combined share of these players remains below 2%.

34. **Policy:** The Dutch government has a deposit guarantee in place which almost all banks in the Netherlands are subject to. This protects up to €100,000 of savings. However, many consumers are not aware that the deposit guarantee scheme applies to (almost) all banks in the Netherlands. Furthermore,

national legislation limits banks from promoting the deposit guarantee scheme in their marketing material.

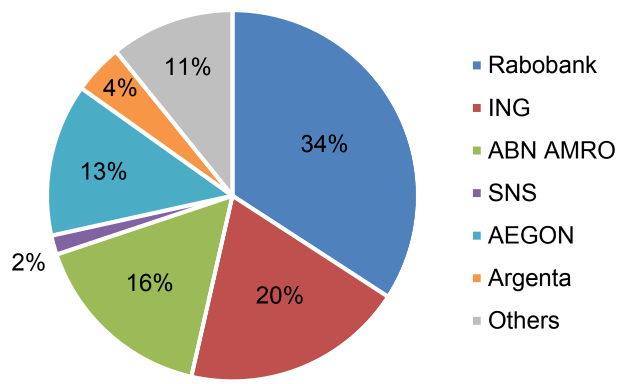
Mortgages

35. As with personal savings, mortgages are not included in our market investigation, but were considered by ACM in its study on barriers to entry. Again, we are including this section to aid understanding of ACM's report, and to provide a more complete view of the overall similarity (or not) of retail banking in the Netherlands compared with the UK.

36. **Size:** The outstanding mortgage loans to Dutch households was about €540 billion in February 2014, which accounted for approximately 30% of total lending in the Netherlands.

37. **Concentration:** The market is relatively concentrated, with the three major banks granting around 70% of all mortgage loans (the largest four providers grant over 80%). Figure 3 shows market share estimates.

Figure 3: Mortgage market share in Oct 2012 based on new mortgages



Source: ACM report (June 2014), Figure 13, p61.

38. **Price:** ACM noted that compared to its European neighbours, the Netherlands has relatively high mortgage rates, which have also dropped significantly less than neighbouring countries over the past 10 years. ACM acknowledged that interest rates depend on many factors rather than just competition.

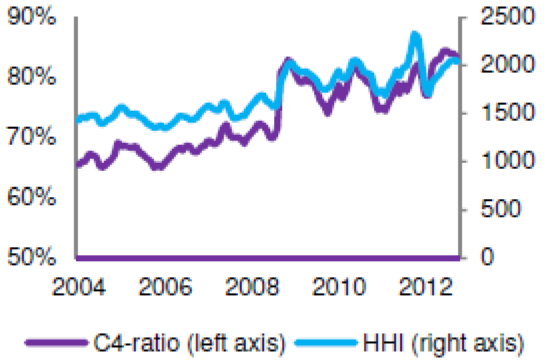
39. **Margins:** In an earlier report (2013), ACM specifically investigated how mortgage margins had evolved in the past 10 years, finding that these had increased since the beginning of the financial crisis. It concluded that a

combination of capacity constraints and lack of threat of new entrants had allowed incumbents to increase their margins.[24]

40. **Consumers:** ACM has also carried out an investigation into consumer switching behaviour which found that although switching costs were considerable, 60% of respondents believed that switching was easy or very easy, whilst only 9% considered it difficult or very difficult.

41. **Entrants:** Despite increasing margins, there have been barely any new providers entering the mortgage market whilst a number have withdrawn (eg GMAC and BNP Paribas) resulting in increasing levels of concentration, as can be seen in Figure 4 below.

Figure 4: Evolution of concentration ratios[25] in the Dutch mortgage market



Source: ACM report (June 2014), Figure 16, p62.

42. **Policy:** In the Netherlands, it is common to have high loan-to-value (LTV) mortgages due to incentives such as interest tax relief and a National Mortgage Guarantee. There is ongoing political debate around whether this is significantly distorting the market, and whether the laws should be changed to address this (eg by reducing this incentive or place a cap on LTV).

SME lending[26]

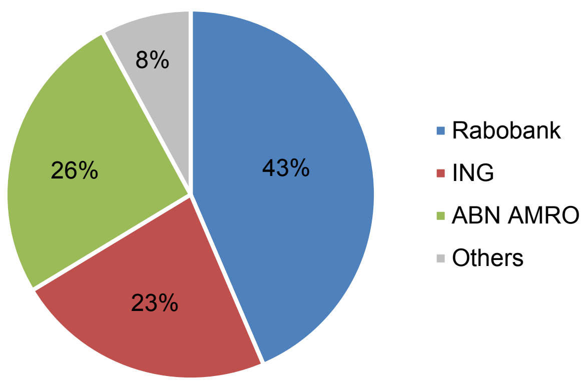
43. **Size:** Since the financial crisis, SME lending has been declining, with an estimated drop of 12% in loans by value from the start of 2010 to the end of

[24] ACM report (June 2014), p62; ACM specifically noted: 'The margins in oligopolistic markets with capacity restrictions are generally higher, as the capacity restrictions limit the opportunities for competitors to discipline each other'.
[25] The C4 ratio is defined as the sum of the market shares of the four largest lenders. The Herfindahl-Hirschmann Index (HHI) is defined as the sum of the squares of the market shares of all providers in the market.
[26] SME lending was the only area of SME banking considered in depth in the ACM report (June 2014). ACM did not focus on BCAs or other SME banking products, although the survey they conducted did include questions about BCAs.

