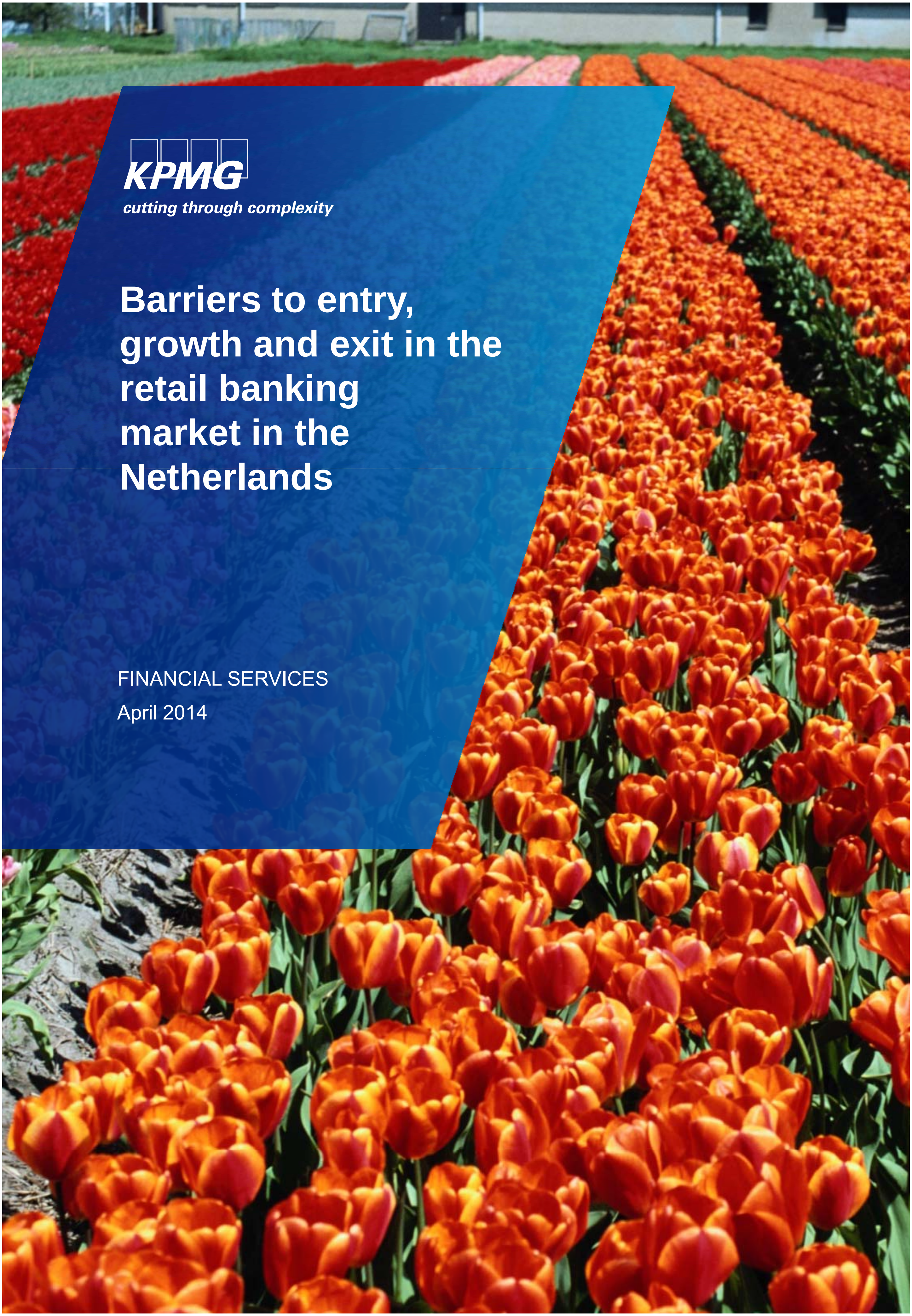


KPMG

cutting through complexity

Barriers to entry, growth and exit in the retail banking market in the Netherlands

FINANCIAL SERVICES

April 2014

Contents

Introduction

The Dutch retail banking market has undergone significant change in recent years. As a result of the financial crisis, the sector has seen the nationalisation of ABN AMRO and SNS, the exit of a number of large international universal banks from the retail banking segment (such as BNP Paribas) and the viability of certain business models come under threat. However, such a time of change also provides the opportunity for new firms to enter the retail banking market to supply products to both private individuals and to SME customers. Despite this, the numbers of entrants into the Dutch retail banking market since the financial crisis has been fairly limited. This apparent disconnect gave reasons to review barriers to entry, expansion and exit in Dutch retail banking to identify whether there are features of the sector which could be preventing new firms from entering the market or which are exerting a competitive constraint on incumbents.

Commissioned by the Dutch Authority for Consumers and Markets (ACM), KPMG conducted an investigation into the barriers to entry, growth and exit in the retail banking market in the Netherlands. This research is mainly based on an extensive survey of 20 institutions which are currently active in the retail banking market, or have considered or are considering entering the retail banking market in the Netherlands.

This investigation aimed to identify barriers to entry, growth and exit in (various subsectors of) the retail banking sector in the Netherlands. In addition, a number of trends were identified that have an impact on the ability of investors to enter the retail banking market in the Netherlands. Furthermore, potential solutions to the barriers against entering or exiting the Dutch retail banking market were identified.

The first section of this document contains a summary of the findings and our conclusions. The subsequent sections discuss the results of our research. This section also includes recommendations which could improve conditions for entering the Dutch retail market. The recommendations are based on the feedback received from the institutions interviewed on the difficulties they experienced entering the retail banking market in the Netherlands, our literature review and our own experience in this sector.

Section 2 provides the background to this study and the methodology is discussed in more detail. Entry into the Dutch retail banking market does not necessarily have to come from banks from outside the Netherlands. Insurance companies, credit unions and other types of financial firms, both from inside and outside the Netherlands, could all be potential entrants, all with their own entry rationales. Section 2 of this document also includes a description of different types of new entrants.

Section 3 includes an overview of the main characteristics of the various subsectors within the retail banking market in the Netherlands.

In section 4, the barriers to entry, growth and exit in the Dutch retail banking market experienced by the market participants we interviewed are discussed in more detail.

Recent developments which could affect the desire of potential market entrants to enter the retail banking sector in the Netherlands as well as several positive aspects of the Dutch retail banking market as identified by interviewees are also discussed in section 4.

01 Executive summary

The retail banking market, servicing households and small and medium-sized businesses, is at the core of the Dutch financial system and the wider economy. It provides essential services such as the means to make payments, holds funds deposited by clients and also provides access to credit. In doing so, the sector plays an important facilitating role in the economy and society as a whole. The retail banking market is therefore an important contributor to economic growth and productivity in the Netherlands. Identifying barriers to entry, growth or exit is key to understanding how to enhance this growth and productivity. This study aims to identify potential barriers to entry, growth or exit mainly based on interviews with 20 parties who are already active in the Dutch retail banking market, have considered entering the market or are considering entering the market. The feedback received from these interviewees formed the main input for our conclusions as to whether barriers to entry, growth or exit exist and for the suggestions on how such barriers may best be overcome.

1.1 Introduction

The retail banking market in the Netherlands is fairly consolidated compared to other European countries. The four largest banks hold a combined share of 80% of all banking assets. In addition, all four of the largest banks are considered to be systemically important, such that they receive implicit government support.

The ACM conducted two studies into the Dutch mortgage market, in 2011 and 2013, which indicated that this market is functioning less efficiently after the crisis, while other studies(1) have suggested that competition in the market for SME lending in the Netherlands is not optimal. This could be the result of market barriers resulting in relatively high prices and credit rationing.

Our study is based on a literature review of the reasons (inter)national banks and other institutions have to enter both domestic and non-domestic retail banking markets and the potential barriers to entering these markets. The findings of this review were used as input for interviews with 20 existing or interested market participants in the Dutch retail banking market. Based on their feedback, conclusions can be drawn on whether possible barriers to entry, growth or exit are indeed preventing firms from entering the retail banking market in the Netherlands.

1.2 Conclusions

Attractiveness of the market should be considered, taking into account both economic and structural factors

Our literature review indicated that the attractiveness of a market can be evaluated based on the economic and structural aspects of the market.

Economic fundamentals include size, expected growth and current and future profitability. Structural factors determine international players’ ability to access the market and include considerations such as regulatory environment, legal framework, competitive structure and political stability.

Source: (1) See for instance the ECB publication from 2013, ‘Survey on the access to finance of small and medium-sized enterprises in the euro area’.

Attractiveness of the Dutch retail banking market is low...

Based on the feedback received from the interviewees, it appears that the attractiveness of entering the retail banking market in the Netherlands is considered relatively low compared to other EU countries, in particular in terms of economic conditions. The main reasons are the relatively low expected profitability, unfavourable market characteristics (for example, high LTV ratios) and a difficult regulatory and political environment. The main feedback we received from the interviewees on the attractiveness of the various subsectors within the Dutch retail banking market is provided below.

