The Dutch Bank Bailout Puzzle:

A case study on the capital injection-based strategy of the Netherlands during the 2008 global financial crisis.

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Date: February 6, 2022

Abstract

Over a decade ago, the world was struck by one of the worst financial crises in nearly 100 years. Towards limiting contagion – the spread of one financial institution's failure to another - governments around the world momentarily stepped away from its prevailing *laissez-faire* ideology and committed unprecedented capital to support troubled institutions. The Netherlands enacted a comparable capital injection-based strategy. This study analyses the divergent bank bailout policy measures based on governmental and commission reports and attempts to answer the research question: *'why did the Dutch government adopt divergent state responses to deal with distressed financial institutions following the 2008 financial crisis?'*. A comparative multiple case study was performed on four carefully selected cases (ING, Fortis/ABN-Amro, DSB & SNS Reaal) which stretched a broad range of bank bailout policy responses deployed by the government. The results show that with every form of government intervention, with the exception of the €20 billion capital injection fund, a private market-based solution was the primary and preferred sought after solution. Unfortunately, such a solution due to stringent supranational conditions set by the EC was often not viable, leading to public solutions instead. Availability and appropriateness of policy options, the underlying institution's financial strength, the possibility on a return on investment for the government, and the institution's systemic relevance, were dominating factors that explained the divergent Dutch state response during the 2008 global financial crisis.

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1. Introduction

Over a decade ago, the world was struck by one of the worst financial crises in nearly 100 years. In less than one month, an unprecedented large quantity of globally well-known financial institutions became distressed (Webel & Labonte, 2018). The entire global financial sector lost 70 percent of its value in less than one year (DNB, 2010). The global financial crisis that originated in the United States, started with the bust of the domestic housing market. Once housing prices devaluated significantly, bundled mortgage-backed securities held by many financial institutions plummeted equally. Many financial institution's high exposure to these tradable subprime 'toxic' securities led to severe liquidity issues (Scheltema et al., 2010).

The situation significantly deteriorated with the fall of American firm Lehman Brothers on September 15, 2008 (Scheltema et al., 2010). The most impactful bankruptcy in history exacerbated international fears about the global financial sector's health and the government's willingness to support failing financial institutions (Woll, 2014c). The interbank market - flooded with aforementioned 'toxic' assets what made it unfeasible for institutions to distinguish the quality of loans - seized to function. Global investors liquidated their positions on large scales as market sentiment continued to plunge, leading to a revelation of solvability issues due to a substantial amount of 'large-scale interconnected institutions' holding (…) poorly performing assets' (European Commission, 2011). The fall exhausted market sentiment and morphed the initial domestic liquidity shortages within certain financial institutions into a global solvency crisis (CBS, 2008)

Consequently, as more and more banks began to fail, the predominantly American subprime mortgage crisis progressed into a systemic crisis affecting most capitalist economies in the world (Solt, 2018). To prevent a collapse of the global financial system, central banks around the world stabilised the financial sector using tax payer's capital, despite public antagonism vis-a-vis saving the sector from the self-induced chaos (IMF, 2010; Mitchell, 2016a; Woll, 2014c). (Blinder, 2013)This intervention required the greatest ad-hoc crisis management exercise the world has ever seen (Blinder, 2013)

In fiscal terms, the global financial crisis inquired one of the highest expenditure in the history of capitalism (Balakrishnan, 2008; Sheng, 2015). Towards limiting contagion – the spread of one financial institution's failure to another - governments around the world momentarily stepped away from its prevailing *laissez-faire* ideology and committed unprecedented capital to support troubled institutions. Expenditure in the US for example, accounted for over 1 trillion dollars, in the UK over 718 billion dollars and over 614 billion in

Ireland (Grossman & Woll, 2014). Across the world, governments collectively committed over $7 trillion (Tooze, 2018). Moreover, some European Union (EU) states' exposure to the financial sector (e.g. Iceland) greatly outweighed institutional capability and the imported private financial crisis developed into a public sovereign national debt crisis (Constancio, 2012). Expressed in percentages of gross domestic product (GDP), governments spent on average between 26% and 28% to prevent their domestic financial sector from collapse (Stolz & Wedow, 2010). Rather unsurprisingly, saving the market did take its toll: the overall European economy dropped 'from the strongest it had ever been to lowest it had ever been' (Welch, 2011, p. 483)

Despite facing similar challenges, government bailout strategies varied. For example: the US initially proposed to relieve troubled institutions through the purchase of toxic assets, but changed strategy after the policy measures proved to be ineffective. Consequently, the US forced banks to accept state capital injections on dictated terms (Woll, 2014c). Contrasted by the *laissez-faire* approach by the British government which initially relied on private inter-bank takeovers and mergers. However - similar to the US – policy measures seemed ineffective and ultimately nationalised banks and obligated distressed banks to accept state aid. The German approach bore little resemblance to former strategies: bailouts were more favourable to banks and state ownership was minimal (Mitchell, 2016a).

In hindsight, the impromptu strategies adopted by capitalist economies during the crisis do show similarities. As encouraged by the British government, assigned policymakers around the world formulated a similar capital injection-based strategy consisting broadly of four pillars: recapitalisation, asset purchasing, state loans and state guarantees to depositors (European Commission, 2011; Quaglia, 2009).

Crisis management and political economy theories have attempted to explain the varieties evident among governmental interventions. It seemed authorities did not have clear-cut crisis management strategies in place, and as Tooze (2018) notes, solutions 'emerged from barely coordinated sessions off all-day, all-night problem solving'. As such, tremendous time pressure in conjunction with (limited) available domestic policy instruments may account for such divergent approaches. Political theories suggest that types of bank bailouts take root in the political and institutional setting of the country and varieties among interventions are because of different business-governments relationships between bankers and policy makers (Grossman & Woll, 2014).

The Netherlands enacted a comparable capital injection-based strategy. Financial institutions such as ING and Aegon received governmental support in various ways including in the form of capital extension, the transfer of toxic assets or were nationalised. In addition, the government guaranteed €200 billion for the issuance of medium-term debt securities due to a malfunctioning of the capital market for medium-term funding (Mayer Brown, 2009). The divergent measures did bear fruit in regard to the financial support intervention, but proved costly for the acquisition and nationalisation as the state holds interest in these financial institutions to date (Algemene Rekenkamer, n.d).

To date, it remains unclear why struggling Dutch domiciled institutions - despite facing similar challenges - received different forms of support, or in the case of the DSB, received no support at all, resulting in a bankruptcy. As such, this research focusses on the 2008 adopted bailout strategy of the Netherlands. It analyses the divergent bank bailout policy measures based on governmental and commission reports and attempts to answer the research question: *'why did the Dutch government adopt divergent state responses to deal with distressed financial institutions following the 2008 financial crisis?'*.

To answer the above question, a comparative multiple case study is performed on four carefully selected cases (ING, Fortis/ABN-Amro, DSB & SNS Reaal) which stretches a broad range of bank bailout policy responses deployed by the government. In doing so, this research will focus on generating an appropriate theory that can explain the varieties among adopted policies, as aforementioned theories may explain why and how governments intervene when the financial sector faces difficulties, but fall short of theorising why governments enact different types of bank bailouts to distressed financial institutions that are essentially facing similar market issues.

The Netherlands is of particular interest due to its market-based banking system and its significant exposure to financial markets, globalisation of institutions and integration in to the European monetary union. Frist, both historically and contemporary, the Dutch banking sector in relation to the nation's gross domestic product (GDP) is among Europe's greatest. The Dutch financial sector accumulated to nearly six times its GDP in 2007, similar in magnitude of the United Kingdom and Ireland (DNB, 2010). Grossman & Woll (2014) measure exposure to financial markets slightly different in that the authors use stock market value in relation to as a yardstick, and compared countries on a global level. Despite different methodologies, the Netherlands again, was significantly exposed to the financial sector during the global financial crisis even in a global setting.

In 2004, the International Monetary Fund (IMF) concluded the Dutch financial system to be 'sound, resilient to potential adverse shocks, and well supervised' (IMF, 2004). Despite such evaluations, the financial sector required a significant capital injection (CBS, 2008; Chang

& Jones, 2013). Traditionally relying on securitization, Dutch banks suffered significant balance sheet devaluations once the asset-based security market vaporised (Chang & Jones, 2013). Collectively, the sector wrote off €16 billion, or 2.4 percent of GDP (DNB, 2010). The banking crisis not only instigated the largest yearly economic shrinkage (4 percent) in Dutch history, but also enlarged government debt by 16.3 percent point (CBS, 2018). The Netherlands' significant exposure to its financial sector, and prudent financial system gives impetus to research the government's response (Chang & Jones, 2013).

1.1 Academic relevance

Whereas large capitalist countries have been researched comparatively whether it being across the world or inside the EU, countries are seldom researched in-depth and on a standalone basis. Stolz & Wedow (2010) for example juxtaposed governmental measures in the EU and United States, and found that crisis responses have largely been similar, but significant variances within the Eurozone appeared. Grossman & Woll (2014) compared bank bailout strategies between Ireland, Denmark, France and the United Kingdom and found that the enacted bailout strategy depended on the institutional and political setting of each country. On a higher level, Rosas (2009) compared crisis management policies between democratic and non-democratic regimes, and found that democracies tend to implement less expansive bank bailouts.

These studies however focussed on bank bailout strategy differences and similarities *across* countries and regimes. Current literature on the choice of policy measures *within* countries is sparse, and literature on *why* governments adapted different policy measures for banks facing similar challenges is largely absent. Existing literature cannot explain why governments choose one bailout policy over another. For example, why did the DSB Bank go bankrupt, and did not receive support at all? Or, why did ING receive a capital injection, but was SNS-REAAL nationalised?

This research entails a comparative in-depth case study on four different state interventions under the auspices of *Balkenende IV*: the acquisition of FORTIS/ABN-AMRO in 2008; capital injection for ING in 2008; the bankruptcy of DSB in 2009; and nationalisation of SNS- REAAL in 2013. Existing literature on bank bailouts contain hypotheses on 'how' state responded but lacks empirical findings to construct a hypothesis as to 'why' the state adopted different interventions. The analysis of four individual cases gave insights into the specific economic, political and cultural context of each bank bailout. By comparing the cases, a theory was able to be generated that explains why the divergent policies were adopted.

Single-country research allows for a superior level of detail in crisis management research. Since the Netherlands has a prominent banking sector, scrutinising its bank bailout strategy will enlighten details which other similar financial markets could derive lessons from.

1.2 Practical relevance

It is paramount to understand the intricacies of political financial crisis management strategies as banking crises are recurring events[1] (Barrell & Davis, 2008; Dagher, 2018). First, Laeven & Valencia (2012) showed state expenditure to correlate to the size of the financial sector. As the Netherlands is significantly exposed to the financial sector, policy makers should expect significant backlash and build strong defences. Second, if adhered to crisis management policies are inadequate, significant expenditure could exacerbate and morph the banking crisis into a sovereign debt crisis– as seen in Ireland – and prolong undesired economic downturn. Often, such consequential direct and indirect fiscal costs are much larger than bailouts themselves (Reinhart & Rogoff, 2009).