2012. Possible reasons for this are that credit risk may have been increasing, and/or that there has been increasing capacity constraints on supply.

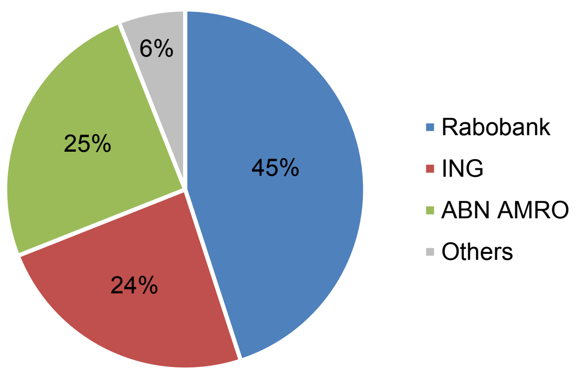
44. **Concentration:** 80% of Dutch SME lending is provided by a bank. Of this lending, the three major banks have a 92% share. Figure 5 shows market share estimates for SME lending in 2014. The share of BCAs appears very similar, with the three major banks having a 94% share, as can be seen in Figure 6.

Figure 5: Dutch SME bank lending market shares, 2014



Source: ACM report (June 2014), Figure 8, p53.

Figure 6: Dutch SME BCA market share, 2014



Source: GfK (April 2014), *Survey on Lending and Current Accounts for SMEs*, p21.

45. **Price:** ACM obtained data on the interest rates of newly provided business loans worth less than €1 million, which it states as being most relevant to SMEs. The data shows a decline in price since 2009.[27] However, ACM also investigated the expected profit margins made on these loans, and concluded

[27] ACM SME loans report, p17 (in Dutch).

that these have increased since 2011 and are relatively high in 2013 and 2014.

46. **SMEs:** There is no direct data available on levels of switching of SME loans. Instead, ACM relied on the fact that most SMEs opt for financing from their BCA provider, and 71% of SMEs have never switched their main BCA. This implies that SMEs rarely switch their loan provider. This is corroborated by the fact that around 75% of SMEs only ask for one offer, indicating little searching and switching behaviour.

47. **Entrants:** There have been a very limited new entrants into traditional bank SME lending,[28] however, there have been some exits from the market, such as Deutsche Bank mostly withdrawing from this service (only targeting specific niches). The ACM report specified that there had been growth in the form of new financing options – such as crowdfunding, credit unions and angel investors – however this growth was limited.

48. **Policy:** ACM noted that current laws do not differentiate between credit unions and traditional banks. Therefore credit unions were encumbered with the same regulatory burdens (eg capital requirements) as banks, which was not reflective of the level of associated risk. Following ACM's publication, the Dutch government introduced new, less strict regulation for credit unions, and is in the process of considering the regulatory framework for other alternative finance providers such as crowdfunding.

ACM's June 2014 study on 'Barriers to Entry into the Dutch Retail Banking Sector'

Purpose of the study[29]

49. ACM stated that the degree of competition in the Dutch banking sector was already suboptimal before the financial crisis and became worse from then on. It believed that the entry of new market participants in the Dutch banking sector, or the threat thereof, could encourage more competition.

50. Since removing or lowering the barriers to entry makes it easier for such new entrants to become active in the Dutch banking sector, ACM conducted its study to identify the main barriers to entry.

[28] For example, Svenska Handelsbanken became active on a national scale in 2012, but chose to grow at a very slow rate.
[29] ACM report (June 2014), p23.

51. ACM believed that ultimately, additional competition would result in lower prices, better quality, increased innovation, and more lending to consumers and firms.

52. Appendix 2 includes details on ACM's approach and methodology when completing its study.

Summary of findings and recommendations

53. ACM made nine official recommendations. However, there was also significant additional detail and discussions within the report both on these areas and other areas which were considered as potential barriers, but ultimately determined not to be.

54. Table 1 (below) provides a summary of ACM's nine recommendations, and the issues they were intended to address. Appendix 3 includes a full list of potential barriers which ACM considered, details on why it believed these might be an issue, and its rationale in reaching a conclusion on whether they represented a barrier to entry or not.

55. The report also highlighted that stability and competition were not mutually exclusive, and that they could coexist, provided there was adequate prudential regulation.[30]

[30] ACM report (June 2014), Box 1 and p10.