Mortgages: Average interest rates on mortgages are considered high in comparison with other (Western) European markets. However, the relatively high LTV ratios in the Dutch market, in combination with rising unemployment, results in increasing concerns regarding the risk profile of this market. Uncertainties regarding both the tax treatment of mortgages and capital requirements for banks have resulted in this market becoming less attractive. Potential new entrants indicated that the high LTV ratios in the market are considered a barrier to entry.

SME lending: Credit risk of firms within the SME segment correlates significantly with the performance of the economy as a whole. Due to the low economic growth and an uncertain outlook of the Dutch economy, lending to Dutch SME companies is considered risky at present. Interest rates are relatively high within the Netherlands compared to surrounding countries, although the relatively high risk profile of Dutch SME companies is not entirely reflected in the prices, as banks in practice apply a certain maximum on the interest rate they charge their customers. The risk return ratio in surrounding economies is more attractive, making these markets more attractive. In addition, new (potential) entrants do not expect to be able to achieve the best business (in terms of risk return) in the SME segment.

Savings: The average savings deposit size of a Dutch household is low compared to the surrounding markets, which is caused by the high level of pension savings held under collective industry schemes. Interviewees indicated that the market is highly competitive and that it is relatively easy to win market share by offering attractive interest rates. However, due to the considerable competition (as a consequence of various factors, including the new liquidity requirements for banks), interest rates are relatively high, making the Dutch savings market relatively unattractive as a source of funding.

Payments: The Dutch payment services system is considered highly efficient, resulting in low costs (prices) per transaction. Interviewees indicated that payment services are considered to provide a good platform for cross-selling other retail banking products and as such incumbent banks accept the current low margins which result from the low prices. This has resulted in a situation in which there is no incentive for new entrants, who do not have the benefit of cross-selling, to enter this segment.

...however, there are several reasons to consider entering the Dutch market

In addition to the aspects resulting in a low attractiveness of the market, interviewees also indicated that there are several aspects of the Dutch retail banking market which are considered beneficial to new entrants. The first aspect is the high internet penetration and low brand awareness in the Netherlands that would support the start of an online banking business. This applies to savings products and mortgages, but less so to SME lending services where a physical distribution network is important. The size of the Dutch market is also considered to be well suited to test new initiatives and the Dutch legal framework is considered a strength.

With respect to the mortgage market, various interviewees indicated that it is positive that the Dutch market is transparent and is easily accessible through the existing third party service providers. The good payment behaviour of Dutch households was identified as a positive by multiple interviewees, and they also welcomed the recent ban on commissions paid by the mortgage provider because this supports better/independent advice and therefore opens up opportunities to new entrants. Furthermore the recently implemented regulation reducing the maximum LTV to 100% (in 2018) is also considered positive, reducing the risk for mortgage lenders.

Within the SME segment, interviewees indicated that the strong demand for SME loans could be a reason to enter the market.

According to the interviewees, the main reasons for entering the savings market are transparency and easy access.

High upfront investments are required to enter the market

The interviewees indicated that considerable levels of capital expenditure are required in order to be able to offer retail banking products. These upfront investments are considered to be a barrier to entry. However, these interviewees also indicated that the available opportunities for outsourcing the infrastructure are a strong mitigating factor in respect of this barrier.

The current supervisory environment is relatively strict to new entrants

To start operating in the retail banking market in the Netherlands, new entrants need to apply for a banking licence from the Dutch central bank (DNB). The experiences of potential new entrants dealing with DNB were mixed. Although the majority of the interviewees acknowledged that DNB's role means that it needs to challenge new entrants' plans, several interviewees indicated that DNB is seen as relatively strict in international perspective. This approach by DNB can be linked to the following:

- Several interviewees indicated that the business plan of a new entrant highly depends on attracting funds on the Dutch savings market to finance foreign credits will be met with a certain level of scepticism from DNB.
- Various regulations have not yet fully been phased in (such as Basel III). However, as DNB takes a long-term view, it requires new entrants to prove in their business plans that they will comply with future regulations from the start of their operations (i.e. they need to meet the stricter regulations right from the start).

Other regulatory developments are limiting firms' appetite to enter new markets

All interviewees indicated that, due to increasing international capital requirements, the appetite to allocate the (limited level of) available capital to the Dutch retail banking market is low. Non-Dutch investors are tending to allocate capital to grow their existing activities rather than to develop new activities.

Uncertainty on the future development of new regulations is also considered a barrier to entry. This uncertainty relates in particular to the regulation of LTVs 2018, changes in mortgage interest tax deduction, NHG guarantees and capital requirements.

Furthermore, interview feedback specified that the following regulatory issues are considered to negatively affect entry into the Dutch retail banking market:

- Restrictions imposed by European supervisors on banks allocating funding to non-domestic operations;
- Lack of harmonised regulations across the EU;
- Increasing banking supervision costs.

1.3 Recommendations

Adapt authorisation procedures

Interview feedback suggests that more transparent and modular authorisation procedures could improve accessibility to the Dutch retail banking market. Application procedures comparable to those in the UK, which offers more opportunities to liaise informally with the supervisor, would be beneficial to entrants applying for access to the Dutch retail banking market.

The application procedures in the UK were recently changed in order to stimulate entrance into the UK retail banking market. These changes include the opportunity for new entrants to 'grow into' their capital and liquidity requirements, effectively resulting in lower requirements for new entrants compared to the premium to be held by new banks in the Netherlands.

Clarity on future (tax) regulation on Dutch mortgages is required

The recent regulation concerning a maximum LTV of 100% for Dutch mortgages was welcomed by the interviewees. However the Dutch government should aim to foster stability in the Dutch housing market by providing clarity on future (tax) legislation concerning mortgages. Clarity on future legislation would improve conditions in the Dutch housing market and make the market more attractive to investors.

Interview feedback indicated that the Dutch mortgage market, with its relatively high interest rates and good payment behaviour, albeit with significantly lower maximum LTVs, would be considered an attractive market to invest in.

Account number portability could increase switching behaviour in the payment services sector

Offering payment services can provide a platform to sell other banking products. Interviewees indicated that customers tend to buy more banking products from the banks used to receive their salaries. This in itself makes a ‘house bank’ relationship enviable and banks therefore aim to achieve this status. However, the market in the Netherlands is highly efficient and prices are considered low. This has led to customers being generally unwilling to switch payment servicing banks. Interviewees indicated that, as such, the payment services market is not attractive to new entrants. As switching between payment accounts is considered by customers to be an annoyance, one of the suggestions made by interviewees is the introduction of account number portability as a possible means of stimulating switching behaviour.

Harmonisation of regulations across Europe

Interviewees indicated that the harmonisation of EU regulations would reduce barriers related to cross-border funding and uncertainty regarding local application of rules. Interviewees specifically mentioned the Deposit Guarantee Scheme and the rules on customer due diligence.
Harmonisation of EU legislation in general would make European banking markets more appealing to new entrants and encourage growth by making it much easier to provide cross-border services.

02 Background to this study

2.1 Background and scope

The Financial Sector Monitor (MFS) of the ACM is a team of economists that conducts research into competition (policy)-related issues in the financial sector, and is currently conducting a study which aims to identify possible measures to reduce barriers to entry in the retail banking market in the Netherlands.

For this reason, the ACM commissioned KPMG to perform a literature review and a round of in-depth interviews with (recently) authorised banks and banks or other firms considering entering the Dutch retail banking market as well as other market experts. The key question was: '*What potential barriers to entry, growth and exit do market participants encounter in the Dutch retail banking market?'*

The four largest banks in the Netherlands together account for 80% of all banking assets and are all considered to be systemically important. Two of these banks – ABN AMRO and SNS – have been nationalised (in 2008 and 2013 respectively). This situation could result in an unlevel playing field between the systemically important banks and their competitors. In addition, the nationalisations could effectively create a barrier to exit for the banks, thereby damaging the level of competition in the Dutch banking sector.

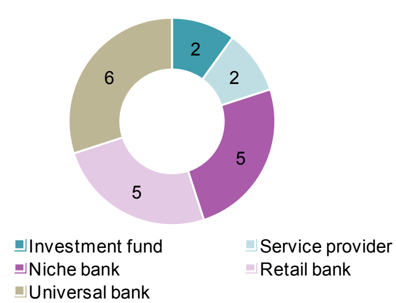
There are also signs that competition has decreased in several segments of the retail banking market in the Netherlands. The ACM conducted two studies into the Dutch mortgage market, in 2011 and 2013. These studies showed that the profit margins on mortgages have increased since the financial crisis. It is likely that this can be explained by a) the reduction in competition in the market and b) capacity restrictions at the existing banks limiting the supply of mortgages. There are also studies(1) suggesting that the market for SME lending in the Netherlands is less than optimal.

Therefore this study primarily focused on the mortgage and SME lending markets together with the savings market, as there are several indications that competition in this market is not optimal either. Any entry, growth or exit barriers in other retail banking market segments identified during this study have been taken into account and are discussed in this report.

The outcomes of the interview programme that was conducted between November 2013 and February 2014 were used as input for this report which in turn will be used by the ACM in the study mentioned above.