As noted by Rosas & Jensen (2010), crises leave policymakers "with little time to ponder the likely impact of different policies" (p. 134). Policymakers should therefore seek to find practical exit strategies during economic expansion to support systematically important banks in economic downturn (Stolz & Wedow, 2010). By analysing and comparing different bailout strategies adopted in the Netherlands, one might find 'best practises' that allow policymakers to shift away from these ad-hoc measures. These findings can aid in shaping evidence-based policymaking that makes the Netherlands more prepared and resilient for upcoming financial crises, while at the same time limit government spending and output losses. Theorising proper financial crisis management practices derived from this case study, could contribute to a trustworthy democratic system. Furthermore, Constâncio (2012) argues contagion (e.g. spread of failure) to play a crucial role towards exacerbating financial trouble. This research furthermore contributes to crisis management authorities who focus on policy measures that attempts to contain and mitigate contagion.

1.3 Reading guide

This research contains eight chapters. *Chapter 2* provides the theoretical framework on bank bailout strategies. *Chapter 3* provides an overview of the methodological approach of this study. *Chapters 4 to 7* each analyse one of four empirical cases: the acquisition of FORTIS/ABN-

[1] Laeven & Valencia's database (2012) show 147 episodes of banking crises since the 1970's.

AMRO in 2008; the capital injection of ING in 2008; the bankruptcy of the DSB Bank in 2009; and the nationalisation of SNS REAAL in 2013. *Chapter 8* juxtaposes all cases and analyses the cases' similarities and differences. *Chapter 9* concludes on the research.

2. Financial Crises Management Theories

This chapter provides an overview of existing literature on banking crises. It starts by defining banking crises as a subset of financial crises and clarifies how financial institutions become distressed. Several views that enlighten why governments would save financial institutions, and how such policies are enacted across financial systems in the world are juxtaposed afterwards. Lastly, several theories on the difference of bank bailout strategies around the world are examined which lay the foundation for the theoretical framework for the multiple case study.

2.1 Financial crises

In general, financial crises either relate to banking, currency or sovereign debt crises (Laeven & Valencia, 2012; Mitchell, 2016a). This research concerns banking crises, which emerge when a large portion of domestic banks become distressed and the stock market significantly depreciates (Mitchell, 2016a). Although financial crises may seem exceptional, they are in fact recurring events (Barrell & Davis, 2008; Goldsmith-Pinkham & Yorulmazer, 2010; King, 2019). Between 1970 and 2011, Laeven & Valencia's (2012) database lists 431 occurrences of financial crises. With 218 episodes, the majority relate to currency crises, followed by 147 banking crisis and 66 sovereign debt crises. Banking crisis are a global phenomenon, affecting both developing and developed economies. These crises have become integral to modern financial landscapes (Goldsmith-Pinkham & Yorulmazer, 2010; Reinhart & Rogoff, 2013).

2.2 Financial institutions

Financial institutions play two vital roles in modern society: they facilitate the (international) payment system that allow individuals and business to trade capital and goods around the globe; and they extend credits to creditors allowing individuals and business to make investments (Nicolaisen, 2015). Bank failures will make the (global) economy 'seize up' and bring businesses and investments to a halt (Nicolaisen, 2015).

Financial institutions become distressed either by becoming illiquid or insolvent. Illiquid is the state of being not 'liquid', meaning not having enough capital reserve (cash) to repay creditors (those it owes money). Bank function by extending short-term credit from depositors to fund long-term investments (Nicolaisen, 2015). These investment positions are difficult to sell and unable to be converted into cash quickly (i.e. liquidate). If, for whether it being for a legitimate reason or pure panic, depositors withdraw money simultaneously (i.e. bank run) the bank is unable to give capital back. In other words, the bank has become 'illiquid'.

Unless there is some kind of deposit guarantee by the state, people lose their deposits (Mitchell, 2016a). When a bank is illiquid but not insolvent, it can be saved by loans from third parties.

Insolvency is commonly triggered by illiquidity, and appears when a bank is unable to pay its debts as its payment obligations (capital owned to depositors or investors) outweigh its assets (investments and loans) (Goodhart, 2008). Thus, insolvency materializes when banks' assets underperform and loose value. In a nutshell, this is what happened during the GFC. Banks around the world held similar mortgage-backed securities (MBS) which significantly devaluated. This made financial institutions insolvent (Mitchell, 2016a). In simple terms, an insolvent bank can be saved through increasing the value of their assets, capital injection or by reducing its liabilities.

2.3 Contagion and systemic crises

In modern societies, the increase in interbank lending made institutions more dependent on each other since their liquidity derives from its access to interbank market. In a state of normalcy, the access to the interbank market shows its importance: it allows banks to overcome (developing) liquidity issues. However, in times of uncertainty, the interbank market freezes which makes capital inaccessible. Otherwise 'healthy' banks are reluctant to lend to 'troubled' ones. It acts as a self-fulfilling prophecy: healthy banks can become distressed due to the freeze of the interbank market which in turn makes banks illiquid since banks stop interbank lending (Mitchell, 2016b). The spillover of difficulties can lead to multiple banks failing (Goldsmith-Pinkham & Yorulmazer, 2010). This is otherwise known as contagion. Contagion appears when one bank's illiquidity or insolvency severely affects and drives another into solvency or liquidity problems. As such, the interbank market as a provider of liquidity acts a vehicle for contagion (Martínez-Jaramillo et al., 2010). As banks are the engine of the economy, failure of a significant portion of these institutions harm the broader economy more than any other sector. Contagion has the ability to morph financial instability into systemic dimensions. Particularly in the European Union (EU), contagion exacerbated sovereign debt problems (Constancio, 2012). Bank contagion and globalisation increases the difficulty and fiscal costs of an effective response**.** As such, crisis management policies should not only address distressed financial institutions, authorities should also focus on mitigating contagion (Constancio, 2012).

2.4 Models of financial crisis

The debate in modern economics on whether financial crises are part of the business cycle or a consequence of arbitrary exogenous shocks significantly differentiates financial institutions' liabilities as it (1) produces varieties in the creation of 'moral hazard' resulting from state intervention as well as (2) augmenting the likelihood of future financial crises (Mitchell, 2016a). Moral hazard is defined as "the expectation that aggressive lender behaviour will be rewarded through socialization of losses in case of financial insolvency" (Rosas & Jensen, 2009, p. 112).

In the *sunspot model*, financial intuitions are victims of random, out-of-control financial shocks. Thus, state aid is justified as the government is merely supporting businesses to 'recover from forces beyond their control' (Mitchell, 2016a, p. 23).

This is contrasted with the *business cycle model*, based on Minsky's financial instability hypothesis stating that financial institutions are at fault by creating these circumstances themselves. In this model, financial crises lay in between the run-up ('boom') and crash ('bust') of long-term financial market's business cycles (Mitchell, 2016a). In stable periods, a behavioural change appears: perceived risks of crises are low, allowing institutions to take riskier positions while regulation simultaneously often dilutes (Dagher, 2018). This resonates with Reinhart & Rogoff's (2008) research that conclude that high international capital movement repeatedly precede (international) banking crises (Reinhart & Rogoff, 2008). As leveraged positions make financial institutions highly vulnerable to crises, losses become higher and more significant. Since the market created this situation itself, governments that attempt to cushion the crash with state aid are concerned with 'moral hazard' – which is exacerbated when distressed institutions believe state aid is likely (Mitchell, 2016a).

These models account for differences in bank bailout strategies. In the *business cycle model,* state intervention resulting from a self-induced baking crisis exacerbate the problem. Effectively, state interventions incubate a self-fulfilling prophecy: bailouts permit imprudent banking behaviour in good times and concurrently assumes governments will take the hit in bad times. This gives bankers the opportunity to take on more leveraged positions, and increase the vulnerability of financial institutions, knowing its government will support when troubled (Mitchell, 2016a). As such, under this model, governmental support to financial institutions should be put on strict terms to discourage future risk-taking behaviour (Wray, 2011).

Economic literature holds little empirical data on which model is more valid (Mitchell, 2016a). This directly sways the efficacy of financial crisis management policies as policy makers need to ‘choose’ which model to follow. Therefore, bailouts cannot be understood in functional or economic terms, but rather as a product of politics (Grossman & Woll, 2014).

2.5 To bailout or not?

Governments interact with economies through proscribing certain activities, encouraging certain behaviour and or by managing macroeconomic outcomes such as inflation and unemployment (Wright, 2009). Bailouts, generally referring to financial support to failing financial institutions, are a form of such government intervention and is utilised to maintain financial stability.

An ongoing debate exists on whether or not a government should bailout distressed institutions. Some believe that bailouts as unnecessary: “the banking industry can handle this mess internally and does not need subsidies” (Smith, 2008), or argue that bailouts (in)directly rewards riskier business models (Wright, 2009). Studies by Woll (2014), Dam & Koetter (2012) show that bank bailouts could indeed lead to long-term risks by incubating riskier business models adhered to by financial institutions (Dam & Koetter, 2012). It can furthermore exacerbate a governments’ financial burden by commencing a snowball effect on the premise that if one bank is saved, “expectations are created that they will also bail out others” (Nicolaisen, 2015).

Governmental interventions can even be contradictory. For example, deposit insurance can prevent public bank runs which in turn limits financial instability (Diamond & Dybvig, 1983). Paradoxically however, Demirgüç-Kunt & Detragiache (2002) show that these exact state insurances have adverse effects in that it encourages risky behaviour which consequently increase the chance of a banking crisis (Demirgüç-Kunt & Detragiache, 2002).

Nevertheless, academic and political proponents of bank bailouts emphasize the aim: maintain financial stability. Swift intervention through short-term capital expenditure for the few outweighs long-term economic deterioration for the many. Policy measures from responsible authorities need to balance “between maintaining financial stability today through intervention and jeopardising future financial stability through increasing moral hazard later on” (Hoggarth et al., 2004, p. 7). Such safety nets aim to maintain financial stability and reduce social cost of bank failures (Dam & Koetter, 2011).

Although bailouts may not speed up economic recovery, or promote improvements within business models, such policies can constrain further economic deterioration (Wright, 2009) as prolonged financial instability may outweigh the costs of bailouts (Dewatripont, 2014). Thus, arguments are made for doing ‘something’ as no state intervention at all (i.e.

allowing bankruptcies) is ‘suboptimal’ compared to bailouts or bail-ins (Berger et al., 2018, p. 1). This is echoed by Dewatripont (2014) who favours rapid recapitalisation as procrastination is costly, as well as Rosas & Jensen (2010) who suggest bailouts might alleviate credit crunches and allow economies to recover faster.

Politicians voiced similar arguments. Former Chairman of the Federal Reserve Ben Bernanke, encouraged bailouts in the US in the form of a $700 billion Toxic Asset Relief Program (TARP). Bernanke voiced: “If we don’t do this today, we won’t have an economy on Monday” (Sorkin et al., 2008). The Dutch Central Bank (DNB) argued that the entire financial market malfunctioned because market participants lost confidence in financial institutions. Therefore, the DNB necessitated intervention to reinstate trust in the system (DNB, 2010).

This trade-off between short-term collapse of financial systems versus long-term consequences results in the bank bailout paradox (McDonagh, 2021). Therefore, in times of crisis, distressed institutions are supported in order to prevent systemic crisis and (prolonged) economic downturn. Nicolaisen (2015) thus argues “banks *should* not be bailed out, but they *must* be bailed out nevertheless” (Nicolaisen, 2015). However, there is little agreement within the academic and policy literature about the kind of policies that work in different situations.

