# Summary

The Netherlands Authority for Consumers and Markets (ACM) has conducted a study into the functioning of the Dutch savings market and the effectiveness of competition on that market. This study was launched following a request from the Dutch Ministry of Finance, who had asked ACM if there was reason for launching a study into the state of competition on the savings market and into the savings rates in the Netherlands, which are lagging behind the interest rates of the European Central Bank (ECB). Moreover, ACM saw indications that Dutch consumers only benefited to a limited extent from the increased interest rates and that these consumers appeared to switch only to a limited extent to (non-Dutch) providers that offered higher savings rates.

In this study, ACM used different research methods, including a consumer survey, interviews with market participants, analyses of documents of major banks, and descriptive statistics. In the study, the following research questions were central:

1. Is there a lack of competition on the Dutch savings market?
2. What are the factors behind the observation that consumers appear to switch banks only to a limited extent?
3. What are the reasons that the major banks do not offer higher savings rates?
4. What would help boost competition on the Dutch savings market?

The market study has revealed that the Dutch savings market is an oligopolistic market that is not functioning properly. It is a highly concentrated market where only a few large banks serve a very large part of the market, and many, much smaller banks have only modest market shares. Due to the low willingness-to-switch among consumers, the large group of smaller and non-Dutch banks exerts relatively little to no competitive pressure on the major banks.

In addition, it is plausible that tacit coordination among the major banks is taking place on the Dutch savings market. Such coordination is not prohibited, though it does lead to suboptimal market outcomes. Certain market characteristics, such as the high degree of transparency, product homogeneity, and the symmetry between the major banks add to the risk of tacit coordination. These characteristics could enable banks to coordinate their decisions on savings rates with each other more easily, without having to make explicit arrangements. The fact that the major banks' savings rates are moving in tandem only adds to the plausibility of the existence of tacit coordination.

Over the past few years, the ECB pursued an expansionary monetary policy. As a result, banks improved their liquidity positions, and were able to get access to ECB financing more easily. This made banks more resilient to an outflow of savings, while having less need for savings as a source of financing. Combined with the growth in the total volume in savings, this has further weakened competition. That is why banks have offered lower savings rates. The increase in liquidity has also contributed to the banks' historically high profits.

In the public debate, multiple explanations are given, besides a lack of competition, as to why the savings rates are lagging behind, such as recovery of margins, increase in operational costs, and loan-term transformation (banks use relatively short-term debts such as savings for the financing of relatively long-term assets such as mortgages). Although certain explanations may indeed play a role in the delayed or incomplete passing on of the higher ECB interest rate to the savings rates, ACM considers these explanations to be insufficient for fully explaining the lagging savings rates. That is why ACM concludes that a lack of competition is a key cause for the lagging savings rates.

ACM sees room for improvement of the current market situation. For the major banks, preventing too great an outflow of savings customers and savings volumes is a key consideration when determining the

savings rates. If more consumers switch banks (or when they threaten to do so), the competitive pressure on the major banks will increase. There are sufficient other providers active for offering the necessary competitive pressure. For these providers, the barriers to entry or to grow do not seem to be unnecessarily or unreasonably high. That is why, in its recommendations, ACM focuses on increasing the consumer switching rate in the market.

The low willingness-to-switch among consumers on the Dutch savings market can be explained in various ways. The majority of consumers say they are satisfied with their current banks. However, a group of consumers does seem to be insufficiently familiar with the full range of savings products on the market. In addition, a large share of consumers has a strong preference for doing business with one of the Dutch major banks for their banking needs. Also, consumers appear to have little confidence in non-Dutch banks. One of the reasons behind this lack of confidence is a concern over whether their savings are safe with such banks. Bankruptcies of non-Dutch banks in the past and unfamiliarity with the deposit guarantee scheme only reinforce this idea.