All interview responses have been treated anonymously. KPMG interviewed 20 organisations including both banks and non-banking firms on their views on potential entry, growth and exit barriers in the Dutch retail banking market. This makes that we regard that the survey provides a fair representation of the views in the market. We note that we interviewed more than 12 companies that have been involved in either application- or notification procedures in the last 3-5 years.

Profile of interviewees



Source: (1) See for instance the ECB publication from 2013, 'Survey on the access to finance of small and medium-sized enterprises in the euro area'.

Note: See Appendix 2 for a more detailed breakdown of the interviewees.

2.2 Approach

We based the interview programme on a conceptual framework which in turn was based on a thorough literature review to ensure all important areas where potential barriers may exist were addressed. The initial literature review revealed several potential barriers relating to six key areas.

Based on the literature review and potential barriers identified during the review, we developed a conceptual framework including a hypothesis-tree. The hypothesis-tree made it easier to identify the main entry, growth and exit barriers in the Dutch retail banking market.

All entry considerations encountered during the literature review and the interviews were classified as either cost or revenue considerations (for a detailed breakdown of the considerations, see Appendix 3). Cost-related considerations include all considerations or barriers that might make entering the Dutch retail banking market unattractive from a cost perspective. Either the upfront costs might be too high to be recouped as part of the normal operations or the considerations result in a large cost base which is not justified by the potential margin.

Revenue-related considerations represent barriers due to the expected revenues from the Dutch retail banking market not being sufficiently attractive for a firm to want to enter the market, given the anticipated risk profile of the market. This might be because the revenue potential is limited (for example, due to the level of competition or because of restrictive regulations) or because there is uncertainty regarding the future revenue potential of (sectors of) the Dutch retail banking market.

2.3 Definitions

What is a barrier? This is a complex question, as industry literature includes numerous definitions of a barrier. Two definitions in particular seemed to be suitable for our study so, together with the ACM, we decided to combine these two:

- Definition 1[(1)]: A barrier to entry is an advantage held by established sellers in an industry over potential entrant sellers, which is reflected in the extent to which established sellers can persistently raise their prices above competitive levels without attracting new firms to enter the industry;
- Definition 2[(2)]: A barrier to entry is a factor that makes entry unprofitable while permitting established firms to set prices above marginal costs, and to persistently earn monopoly returns.

For the purpose of this study we defined a barrier as:

‘An advantage held by established sellers in an industry over potential entrant sellers which makes entry unprofitable for potential entrants while permitting established sellers to set prices above marginal costs, and to persistently earn a high return.’

As both political and regulatory uncertainty are mentioned by the interviewees as potential barriers, we have defined these two barriers as:

‘Political uncertainty’ referred to in this document relates to uncertainty stemming from changing political views and the unfixed Dutch political landscape.

‘Regulatory uncertainty’ relates to uncertainty regarding (the interpretation of) national and international rules and regulations (for example, regarding LTVs and NSFR).

Types of entrants

Parties enter new markets by a variety of means. In this study we distinguished four types of entrants into the Dutch retail banking market:

1. Existing parties in the retail banking market might extend their offering and services to a new segment of the market;
2. Companies with a strong brand in markets other than the retail banking market might see opportunities to leverage their strong brand in the retail banking market and start greenfield banking operations;
3. Companies (both banks and non-banks) might enter the market by acquiring, through mergers or acquisitions, existing players in the market;
4. Banks from outside the Netherlands might enter the Dutch market by establishing a presence through a subsidiary or a branch network.

Source: (1) Bain, 1956.
(2) James M. Ferguson, 1974.

03 Current market conditions

3.1 General

The Dutch retail banking market is subject to various developments that may affect competition.

The two Dutch banks ABN AMRO and SNS have been nationalised and both AEGON and ING have received state aid. Some of the banks active in the retail banking market are considered of systemic importance (ABN AMRO, ING, Rabobank and SNS) and as such receive an implicit state guarantee.

Both ING and ABN AMRO were affected by price-leadership prohibitions in the savings and mortgage sectors from the European Commission as a result of the state aid they received. ABN AMRO is currently still prohibited from doing so while ING can offer such prices once again.

In addition, ING Insurance's subsidiary NN Bank is under an obligation to develop significant market share on a standalone basis, as agreed as part of the agreement between the EC and ING[1].

Technological change is leading to the development of new business models and channels to distribute retail banking products, mainly resulting in new online business models (for instance such as that applied by KNAB, a new online-only retail bank offering payment services and savings accounts).

The Authority for the Financial Markets (AFM) is increasingly focusing on customer-centricity and thus also on the responsibilities of financial institutions in respect of their clients. The changed role of the AFM has led to an increased focus on compliance. In addition, the prudential supervisor DNB plays an important role in the supervision of the application of new entrants regarding capital and liquidity rules.

Consumer trust in banks in general has declined since the financial crisis and the DSB and Icesave incidents[2].

These are just some of the developments affecting the current state of the Dutch retail banking market. There are also several developments which are relevant to the individual market segments.

3.2 Mortgage market

When financial institutions are considering entering the Dutch mortgage market, they face certain trends and issues which, to a large extent, are specific to the Netherlands.

The slowly recovering Dutch housing market coupled with the change in the tax treatment of mortgages has led to reduced mortgage production levels.

Source: (1) ING, http://www.ing.com/Newsroom/All-news/Press-releases/PR/ING-reaches-agreement-on-amended-EC-Restructuring-Plan.htm.
(2) BNR, http://www.bnr.nl/nieuws/beurs/757506-1201/consumenten-vertrouwen-banken-voor-geen-cent

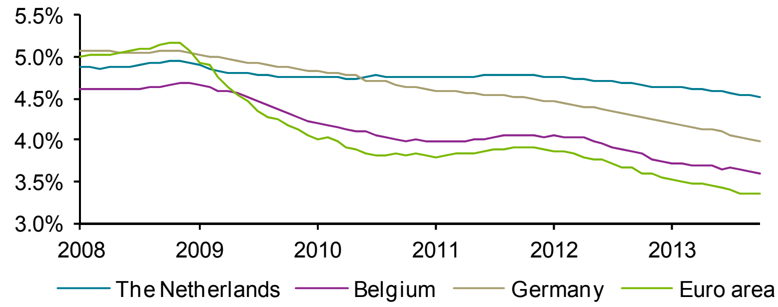
Compliance rules in general but also specifically on mortgage lending have increased in recent years. This has led to increasing costs for banks.

In line with the above, costs related to switching to another mortgage provider can be considered high by customers.

The average interest rates on mortgages in the Netherlands are higher than those in surrounding countries.

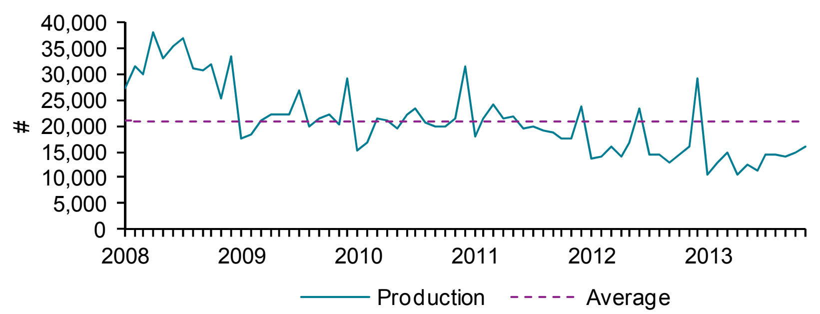
With regard to the distribution of Dutch mortgages, in 2013 62% of mortgages were sold via intermediaries.

Effective home mortgage interest rates, 2008-2013



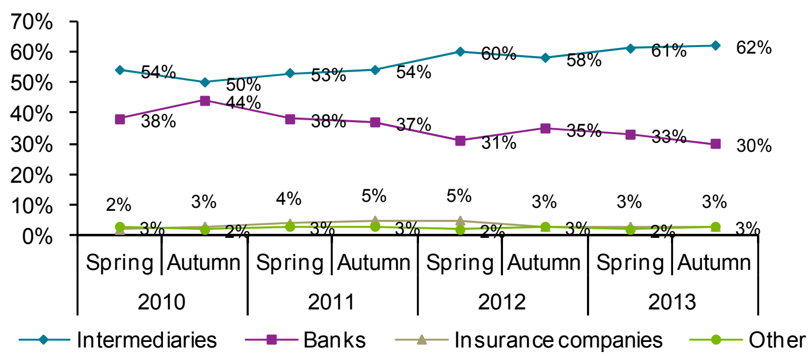
Note: Lending for house purchases, narrowly defined effective rate per month on outstanding amount.
Source: European Central Bank.

Production of new mortgages, January 2008-November 2013



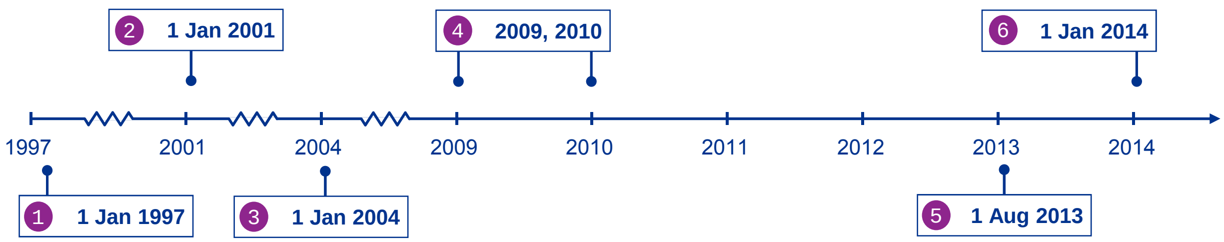
Source: Dutch Chamber of Commerce, Real Estate Dashboard.