Table 1: ACM perceived barriers to entry, and recommendations

	Barrier	*Impact on competition*	*ACM recommendation*
1	Implicit guarantee for systemically important banks	The implicit guarantee lowers financing costs vs competitors (estimated as 67 to 121 basis points)	Advocate for the improvement of the European resolution mechanism
2	Lack of single European deposit-guarantee scheme	Concern around whether domestic tax-payers of the headquartered country would be required to pay out for foreign national guarantees (eg Icesave)	Advocate for a European deposit-guarantee scheme
3	Complexity of regulations	High sunk (and often fixed) costs of regulatory compliance, which is continuing to increase	Strive for simplicity in laws and regulations at a national and European level
4	Banking license application process	Complex application process, with limited guidance available. Also some perception that the regulator is not very supportive	Simplify, increase transparency of banking license application process
5	Disproportionate regulatory requirements on small banks	Lack of regulatory differentiation results in new/smaller competitors being as heavily regulated as incumbents, despite the more limited associated impact of a default	Differentiate regulation depending on risk of institution
6	Barriers to SME lending including concentration, low switching, and possible capacity constraints	Large incumbency advantage for major banks	Less stringent supervision of credit unions
7	Regulatory uncertainty (particularly in the mortgage market)	Uncertainty around the regulatory environment increases risks, resulting in a lower likelihood of new entrants	Minimise uncertainty around regulatory changes
8	Consumer inertia in savings, with consumer concern around safety of savings being a major contributory factor	Concern around safety of savings gives major banks a perceived (but false) advantage over other competitors	Greater publicity about Deposit Guarantee Scheme
9a	Consumer inertia in PCAs	Lack of consumer switching restricts ability for new entrants to grow to sufficient scale, particularly where there are high fixed costs	Review account number portability (using independent assessment, and including additional products for which PCAs act as a gateway)
9b			Improve and publicise switching service

Relevance to UK investigation

56. In its report, ACM made numerous comparisons and/or references to the UK when discussing its views, including on:

(a) Licence application process (example of better process).[31]

(b) Differentiated regulatory frameworks for credit unions (example of better practice in England).[32]

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[31] ACM report (June 2014), p45.
[32] ACM report (June 2014), p57.

(c) Switching service familiarity (higher levels of awareness).[33]

(d) Consumer inertia (potential to be a barrier).[34]

(e) The potential need for branch networks (potential to be a barrier).[35]

57. This could imply that ACM saw the UK not only as a useful comparator, but potentially also as a leader in some areas.

58. In addition, the Dutch retail banking market appears to display a number of similar characteristics to the UK (eg large size and high levels of concentration), albeit with some differences (eg policy in certain areas such as mortgages[36] and smaller geographic size than the UK).

59. There are a number of specific findings which may be useful to consider in our market investigation, particularly regarding potential barriers to entry/ expansion:

(a) Concerns around the implicit guarantee of major banks (too big/important to fail).

(b) Price sensitivity remains low, even when paying for PCAs (rather than FIIC). Similarly, the banks rarely compete in this area.

(c) ACM's view that a branch network may not be a requirement for entry into banking services for PCAs or SMEs.

(d) ACM's view that, although an IT platform and marketing spend can represent relatively large costs, they are not prohibitive and are a fundamental part of entering the market. Therefore ACM did not feel the need to make any recommendations for these.

(e) Access to SME customer information was not seen as a significant barrier to entry, as this information is available to buy from third party providers.

[33] ACM report (June 2014), p83.
[34] ACM report (June 2014), pp69 and 76.
[35] ACM report (June 2014), pp55 and 62.
[36] For example: interest tax relief and national mortgage guarantee.

ACM's June 2015 study on SME loans

Purpose and scope of the study

60. SMEs are an important part of the Dutch economy and, since the financial crisis, the monetary value of SME lending appears to have decreased, leading to concerns from economic observers and politicians of a lack of competition in the market.[37]

61. The ACM's investigation aimed to assess the degree of competition in the SME loan market, focusing on traditional loans and BCA overdrafts, between January 2007 and September 2014.[38]

Summary of findings

62. ACM made a number of observations regarding the market:

    (a) 92% of SME bank loans and 85% of total SME financing were provided by the three major banks (ABN AMRO, ING Bank, Rabobank). These market shares had remained relatively consistent over the past 10 years.[39]

    (b) 70% of small business and 55% of medium business only applied for a loan to their main bank (defined as the bank where the company has its primary BCA).[40]

    (c) The bank loan application process took around one month to be approved and issued. It was only near the end of this process that the SME saw the full terms of the loan (including the price).[41]

    (d) The SME's primary goal was to secure funding, so they tended to accept the offer from their main bank. There was little evidence of shopping around for a better deal.

    (e) Many SMEs valued the relationship they had with their account manager/adviser, although this was less important than it used to be, due to the increase in the number of clients that each adviser managed and

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[37] ACM stated that there was no unique definition of an SME. In this study, ACM tried to follow the definition of SME which the banks use themselves. Microenterprises (one employee) were excluded from the study because they often used their PCAs instead of a dedicated business account or business loan.
[38] ACM SME loans report, p3 (in Dutch).
[39] ACM SME loans report, pp3 and 8 (in Dutch).
[40] ACM SME loans report, p33 (in Dutch).
[41] ACM SME loans report, p32 (in Dutch).

the higher likelihood of being switched between advisers in their current bank.[42]

63. ACM noted that many banks had scaled back their SME operations since the financial crisis (eg Deutsche Bank) or even exited the sector entirely (eg SNS Bank).[43] Those that did remain, had adopted niche positions. They were not overly ambitious in terms of growth, appearing content with growing slowly. Three banks were specifically mentioned:[44]

(a) Deutsche Bank was focused on larger/international businesses.

(b) Triodos was considered a 'Green Bank', supporting what it sees as socially responsible projects.

(c) Svenska Handelsbanken operated by giving its 25 branches significant autonomy, and acting as a local lender. It was believed to be particularly risk averse.