2.6 The bailout equilibrium

The crux for governments is to pursue ‘the right type of bailout’ (Wright, 2009, p. 3). Politicians however, tend to operate in an environment of asymmetric information. Politicians are unaware of the true financial status of financial institutions, nor do they have the luxury to experiment in developing the ‘best’ policy option (Rosas & Jensen, 2009). As a result, policymakers develop their options on an ad-hoc and case-by-case basis. The dichotomous narrative of whether to bail out or not, thus shifts to a continuum of policies, which ranges in the abstract from simply no intervention by the state (i.e. bank failures), to total absorption of all losses (Rosas, 2009a).

In developing the bailout strategy, policy makers seek for an equilibrium between two contradictory concepts of *moral hazard* deriving from state intervention and an *effective response* that limits financial instability and fiscal costs to the state (Dewatripont, 2014; Woll, 2014a; Wright, 2009). In other words, the state is faced with a trade-off between being too ‘soft’ and possibly incentivising financial institutions to take on excessive risk (i.e. moral hazard), and being too ‘tough’ and increase the likelihood of a bankruptcy (i.e. financial instability) (Cordella & Yeyati, 2003).

Literature shows bank bailout policy classification methods to vary among scholars. Tanaka and Hoggarth (2006) take a practical approach and argue that states have four policy options: regulatory forbearance, self-recapitalisation and liquidation, public capital injection and purchasing non-performing loans (Tanaka & Hoggarth, 2006). Gup (2010) found six types of interventions: short-term liquidity provision, long-term investment, (partial) selling of distressed institutions, forbearance, payoffs and nationalization. Mitchell (2016) broadly classifies bank bailout options in two silos: liquidity measures and solvency measures, whereas Woll (2014) categorises governmental measures based on their authoritative use; although central banks operate independently from governments, both play a role in maintaining stability. Thus, bank bailout plans consist of 1) central bank efforts such as liquidity measures and 2) governmental instruments such as deposit guarantees (Woll, 2014a).

Yet, above classifications of bank bailout policies should serve an expository purpose: bank bailout options described by various scholars are often intertwined and alternative classifications of similar policy options are possible. In this research, the classifications by Rosas (2009a) are followed to distinguish bank bailout policies. As illustrated in table …, five policy arenas (liquidity support, liability reduction, asset resolution, bank capitalization and exit policy) are placed on a continuum that range from 'Bailout' to 'Bagehot' types of responses.

Table 1: Overview different policy arenas, and type of governmental response

Policy arena	**Bagehot**	**Bailout**
Liquidity support	Strict last-resort loans	Lenient last-resort loans
Liability reduction	Limited protection of depositors	Blanket protection of depositors
Asset resolution	Forced non-performing loans of balance sheets	Non-performing loans are transferred
Bank recapitalization	Private recapitalisation No regulatory forbearance	Public recapitalisation Regulatory forbearance
Exit policy	Insolvent banks are closed	Insolvent banks allowed to continue

On the Bagehot end of the policy continuum, governments tend to refrain from intervention, and simply let distressed financial institutions fail (Rosas, 2009a). On the surface, adhering to this laissez-faire ideology of market capitalism seems the simplest solution: struggling institutions will survive, while the 'weak' will dissolve. The lack of engagement from the state prevents moral hazard as there are no direct costs (Mitchell, 2016a). In addition, at least in theory, prudent financial institutions in times of distress will survive which could lead to a decline of banking crises under the assumption that more prudent business models will be adhered to due to a lack of public bailouts (Mitchell, 2016a).

This strategy however, has various repercussions. First and most prominent, reluctance to support the financial sector brings the risk of contagion. The failure of a single well-known bank, can deteriorate confidence in the entire sector and this lack confidence might spillover and affect otherwise healthy firms (Mitchell, 2016a). Restoring public confidence is key to prevent bank runs, and stabilize the financial sector. Most predominantly, the failure of Lehman Brothers has often been depicted as the start of the 2008 global financial crisis because it showed the lack of confidence in healthy financial institutions, but also the (lack of) willingness of the Republicans to intervene (Woll, 2014c). Second, in any given advanced economy, the financial sector plays a vital role, and bankruptcies would furthermore exacerbate complications in the real economy. Bankruptcies could put a drag on the state's GDP that could last for years and thus rather ineffective as a limiter to financial instability (Mitchell, 2016). This undesirable situation incentivises policymakers to support distressed institutions.

On the other Bailout-end of the spectrum, governments support distressed institutions liberally. On this end, distressed institutions are supported by the government (Rosas, 2009a). These public solutions create moral hazard by utilizing taxpayer's money. In the Euro system, most central banks are independent from the government, yet governmental schemes can exist alongside central bank measures. How central banks and governments spent public capital to address solvency and liquidity problems among the distressed financial institutions varies. Policies include: forbearance, the provision of long-term liquidity, buying of assets, long-terms investments, payoffs, (partial) nationalisation, deposit and lending insurances (Gup, 2009; Hoggarth et al., 2004; Rosas & Jensen, 2009).

2.6.1 Bank recapitalization

Well capitalised banks are better equipped to deal with unexpected losses during a crisis than its undercapitalised counterparts. As such, a financial institution's robustness may be approximated by determining its level of capitalization. Governments mandate a minimum level of capitalisation to withstand exogeneous shocks, which is often the regulatory standard through which bank failures are limited (Rosas, 2009b).

In a Bailout model, governments have three options two prevent the bankruptcy of an insolvent bank. Most primarily, governments engage in regulatory forbearance. This means minimum capital to assets ratios (CAR) that define insolvency are changed or temporarily ignored. As such, insolvent or illiquid banks are allowed to continue operations under the altered regulatory standards (Rosas, 2009b; Tanaka & Hoggarth, 2006).

Alternatively, the government could incentivize the institutions to come up with capital (Rosas, 2009b). Governments often primarily rely on private market solutions including mergers and take-overs to rehabilitate distressed institutions (Tanaka & Hoggarth, 2006). These solutions involve market participants to sort out issues themselves, and limit moral hazard for the state (Mitchell, 2016a).

The likelihood of a private sector takeover or merger depends on several factors. First, private solutions depend on the market participants' willingness to rescue a distressed institution. However, this willingness has decreased as the competitiveness of the banking sector has increased (Hoggarth et al., 2004). Second, the size of the distressed financial institution may limit the ability of a merger/take-over. Not only may the failure of a large financial institution impact other institutions either through direct exposure or indirect through large scale liquidations of assets, mergers and takeovers in especially concentrated financial systems may also be hindered by governments to prevent further consolidation (Hoggarth et al., 2004). As such, relying on private solutions may limit moral hazard for the state, yet it might adversely affect the broader financial sector if merger/takeover are ineffective or remain absent.

Lastly, recapitalisation could also come in the form of capital injection. Utilizing taxpayer's money, capital is injected in the institution in an attempt to strengthen its financial situation (Rosas, 2009b). Recapitalisation can be either voluntary or mandatory, and is a common policy option enacted in advanced countries (Laeven & Valencia, 2010). Mandatory recapitalisation means capital injection is forced upon financial institutions. Effectively, capital is injected in institutions that might not need it. The rationale behind mandatory recapitalisation is that in the case of voluntary recapitalisation, distressed financial institutions may not seek out governmental support in fear of investors liquidating their positions (Woll, 2014a).

Recapitalisation could entail a governmental entity to obtain a controlling interest into the distressed institution. The nature of the controlling interest depends on the type of stock acquired: with voting rights (common stocks) or without voting rights (preferred stocks). After a controlling interest, nationalization of the institution is not uncommon (Woll, 2014a). Ultimately, the extent of control varies from total control (nationalization), partial control, to bank shareholders remain in control (regulatory forbearance) (Rosas, 2009b).

In the Bagehot model, governments would not engage in regulatory forbearance, and force distressed institutions to provide itself with new capital (Rosas, 2009b).

2.6.2 Liquidity support

In general, financial institutions that are unable to meet cash outflows would borrow liquidity from other banks, liquidate (a portion) of their assets (Rosas, 2009b), or seek for a private solution (Tanaka & Hoggarth, 2006). If these options are inadequate, financial institutions could approach a central bank as a 'lender of last resort'. The lender of last resort is a well-established part of the fractional-reserve banking system in most modern economies, and exists because solvent banks may run into liquidity issues (Rosas, 2009b). Central banks are also able to lend to other banks at a special rate (repo rate), generally for overnight lending (Woll, 2014a).

In times of crises, distressed financial institutions might collateralise its performing assets as liquidity support, instead of liquidating said assets. On the Bagehot end of the policy continuum, liquidity support should be given to all solvent financial institutions, albeit at a premium. Central banks that give liquidity support to illiquid yet solvent banks portray confidence in the health of the financial market. The purpose of the LOLR is not to save insolvent banks, but to prevent solvent banks from becoming distressed as a result of a liquidity crunch in the market. Liquidity is provided to solvent institutions only as central banks expect the capital to be recovered eventually. However, the line between solvency and liquidity offer dilutes in times of crisis, and liquidity support may be provided to institutions that ultimately end up bankrupt (Rosas, 2009b).

2.6.3 Liability reduction

Liability reductions aims to amend the liability structure - i.e. payments to depositors - of an institutions' balance sheet. Whether actual or perceived insolvency, a distressed financial institution might instigate a bank run from depositors, which deteriorates the institution's financial situation (Rosas, 2009b).

On the Bailout end of the spectrum, governments attempt to prevent bank runs by offering deposit guarantees to all depositors. Guarantees are governmental commitments to repay depositors in the case of a bankruptcy. Deposit guarantees are most common, and is aimed at preventing bank runs and maintaining confidence in the financial sector (Woll, 2014a). An alternative would be freezing accounts so money cannot be reclaimed which would circumvent the need for additional liquidity, and prolong the financial institution's life. In contrast to the latter option, offering deposit guarantees shift the cost to taxpayer's money (Rosas, 2009b).

On the other end of the spectrum, a Bagehot approach would not extend guarantees to depositors outside insured depositors. In times of crises, some form of deposit guarantee is able to mitigate the possibility of insolvency. As such, state responses that go beyond existing deposit arrangements are close to the Bailout model, whereas those that adhere to pre-crisis legislation are consistent with the Bagehot model (Rosas, 2009b).

2.6.4 Asset resolution

During a banking crisis, distressed financial institutions are faced with the issue of non-performing loans (NPL), or ‘toxic’ assets. NPLs are certain assets that devaluated, and holders have stopped making payments. For devaluated assets, governments have two options: meet the interest payments, or remove the NPLs from the institution’s balance sheet (Gup, 2009; Rosas, 2009b). Meeting the interest payments means a steady stream of income to distressed institutions. This policy effectively subsidises borrowers, and requires expenditure of taxpayer’s money (Rosas, 2009b).

The transfer or purchase of NLPs that have become ‘toxic’ (troubled) is another form of asset resolution. Removing NPLs from balance sheets involves exchanging these assets for government bonds (Rosas, 2009b), or the outright purchase of NLPs from troubled institutions in an attempt to improve their creditworthiness and restore confidence (Woll, 2014a). The state can decide to transfer these NPLs to its central bank or privately-owned bank. This *bad bank*, operates as a bridge bank and assets are hold until sold (Gup, 2009). The NPLs during the 2008 global financial crises, consisted mostly of mortgage back securities (MBS). Hereafter, governmental entities attempt to increase the value of NPLs with the aim to sell them to other banks (Tanaka & Hoggarth, 2006).