New mortgages by mortgage sales channel, 2010-2013



Source: AFM, Consumentenmonitor, June 2013.

Regulations regarding home mortgage interest tax deductibility – Historic development



Key developments

1. From 1997 onwards home mortgage interest deduction is only available if related to the purchase, renovation or improvement of homes including holiday homes.
2. From 2001onwards home mortgage interest deduction is only available if related to the purchase, renovation or improvement of the primary home. Duration of deduction limited to 30 years.
3. In 2004 the 'bijleenregeling' was introduced, limiting the possibilities for deduction on a new mortgage if an equity gain can be realised on the sale of the previous home.
4. In 2009 and 2010 several changes to the 'bijtelling eigenwoningforfait' limited the deduction possibilities for homes with a 'WOZ'-value of over €1m.
5. From 2013 onwards the deduction is only available on annuity or linear mortgages. If a home is sold with an equity loss, the loss can be financed as part of the mortgage on the new home. The interest paid on this loss is deductable for 10 years.
6. From 2014 onwards the maximum rate at which mortgage interest is deductable will be reduced from 52% to 38% in 28 steps of 0.5%-points every year.

3.3 SME lending market

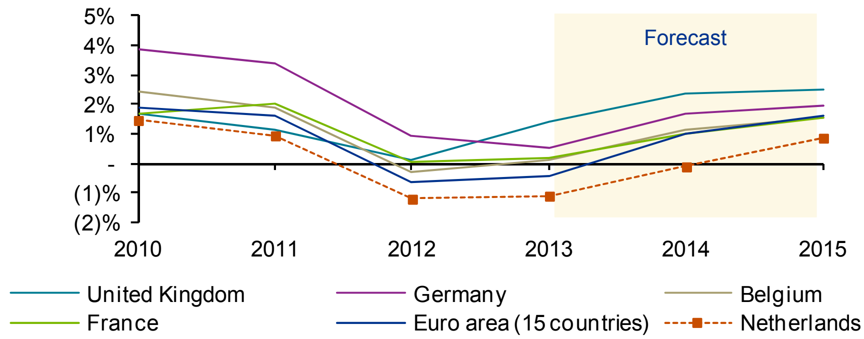
Similar to the mortgage market, new entrants need to take into account several aspects of the current Dutch SME market conditions.

Higher regulatory requirements (for example, related to capital and leverage ratios such as CRD IV) imposed on banks have made it more expensive for banks to lend to SMEs, as these loans are considered to be riskier assets than other corporate loans.

Also, due to the deteriorating future prospects of SMEs in the Netherlands, banks are being forced to come to a higher risk assessment which could impact the supply of lending products.

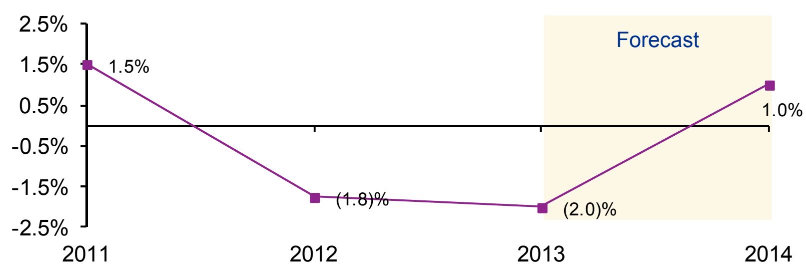
The performance of the SME segment is in general, strongly linked to the economic performance of a country. The recovery of GDP is forecast to be slower in the Netherlands than in surrounding countries.

GDP growth forecasts, 2010-2015



Source: Organisation for Economic Co-operation and Development.

Growth of SME sector versus previous year, 2011-2014



Source: Panteia/EIM, Algemeen beeld van het MKB in de marktsector in 2012 en 2013 / 2013 en 2014.

3.4 Savings market

The size of the savings market has been growing since 2009, with a compound annual growth rate between 2009 and 2013 of 3.6%.

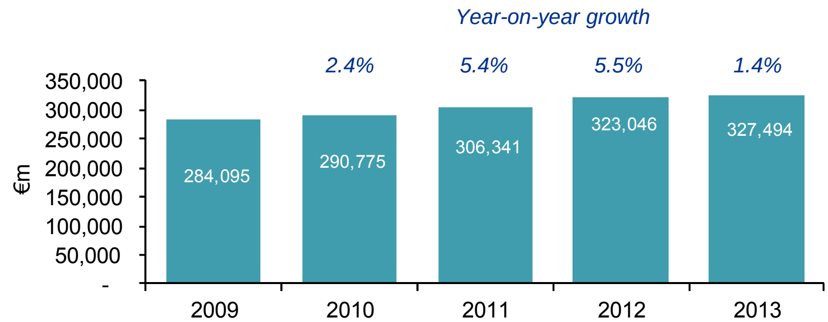
The interest rate on demand deposits has fallen since 2009, and is now at roughly 1.5%, the lowest level in 10 years.

This is strongly linked to the decline in money and capital market rates since the start of the current financial crisis.

Although the savings proposition for customers has become less attractive, the total amount of household savings continues to rise, in particular due to interest accruing on the balance sheet.

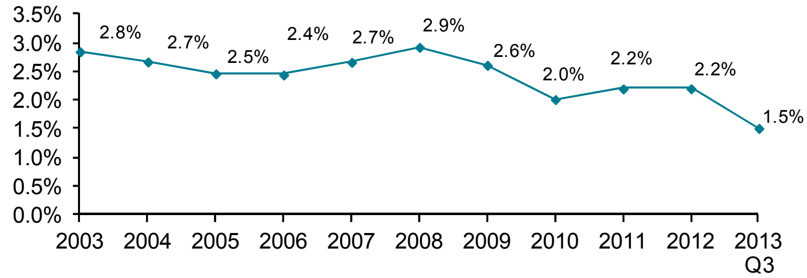
Due to the Dutch population's preferred use of collective pension schemes as their major form of savings, Dutch households have relatively low average bank deposits[1]. As the total sum of outstanding mortgage loans exceeds bank savings, Dutch banks face an ongoing funding gap of more than €200bn.

Total household savings in the Netherlands, 2009-2013(a)



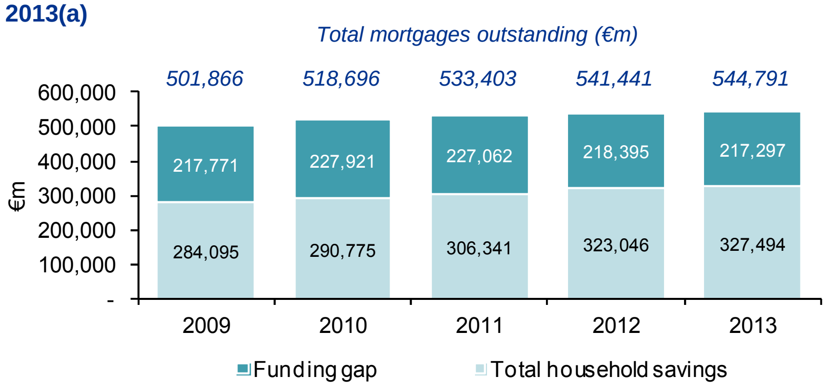
Note: (a) 2013 based on October month-end data.
Source: CBS

Interest rates on household savings, 2003-Q3 2013



Note: Based on deposits redeemable after a notice period of 3 months or less.
Source: DNB.

Funding gap between mortgages and total household savings, 2009-2013(a)



Note: (a) 2013 savings based on October month-end data; 2013 mortgages based on October month-end data.
Source: CBS, DNB.

Source: (1) Rabobank, Special Report, 'Dutch Mortgage Market a Liability?', February 2012.

04

Entry, growth and exit barriers in the Dutch retail banking market

This section focuses first on the reasons to enter the Dutch retail banking market and secondly on the specific barriers to entry, growth and exit in the Dutch retail banking market. The barriers discussed were raised during the interviews with a wide range of parties, from start-ups to universal banks. In the interviews, several general barriers to the Dutch retail banking market were identified as well as several barriers for the various segments (mortgage, savings and SME lending). Three main general barriers were identified: firstly, the overall attractiveness of the Dutch retail banking market; secondly, the view supervisors have on sustainable business models in the retail banking industry and thirdly, regulatory uncertainty. For the individual market segments some specific concerns were raised that also reduce their attractiveness to enter, each of which is discussed in further detail in this section.