64. ACM conducted analysis on the expected profit margins on SME loans across this period, and found that they had been increasing from 2011 to 2014.[45]

65. This led ACM to conclude that competition amongst banks in SME loans was suboptimal and, in fact, had decreased in the past few years. In particular, it highlighted the following sources of market power:

(a) The existence of high barriers to entry and expansion, as highlighted in ACM's previous study (although some progress had been made, such as the introduction of a separate regulatory framework for credit unions).[46]

(b) Individual capacity constraints of the banks were acting to limit the supply of loans and hence reducing competitive pressure, particularly as a result of increased regulatory capital holding requirements.[47]

(c) Low levels of shopping around and switching by SMEs due to: a lack of transparent information to allow for comparisons, the requirement to change account numbers, and high financial penalties for switching during the 'fixed rate' period of the loan (often 1% of the loan).[48]

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[42] ACM SME loans report, p34 (in Dutch).
[43] ACM SME loans report, p26 (in Dutch).
[44] Based on interview with ACM, 26/02/2015.
[45] ACM SME loans report, pp4 and 25 (in Dutch).
[46] ACM SME loans report, pp3, 4 and 37–39 (in Dutch).
[47] ACM SME loans report, pp3, 4 and 27–30 (in Dutch).
[48] ACM SME loans report, pp3, 4 and 30–37 (in Dutch).

(d) Limited competitive pressure from alternative forms of financing such as crowdfunding, credit unions, and NPEX (a Dutch dedicated SME stock exchange). [49]

(e) Risk of tacit coordination between the three major banks due to the limited number of major banks, the existence of barriers to entry and expansion, and the publication on websites of overdraft 'base rates' which are tracked and compared by the three major banks.[50]

66. These limitations had resulted in SMEs paying higher interest rates on their loans.

67. ACM also made some comments on areas it saw which did not represent high barriers to entry, largely based on its interviews with smaller lenders. Specifically, it stated that the following did not represent prohibitive barriers:[51]

(a) access to payments systems;

(b) establishing a branch network; and

(c) credit information on SMEs.

Summary of recommendations

68. ACM laid out a series of recommendations to help address its concerns:

(a) Lower barriers to entry by continuing to implement recommendations from its 2014 study (eg improve licence application process), which should increase total financing capacity (lowering supply issues) as well as introducing innovative competitors.[52]

(b) Reduce costs associated with searching and switching. Searching costs could be reduced through improving information transparency ahead of the application process, while switching costs could be lowered through an improved switching service for business accounts, and examining the current penalty structure for early repayment/switching. Account number portability may also reduce switching costs.[53]

[49] ACM SME loans report, p4 and 47–50 (in Dutch).
[50] The publishing of these rates provides enough information for the other banks to track changes in pricing, but not enough for an SME customer to estimate it final price; ACM SME loans report, pp4 and 39–44 (in Dutch).
[51] ACM SME loans report, p39 (in Dutch).
[52] ACM SME loans report, pp5 and 52 (in Dutch).
[53] ACM SME loans report, pp5, 35 and 52 (in Dutch).

(c) Encourage growth of alternative forms of finance by setting out clear proportionate regulatory frameworks. Removing the bias of government guarantees towards bank funding would also provide a more competitive environment.[54]

(d) Reduce the risk of tacit coordination naturally through introducing new competitors (lowering barriers to entry), as well as adopting a more transparent fee structure where it is clear for SMEs whether increases in the 'base rate' represent cost pass-through or increased margin for the banks.[55]

69. ACM also launched a study into the possible introduction of European bank account number portability (ANP). ACM is intending to gather further information on the associated costs and benefits in order to support the European Commission when it conducts a new cost-benefit analysis of ANP in 2019.[56]

Relevance to UK investigation

70. As discussed with regard to the previous study, the Netherlands appears to be a relatively good comparison point for the UK. However, as one looks at a more granular level, social and political differences in the markets are likely to emerge. Therefore, some of the more specific findings in this study may not be relevant to the UK (such as the impact of publishing 'base rates' leading to a higher risk of tacit coordination).

71. There are also potential issues with the definitions of 'SMEs' used by the different banks and those used by the ACM and the CMA.

72. The 2015 ACM study builds on ACM's findings in 2014. Particular areas it highlighted, which may warrant further consideration during our investigation of barriers to entry are:

(a) The impact of regulatory capital holding requirements acting to reduce supplies of capital used for lending (such as SME loans), and leading to higher prices.

(b) A lack of pricing transparency acting as one potential barrier for SMEs to fairly compare potential providers.

[54] ACM SME loans report, pp5, 6 and 50 (in Dutch).
[55] ACM SME loans report, pp5 and 52 (in Dutch).
[56] Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, Article 28.

(c) Smaller/niche competitors may only provide a limited competitive constraint on the major banks if they are reluctant to expand.

(d) Reiterating views that a branch network is not necessary to enter the SME banking market in the Netherlands, in part due to its limited geographic size.