Purchasing NPLs is a complex endeavour. Most notably, determining the value of these assets difficult as value has deteriorated significantly. In other words, there may be no market on which to sell these assets, once the government holds these assets (Gup, 2009).

These Bailout model type options are contrasted with the Bagehot model in which distressed institutions are forced to write off NPLs, and may cause widespread insolvency. As a result, institutions may go bankrupt (Rosas, 2009b).

2.6.5 Exit policy

Bank exit policy is the arena of policies in which politicians decide which distressed institutions to support and which institutions to close (Rosas, 2009b). Continuation under different ownership, liquidation or absorption.

In a liquidation, a financial institution is declared insolvent, closed, all assets are sold, and depositors are paid off to the extent sufficient funds are available. Liquidation leans towards the Bagehot end of the spectrum as it is characterised by a strong financial discipline of relevant stakeholders. However, such strict policy might cause a ripple effect and affect other institutions in financial markets (Hoggarth et al., 2004). In addition, authorities often have difficulties in determining the financial institutions' value. As such, liquidation is more often applied to smaller banks, or when liquidations are unlikely to have system-wide implications (Tanaka & Hoggarth, 2006)

2.7 Theories on choosing between bank bailouts

Why not let distressed financial institutions fail? According to the too-big-to-fail theory, when financial institutions are large and occupy a prominent position in the interbank market, the societal costs or their bankruptcies is too high (Freixas et al., 2000). Essentially, the government has no choice but to support them as a failure of prominent banks pose a risk to the market (Woll, 2014b). Therefore, this phenomenon is likewise considered the too-connected-to-fail problem: financial institutions are so densely linked, contagion of failures becomes inevitable (Nijskens & Eijffinger, 2010). Although too-big-to-fail and the too-connected-to-fail theory may explain a rationale for why financial institutions are saved, such theories fall short of explaining the differences in bailout strategies across modern economies.

One common explanation for differences of bank bailouts is the dominant lobbying power of the banking sector (Grossman & Woll, 2014). 'Crony capitalism' appears to cultivate profitable business models during the 'boom' while simultaneously lobby for 'golden parachutes' to soften the blow after the 'bust' of the business cycle. In some countries, lobbyist successfully shifted the burden on the taxpayers. Yet elsewhere, banks had to carry a substantial part of the rescue package (Grossman & Woll, 2014). For this reason, the dominant lobbying power of bankers falls short of explaining the variation in bailout strategies evident during the global financial crisis.

According to Grossman & Woll (2014), the government's bailout strategy towards stabilising financial markets does not solely rely on its economic conditions. Rather, strategies are established in the political and institutional setting and vary on apparent types of business-government relations. They argue that 'unbalanced' (i.e. utilizing more of tax-payers money) bailout strategies are formulated in states in which bank management and policy makers have close one-on-one relationships, while more 'balanced' strategies (i.e. greater burden sharing among private institutions) appear in countries where banks negotiated collectively.

Collective action depends on each bank’s individual motivation for joint agreement partaking as well as the dynamics between banks, and is enabled through the structure of the financial sector (i.e. homogenous or heterogenous) and the frequency of interaction between participants. Pivotal is the health of the participants. Collective inaction is likely to occur if a significant portion of a country’s financial sector is healthy and not in need of individual support. Such healthy actors can ‘wager’ with the state in an attempt to tip the balance of burden-sharing on the government’s side, and not the industry itself (Grossman & Woll, 2014)

Rosas (2009c) adds to this debate and argues that enacted bailout strategies depend on available policy tools, degree of exposure to international capital flows and the institutional setup (i.e. monetary policy). In other words, governmental responses vary because of differences in political regimes. For the electoral accountability inherent to democracies, democratic regimes have lower bailout tendencies compared to authoritarian regimes. As a result, the bailouts propositions are less intrusive and expansive, and less likely to socialize financial losses (Rosas, 2009c).

Within democratic regimes, shareholders lost considerate power during bank bailouts. Shareholders lost power as the state took a controlling interest, were completely removed by the governments, or because the state allowed bankruptcies (Mitchell, 2016b). Mitchell (2016a) therefore argues, a better explanation for bailouts could be the nature of the financial sector in the capitalist countries. Capital market-based financial systems such as the United States and United Kingdom create fragmented interbank relations. This enables the state to adopt policies that maximise a return on investment and minimize perverse redistribution and moral hazard. In contrast, private bank-based financial systems such as Germany have greater interbank dependence meaning banks are more likely to utilize own money and capitalise on their collective political influence to structure state intervention more in their favour. As a result, state ownership (and nationalization) has appeared more often in market-based systems, and states are more likely to achieve a return on investment from bank bailouts compared to private bank-dominated systems. The significant worse outcome in private bank-dominated systems might be because of the voluntary state aid. This forced the state to incentivise distressed financial institutions to accept aid, by making the terms attractive (Mitchell, 2016b).

During (banking) crises, regulators are faced with asymmetric information. Tanaka and Hoggarth (2006) argue that under asymmetric information, regulators can systemically evaluate policy decisions when closing a financial institution is not a viable option. Regulators should focus on three factors 1) the magnitude of access to the distressed financial institution’s balance sheet, 2) the ability of the institution to raise capital and 3) the loss of assets values and systemic impact following a bankruptcy. When regulators cannot allow the default of financial institutions, Tanaka & Hoggarth (2006) concluded that the best policy option is for the regulator to incentivize institutions to divest their NPLs, to which recapitalization under (Tier 1 capital) would be the second proffered option (Tanaka & Hoggarth, 2006).

2.8 Conclusion: framework of literature

The above literature review provides an extensive overview of possible explanations for certain bank bailout policies. Wat has become evident is that these theories often relate to a specific part of a bank bailout and none are sufficient in explaining the entire process of bank bailouts or governmental intervention. For example, the too-big-to-fail, or too-connected-to-fail theories may be helpful in explaining why a financial institution is saved by its government through – for example – recapitalization, yet cannot explain *why* recapitalization was chosen. Or, Mitchell (2016) who argues that market-based financial systems have seen more state ownership during the global financial crisis, in contrast to private-based financial systems. This theory might explain why the Netherlands that has a market-based financial system, has seen a nationalization, but cannot explain the reason *why* nationalization was chosen.

An appropriate theory to explain the rationale behind the Dutch governmental interventions during and after the global financial crisis to bailout distressed banks is absent. Nevertheless, an appropriate theory may be reached through a synthesis of above literature. Therefore, mentioned theories will act as a framework for guidance for this case study. From analyzing these concept/theories separately in each case, a collective theory that can explain rationale behind the Dutch bank bailouts may emerge.

3. Methodology

This chapter introduces the research design, case definition and selection, and data collection method. This research has utilized a qualitative research method in the form of a comparative case study on four cases: the capital injection and illiquid back-up facility of ING in 2008, acquisition of Fortis/ABN-Amro in 2008, the bankruptcy of DSB in 2009, and nationalization of SNS Reaal in 2013. After juxtaposing these cases, a clear theory on why the Dutch government enacted different forms of state support during and after the global financial crisis will emerge.

3.1 Research design

To answer the research question, I performed a comparative multiple-case study. A case study is an in-depth empirical investigation either into single case or multiple cases and aims to understand the dynamics of a phenomenon (Gerring, 2004). These case studies allow for the discovery of detailed political, sociocultural and economic factors and are suitable to answer ‘why’ research questions (Yin, 2018). It is furthermore widely used in the field of crisis management as it permits researchers to understand and explain the ‘real world’ (Broekema, 2019). Considering a case study is rich in data, it will allow me to understand how financial institutions became distressed, and why and how the government supported said institutions. In other words, it allows to examine the bank bailout process, and explore conditions that might have been of influence. Multiple cases allow for comparison, and enlighten why the government enacted different approaches (i.e. bank bailout policies) to support distressed financial institutions that – at least from the outset – are facing similar issues.

Case studies can be used to either provide description, test theory or generate theory (Eisenhardt, 1989). As evident from the literature review, a theory that fully explains the phenomenon is absent. Therefore, I attempt to generate a novel theory based on case study evidence. This research follows a three-part scheme: 1) define and design theory and cases; 2) prepare, collect and analyse data of cases and 3) analyse and draw cross case conclusion (Yin, 2018).

3.2 Case definition and selection criteria

Yin (2018) and Eisenhardt (1989) state that case studies do not utilize statistical reasoning (i.e. case sampling), but rather theoretical reasoning (i.e. theoretical sampling). Thus, cases that are most likely to add to generating theory have been deliberately selected instead of randomly.

The cases derive from the posed research question and are selected on the basis of three simple criteria: (1) a financial institution (2) becomes distressed (3) and requires state intervention during or after the 2008 global financial crisis. In this research a financial institution is considered an entity engaging in banking and or insurance activities; distressed meaning that this entity is facing solvency or liquidity issues; and state intervention is any form of aid coming from (an entity of) the Dutch government during or in the aftermath of the 2008 global financial crisis. The Dutch state supported nine different institutions using eight different types of interventions in order to protect the financial system during and after the financial crisis. Table 2 provides an overview of what intervention was utilized for which financial institution.

Table 2: Overview governmental interventions during and after the global financial crisis

	ING	**SNS Reaal**	**Forits / ABN AMRO**	**DSB**	**Leaseplan**	**NIBC**	**Icesave**	**Achmea**	**Aegon**
Capital Injection	X	X							X
Bank loan guarantee	X	X	X		X	X		X	
Deposit expansion	X	X	X		X	X	X	X	X
Pre-finance Icesave							X		
Back-up facility	X								
Acquisition			X						
Nationalisation		X							
Bankruptcy				X					

The interventions varied in nature. *Capital injection* made capital available to banks and insurers unable to adhere to capital requirements imposed by the DNB (Algemene Rekenkamer, n.d.-b). The goal of *bank loan guarantees* was to push financial institutions to keep extending credit to keep the financial engine running. *Deposit expansion* entailed expanding the depositors' capital guarantee from €40.000 with a 10% deductible to €100.000 with a 0% deductible (Algemene Rekenkamer, n.d.-e). In order to remove uncertainty among Dutch depositors after the bankruptcy of the Icelandic bank Icesave, the state *pre-financed Icesave bank's* payments the depositors where entitled to under the Iceland Deposit Guarantee Scheme (Algemene Rekenkamer, n.d.-f). *Back-up facility* was tailored to ING and entailed buying out ING's mortgage-backed securities in order to minimise its portfolio risk (Algemene Rekenkamer, n.d.-a). The *acquisition* entailed the purchase of Fortis/ABN-Amro in 2008 and in 2013 SNS Reaal was *nationalised.* According to the Dutch Court of Audit, two of the interventions - i.e. *nationalisation* and *acquisition* - are currently ongoing since the state still hold interest (Algemene Rekenkamer, n.d.-c).