4.1 Reasons to enter the Dutch retail banking market

General

Interviewees indicated several characteristics of the Dutch retail banking market that are considered to be beneficial to entry:

- Online banking is well developed, with the Netherlands having one of the highest internet penetrations measured by number of internet users as a percentage of the total population at almost 93% in June 2012[1] and an online banking penetration of approximately 66% in 2012[2];
- The size of the Dutch retail banking market makes it a good testing ground for new initiatives, as the market is not considered to be either (too) small or (too) large by the interviewees;
- The average Dutch customer is considered to be fairly price-sensitive in respect of mortgage and savings products and as such willing to switch to new retail banking initiatives. However, interview feedback also indicated that this is only true for just under a third of the savings market. Still, it does mean that a strong brand name and/or brand recognition is not considered to be a key prerequisite for successful entry into the Dutch retail banking market;
- The legislative system in the Netherlands is considered to be beneficial to new and incumbent players in the banking market, for instance, by offering good protection to mortgage defaulters.

Mortgage market

The Dutch mortgage market is considered to be transparent and open with easy access available through intermediaries (which have a market share of around 60% in terms of origination of new mortgages[3]).

The fact that Dutch households generally meet their financial commitments and that the level of arrears and foreclosures is considered to be low in comparison with other countries also makes the market attractive.

Source: (1) Internet World Stats, June 2012.
(2) Comscore, the Netherlands and France have the highest penetration of online banking users in Europe, February 2012.
(3) AFM, Consumentenmonitor Hypotheken, December 2013.

In addition, several recent regulatory changes will benefit potential entry:

- New legislation means that, since 2013, borrowers have to pay for mortgage advice they receive from both intermediaries and from banks. Intermediaries are no longer entitled to receive incentives from mortgage loan providers. (This regulation was implemented to ensure that the advisor's only incentive is to provide the best advice to the customer.) This more open market means new entrants are not at a disadvantage in respect of more established players;
- Recent regulatory changes (i.e. 'Tijdelijke regeling Hypothecair Krediet') have led to the introduction of a maximum LTV of 100% by 2018 in an effort to curtail excessive lending to private individuals. Given the current high level of LTV in the Dutch mortgage lending market compared to surrounding countries, interviewees indicated that this is a positive development.

SME lending market

Due to the development of the Dutch economy, fewer loans are being offered by incumbent players to the SME segment and, as such, the demand for loans by SMEs is currently outstripping supply. This opens up opportunities for new initiatives.

Savings market

The Dutch savings market is considered to be an open and transparent market which can be accessed relatively easily through third party service providers often in combination with an online channel.

Interviewees believe it would be necessary to capture at least 1-2% of the Dutch savings market to successfully start up operations and believe it is relatively easy to capture this market share since roughly 30% of Dutch savings customers are seen as price-sensitive. Critical success factors were stated as having a budget available to finance a marketing campaign and to be able to offer an attractive interest rate for a certain period of time, in order to obtain a sizable mark share.

4.2 General entry, growth and exit barriers

4.2.1. General market attractiveness

The attractiveness of the Dutch retail banking market is reduced, according to six interviewees, by the low prices at which payment services are offered. The structure and size of the Dutch market, as well as the state of the economy, were also mentioned as negative factors.

Entry to payment services market

The majority of the interviewees indicated that the market for payment services is efficient due to its structure, with a centralised clearing and settlement party, Equens. Prices per transaction, charged to retail customers, are considered low in relation to other countries. In addition, the extensive use of low-cost debit cards and the efficient, low-cost interbank payment services system means that private individuals are not inclined to switch providers.

However, customers tend to buy more banking products from the banks used to receive their salaries. This in itself makes a 'house bank' relationship enviable and banks therefore aim to achieve this status. Although a switching service is provided by banks and moving to another bank can be effected rapidly, this functionality is not used extensively.

With switching being rare, it is difficult for potential entrants to justify the high upfront investments required to set up payment services.

Another important aspect of the payment services market is the increased use of payments via the internet (shopping online). We note that payment services functionalities for credit card payments and payments over the internet are offered by a large number of players. There is fierce competition in this area between banks and other providers. Payments on the internet in the Netherlands are often made using the iDeal facility. We note that, although this facility was set up by Currence, which is owned by several existing Dutch banks, the facility is open for use by other, qualifying payment providers.

Quotes on the general market attractiveness	
State of the economy	■ "I don't expect any new full retail banks to start up in the Netherlands, I would expect such banks to choose Belgium or Germany" – Service provider ■ "Although we see the Dutch (mortgage) market as interesting, we currently have no presence there as other international markets offer us better opportunities at this time" – Investment fund ■ "I can imagine that the risk-profile of the Dutch mortgage market is not considered to be attractive by non-Dutch banks" – Niche bank
Payment services	■ "It is difficult to generate profit on payment services in the Netherlands" – Universal bank ■ "Customers do not often switch between banks in respect of payment services; all services are more or less alike and thus switching is seen as a lot of hassle for not much in return" – Service provider ■ "The Dutch payments services market is very effective already, this makes it difficult for new entrants to have a competitive advantage" – Universal Bank

Structure of the market

The structure of the retail banking market in the Netherlands, with a few, large systemic banks, was regarded by several interviewees as unattractive to new entrants.

The dominance of the large incumbent players is seen as limiting the potential for new entrants to attain sufficient size to compete effectively.

Economic circumstances

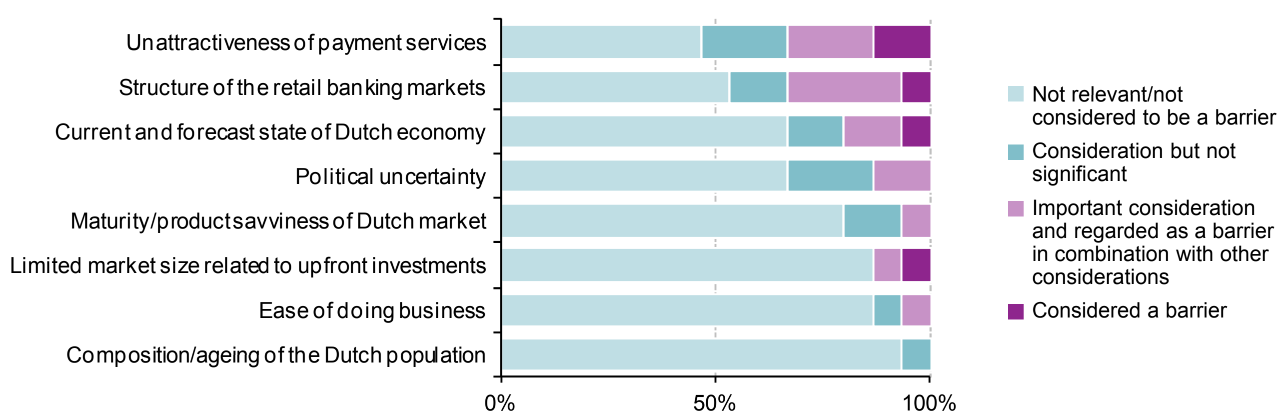
A third of the interviewees indicated that the current economic circumstances in the Netherlands make entering the Dutch retail banking market less attractive. Other markets (for example, Asia) are considered to be more attractive as the market potential in these countries is often higher (due to lower product sophistication, economic developments (growing middle class) and larger populations).

More particularly, the lower level of (expected) economic growth, limited growth of the Dutch population and the availability of cost-efficient product offerings (for example, payment services) make the Dutch retail banking market less interesting.

In addition, the size of the Dutch market makes it less attractive as the potential revenue pool is smaller than in larger countries.

Another factor is that potential entrants consider entry as a long-term investment, with short-term profitability (for example, on the mortgage market) being less important in the decision-making process. Therefore, the short-term attractiveness of a segment is often not the key consideration in entering a market.

Attractiveness of the market



Note: n = 15.
Source: Interview programme.

4.2.2 Regulatory/ supervisory environment

Role of the Dutch supervisor

The goal of supervision is to maintain a solid and reliable Dutch banking sector that is trusted by the general public and the financial markets. For this reason, DNB focuses on ensuring that the banking institutions can accommodate external shocks and anticipate and respond to changing circumstances. Dutch citizens should be confident that their savings are secure and that they have continuous access to an efficient payments system.

Therefore, the granting of a licence to a new entrant to operate as a bank in the Dutch market receives significant attention from DNB.

The majority of the interviewees (across all types) indicated that, in practice, it is clear that DNB policy is to avoid any potential future problems from the banks it supervises. This is reflected in the fairly intense licence application process (which is established by the Dutch legislator).

