

Policy Compass Form for **Internet Consultation**

Title:

Amendment to the BES 2012 Financial Markets Regulation (relieving the seat requirement for credit institutions on St Eustatius and Saba)

∞ Who are the stakeholders and why?

- Who are the stakeholders, directly or indirectly, in the issue in question?

Citizens, entrepreneurs and credit institutions.

- Who has relevant knowledge and experience of the issue?

De Nederlandsche Bank (DNB), the Dutch Authority for the Financial Markets (AFM), business organisations in the (local) financial sector and the public bodies Saba and Sint Eustatius.

- How have stakeholders been involved so far in the different stages of the policy path?

In recent years, the Ministry of Finance and DNB have regularly and intensively spoken with the public bodies Saba and Sint Eustatius, (local) financial institutions and business organisations to get a clear picture of the problem and explore possible solutions.

1. What's the problem?

- a) What's the problem?

The banking services on Saba and Sint Eustatius have not met social expectations and the lower limit for banking services within the Caribbean Netherlands for some time now. This hinders opportunities for individuals and companies to participate in society, as is possible in the European part of the Netherlands.

- b) What are the causes of the problem?

There is a market failure in the financial markets of Saba and St Eustatius. Research by both the Ministry of Finance and DNB and that of external parties shows that it is practically impossible to create a sustainable and profitable *business case* there. This is mainly due to the limited market size and physical location of Saba and St. Eustatius.

- c) What is the extent of the problem?

The market conditions on Saba and St Eustatius mean that banking services cannot be offered in a profitable way there, which prevents (possibility of) improvement. As a result, the continuity of banking services on Saba and St Eustatius is regularly under pressure and is currently insufficiently sustainable. This not only leads to complaints, but also hinders the economic growth of the tourism industry on Saba and St. Eustatius and the social development and self-development of the inhabitants of Saba and St. Eustatius.

- d) What is the current policy and what has been the outcome of the evaluation?

We have been looking for a solution to the above problem for some time now. Various forms of government intervention have been explored, including a service agreement with a (local) bank, including a government contribution that could remove the unprofitable peak of the provision of banking services. We also looked at what role a Dutch financial institution could play in a solution. Unfortunately, for various reasons, such initiatives have not been successful.

- e) What happens if the government does nothing (zero option)? What justifies government intervention?

Without government intervention, the supply of banking services on Saba and St Eustatius is expected to further decline and (sustainable) access to banking services remains under pressure, both in the short and long term. In the current situation, the population of Saba and St. Eustatius already has to deal with high bank costs and a limited range of banking services. Further reduction of that supply prevents opportunities for the population of Saba and St. Eustatius to participate in economic activities as is possible in the European part of the Netherlands. It is also not unrealistic that, without government intervention, a part of the population will eventually end up without access to banking services.

2. What is the intended purpose?

- a) What are the policy objectives?

- Ensuring sustainable access to banking services.
- Lower costs of banking services for citizens and businesses.

- b) To which [sustainable development goals \(SDGs\)](#) and [broad welfare outcomes](#) do the goals contribute?

- Reducing Poverty (SDG 1)
- Combating Inequality, Non-Discrimination, Equal Opportunities (SDG 16)

3. What are the options to achieve the goal?

- a) What are promising targets to achieve the goal?

Laws and regulations.

- b) Given the starting points, what are promising policy options?

Laws and regulations.

- c) What is the policy theory per promising policy option?

In recent years, the Ministry of Finance has explored various forms of government intervention, amongst which a service agreement with a (local) bank, including a government contribution that could remove the unprofitable peak of the provision of banking services. The Ministry of Finance also looked at what role a Dutch financial institution could play in a solution. Unfortunately, for various reasons, such initiatives have not been successful.

Subsequently, the Ministry of Finance investigated which barriers to entry stand in the way of a solution and can be lowered in order to make it possible to improve the provision of banking services on Saba and St. Eustatius. The Ministry of Finance has concluded that this concerns the so-called seat requirement for credit institutions with a seat in the European part of the Netherlands. The seat requirement means that credit institutions wishing to operate in the Caribbean Netherlands must have a formal seat in the Caribbean Netherlands, Curaçao or Sint Maarten. It has been concluded that this disproportionately impedes the necessary improvement of the provision of banking services on Saba and St. Eustatius.

By allowing credit institutions with a registered office in the European part of the Netherlands to offer banking services on Saba and Sint Eustatius through a branch office on Saba or Sint Eustatius, an entry barrier is reduced in a proportionate manner and an improvement in the provision of banking services (at a lower cost) is made possible.

These branches are subject to the same rules for their activities on Saba and St. Eustatius as branches located in Bonaire, St. Maarten and Curaçao. They need to apply for the same permit, subject to the same substantive requirements and, once authorised, subject to the same rules (including prudential requirements and market conduct provisions).

4. What are the consequences of the options?

- a) What are the expected impacts per policy option?

As explained above, different forms of public intervention (other than new laws/regulations) have not led to the desired result.

The proposed regulation makes it possible for credit institutions with a registered office in the European part of the Netherlands to offer banking services on Saba and St. Eustatius from a branch office. It is expected that this will lead to better availability of banking services on Saba and St Eustatius, at a lower cost.

- b) Which mandatory tests apply and what are the results?

None.

5. What is the preferred option?

- a) What is the proposal?

The scheme also allows credit institutions to have their registered office in the European part of the Netherlands if they carry on the business of a credit institution from a branch on Sint Eustatius or Saba and the exercise of the business of a credit institution from that branch is limited to Sint Eustatius and Saba.

- b) How does the proposal take into account:

- [effectiveness and efficiency](#);
- practicability for all relevant parties (including [capacity to act](#), regulatory burden and [enforcement](#));
- A broad social impact?

These points are discussed in detail in the explanatory note to the amendment.

- c) What are the risks and uncertainties of this proposal?

It is uncertain how the financial markets of Saba and St Eustatius will develop after the entry into force of the regulation. However, risks are limited, as the scheme only aims to lower an entry barrier and there is currently no (healthy) competition on the financial markets of Saba and St. Eustatius.

- d) What does the planned [monitoring and evaluation](#) look like?

The Ministry of Finance closely monitors the development and functioning of the financial markets of the Caribbean Netherlands (including Saba and St. Eustatius). In this context, the Ministry conducts regular meetings with the local sector, public bodies, DNB and the AFM. Part of this will be a periodic assessment of the effects of the scheme and whether they still fit the market situation in the future.