Not all cases are of interest for this study. Four out of nine cases are deliberately chosen on the premise that these cases will contribute to generating a theory that helps explain the difference in bank bailouts: ING, SNS Reaal, Fortis/ABN Amro and DSB. I have chosen these cases for three reasons. First, these four cases combined, cover eight out of nine government interventions. As such, nearly all interventions that have been part of the Dutch bank bailout strategy are covered. This provides the opportunity to generate a theory build on a deliberate theoretical sample. Researching variety and similarities in deployed interventions helps answering the research question. Second, nearly all chosen cases involved multiple, yet different interventions. For example, SNS Reaal received capital injection, and was subjected to bank loan guarantee and deposit expansion, yet was nationalised in the end. These differences in interventions within the same financial institution allows for an in-dept understanding of this intervention process. Third, some institutions received multiple forms of aid (e.g. ING) whereas other did not receive any (i.e. DSB). Multiple financial institutions receiving the same kind of support builds stability (i.e. common characteristics) within the case selection. Yet simultaneously, the plurality of cases offers a variance in interventions deployed by the state. In example, ING, SNR Reaal and Fortis/ABN-Amro were all subjected to a bank loan guarantee, which helps to better determine under what condition(s) interventions were chosen. Yet SNS Reaal was eventually nationalised, while Fortis/ABN-Amro was acquired by the state. As such, these cases additionally help to determine under what conditions what interventions were chosen, and why multiple interventions were utilized.

I eventually compare all case studies. The ultimate cross-case qualitative comparison eventually enlightens if certain interventions only occur in certain circumstances, was a one-off event, or occur constantly whatever the difference among cases might be.

3.3 Case summaries

Below is a brief summary of each case, presented in chronological order.

3.3.1 *Case I: The acquisition of Fortis/ABN-AMRO*

Part of a consortium of banks, Fortis acquired several business units from ABN-Amro just before the onset of the financial crisis. As a result, the Dutch-Belgian financial institution became one of the three largest institution on the European continent. Market turmoil and the integration of ABN-Amro threatened the viability of the concern. The binational nature of the institution prompted discussion between the governments of The Netherlands, Belgium and Luxembourg. These government eventually decided to each acquire their perspective part of the Fortis concern in 2008 (F. J. G. M. Cremers et al., 2010a, 2010b; Fortis, 2009).

3.3.2 *Case II: The capital injection of ING*

Back in 2008, ING was one of the world's largest financial institutions with 1.332 billion euro in assets. With its headquarters in the Netherlands, ING services over 85 million clients worldwide. The 2008 crisis affected ING negatively and resulted in the company's first ever annual loss (ING Groep, 2009b). To survive the turmoil, ING received a capital injection of €10 billion. Several months later, the state announced it would guarantee ING's portfolio of subprime mortgage backed securities through the announcement of the 'Illiquid Back-up Facility' worth €27 billion (Algemene Rekenkamer, n.d.-c, n.d.-a; ING, n.d.)

3.3.3 *Case III: The Bankruptcy of DSB*

Dirk Scheringa founded the Dirk Scheringa Bank (DSB) in 1975. During its tenure, the bank mostly focused on mortgage and consumptive loans to the Dutch market. The DSB was not exposed to any toxic assets at the time, but ran into trouble because of the freeze of the interbank market. The Dutch State decided not to intervene: on October 19, 2009, the Dirk Scheringa Bank (DSB) was declared bankrupt by the Court of Amsterdam (Scheltema et al., 2010).

3.3.4 *Case IV: The nationalization of SNS Reaal*

After its initial public offering (IPO) in 2006, the bancassurance group SNS Reaal adopted a growth strategy and became the Netherlands' fourth largest financial institution in 2008 (SNS Reaal, 2009). SNS Reaal ran into trouble during the global financial crisis, and received a €750 million capital injection from the State. The deteriorating housing market after the global financial crisis threatened the viability of SNS Reaal due to a recently acquired company that was significantly exposed to the housing market. The State decided to nationalize SNS Reaal in 2013 (De Rechtspraak, 2021).

All Dutch financial institutions are regulated both by the De Nederlansche Bank (DNB) and the Authority Financial Markets (AFM). Whereas the DNB focuses on the soundness of financial enterprises and contributes to the stability in the financial sector (prudence), the AFM acts as a conduct-of-business supervisor (behavioural) meaning it focusses on transparent and orderly business processes and careful treatments of clients (Scheltema et al., 2010). The Minister of Finance has the mandate and authority to decide on the intervention itself, to which the DNB and AFM can advise (Tweede Kamer der Staten-Generaal, 2008b).

3.4 Data collection method

Case study evidence will be collected through documentation, news reports and archival reports. Due to limited time and recourses, concessions on data collection methods were made: interviews and media analysis are not additional methods for collecting data.

The case study will thus focus on secondary data from different types of documents provided by a variety of sources. These documents encompass a variety of mostly grey literature such as parliament letters, parliamentary reports, minutes of meetings, progress reports, agendas, internal records, proposals, evaluations, etc. Data will furthermore be gathered from annual reports, investigation committee reports and archival records. These records include for example statistical data from the state and organisational records from banks. A detailed overview of used sources for each case are summarized below in table 3.

Table 2: Overview of sources per case study

Case	Document/Report/Letter
DSB	Parlement Letters ('Eerste Kamer' & 'Tweede Kamer') Court of Audit ('Algemene Rekenkamer') Ministry of Finance Dutch Central Bank ('De Nederlandsche Bank'); DSB Annual Report 2009 Commission Report (Scheltema, et al, 2010) Authority Financial Markets ('Authoriteit Financiele Markten').
ING	Annual Report 2008, 2009 Parlement Letters ('Tweede Kamer')
Fortis/ABN-Amro	Annual Report 2008, 2009 De Rechtspraak

	Parlement Letters ('Eerste Kamer' & 'Tweede Kamer')
SNS Reaal	Annual Report 2001, 2005, 2007, 2008, 2013 De Rechtspraak Parlement Letters ('Eerste Kamer' & 'Tweede Kamer')

Across the four chosen cases, the timeline of intervention varies. For example, DSB went bankrupt in the second half of 2009, while SNS Reaal was nationalized only in 2013. As such, the search timeframe is broadened to documents that date up to one year before the start of the global financial crisis of 2008. This was done in order to determine if there were any developments before the global financial crisis that are of interest to the case.

Document search reached all the way up to 2021. This is because extensive (commission) reports and research may take years to produce. As such, (extensive) evaluations of governmental interventions that may be published years after the intervention took place, may still hold significant data. Considering the first case, documents for ING were searched for between 2007 and 2021; for the second case SNS Reaal between 2007 and 2021; the third case Fortis/ABN-Amro between 2007 and 2021 and the last case DSB between 2007 and 2021.

(Dutch) keywords were used to find relevant documents, including the financial institution's name and the type of intervention. The document was quickly scanned for its appropriateness and used if relevant to the case.

3.5 Data analysis procedure & structure

Yin (2018) argues that data analysis in case studies is one of the most underdeveloped parts of performing case studies. This research utilizes a within-case analysis that entails writing a detailed but descriptive narrative for each case. The way in which such write-ups are established vary, but the goal is to develop a clear understanding of each individual case. A within-case analysis additionally contains a cross-case comparison by juxtaposing and comparing the differences and similarities cases. Comparing cases increases the likelihood of generating an accurate theory as well as detect novel concepts in each case (Eisenhardt, 1989).

Utilizing within-case and cross-case analysis, tentative constructs between variables emerge. The highly iterative process (between data and theory) is applied to each case with the goal of deducting newly found evidence from each case, what in turn contributes towards shaping the theory. Subsequent to each case, the hypothesis is shaped in two ways: 1) by re-defining constructs and compiling evidence which measures these constructs and 2) by validating that the dynamics between constructs suit the evidence.

This multiple case study utilizes the analogues replication logic as proposed by Yin (2018). The cases have been chosen on the basis of literal replication, meaning similar cases and similar expected results (Eisenhardt, 1989). Each case is part of the case study as a whole, so convergent evidence is sought after. A conclusive summary report is drafted for each case and concludes why and how the proposition was evident (or not). Then, a cross-case analysis is performed and another conclusion is drafted which includes the degree of the replication logic and why certain results were expected. These conclusions shape the generated theory.

In this research, an introduction and brief historical summary of each financial institution is given, before analysing the pathway up to its respective governmental intervention. This brief introduction is of interest as it may contain valuable information on the nature and business acumen of the institution itself, and these developments may be relevant in the decision of the chosen bank bailout policy itself. Over the next four chapters, the cases are presented in a chronological order: chapter 4 contains the acquisition of Fortis/ABN-Amro in 2008, chapter 5 covers ING's capital injection and illiquid back-up facility announced in 2008, chapter 6 entails the bankruptcy of DSB in 2009, and the nationalization of SNS Reaal is covered in 2013. Each chapter ends with an analytical summary and conclusion of the case itself. Hereafter, in chapter 8, all cases are juxtaposed and their differences in similarities are analysed. The last chapter – chapter 8 – builds upon the previous case study chapter, and concludes by answering the research question.

4. Case I: Acquisition of Fortis/ABN-Amro

The Netherlands-based operations of Belgian-Dutch Fortis/ABN-Amro was acquired by the Dutch state during the global financial crisis. This chapter explores what happened with the financial institution up until its acquisition, and why the government opted for such an intervention.

4.1 The history of ABN-Amro and Fortis

ABN-Amro is characterized by a long history of mergers and acquisitions dating back over 300 years. In 1991, *Algemene Bank Nederland* (ABN) and *Amsterdam-Rotterdam Bank* (AMRO) merged, forming the largest bank of the Netherlands at the time (ABN Amro, n.d.).

Bank insurer Fortis on the other hand was created in 1990 after a merger between the Dutch insurance company AMEV and Dutch bank VSB. It was joined by Belgian AG Group that same year. Throughout the following years, Fortis acquired several other banks and insurance companies and strengthened its presence in the Benelux and internationally (De Tijd, 2008). In the Benelux, it gained the position as market leader in banking and insurance (Fortis, 2006). However, the Fortis narrative significantly altered after it announced to acquire ABN-Amro in 2007.

4.2 The proposed merger between Fortis and ABN-Amro

In October 2007, a consortium of banks consisting of the Royal Bank of Scotland (RBS), Banco Santander SA and Fortis – also known as RFS Holdings - bought ABN AMRO Holding valued at €71.1 billion (New York Times, 2007). ABN-Amro then was the Netherlands's largest bank, and the deal itself was one of the biggest financial services takeovers ever (Kumar, 2019). The consortium subsequently split ABN-Amro into three parts, to which Fortis bought ABN AMRO's Private Banking, Asset Management and Business Unit Netherlands departments for €24 billion in total (Het Parool, 2013).

As an international financial services provider in banking and insurance, Fortis served retail, corporate and institutional customers in over 30 countries in 2007. With €40 billion in assets, the bank was one of the largest financial institutions in Europe at the time (Fortis, 2008). Nevertheless, the deal was significant for Fortis, and was worth more than 50% of Fortis' total market cap in 2007 (de Rechtspraak, 2013). The merger with business units from ABN, would catapult Fortis into one of the three largest private bankers operating on the continent (Fortis, 2009; Kumar, 2019).

In January 2008, Fortis received approval from the DNB regarding the proposed separation of ANB Amro Asset Management Holding from ABN-Amro. This split became active on April 1, 2008 (Fortis, 2009). In order to get approval for the merger from the European Commission – which did not want Fortis to have too large of a market presence in commercial banking through the merger – Fortis was prompted to sell some of the acquired ABN subsidiaries, including Hollandsche Bank Unie (HBU). Deutsche Bank acquired HBU on July 2, 2008, on favorable terms, and the merger between Fortis and ABN-Amro continued (Depuydt & Wijnen, 2008).

4.3 June 2007: Fortis struggles to integrate ABN-Amro

In April of 2007, RFS holding approached ABN-Amro for a possible takeover (Reuters, 2009). What ensued was a bidding war ensued with other interested parties. However, on October 10, 2007, RFS holding announced its victorious acquisition (Reuters, 2009).