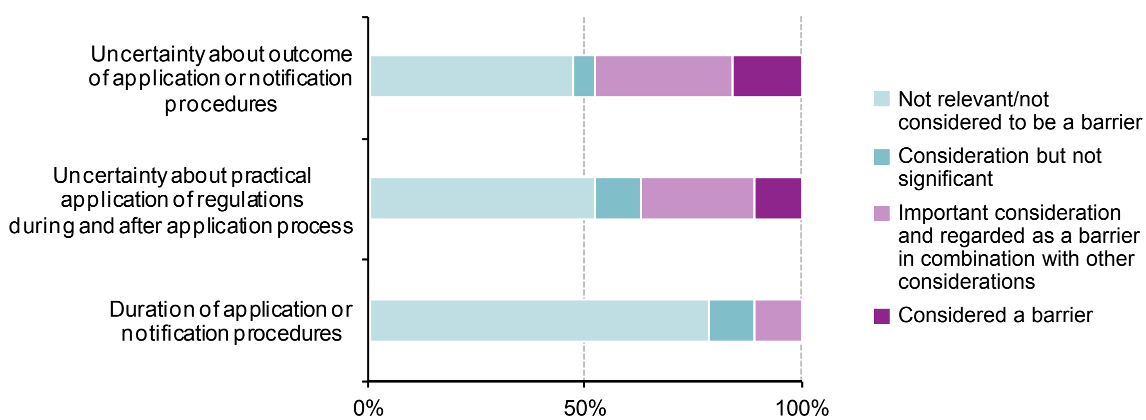
DNB has extensive knowledge of the business models of the banks active in the Netherlands. New and changing regulations regarding capital and/or liquidity are making it increasingly difficult to recover costs in a market with fairly compressed margins. As a result, DNB appears to put great effort into analysing the business plans submitted by potential new entrants in terms of future sustainability.

Overview of experiences of interviewees

The experiences of potential new entrants dealing with DNB were mixed. Although the majority of the interviewees acknowledged that DNB's role means that it needs to challenge new entrants' plans, several interviewees indicated that DNB is seen as relatively strict in international perspective. This approach by DNB can be linked to the following:

- Interviewees indicated that it takes considerable time for an organisation to attain, from start-up, a sustainable, minimum size. This is particularly true for banks that intend to operate a mortgage/savings banking business model. Interviewees acknowledge that the DNB is there to ensure the banking sector is stable and needs to determine whether a new entrant will be able to attain the minimum size to be sustainable;
- Several interviewees indicated that the business plan of a new entrant highly depends on attracting funds on the Dutch savings market to finance foreign credits will be met with a certain level of scepticism from DNB.

Considerations related to interaction with supervisor



Note: n = 19.

Source: Interview programme.

Quotes on the supervisory environment	
The application or notification process	■ "The application process is not unachievable, however, it does require you to incur certain costs (e.g. legal, other advisors, accountants)" – Niche bank ■ "In my experience, if you have a proven track record and a certain minimum size, DNB is really helpful" – Universal bank ■ "DNB represents a significant barrier; even with an EU passport it is very difficult to receive a licence. We had no problem entering on a EU passport in a neighbouring EU country" – Universal bank ■ "We have found it really difficult to understand upfront what the demands of DNB are in the application process" – Niche bank
Outcome of application or notification process	■ "In Belgium and Germany it is possible to assess the behaviour of the supervisor, whereas this is difficult in the Netherlands due to the lack of clarity on the reason's behind the supervisor's decisions" – Investment fund ■ "In my opinion, due to the current political climate, there is a lot of pressure on DNB to prevent banks from collapsing again" – Niche bank

- Various regulations have not yet been phased in in full (such as Basel III). However, as DNB takes a long-term view, it requires new entrants to prove in their business plans that they will comply with future regulations from the start of their operations (i.e. they need to meet the stricter regulations right from the start).

Barriers identified

In the context of the developments mentioned above, the application and notification process is seen as demanding, requiring new applicants to incur considerable costs and spend considerable time to complete it successfully.

Nearly half the interviewees mentioned the uncertainty of the outcome of the application process as a significant area of concern in their decision-making on whether to enter the Dutch retail banking market.

This concern was primarily expressed by small to medium-sized banks. For these parties, the costs and work related to the process make up a significant part of their overall costs in setting up an operation.

Compared to the application process in the UK, the Dutch situation is less prescriptive. This leads to considerable room for interpretation about the level of detail that needs to be provided for the licence application.

The fact that regulations and the practical application of the rules are still changing makes it difficult for potential entrants to assess the attractiveness of the banking market. This situation limits how clearly applicants can assess the viability of their business cases regarding entering the Dutch retail banking market.

The interview sessions provided mixed responses in relation to the opportunities provided by DNB to discuss the application process.

The structure of the application process makes it more difficult for applicants to estimate the duration of the process compared to the situation in the UK:

- In the Netherlands the application process runs, in line with the stipulations of the Law Awb, for at least 13 weeks but the timer is stopped when DNB requires additional information from the applicant;
- In the UK, the application process runs for a maximum of six months if a full application package is provided and 12 months if additional information is to be provided by the applicant.

Starting November 2014, the ECB will take on the ultimate responsibility for supervision of the banks in the Euro zone. After this moment, the role of the DNB in connection with the application of process for new banking licences will change. DNB will become the point of entry for new applications and after a positive outcome of the application process, the application will go to the ECB. In theory, the ECB will have the right to decline applications that have been accepted by the DNB.

4.2.3 Impact of regulatory developments

Regulatory uncertainty

Since the start of the financial crisis, a considerable number of new regulatory initiatives have been introduced with the aim of strengthening the banking sector and increasing public confidence in the sector. Various of these initiatives have been reflected in new rules and regulations, some are still being discussed.

In particular, the rules on LTVs[1] and the tax deductibility of mortgages have changed considerably in recent years but it is unclear whether the rules may change again in the future.

In addition, the Basel III (CRD IV) rules on leverage and liquidity (LCR) have not been finalised and continue to be changed. Also additional rules on top of these ,to be introduced by the Dutch regulator and/or Ministry of Finance, remain a possibility in some areas (for example, such as a 4% leverage ratio in 2018 for systemic banks).

On a more general level, on various occasions, DNB has indicated that it is interested in reducing the dependency banks have on the interbank market for financing and in strengthening the ability of banks to cope with movements in the financial markets[2].

The majority of the interviewees indicated that although the abovementioned initiatives are seen as a positive development, uncertainty around future regulations is seen as a barrier.

Higher capital requirements

The implementation of Basel III (CRD IV) will lead to higher capital requirements. On top of these regulations, economic circumstances caused that banks have had to strengthen their capital bases (affected by provisioning for bad loans).

Changes in economic conditions and the experience of losses also mean that current models used to calculate required capital show higher capital requirements (counter-cyclical effects).

Due to these developments, banks tend to be less inclined to enter new markets so they can focus on strengthening their core operations.

DNB limitations in the use of Dutch deposits to finance non-Dutch lending activities

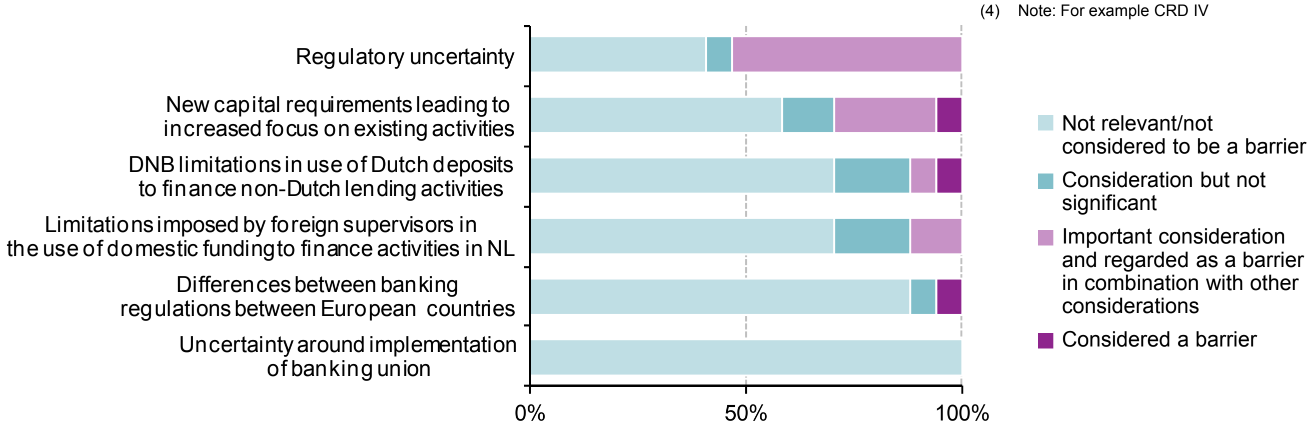
Several interviewees indicated that the new rule ('Beleidsregel' [3]) regarding financing of activities in non-EU countries by domestic DGS-guaranteed deposits reduces the attractiveness of the Netherlands as a country in which to carry out retail banking activities. The business models of these interviewees have been significantly affected by this national regulation, in particular as it comes on top of Dutch rules limiting country-concentration risks[4].

Limitations by foreign supervisors

Several interviewees indicated that banks with their headquarters outside the Netherlands are increasingly being challenged by their national supervisors to explain their funding allocations. In particular, pressure is said to be being exerted by some supervisors to encourage banks to create balance sheets that are self-funding on a local basis. The creation of a banking union with a single supervisory mechanism for Europe may reduce the home-country bias that could result from such measures.

Source: (1) 'Tijdelijke regeling Hypothecair Krediet'.
(2) Thema's toezicht DNB 2014.
(3) Beleidsregel maximering ratio deposito's en uitzettingen Wft
(4) Note: For example CRD IV

Considerations related to regulatory environment



Note: n = 17.

Source: Interview programme.