DNB's June 2015 study on the 'Structure of the Dutch Banking Sector'

Purpose and scope of the study

73. As an independent financial regulator (as well as central bank), DNB has duties with regard to the ongoing efficiency and stability of the financial markets in the Netherlands. It therefore conducts regular studies to assess the current state of the sectors, and suggest recommendations for improvements.[57,58]

74. This particular report aimed to describe the current structure of the Dutch banking sector and assessed its development with a view to the stability and efficiency of banking services.[59]

Summary of findings

75. DNB highlighted a number of concerns it had regarding the current structure of the Dutch banking sector.[60] Many of these are similar to concerns voiced by ACM in its previous studies and discussed previously in this paper; as such these points are only summarised here:

(a) The Dutch banking sector is large, with the Dutch bank balance sheet being roughly four times the national GDP.[61]

(b) The Dutch banking sector is concentrated, with the top five banks' balance sheets encompassing >80% of the total banking balances sheets.[62]

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[57] DNB mission statement.
[58] DNB summary of duties.
[59] DNB summary of report, *'Contributing to sustainable prosperity*' section.
[60] DNB summary of report and DNB report, p7 (index, in Dutch).
[61] UK equivalent is roughly five times; DNB (June 2014), *Structure of the Dutch Banking Sector* (in Dutch), p13 ('Verenigd Koninkrijk' = UK).
[62] Compared with around 44% for the UK; DNB report, p18 (in Dutch).

(c) The Dutch banking sector shows little diversity, particularly due to the emergence of so-called ‘universal banks’, growing from around a 35% share of banking balance sheet assets in 1960, to 65% in 1985, to over 90% in 2010.[63] This loss of diversity has resulted in a greater likelihood of multiple banks becoming unstable at the same time (since shocks to the market will affect all of these banks in a similar way, rather than varying from bank to bank as it would if they differed from one another more);[64]

(d) Foreign banks are not very active in the Netherlands, hence providing little competitive pressure on the domestic banks.[65]

(e) Domestic banks scaled back their international activities following the financial crisis, with associated activities halving since 2007.[66] This limits the potential for economies of scale/scope from integrating domestic and international activities.[67]

Summary of recommendations

76. DNB provided the following recommendations to help address these concerns:[68]

(a) **Size/scope:** Remove/minimise political interventions which are artificially distorting the market (eg implicit bank guarantees, mortgage interest tax relief).[69]

(b) **Concentration:** Reduce market concentration through promoting new entrants into the market (including those using technological innovation), simplifying legislation where possible, reducing government guarantees for incumbents, and making products more comparable for consumers.[70]

(c) **Limited diversity:** Encourage banks to specialise more to introduce more diversity, for example by placing more emphasis on risk management or prudent lending standards, and by banning ‘double leverage’.[71]

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[63] DNB report, p21 (in Dutch).
[64] DNB summary, *‘Banking landscape shows little diversity’* section.
[65] DNB summary, *‘Foreign banks operating in the Netherlands’* section.
[66] DNB report, p24 (in Dutch).
[67] DNB summary, *‘Dutch banks operating abroad’* section.
[68] DNB summary (in English) and DNB report, pp4–5 (in Dutch).
[69] DNB report, p34 (in Dutch).
[70] DNB report, p44 (in Dutch).
[71] DNB has launched a study into the most the significant technical innovations and their consequences for the business models and strategies of Dutch financial institutions (due to be published by the end of 2015); DNB report, p51 and Box 1 (in Dutch).

(d) **Foreign banks in the Netherlands:** Encourage the entry of foreign banks, particularly those ready to invest in local customer relationships, and which are able to fall back on financially healthy parent companies if needed.[72]

(e) **Domestic bank's international activities:** Do not impose any advanced restrictions on the foreign activities of Dutch banks.[73]

77. DNB added two additional regulatory points in its report:

(a) It believed that the introduction of a 'financial stability' criterion into European legislation when assessing banking mergers and acquisitions would be appropriate.[74]

(b) It highlighted the importance of anticipating potential developments in the sector structure, such as the ongoing integration of the European banking market, and the increasing role of technological innovation.[75]

78. DNB ended by stating that, whilst these suggested policies may be detrimental to individual banks, they would be positive to society as a whole. It believed that they would lead to increased competition in the sector, as well as increasing both the efficiency and the stability of the sector overall.[76]

Relevance to UK investigation

79. As with the ACM studies, it appears that the Netherlands is a useful comparator for the UK in terms of its banking sector.

80. However, the study is relatively high level and is referred to as acting as a 'compass' for assessing future developments rather than a blueprint.

81. Therefore, we believe that this report provides limited specific insight which we can draw on for the purposes of our own market investigation.

Conclusions

82. We consider that the Dutch retail banking market represents a reasonable comparator for the retail banking market in the UK, with many similar characteristics, such as:

[72] DNB report, p54 (in Dutch).
[73] DNB report, p57 (in Dutch).
[74] DNB summary, *'A compass for assessing future developments'* section.
[75] DNB report, p58 (in Dutch).
[76] DNB report, pp5 and 59 (in Dutch).

(a) large relative size;

(b) high level of concentration in key product markets (eg PCAs and SME loans);

(c) a number of large, systemically important banks, some of which required government assistance following the financial crisis;

(d) low levels of customer switching in the PCA, savings, and SME loans markets;

(e) complex national and European regulatory frameworks; and

(f) high levels of consumer technological savvy and an increasing use of digital banking.

83. Some differences between the markets do remain, although these are generally seen when considering a more granular level of detail, such as:

(a) use of FIIC PCA model;

(b) specific initiatives already introduced (eg banking licence application process);

(c) specific market features caused by political intervention (eg tax relief on mortgages); and

(d) geographic differences.