Initial market doubts about Fortis's ability to finance the merger appeared in August 2007, right before the acquisition announcement. ABN-Amro's share price dropped significantly as a result (Kreijger, 2007). Investors became increasingly worried whether Fortis had the capital to successfully integrate with ABN-Amro over the following months (Depuydt & Wijnen, 2008). In June 2008, an announcement of a share issue and the cancellation of quarterly dividend in order to improve its capital buffer by €8 billion, triggered a storm of protest among investors (De Tijd, 2008; Reuters, 2009). Fortis' share price subsequently plummeted by 19%. Combined with the disappointing sale of HBU, and the increasing write-downs of its portfolio as a result of the global financial crisis, Fortis's investors became increasingly worried (De Tijd, 2008; Depuydt & Wijnen, 2008; Reuters, 2008a).

Similar to Fortis's decline of a bright future, was Voltron's position as CEO. Fortis's supervisory board convened on July 11 after its share price dropped below €10. The board agreed on the dismissal of Voltron that same evening. Verwilst became the new temporary chairman of the Fortis board, but was unable to gain control over the situation as criticism from investors continued (Depuydt & Wijnen, 2008). Fortis' financial director was likewise forced to step down August 1, 2008 (De Tijd, 2008). On September 20, the ad-interim CEO Verwlist collapsed from exhaustion as pressure became too much for the top executive. Dierckx became the new CEO (Depuydt & Wijnen, 2008).

On September 25, the share price collapsed by another 21 percent to under €7. In the meantime, the Belgian government got hold of the situation. Belgian Prime Minister Leterme and Minister of Finance Reynders asked the Belgian regulator CBFA to find a solution to address the situation (Depuydt & Wijnen, 2008). CBFA President Servais called Fortis to discuss the already precarious situation. In the phone call, Servais expressed that liquidity in the market had completely ‘dried up’ and Fortis was facing ‘horrible’ liquidity problems from the regulator point of view (F. J. G. M. Cremers et al., 2010a, p. 241). Servais believed Fortis would not survive the weekend, and urged Fortis to find a ‘strong strategic partner’ to address the situation (F. J. G. M. Cremers et al., 2010a, p. 241).

4.4 September 2008: The weekend of negotiations

The next day on Friday 26, Verwilst and Dierckx spoke in front of the press and analysts in an attempt to reassure the market (Depuydt & Wijnen, 2008). Fortis issued a press release stating that the concern was otherwise a healthy, and fully financed institution with over €300 billion in funds available from institutional investors, retail- and individual deposits, central banks and other large enterprises. Their liquidity and solvency position was ‘well above’ the legal requirements, and the integration of ABN-Amro was on schedule (F. J. G. M. Cremers et al., 2010a, p. 248; Reuters, 2008b).

Although the press release was approved by the regulator, with the aim to portray a healthy institution to the market, Fortis was well aware of the internal problems. Fortis knew the situation was different. In fact, Fortis had organized a meeting that same afternoon as the bank at the time was ‘short of liquidity and the situation is dramatic’ (F. J. G. M. Cremers et al., 2010a, p. 249).

The press release for reassurance came to no avail: the share price plummeted by 21% the next day to €5.18, and lenders withdrew €15 to €20 billion on the interbank market based on severe liquidity concerns (Depuydt & Wijnen, 2008; Reuters, 2009). Internally, the bank became aware of the diminishing Fortis name, and saw its funding ability on the interbank market dry up ‘in a few hours’ (F. J. G. M. Cremers et al., 2010a, p. 250). This sell-off and freeze of the interbank market prompted Fortis to find funding elsewhere (Depuydt & Wijnen, 2008). Fortis subsequently became the first bank to be on the brink of default on the European continent (Yuen & Kosters, 2018).

In a data room organized by Fortis on Saturday 27 September, representatives of ING, BNP, Munich Re, Aegon and SPFI/FIPM (for the Belgian Government) performed due diligence into Fortis. Although not present, representative of Rabobank and Allianz were also in the loop. At 15:00 Allianz conveyed interest into the insurance part of Fortis, and considered paying cash. Only ING and BNP showed ‘genuine’ interest, but no offers resulted in an agreement. Meanwhile, the Belgian government briefly floated the idea of buying Fortis for €1, but was never 'really' considered as a viable option. (F. J. G. M. Cremers et al., 2010a, p. 258).

After several talks and calculations, Fortis Bank was valued at €4.7 billion for a 49% Belgian government stake. That evening, after no private market take-over in sight, the CBFA gave Fortis the idea that the regulator is willing to nationalize the bank. Fortis started working on the idea throughout the night (F. J. G. M. Cremers et al., 2010a, p. 258).

Meanwhile, Dutch Minister of Finance Bos was only informed of the precarious Fortis situation that Saturday morning. That same evening, Bos, joined by the DNB, contacted the CBFA, and collectively decided a solution had to found before Monday 29 September. At the time, Bos was unaware of the Belgian state support plans (F. J. G. M. Cremers et al., 2010a, p. 258).

4.5 Governments discuss bailout options

On Sunday morning, the Fortis executive board convened and decided a market solution had become unfeasible, and the 'preferred solution would be a full-fledged Benelux solution with all three Benelux governments participating' (F. J. G. M. Cremers et al., 2010a, p. 262). The board recognized the lack of involvement of the Dutch government at the time, and believed a capital injection from only the Belgian and Luxemburg governments as a viable second solution. The board eventually voted on the latter, despite recognizing this may raise issues with the Dutch part of Fortis, and the Dutch government. Fortis wondered why the Dutch government has not been involved, to which the Dutch regulator AFM later explained that they were never invited (F. J. G. M. Cremers et al., 2010a, p. 262).

Meanwhile in the Netherlands, Bos, and President of the DNB Wellink, were aware of the repercussions a Fortis default would have. Based on Fortis's significant presence in the Netherlands, and Wellink and Bos being dissatisfied with the amount of information provided, they left for Brussels on that same Sunday afternoon, albeit uninvited (Yuen & Kosters, 2018).

A meeting was subsequently held between the Dutch and Belgian delegation in Leterme's official residence in Brussels. Here, Leterme (Belgiam PM) and Reynders (Belgian MF) were joined by ECB President Trichet and Lagarde (F. J. G. M. Cremers et al., 2010a).

Trichet had joined the Belgian governmental discussions to advise on how to handle the situation. Trichet made clear that the situation was unprecedented, and that the governments had to intervene in order to prevent a 'dramatic unfolding of systemic events'(Yuen & Kosters, 2018). In other words, the Belgian government, and Europe as a whole, could accept the default of Fortis. Trichet's words quickly changed the attitude of the Belgian government. Where it first considered to not intervene at all, it was now discussing how much it would cost (Yuen & Kosters, 2018). In an inquiry about how much time the Belgian government had in order to find a solution, Trichet urged the government officials to be swift. It had to find a suitable solution within a couple of hours, before the markets opened in the Far East. Otherwise, a domino-effect across Europe, and the globe, could ensue (Yuen & Kosters, 2018).

Bos joined the discussion with the aim to pull the Dutch part of Fortis group towards itself, but realized it had a joined problem that could only be solved together with the Belgian and Luxembourg government. The establishment in Brussels in which the discussions happened had separate rooms in which all governments had access to all information available at the time, and tried to come up with solutions for their respective part of the business. Wellink believed that whatever the governments decided on, it had to provide enough state support to 'convince the market' (Yuen & Kosters, 2018).

Leterme asked the Dutch delegation if they were willing to take a 49% participation in Fortis Bank Netherlands for a total amount of €5 billion. AFM believed no alternatives other than the 49% participation by the three governments were discussed. During these discussions, the Belgian government took the lead, and any contact with Fortis went through the Belgian authorities (F. J. G. M. Cremers et al., 2010a). That same evening, the Belgian government inquired Fortis about their financial situation. Unfortunately, Fortis could not provide a clear overview of its balance sheet, nor its exposure to the turbulent market conditions. Even a clear organigram could not be provided. The lack of information caused great uncertainty for all parties involved (Yuen & Kosters, 2018).

Bos believed Fortis was of systemic importance in the Netherlands. He also believed tensions could arise between the parties due to divergent interests between Belgium, Netherlands and Luxembourg as governments, and Fortis itself. Therefore, the option to acquire the Dutch part of the concern had been at the top of his mind – 'from the beginning I have not felt any reluctance to buy the bank' (F. J. G. M. Cremers et al., 2010a, p. 201). This was echoed by Leterme, who doubted whether Bos wanted to save an institution from its default, or merely pull out the Dutch part out of the institution (Yuen & Kosters, 2018).

The discussions continued, and on Sunday evening, the Belgian and Luxembourg government agreed on a join investment of €7.2 billion into Fortis. Hereafter, Bos and Leterme entered discussions and agreed that the Dutch government would take a €4 billion interest (F. J. G. M. Cremers et al., 2010a). In the meantime, Fortis negotiated a new emergency loan assistance (ELA) with the Belgian National Bank (BNB) of €49.5 billion against €75 billion collateral. This ELA was eventually approved one hour before the market opened in Asia (F. J.

G. M. Cremers et al., 2010a). However, significant deposit outflows on Friday September 26, 2008, dried up collateral for attracting loans. The volatile situation meant Fortis now faced a solvability as well as a liquidity problem. The Fortis executive board was surprised to hear the extent of the problem, and expressed not to be properly informed of the problems at hand (F. J. G. M. Cremers et al., 2010a).

The following scenario was discussed based on the problems Fortis was now facing: the Belgian and Luxembourg government each take a 49% stake in Fortis for an amount of €4.7 billion and €2.5 billion, respectively; ABN-Amro will be sold, chairman of the board of directors Lippens will step down. At that time, the Dutch state was barely involved and unware of the proposition on the table (F. J. G. M. Cremers et al., 2010a).

4.6 The announcement of state support

In the course of the evening, Bos approved the support. At 22:30, the Belgian and Dutch government jointly announced a €11.2 billion state support scheme. The Netherlands agreed to invest €4 billion in Fortis Bank Netherlands Holding, the Belgian government €4.7 billion in Fortis Bank NV/SA and Luxembourg €2.5 billion in Fortis Banque Luxembourg SA, all taking a 49% participation (F. J. G. M. Cremers et al., 2010a; Fortis, 2009; Reuters, 2009).

The deal further entailed the sale of ABN-Amro, and Lippens to step down as chairman of the board of directors (Mayer Brown, 2009). The board accepted the transaction with the governments due to the 'extreme urgency of the situation and the insuring inability to follow normal procedures' (F. J. G. M. Cremers et al., 2010a, p. 270). Interestingly, the Dutch government was the only one to not draft a term sheet. According to the AFM, there was 'no time' and the deal was made 'men to men' (F. J. G. M. Cremers et al., 2010a, p. 271).

Dierckx was under the impression he had a lot of influence on the negotiations to make them more favorable to Fortis. However, other executives contradict this and one executive expressed that Fortis had no control, and where merely 'puppets and totally in the hands of the Government' (F. J. G. M. Cremers et al., 2010a, p. 268).

4.7 The market remains turbulent

On 29 and 30 September, transactions with the Belgian and Luxembourg governments had been fulfilled. The Dutch government however, used Monday September 29 to draft its term sheet, and would discuss it with Fortis the day after (F. J. G. M. Cremers et al., 2010a).