Quotes on the impact of regulatory developments	
Capital requirements	■ "The main barrier is that international banks are busy repatriating their capital to fund existing operations, due to the new regulations on capital requirements" – Universal bank
Asset Quality Review	■ The upcoming Asset Quality Review means that banks in general are refraining from investing in new high-risk assets" – Universal bank
Regulatory uncertainty	■ "Currently there is a lot of uncertainty in the market regarding possible impairments and capital restrictions; this results in a stagnant market" – Universal bank ■ "There is some uncertainty on how the Dutch government will act when, for instance, a bank would collapse and in which form other banks are expected to help. In my view, this might currently represent a barrier to entry for non-Dutch banks" – Universal bank ■ "In general, it is easier for Dutch banks to asses the potential outcome of regulatory uncertainty than for non-Dutch banks, which might be a barrier for non-Dutch banks" – Universal bank

Differences in regulations across Europe

Several interviewees mentioned that, although considerable progress has been made with the implementation of CRD IV and the Single Rule Book to achieve one consistent set of rules for the banking sector across Europe, there is still no such thing as one European retail banking market. Interviewees indicate that the potential for international scalability of retail banking would increase if there would be one European retail banking market.

According to the interview feedback, one of the key circumstances that affects the international scalability of retail banking activities is the existence of a seamless deposit guarantee scheme across Europe. The fact that no such scheme currently exists contributes to the localised nature of retail banking in Europe.

The implementation of a European DGS and the end of the relationship between each country's government and the country's systemic banks (through the Single Resolution Mechanism) is likely to open up the retail banking industry in Europe to more international propositions.

However, in particular for the mortgage banking/savings banking business model, the leverage ratio could be a constraining factor. The calculation of the leverage ratio and the minimum level still need to be finalised and the Netherlands has already indicated it may choose to apply a higher threshold than the rest of Europe.

"The lack of a European Deposit Guarantee Scheme was the main reason why we decided to stop our new initiative" – Niche bank

Quotes on barriers to the mortgage market	
Regulatory uncertainty	■ "The uncertainty on how regulations such as LTV, NHG, and the Home Mortgage Interest Deduction Scheme will develop in the near future is not helping the reputation of the Dutch market" – Service provider
LTV	■ "I don't think that the international reputation of the Dutch mortgage market is good. This is mainly driven by our high LTV compared to other countries" – Niche bank ■ "The main barrier to entry into the mortgage market could be the current high LTV compared to other countries" – Investment fund ■ "It is not beneficial to the Dutch mortgage market that the surrounding countries on average have lower LTVs (and thus lower risks)" – Universal bank

4.3 Barriers to the mortgage market

Regulatory uncertainty

It is important to note that potential entrants take a long-term view when assessing the attractiveness of a mortgage market. This makes visibility on the future conditions particularly important.

As mentioned earlier, the rules governing LTV have changed significantly in recent years[1]. Although these changes have resulted in considerable additional clarity around the future direction of the industry, more than half of the interviewees indicated that uncertainty remains regarding the final regulations.

A key driver of the demand for and affordability of retail mortgages is the tax treatment of such loans (i.e. mortgage interest deduction). Any additional clarity on the future financial tax treatment of such loans would be welcomed by new entrants.

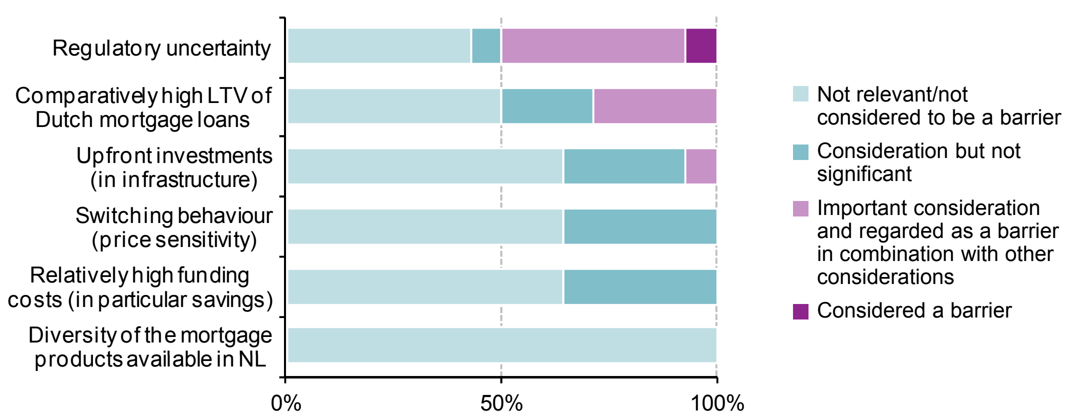
Another aspect is the extent to which exit options will be available once a mortgage book has been originated. Some interviewees are concerned as to whether they might end up in a position from which it would be difficult to exit.

LTV

The LTV of Dutch mortgages is relatively high in comparison with other markets. Although this is not reflected in high losses on default, this does reduce the market attractiveness to new entrants. For new entrants from outside the Netherlands without prior knowledge of the Dutch market, this situation requires clarification on, for example, Dutch payment behaviour and the existing legal framework.

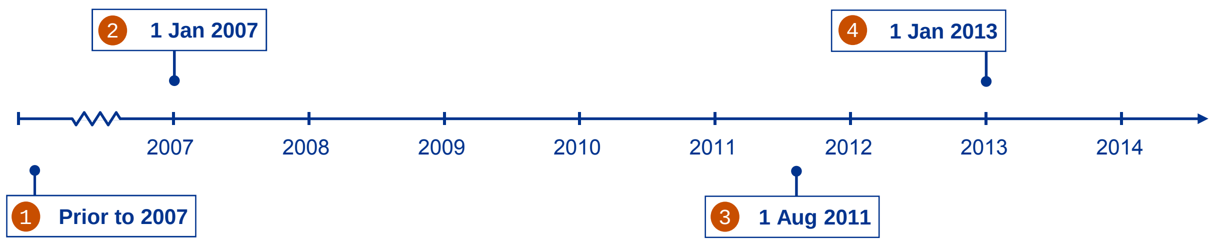
Note: (1) See page 23.

Entry considerations related to the mortgage market



Note: n = 14.
Source: Interview programme.

Regulations regarding LTV – Historic development



Key developments

1. The 'Gedragscode Hypothecaire Financieringen' (code of conduct on mortgage loans between banks) did exist but did not include any regulations regarding LTV.

2. The 'Gedragscode' was amended to include 'Woonquote' regulations (specifying the maximum amount customers could borrow based on their income) and 'Toetsrente' regulations (specifying minimum benchmark interest rates for loans with a fixed interest period of less than 10 years).

   In April 2007 the NHG norms were amended to align them with the 'Gedragscode'. In practice, market participants could deviate from the 'Gedragscode'.

3. In August 2011 the 'Gedragscode' was amended again to include the following regulations:

   - Maximum LTV of 104% of market value excluding transfer tax;
   - Interest-only part of mortgage maximised at 50%.

4. In 2012 the Dutch government decided to reduce the maximum LTV as from 1 January 2013 to 100% of the market value including the transfer tax by implementing the 'Tijdelijke regeling Hypothecair Krediet'. The maximum LTV will be reduced by annual steps of 1%-point resulting in the following scheme:

   - 2013 – 105%;
   - 2014 – 104%;
   - 2015 – 103%;
   - 2016 – 102%;
   - 2017 – 101%;
   - 2018 – 100%.

4.4 Barriers to the SME lending market

Impact of the economic downturn

The economic downturn in the Netherlands has had a direct impact on the SME segment, with a large number of SMEs experiencing difficulties making their interest payments and/or repaying their loans. More than half of the interviewees indicated that this is seen as a barrier.

The interviewees noted that neighbouring countries to the Netherlands all have the same or better economic predictions in the short to medium term, making the Dutch market a less attractive option.

Lending to SMEs is only attractive if interest rates can be charged that reward the credit risk that is being run.

In practice, banks have a cap on the maximum interest rates they charge their SME clients in light of the following:

- Banks face an ethical dilemma in charging customers high interest rates. Although high interest rates may be in line with the client's underlying risk profile, such rates may be considered too high by the general public;
- Certain business models are considered by banks as having a high level of inherent risk.

Consequently, the Dutch SME lending market is not considered attractive and potential entrants expect to achieve better risk/return ratios in other countries.

In addition to the above, interviewees indicated that new entrants are not always expected to be able to win the best business/clients and would have to settle for less attractive business.