84. Therefore, a number of the issues which ACM and DNB identified as representing competition concerns within the Dutch retail banking market could provide insight for our investigation:

(a) a highly concentrated market, dominated by non-diverse universal banks;

(b) overly complex regulation, which was particularly disproportionate for smaller banks/alternative funding sources where there was lower risk to the overall financial system;

(c) distortions from the implicit government guarantee provided to the large banks ('too big to fail') and capital holding requirements (limiting supply for loans);

(d) price sensitivity remaining low, even when paying for PCAs (rather than FIIC). Similarly, the banks rarely competed in this area;

- *(e)* new entrants not providing sufficient competitive constraint on incumbents; and
- *(f)* poor transparency of information for customers (particularly SMEs) which resulted in lower searching/switching activity, and the publishing of some partial information risking tacit coordination between the major banks.

85. We could also further consider areas which ACM and the DNB found not to represent barriers to entry, and the rationale supporting these conclusions:

    - *(a)* a national branch network was not a barrier to entry in the market due to the increasing digitalisation of banking and digital operating model of some new entrants;
    - *(b)* IT and marketing costs were relatively high, but not prohibitive, and therefore, they did not constitute a barrier to entry;
    - *(c)* inter-bank payment systems were considered to work well in the Netherlands, with participants seeing them as low cost and efficient; and
    - *(d)* third parties could provide credit information on SMEs and, therefore, access to this information was not a barrier to entry.

86. The existence (or not) of these issues in the Netherlands does not in themselves indicate that there are equivalent concerns in the UK. Instead, we intend to consider any findings from ACM and the DNB in the context of our market investigation, remaining particularly aware of the different circumstances which may exist in the UK compared with the Netherlands.

Appendix 1:
Updated retail banking market shares in the Netherlands

1. The table below shows estimated market shares in different sectors for banks operating in the Netherlands (please note that these values may differ from those in the rest of this paper as they will not necessarily be estimated on the same basis).

%

	PCAs	*SME BCAs*	*SME loans*	*Savings*	*Mortgages*
Rabobank	35	45	44	32	28
ING Bank	41	24	23	26	20
ABN Amro	20	25	26	19	22
SNS Bank	5	n/a	n/a	8	2
Aegon/Knab	< 1	< 1	n/a	< 1	13
Argenta	n/a	n/a	n/a	< 1	5
Triodos Bank	< 1	1	1	< 1	< 1
Deutsche Bank	n/a	1	1	n/a	n/a
Svenska Handelsbanken	< 1	< 1	1	n/a	n/a
Eureko (Achmea)	n/a	n/a	n/a	< 1	2
Delta Lloyd	n/a	n/a	n/a	< 1	< 1
Other banks	n/a	1	3	6	5
Other non-banks	n/a	n/a	n/a	n/a	3

Source: ACM, GfK Surveys on PCAs and lending and current accounts for SMEs, Netherlands Ministry of Finance.

Appendix 2:
Methodology and process for ACM's June 2014 study

1. ACM conducted a thorough process, using a wide range of sources to draw conclusions from, including:[77]

    (a) a review of academic, legal, and regulatory literature;

    (b) a survey of a wide range of potential entrants, as well as interviewing other interested parties (such as existing banks, the Dutch central bank, and Ministry of Finance);

    (c) data-gathering and analysis on market participants; and

    (d) a consumer survey to investigate consumer behaviour.

2. Four different types of new entrant were specifically identified and considered when coming to findings and recommendations:

    (a) existing banks expanding their offerings;

    (b) other financial services institutions (eg insurance companies) offering banking services such as mortgages;

    (c) international competitors entering the Dutch market; and

    (d) new startup banks.

3. When coming to its recommendations, ACM had regard to two key questions, designed to test materiality and practicality:

    (a) Is the barrier designated as important by (potential) entrants?

    (b) Is it possible to formulate a specific recommendation for reducing the barrier?

[77] ACM report (June 2014), pp15–16.

Appendix 3:
Details on potential barriers identified in ACM's June 2014 study

4. This appendix includes additional details on potential barriers to entry identified by ACM in their 2014 market study.

List of potential barriers identified, and rationale for inclusion/exclusion

	Potential barrier	*Rationale*
Addressable barriers	Implicit guarantee for systemically important banks	The implicit guarantee lowers financing costs vs competitors (estimated as 67 to 121 basis points)
	Lack of single European deposit-guarantee scheme	Concern around whether domestic taxpayers of the headquartered country would be required to pay out for foreign national guarantees (eg Icesave)
	Complexity of regulations	High sunk (and often fixed) costs of regulatory compliance, which is continuing to increase
	Banking licence application process	Complex application process, with limited guidance available. Also some perception that the regulator is not very supportive
	Disproportionate regulatory requirements on small banks	Lack of regulatory differentiation results in new/smaller competitors being as heavily regulated as incumbents, despite the more limited associated impact of a default
	Regulatory uncertainty (particularly in the mortgage market)	Uncertainty around the regulatory environment increases risks, resulting in a lower likelihood of new entrants
	Consumer inertia	Lack of consumer switching restricts ability for new entrants to grow to sufficient scale, particularly where there are high fixed costs
Potential barriers to consider	Economic conditions	Although the depressed economy has substantially lowered the likelihood of new entrants, remedies to this cannot sensibly be considered to be in scope of this report
	IT investment	Recognised as a large cost, but ACM believed that the cost was inextricably linked to entering the market
	Initial marketing spend	Recognised as a large cost, but ACM believed that the cost was inextricably linked to entering the market
Not barriers	Inter-bank payment systems	New (potential) entrants were not concerned, and KPMG reported that the Dutch systems were efficient and low cost
	Access to SME customer information	New (potential) entrants were not concerned, mainly due to option to buy large amounts of information from private providers
	Need for an extensive branch network	May not represent a significant barrier in either personal or SME banking due to the presence of third party intermediaries (eg mortgage brokers) and increasing use of digital channels
	Pricing structures	The level of interest rates and associated risks can be priced into the cost of the relevant products

Source: CMA analysis.