Soon after, in a meeting between Balkenende, Bos, the AFM and the DNB, the AFM received a call about the presence of a ‘pledge’ on the Dutch insurance activities of Fortis in favor of the Belgian government in the term sheet. During the weekend of discussion, the Belgian and Dutch government agreed to leave the pledge out of the term sheet, yet was in the official one nevertheless. The Dutch government refused come to a formal agreement until the pledge was removed (F. J. G. M. Cremers et al., 2010a).

In the meantime, Fortis’s liquidity position continued to worsen. Bos believed that if the outflow continued, the continuity of Fortis despite its state support would be endangered. The AFM called Dierckx to inform him that the Dutch state was thinking about the scenario of taking over the Dutch part of Fortis in its entirety. Combined with the fact that the state support did not have the ‘desired effect’, Bos believed renegotiations had to start (F. J. G. M. Cremers et al., 2010a).

On Thursday October 2, the liquidity outflow continued and the situation became critical: Fortis ‘might not survive the day’ (F. J. G. M. Cremers et al., 2010a, p. 290). The bank sent out a letter stating the opposite, and informed their clients that due to the state support, the institution is ‘financially stronger than ever before’ (F. J. G. M. Cremers et al., 2010a, p. 291). The DNB, joined by the CBFA, informed Fortis that they would put the Dutch part of Fortis under supervision as of the next day. DNB also said that any situation in which the activities of Fortis in the Netherlands were put at risk as a result of any problems within the Belgian banking activities, would ‘not be allowed’ (F. J. G. M. Cremers et al., 2010a, p. 292). In a governmental letter, Bos explained that Fortis’s default ‘would have caused disproportionate damage to the Dutch financial system and thus to the Dutch economy as a whole’ (Tweede Kamer der Staten-Generaal, 2008c, p. 1). In other words, the default of Fortis could mean a spillover effect to other Dutch financial institutions. Fortis’ default would have additionally impacted ABN-Amro, which Bos likewise considered a systemic bank. As such, Bos explained he did not want the government ‘to be aloof’ (Tweede Kamer der Staten-Generaal, 2008c, p. 1).

That evening, Balkenende and Bos in discussions between the Belgian and Dutch delegations expressed that the Dutch state is willing to acquire all Netherlands-based Fortis activities which included its banking and insurance activities (F. J. G. M. Cremers et al., 2010a). For what amount was not discussed. In principle, Fortis’s insurance branch was not of systemic relevance, yet was acquired by the Dutch state. Bos believed that although the healthy and viable insurance branch did not play a part in the integrity of the wider financial system, it was part of a distressed institution, and a spillover effect could occur. In addition, Bos believed acquiring the insurance branch would increase the strategic options for the Dutch government in the long term (F. J. G. M. Cremers et al., 2010a).

During the discussions between Fortis and the governments, the Dutch state offered €9 billion for the Dutch part of Fortis. Fortis believed the amount was too low, as Morgan Stanley valued the Dutch activities at €22 billion. As such, Fortis made a counteroffer of €22 billion. Hereafter, the Belgian delegation asked Fortis to leave the discussions as it wanted to negotiate further with only the Dutch state, and form a united front. Fortis was updated regularly during the meeting. Bos believed that the Belgian government was their main discussions partner, and as Fortis 'seemed unable to save itself anymore', it was excluded from discussions (F. J. G. M. Cremers et al., 2010a, p. 295). After an agreement with the Belgian state was reached, the governments invited Fortis back into the discussions (F. J. G. M. Cremers et al., 2010a, p. 295).

In addition, the AFM mentioned Fortis's shareholders had in no way influenced the state support negotiations. According to the AFM, during both deals, the regulator looked at Fortis as a banking company, and not at its (major) shareholders. This echoed with Bos who stated: 'our approach was to save a Dutch systemic bank from our responsibility for the Dutch economy' (F. J. G. M. Cremers et al., 2010a, p. 296).

In the next morning of Friday 9 October, Fortis held a board meeting. Dierckx informed the board that institutional and corporate clients have been withdrawing capital. They also discussed the view of the Dutch government, who see no other option than nationalization at this point (F. J. G. M. Cremers et al., 2010b). The following solution became most likely: the Dutch government would buy Fortis Bank Netherlands N.V, including its participation in RFS holdings - who represent the interests in ABN-Amro - Fortis Insurance Netherlands N.V, and Fortis Corporate Insurance N.V for an amount of €16.8 billion (€12.8 for banking branch and €4 billion for insurance branch) (F. J. G. M. Cremers et al., 2010b; Fortis, 2009). This transaction would come instead of the previous - never fulfilled – agreed upon transaction of €4.5 billion in which the Dutch government would have a 49% stake (F. J. G. M. Cremers et al., 2010b). The Belgian government would acquire the remaining 50% plus one share in Fortis Bank for €4.7 billion. They also reached an agreement with BNP Paribas on the transfer of 7% of shares of Fortis Bank to BNP Paribas. The remaining 25% would remain property of the Belgian government (Fortis, 2009). According to the Dutch government, ABN-Amro was not part of this deal. Fortis agreed to sell its stake in ABN-Amro, excluding ABN AMRO Asset Management which was already integrated into Fortis (Tweede Kamer der Staten-Generaal, 2008c).

State support was meant to prevent 'destabilization' of Fortis and ABN-Amro, and the Dutch financial sector as a whole (Tweede Kamer der Staten-Generaal, 2008c). State support was not meant to achieve any competitive advantage, and the Dutch state would continue to monitor the situation to prevent 'an unappropriated advantage' as a result of state ownership (Tweede Kamer der Staten-Generaal, 2008e).

Fortis meanwhile felt forced to accept the conditions laid out by the governments. According to Fortis, the CBFA had asked Fortis to sign the agreement (i.e. the state support) with the aim to not endanger the stability of the financial system. Internal documents showed that the Fortis board accepted the agreement when weighting the interests of all stakeholders (e.g. financial system, employees, shareholders and clients), but felt it was put under 'unacceptable pressure from the Authorities, and had as such little information to come to a responsible decision' (F. J. G. M. Cremers et al., 2010b, p. 301).

The 100% stake of the Dutch state would not impact tax-payers money. Instead, the Dutch government would lend the amount on the market, and would be marked as a financial transaction. However, the transaction did increase the public debt, and with that, the interest costs for the state. At the time, it was not sure if the income as a result of the Fortis participation would be lower or higher than the additional interests on the governmental debt. In addition, Bos was unsure what the ultimate proceeds of the sale of Fortis would be. Nevertheless, a default was 'unacceptable' (Tweede Kamer der Staten-Generaal, 2008e).

4.8 Conclusion

For the majority of their history, ABN-Amro and Fortis operated as separate banks. This changed in October 2007, when the consortium of Royal Bank of Scotland (RBS), Fortis and Banco Santander SA and Fortis – also known as RFS Holdings - bought ABN for a total of €71.1 billion. ABN-Amro was subsequently split into three parts, and Fortis's part of the acquisition totaled to €24 billion. The merger between ABN-Amro and Fortis would have catapulted Fortis into the top three of Europe's largest banks.

Unfortunately, Fortis bit off more than it could chew. The acquisition equaled half Fortis's market share. Rumors in the market emerged soon after, saying that Fortis was unable to find capital to fully integrated the newly acquired ABN-Amro. In June 2008, an announcement of a share issue and the cancellation of quarterly dividend in order to improve its capital buffer, strengthened the concerns the market had. Fortis's share price plummeted soon after, and clients started to withdraw their capital.

Between July and August, Fortis was unable to gain control over the situation. During these months, Fortis's supervisory board had dismissed the CFO and CEO. The new interim CEO collapsed shortly hereafter. Fortis's liquidity position continued to worsen, and on September 25, 2008, the Belgian regulator CBFA informed Fortis of its precarious situation. The regulator believed it would not survive the weekend.

Although the Belgian government was aware of the situation, it seemed to not be in control of the situation. The government was initially reluctant to intervene. Not because of a laissez-faire ideology, but because it did not think a Fortis/ABN default would be so impactful. However, a speech from ECB President Trichet, who swiftly joined the discussions that weekend, convinced the Belgian government to do what it could, and find a solution before the markets opened. In addition, the Belgian government did not think to invite the Dutch government into the discussions on how to save the Belgian-Dutch bank, indicating that it was unaware of the invasive repercussions of a default.

Meanwhile, the Dutch government monitored the situation, and foresaw its repercussions on the Dutch economy. It seemed the Dutch government already had a clear goal after inviting itself into the discussion: do whatever is necessary to prevent the default of the Dutch part of Fortis. Thus, the question for Bos was not necessarily a question on how to bailout Fortis, but how much would it cost to bailout Fortis.

All three governments did initially – albeit very briefly - looked at the market to find a private solution – although governmental interventions were constructed simultaneously. Some propositions were negotiated, but an official offer was never made by any of the market participants. The case study showed that market participants only had several hours to developed a business case. Immediately hereafter, a public solution involving all governments became the immediate focus the involved parties. It had to be found swiftly too: the governments had less than 24 hours at that point.

As Fortis/ABN was the first distressed institution on the European mainland, Dutch Minster Bos and Trichet both believed a default would evoke a 'European Lehman Brothers' event, and the spillover effects would be unprecedented across the continent, and the globe. Whatever happened, the governments had to convince the market that another Lehman event can and will be prevented. Rather quickly, it became clear that a bailout was not only the preferred solution, it was the only solution. Fortis however, did not have a clear picture of their balance sheet, and neither could the governments. Third parties were hired to make an estimation Fortis's portfolio. These valuations played an important role in the negotiations.

The Dutch government believed the default of Fortis to cause disproportionate damage to the Dutch financial system, and the economy as a whole. It was not just Fortis who was on the brink of bankruptcy, the recently acquired and partly integrated ABN-Amro would potentially default as well. In fact, for the Dutch government, it was never a matter of saving a systemic relevant bank, it was a matter of saving two systemic relevant banks for the Dutch financial sector.

The binational character made negotiations between the governments and Fortis/ABN difficult. As such, the Belgian government who took the lead in the discussions, drove the process. It had asked Fortis to leave discussion on several occasions – mostly because progress could not be made with Fortis participating in discussions. The gave the governments the opportunity to discuss the best possible solution among themselves, and form a front. Only then an offer to Fortis was made. In the end, the distressed bank had little influence on these negotiations; it could merely accept the conditions tied to the state support, whether it liked it or not. For the involved governments, and the ECB, the default of Fortis/ABN-Amro was never an option.

5. Case II: ING's capital injection

ING was the largest financial institution in the Netherlands in 2008. During the global financial crisis, ING received a capital injection of €10 billion, and the announced to exclusively guarantee ING's portfolio of mortgage backed securities (ING, n.d.). Today, ING continues to exist as one of the largest banks in Europe measured by total assets (Penaflor & Ahmad, 2021).

5.1 ING's origins

Based in the Netherlands, ING is one of the country's oldest banks. Although its history is convoluted through various take-overs and alternate company names, its origins can be traced back to 1881 where it started as a savings bank under the name *Rijkspostspaarbank*, and the *Nederlandsche Middenstandsbank* (NMB). The ING Group surfaced in 1991 after the merger of the *NMB Postbank Group*, and insurer *Nationale Nederlanden* (R. H. M. A. Cremers & Rad, 1992). *NMB* was rebranded to the ING Bank N.V. Later in 2009, *Postbank* was dissolved and fully absorbed into ING Bank N.V, leaving the conglomerate with only one major banking branch in the Netherlands. With €937 billion in assets in 2020, the ING Bank is currently the largest bank in the Netherlands (Banken.nl, 2021).