Pricing

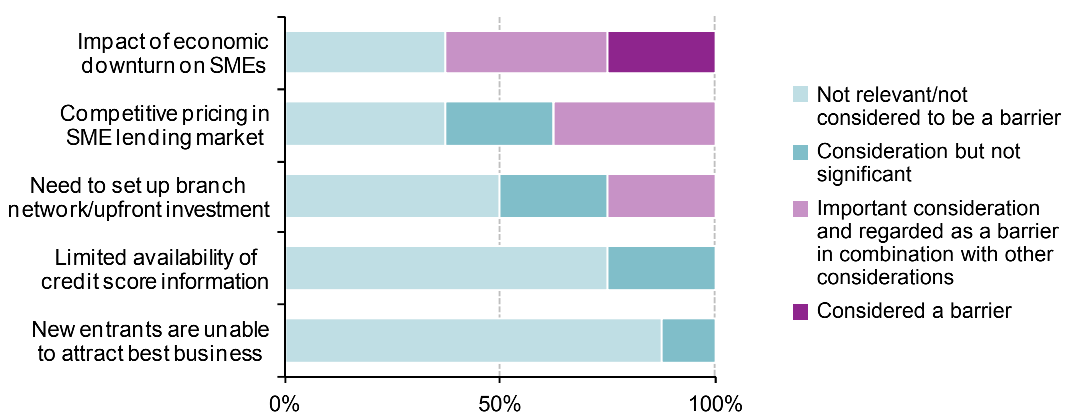
Another barrier to entry into the Dutch SME lending market is the price competition in the market. The market is considered to be highly competitive which has resulted in low pricing in the market. One of the reasons for this is that banks often prefer SMEs as clients because of the related cross-selling opportunities. Therefore, banks are willing to make little or no profit on SME lending products and recoup the losses on other, profitable products.

Given the current economic situation, prevailing market prices are not considered to appropriately reflect the related risks. Prices should in fact be higher to reflect SME customers' greater inability to make their interest or loan payments.

Interviewees indicated that the price of SME lending products is increasing and better reflecting the risk, albeit slowly.

"The SME sector has been significantly affected by the economic downturn" – Universal bank

Entry considerations related to the SME lending market



Note: n = 8.
Source: Interview programme.

Branch network

To obtain a good understanding of the client business model and risk involved, geographical proximity is considered to be of key importance. As a consequence the implementation of a branch network and related infrastructure is considered to be a requirement for SME lending and as such often acts as a barrier to entry in the SME market.

Moreover, interviewees indicated that they prefer not to outsource the SME lending process as third party servicers and capital providers generally have different priorities when assessing potential borrowers. Capital providers consider the quality of the borrower as more important, where third party servicers focus more on generating new production. In addition, close relationships with the clients are important to monitor loan repayments. Close client relationships are better facilitated by an extensive branch network.

“We consider a branch network to be essential, as we want to meet the people behind the company receiving the loan (at least once)” – Universal bank

Quotes on barriers to the savings market	
Interest rates	■ "There is a funding gap in the Dutch savings market; there is more demand for funds from savings by the financial institutions than there are deposits being made" – Niche bank ■ "Although the size of the Dutch savings market makes it an attractive market for entry, the interest rates are comparatively high, which makes entry less attractive" – Universal bank ■ "The largest amount of total savings is held by three large banks; on top of that the savings market is very competitive which results in high interest rates. I think this explains why foreign banks aren't entering the market" – Universal bank ■ "The savings market is characterised by a high degree of competition and the most important criterion is price. If you can offer a good price, you will attract a lot of savings deposits" – Niche bank

4.5 Barriers to the savings market

Characteristics

The retail savings market is characterised by two elements:

- Around 70% of the savings are held by banks that hold the status of 'house bank' for their clients (meaning they are the banks into which their clients' salaries are paid). Funds on the current account are most easily transferred by clients to savings accounts with the same bank. For these retail customers their primary concern is to know their money is safe;
- Roughly 30% of the market in terms of deposits is made up of customers seeking the best prices/highest interest rates. The intensity with which such searches are performed varies and only roughly 1%-5% of the market is continuously seeking the best offer.

Barrier

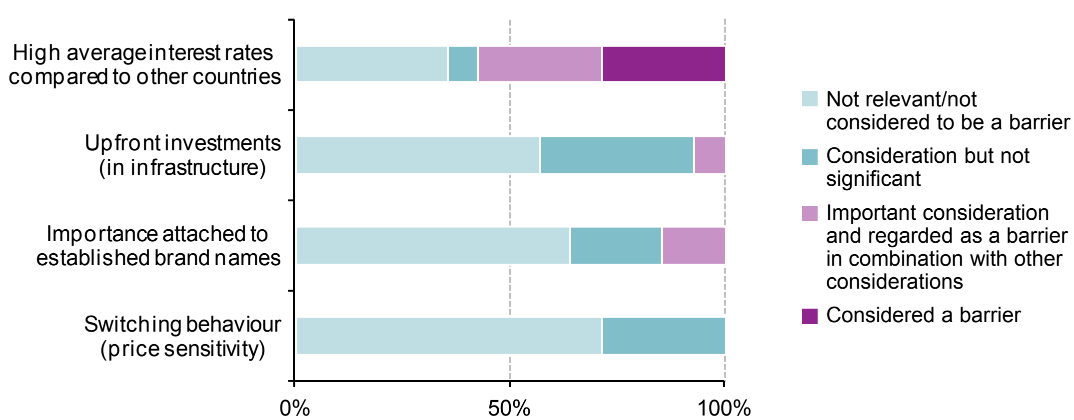
The 'price-sensitive' portion of the market mentioned above is regarded as the key reason for the fairly high interest rates on the Dutch savings market compared to other markets.

The increased pressure on banks to create a balanced funding mix in a market characterised by a large funding gap results in intense competition for savings deposits (and upward pressure on rates).

Over half the interviewees indicated that the high average interest rate in the Netherlands is seen as the most important barrier to entry in the Dutch savings market.

However, the price-sensitive nature of part of the market also makes it possible for potential new entrants to attract savings. Moreover, brand recognition/trust is not regarded as a key decision factor for savers (in particular in relation to savings covered by the DGS).

Entry considerations related to the savings market



Note: n = 14.
Source: Interview programme.

Appendix 1: Glossary of terms

€bn	Billion euros
€m	Million euros
ACM	Dutch Authority for Consumers and Markets
AFM	Dutch Authority for Financial Markets
Basel III	See CRD IV
CBS	Statistics Netherlands
CRD IV	Capital Requirements Directive IV also known as Basel III
DGS	Deposit Guarantee Scheme
DNB	The Netherlands Central Bank
ECB	European Central Bank
FCA	Financial Conduct Authority
GDP	Gross Domestic Product
IRR	Internal Rate of Return
LCR	Liquidity Coverage Ratio
LTV	Loan-to-Value
MFS	Financial Sector Monitor of the ACM
NHG	Dutch National Mortgage Guarantee
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
ROE	Return on Equity
SME	Small and Medium-sized Enterprises
SRM	Single Resolution Mechanism
WOZ	Dutch Real Estate Tax

Appendix 2: List of interviewees

List of interviewees				
		Areas of interest		
#	Type of bank	Mortgages	Savings	SME loans
1	Universal	✓	✓	✓
2	Universal	✓	✓	
3	Universal	✓	✓	
4	Universal	✓	✓	✓
5	Universal	✓		✓
6	Universal			✓
7	Retail	✓	✓	✓
8	Retail	✓	✓	
9	Retail	✓	✓	
10	Retail	✓	✓	
11	Retail	✓		
12	Niche	✓	✓	
13	Niche	✓	✓	
14	Niche		✓	
15	Niche		✓	
16	Niche			✓
17	Investment fund	✓		✓
18	Investment fund	✓		
19	Service provider	✓		
20	Service provider			✓

Appendix 3: Considerations breakdown

Considerations regarding entry into the Dutch retail banking market	
Revenue-related considerations	**Section**
Considerations related to attractiveness of the market	**4.2**
Current and forecast state of Dutch economy	
Composition/ageing of Dutch population	
Structure of Dutch retail banking markets	
Maturity/product awareness in Dutch market	
Political uncertainty	
Ease of doing business	
Unattractiveness of payment services	
Considerations related to regulatory environment	**4.2**
Regulatory uncertainty	
New capital requirements leading to increased focus on existing activities	
Considerations related to the mortgage market	**4.3**
Regulatory uncertainty	
Comparatively high LTV of Dutch mortgage loans	
Switching behaviour (price sensitivity)	
Diversity of the mortgage products available in NL	
Considerations related to the SME lending market	**4.4**
Competitive pricing in SME lending market	
New entrants are unable to attract best business	
Considerations related to the savings market	**4.5**
Importance attached to established brand names	
Switching behaviour (price sensitivity)	
Cost-related considerations	**Section**
Considerations related to attractiveness of the market	**4.2**
Limited market size related to upfront investments	
Political uncertainty	
Considerations related to regulatory environment	**4.2**
Regulatory uncertainty	
Differences between banking regulations between European countries	
Uncertainty around implementation of banking union	
Limitations imposed by foreign supervisors on using domestic funding to finance activities in NL	
Limitations imposed by DNB on using Dutch deposits to finance lending activities outside NL	
Consideration related to interaction with the supervisor	**4.2**
Uncertainty about outcome of application or notification procedures	
Duration of application or notification procedures	
Uncertainty about practical application of regulations during and after application process	
Considerations related to the mortgage market	**4.3**
Comparatively high LTV of Dutch mortgage loans	
Upfront investments (in infrastructure)	
Relatively high funding costs	
Considerations related to the SME lending market	**4.4**
Impact of economic downturn on SMEs	
Need to set up branch network/upfront investment	
Limited availability of credit score information	
Considerations related to the savings market	**4.5**
Upfront investments (in infrastructure)	
High average interest rates compared to other countries	

Appendix 4: Literature

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