Areas highlighted as addressable barriers

Implicit guarantees for systemically important banks[78]

1. These banks are considered 'too big to fail', so have an implicit government guarantee.

2. This results in a lower cost of financing (estimated as 67 to 121 basis points), as well as potentially incentivising riskier behaviour than otherwise.

Capital restrictions and lack of single deposit-guarantee scheme[79]

3. During and after the financial crisis, national regulators generally imposed more pressure (formal and informal) on banks around restricting their exposure to international markets, primarily to limit the impact of potential bankruptcies of foreign banks on the home country (eg cross-border interbank loans in the euro area declined by €670 billion). This included concerns around national deposit guarantees being compelled to pay out to foreign savers.

Complexity of regulations[80]

4. Laws and regulations for banks are highly complex, change often, and are costly to comply with. The interaction between European and national requirements adds an additional layer of complexity.

5. In particular, these requirements are becoming even more complex over time (eg Basel III guidance has 20 times as many pages as Basel I).

6. This results in increased overheads (since majority of compliance costs are fixed), higher sunk costs, and depressed profitability, all of which increase the barriers to entry and expansion.

Banking licence application process[81]

7. The process of applying for a banking licence is seen as relatively difficult/complex, and the regulator provides limited assistance either formally or informally. It is likely to have become even more complex since November

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[78] ACM report (June 2014), p24.
[79] ACM report (June 2014), p30.
[80] ACM report (June 2014), p39.
[81] ACM report (June 2014), p43.

2014 when the European Central Bank (ECB) became the formal issuing body.

(a) The Dutch authorities now act as an initial screener, proposing that the ECB issues a licence. This is likely to result in an additional layer in the application process.

8. Three areas of the process were specifically highlighted as being issues:

(a) The length of the process. Although this is formally limited to 13 weeks, the applicants believe it takes a total of 12 to 18 months including business plan preparation etc.

(b) Uncertainty of the process itself, such as assessment criteria and likelihood of success.

(c) The unforthcoming attitude of the regulators: 'DNB [Dutch central bank] is focused more on preventing future bankruptcies than on the positive impact of new entries, in part due to statements made by politicians'.

9. Finally, ACM pointed out that if the regulator is castigated by society every time a bankruptcy occurs (even if it is a correct and controlled bankruptcy), it will naturally adopt a risk-averse stance, increasing barriers.

Limited differentiation in regulation to account for different risk[82]

10. Not all credit agencies represent the same risk to the economy if a bankruptcy was to occur. In particular, there are large differences between systemically-important banks and others (eg small banks or credit unions). Some of the regulatory requirements are determined by Europe, but there is also a degree of national control/discretion.

11. The Netherlands does currently differentiate slightly based on risk (in a framework called FOCUS!), however all new entrants are classified as 'high risk' and so exposed to increased regulatory burdens compared to an equivalent incumbent. This results in disproportionate levels of regulation for new entrants, increasing barriers.

12. In particular, ACM highlighted the fact that the Netherlands does not have a specific framework for credit unions hence they are considered as banks, and

[82] ACM report (June 2014), p49.

regulated as such. This limits their ability to enter the Netherlands market (vs in Canada where they supply 15% of SME lending).[83]

Regulatory uncertainty[84]

13. ACM particularly highlighted that there is significant regulatory uncertainty in the mortgage market, which will generally result in a lower likelihood for new players to enter the market until this is resolved.

14. There is a tension between attempts to stimulate the housing market following the financial crisis, whilst minimising competitive distortions. In particular, questions around an LTV cap, the current allowance of tax relief on mortgage interest, and the potential for a national mortgage guarantee are being discussed.

Consumer inertia

15. ACM conducted a survey to examine the major reasons for the limited levels of consumer switching in both PCAs and savings. Based on these, it provided a number of conclusions (in a rough order of importance):

    (a) **High perceived hassle of switching:** 37% of consumers believed that switching PCAs took too much time/effort.[85] This is despite a switching service being introduced in the Netherlands to attempt to ease this. There was relatively low awareness of the switching service,[86] and some concerns about the lack of government/regulatory involvement had left the banks to implement the switching service poorly (eg have to keep the old account open during the switch, so are paying for both).[87]

    (b) **Concern around the safety of savings:** 53% of non-switchers with savings accounts mentioned that 'diminished confidence in their current bank' would be a reason to switch banks and recent switchers highlighted safety as an important factor in picking their new bank. ACM therefore believed that the safety of savings was a major consideration around

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[83] ACM report (June 2014), p57.
[84] ACM report (June 2014), p65.
[85] ACM report (June 2014), p81.
[86] Only 37% of consumers have heard of the switching service, with only around 12% actually knowing what it does; GfK Consumer survey on personal current accounts (April 2014), pp22–23
[87] ACM report (June 2014), p83.