In addition, consumers encounter switching barriers when trying to switch providers. For example, clients with the major banks must have a checking account (also known as a current account) in order to be able to open a full-fledged savings account, thus possibly incurring additional costs. For consumers that prefer taking out all of their banking products with a single bank, switching barriers on other banking products also apply to savings accounts. One example is the lack of IBAN number portability. After all, when switching banks, this group of consumers will also switch checking accounts.

ACM presents several recommendations for boosting competition on the Dutch savings market. These recommendations are made to the Dutch legislature. What would help the savings market the most is increased competitive pressure as a result of more consumers switching (or threatening to do so). The recommendations are therefore aimed at lowering the barriers to switching for consumers:

1. Mandate banks to inform their customers at least once a year about how their savings rates have been determined, and how these compare with the savings rates offered by other banks that are active in the Netherlands. For example, they can do so by including their own savings rates in an independently compiled overview of all savings rates offered to Dutch consumers.

2. Mandate banks to inform their customers at least once a year about what savings products they offer themselves, and how much interest customers can earn on these products, given their financial positions. This will make it clear to customers what the potential gains are of switching to a different product with the same bank.

3. Mandate banks to publish their current savings rates of all of their savings products (restriction-free access and CDs) in a standardized format that can also be accessed using an application programming interface (API):
    i. Using clear and easy-to-understand language;
    ii. With clear sample calculations;
    iii. With information about what products may best meet the customer's personal needs;
    iv. With a clear overview and explanation of all the conditions that apply to these products.

4. Encourage independent comparison websites to publish current and complete information about all banks that are available to Dutch savers in the way described under 3. In the comparison tool, introduce an option for savers to enter information about what their current bank is and how much savings they wish to transfer to the new account. With that information, an estimate of the annual interest earnings can be presented.

5. Mandate all banks that are active in the Netherlands to create a properly functioning switching service for consumers that wish to open a savings account at another bank. Consumers must be easily able to inform the new bank how much money they wish to transfer, after which the old and new banks

settle this among themselves.

6. Prohibit the tying of checking and savings products, which some banks do. Consumers must be able to open a full-fledged savings account with all banks without having to open a checking account as well.

7. Advocate the creation and mandatory use of standards for data portability and interoperability for checking and savings accounts at the European level. Customers of a bank should be able to transfer the transaction history of their products to a new bank.

8. Research the costs and benefits of IBAN number portability for checking and savings accounts. In that context, ensure an integral approach, where all costs and benefits are included.

9. Advocate the introduction of a common European deposit guarantee scheme and fund, where consumers get their savings back with the same certainty should their bank go bankrupt regardless of where in the EU that bank is officially registered.

10. Advocate the further strengthening of European cooperation if banks offer savings accounts using cross-border services, so that the Dutch central bank DNB is given more opportunities to offer support when communicating with and paying out to customers that wish to hold savings using cross-border services.

11. Improve the provision of information regarding the functioning of the deposit guarantee scheme, with attention to the differences between the schemes in different countries and to the way in which DNB, in concrete cases, offers support to non-Dutch central banks. Clearly explain, for example, how and how soon compensations from the deposit guarantee scheme are paid out. In that context, continue to emphasize that all Dutch banks fall under the Dutch deposit guarantee scheme, and that this, combined with DNB's discretionary oversight, ensures that savings with smaller banks are as safe as with the larger banks.

ACM is in favor of monitoring the effectiveness of these recommendations. Should these prove to be insufficient, ACM offers several possible options for additional measures:

i. Analyze the costs and benefits of a prohibition of differentiated savings rates for different categories of savers versus the ability to offer promotional rates.

ii. Maximum spread between the interest rate on a bank's standard savings product and that bank's highest savings rate on offer.

iii. Direct oversight over savings rates: for example, introducing a minimum (real) savings rate, maximum spread between the ECB deposit facility rate and the savings rate, or a system similar to the French Livret A, in which the government sets the interest rate and the maximum amount that can be deposited.