switching.[88] This was despite a national guarantee scheme for up to €100,000, of which consumers had poor awareness.[89]

(c) **Relatively low price sensitivity:** 31% of consumers indicated that switching PCAs yielded too few financial advantages.[90] ACM said that 31% of consumers told them they would only switch for a discount of at least €50, whilst an additional 35% would not switch for any discount.[91] In savings, interest rates were generally stated as being important, but around 25% of recent switchers and about 50% of non-switchers were unsure of their current rate.[92]

(d) **Mixed levels of satisfaction:** 27% of respondents indicated that they were not motivated to switch banks as they were satisfied with their current bank's PCA offering.[93,94] This appears potentially inconsistent with an NPS of –11 in PCAs.[95]

Potential additional barriers to consider

Economic conditions[96]

16. ACM stated that the current adverse macroeconomic circumstances in the Netherlands were one of the most important reasons for not entering the Dutch banking sector.

17. However, it made no recommendation on this as it was difficult to formulate a recommendation for this barrier that consisted of more than meaningless generalisations.

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[88] ACM report (June 2014), p71.
[89] 61% of non-switchers say they are familiar with the deposit guarantee scheme, but only 30% of non-switchers actually know what it is; GfK Consumer survey on personal savings accounts, pp19–20.
[90] ACM report (June 2014), p80.
[91] ACM report (June 2014), p76.
[92] GfK (April 2014), *Consumer Survey on Personal Savings Accounts*, pp17 and 30
[93] This was the second most popular reason for not switching accounts, after 'I have no reason to switch account' (41%).
[94] ACM report (June 2014), pp79 and 81; GfK (April 2014), *Consumer Survey on Personal Current Accounts*, p16.
[95] Net promoter score is calculated by asking on a scale 0–10 'how likely is it that you will recommend [company X] to a friend or colleague?', and is then calculated as the difference between the percentage of promoters (answering 9 to 10) and the percentage of detractors (answering 0 to 6); GfK (April 2014), *Consumer Survey on Personal Current Accounts*, p15.
[96] ACM report (June 2014), p23.

Other potential barriers

18. In passing, ACM also mentioned a number of potential further barriers, but ultimately concluding that these did not represent significant barriers to entry or expansion:

    (a) **IT investment:** This was referenced as being a major cost, and hence an important consideration/potential barrier during the licence application process. However, ACM stated that it was not making a recommendation in this regard, as it believed that these investment costs were inextricably connected to entering the market.[97]

    (b) **Initial marketing spend required:** Similarly this was mentioned in passing as being a potentially large cost, but ACM made no recommendation as it believed this was inextricably connected to entering the market.[98]

Areas highlighted as not being a significant barrier

Inter-bank payment systems

19. Although there are a number of potential payment systems available for the Single Euro Payments Area (SEPA), the largest provider is Equens which is owned by several Dutch and non-Dutch banks.

20. ACM claimed to have investigated the possibility of this representing a barrier, but received no specific reports that this was a concern.[99]

21. KPMG also identified the Dutch systems as being efficient and low cost.[100]

Access to SME customer information[101]

22. ACM acknowledge that some recent studies have shown this as a barrier, but determined that it did not have a substantial impact in the Netherlands.

23. This was due to (potential) new entrants not highlighting it as a key concern, as well as the existence of private companies such as Dun & Bradstreet and Graydon that provide a large amount of the information relevant to new entrants (for a surcharge).

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[97] ACM report (June 2014), pp43, 45 and 78.
[98] ACM report (June 2014), p78.
[99] ACM report (June 2014), p77.
[100] KPMG (April 2014), *Barriers to Entry, Growth and Exit in the Retail Banking Market in the Netherlands*, p15.
[101] ACM report (June 2014), p55.

The need for an extensive branch network

24. **Personal:** ACM highlighted a 2010 Office of Fair Trading (OFT) report which mentioned the requirement for a branch network, however, it also referenced a 2011 NMa (ACM's predecessor) report which concluded that the large number of intermediaries[102] (at least in the mortgage market) allowed new entrants to gain significant market share without a network of branches.[103] It also references the increasing use of the internet, and the recent entry of two competitors (eg Knab) with no branch network as further evidence for this.[104]

25. **SMEs:** ACM again highlighted the OFT report which referenced the importance of a branch network for serving SMEs, however ACM declined to investigate this further.[105]

Pricing structures

Poor interest rates on lending[106]

26. Parties indicated that low interest levels offered a poor return compared to the associated risks. They asserted that banks compensated for this through cross-selling of additional products.

27. ACM noted that interest rates had recently been increasing, and had become more commensurate with underlying risk.

High loan-to-value (LTV) mortgages[107]

28. High LTV mortgages in the Netherlands create the perception for foreign banks that the risk of an investment in the Dutch mortgage market is considerable, but ACM believed that this would simply be reflected in the mortgage rates.

[102] Such as mortgage brokers; NMa (2011), p43 (in Dutch).
[103] ACM report (June 2014), p63.
[104] ACM report (June 2014), p78.
[105] *'Pursuant to this report, ACM will not formulate a recommendation in this regard';* ACM report (June 2014), p55.
[106] ACM report (June 2014), p56; ACM SME loans report, p39 (in Dutch).
[107] ACM report (June 2014), p63.