5.2 2007: The onset of the financial crisis

In 2007, ING offered banking, investments, life insurance and retirement services to 75 million corporate, institutional and private customers in North and Latin America, Asia, Australia and Europe. At the time, ING was one of the 20 largest financial institutions globally (ING, 2007). ING acknowledged the market turbulence in 2007, but argued that its risk to the deteriorating American housing market was limited - primarily because it was exposed to 'highly rated RMBS investments' (i.e. residential mortgage backed securities) – and would have little impact on its portfolio (ING, 2007, p. 21). The financial institution made a 'strong commitment' to risk management practices in order to build a sustainable competitive advantage (ING, 2007, p. 21). With around 4.500 employees active in risk management, its risk governance framework was communicated throughout the group. As such, ING believed it was 'well-insulated from the worst effects of the market turmoil' (ING, 2007, p. 12). Profits increased by €9 billion or 19.4 percent in 2007 (ING, 2007).

5.3 October 2008: Capital support facilities.

The freeze of the interbank lending market during the global financial crisis made otherwise (healthy) financial institutions at risk of being distressed. Therefore, on October 9, 2008, the Ministry of Finance and the DNB announced measures to protect financial institutions against external shocks, and to restore confidence in the Dutch financial system. In addition, the DNB provided special credit to individual financial companies on the basis of sufficient collateral if and as long as mercenary. This was supposed to secure the short-term collateralized financing of these companies (Tweede Kamer der Staten-Generaal, 2008a).

In regards to solvency, the state committed to provide capital to banks and insurers, regardless of their size, and that are fundamentally sound and viable, acting as a lender of last resort. It does so by strengthening the equity of financial institutions to the levels deemed necessary by the regulator. Financial institutions that met set criteria were free to apply for state support (Tweede Kamer der Staten-Generaal, 2008a).

More specifically, the Dutch government made €20 billion available in October 2008 – right after the bankruptcy of Lehman Brothers. According to governmental letters, the government at the time had explicitly not established a fund of a specific size (Tweede Kamer der Staten-Generaal, 2008a). Instead, €20 billion was made available immediately, and was rather supposed to be considered as a signal to indicate that the state was willing and able to act. The €20 billion was not a maximum either; and could be enlarged when needed (Tweede Kamer der Staten-Generaal, 2008a). In the Netherlands, ING, AEGON and SNS REAAL made use of this capital (Rijksoverheid, n.d.).

5.4 ING's Capital Injection

ING received the largest capital injection of €10 billion (Rijksoverheid, n.d.). After the state's announcement on October 9, ING reached out to DNB and the Ministry of Finance to discuss the possibilities and possible desirability of solvency reinforcement (Tweede Kamer der Staten-Generaal, 2008b). Although ING had a positive commercial performance in 2008, the sharp market decline led to negative revaluations in most asset classes, affecting ING's capital position and earnings. ING marked its first ever annual loss of €729 million (ING, 2008).

ING disclosed that, despite meeting all capital ratios, it wanted to strengthen its capital position by making use of the state support scheme. The bank insurer could not afford to be out of step with its closest competitors, and a strong capital position comparable to other institutions was therefore desired. In addition, the strengthened capital position could also function as a buffer to weather the conditions on the financial markets, as argued by the Dutch State (Tweede

Kamer der Staten-Generaal, 2008b). This reasoning seemed to echo within ING as they argued the capital injection to have ‘significantly enhanced the capital position of ING Group’ (ING, 2008).

Behind closed doors, the DNB, ING and Ministry of Finance consulted on the best possible way to strengthen ING’s capital position. Agreements were made in three areas: capital injection, governance and competition (Tweede Kamer der Staten-Generaal, 2008b).

First, the parties agreed on a capital injection construction involving Tier 1 capital, the core capital of a financial intuition. This construction, as argued by the state, is a form of participation that is a ‘sound’ financial proposition for the state as well as the taxpayer. Stress tests were undertaken to determine the amount required. The state went further, and added ‘an extra buffer’ to ensure ING would be strongly capitalized in the present and future market circumstances. The parties agreed on a €10 billion capital injection with 8.5 percent coupon rate, for €10 per share. The price was based on the share price before the strong decline on October 17 (Tweede Kamer der Staten-Generaal, 2008b).

Second, the parties also agreed that the government will nominate two members to join ING’s Supervisory Board who had a right to approve fundamental decisions such as proposed mergers or acquisitions worth more than 25 percent of ING’s equity, and a right to approve proposals to shareholders regarding remuneration schemes. As argued by the state, this ensured that the governments could influence fundamental decisions that could impact its investment. In addition, ING had to refrain from giving bonusses to members of the executive board. Lastly, the parties agreed that ING would bear the costs of all transactions and advisors required (Tweede Kamer der Staten-Generaal, 2008b).

Third, agreements were made in terms of competition. According to governmental letters, the Ministry of Finance, DNB and ING considered the competitive position of the financial institution, along with possible future shocks in the financial market, to determine the size of state support. The state’s intention was not to give ING a competitive advantage following a capital injection, but keep an equal playing field within the Dutch financial sector (Tweede Kamer der Staten-Generaal, 2008b).

Lastly, agreements on ways to end state support. The agreement was made that in the case that ING preferred other means of financing other than the state (e.g. private financing), ING could buy back the shares for €15 a piece. This would result in a profit of around €5 per remaining share for the state. After three years, the ING was allowed to convert the shareholdings into ordinary shares. Inextricably linked to this is that the state may then choose to recover the purchase price via a cash payment of the state support if the DNB agrees (Tweede

Kamer der Staten-Generaal, 2008b). The Dutch state had no direct investment in ING and therefore did not take a shareholder's role. Nothing changed in terms of ING's workforce. State support did affect the government's debt as this €10 billion transaction increased the public debt, leading to higher lending costs. However, the 8.5 percent coupon rate was expected to exceed the additional interest charges on the public debt, rendering a profit for the state (Tweede Kamer der Staten-Generaal, 2008b). The downside to this agreement was that if the ING did not or could not meet its payment obligations, the only instrument available to the state was a bankruptcy filing. This means that the state could not demand fulfilment of financial obligations as an individual creditor (Tweede Kamer der Staten-Generaal, 2009d).

The European Commission approved state aid, expressing that the capital injection was according to the guidelines set out by the EC itself. According to the EC, ING plays a pivotal role in the Dutch financial sector. A loss in confidence of such an important institution would 'undoubtedly' have led to further disruption of the current situation, and to harmful spillover effects to the entire economy (EC, 2008).

5.5 ING's Toxic Asset Purchase

The fourth quarter of 2008 represented the worst quarter in more than 50 years for investments in corporate bonds and equities. In several countries, the previously taken measures had to be extended, specifically in regards to illiquid assets of financial institutions (Tweede Kamer der Staten-Generaal, 2009a). Illiquid assets are assets that cannot readily be liquidated without significant loss in value. This may be because of low trading activity due lack of interest for these assets.

The financial institution's illiquid assets came in the form of mortgage back securities (MBSs). These MBSs received 'triple AAA' status by rating agencies such as Standard & Poor's, Moody's and were thus seen as investment of the highest quality. However, during the global financial crisis, it became clear these trenched mortgages were of subprime quality. As such, a significant portion of subprime securities had been downgraded, or had even defaulted (Hill, 2010). This meant significant portfolio devaluations for financial intuitions holding these illiquid assets. A vicious cycle ensued: market pessimism grew, valuations declined, and institutions had to book more write-offs (Hellwig, 2009).

ING was exposed to these subprime securities, and on January 26, 2009, the Dutch State announced ING's 'Illiquid Assets Back-up Facility'. In close consultation with the DNB, this back-up facility with respect to securitized mortgage products entailed a shared responsibility of ING’s Alt-A portfolio. Profits and losses related to this portfolio would become shared between the state (80%) and ING (20%) (Tweede Kamer der Staten-Generaal, 2009a).

With a strong Tier 1 ratio of 9.1 percent at the end of 2008, ING remained a healthy institution despite deteriorating market circumstances. According to the Minister of Finance, Bos, ING faced exceptional circumstances, characterized by turmoil and unpredictable liquidity movements (Tweede Kamer der Staten-Generaal, 2009a). Governments around the world believed financial institutions could benefit from a solution for illiquid assets, and so did the Dutch state. ING’s back-up facility fit into this international framework of solutions, but was specifically tailored to ING’s situation (Tweede Kamer der Staten-Generaal, 2009a).

ING’s Alt-A securitized mortgage portfolio then worth €30 billion, became illiquid because of lack of trading in the market. The international accounting standard IFRS prompted businesses to account for fluctuations in the market in relation to their equity: a decrease in market value results in a write-down in equity. Under the extraordinary market conditions of 2008, with large differences between price (market value) and economic value (intrinsic value), the portfolio’s worth was misaligned with its economic reality. As such, the back-up facility ensured the reversal of the negative revaluation of the portfolio, and significantly reduced the uncertainty of ING’s portfolio (ING Groep, 2009b; Tweede Kamer der Staten-Generaal, 2009a)

For the government, this back-up facility meant the previously €10 billion capital injection was more effective. In regards to ING, the bank could continue to fulfil its intermediary function in the credit market. In this context, the ING had committed to provide €25 billion in additional credit to Dutch companies and individuals (Tweede Kamer der Staten-Generaal, 2009a). In more detail, the back-up facility was structured in a way to simulate cash flows. Under IFRS accounting rules, ING could book the construction in economic terms as a sale to the state. Yet in legal terms, however, no purchase takes places. ING and the Ministry of Finance agreed on the following conditions:

- ING remained owner and manager of the portfolio;
- ING would devalue the portfolio by 10%; before the Ministry would value the portfolio (and determine the state support amount)
- ING pays the state a guarantee fee for assuming the risk consisting of $85 million per year over 10 years.
- The state and ING shared profits and losses in the ratio of 80% and 20%, respectively;
- The state would receive 80% of the cash flows generated by the portfolio;
- The state pays ING a 3% fee through an annual cashflow for the portfolio;
- The state pays ING a management fee of $925 million in net present value;

Valuation of the Alt-A portfolio was rather difficult. As such, the Ministry of Finance, in cooperation with DNB, engaged ‘one of the top four specialized agencies’ (Tweede Kamer der Staten-Generaal, 2009b). Dynamic Credit valued ING’s portfolio, on a postcode level, and made a scenario-based projection. The base case scenario would provide the state with an annual positive net cash flow of €2 billion, while the worst case would leave the state with a loss of €600 million (Ministerie van Financien, 2009). The analysis showed that the chance of a base case would be 75%, leaving a 25% chance for the worst case scenario (Tweede Kamer der Staten-Generaal, 2009a). The assumptions made had been ‘extensively’ consulted with economists of the DNB. DNB agreed with Dynamic Credit’s methodology (Tweede Kamer der Staten-Generaal, 2009c).

According to the Ministry, the back-up facility laid in between ‘buying’ and ‘guaranteeing’ ING’s Alt-A portfolio. This construction was chosen, as buying the portfolio would mean the state would bear all the risks, as well as an increase in public debt. Guaranteeing the portfolio would not lead to an increase in public debt, but would not be beneficial for ING as it would not undo the devaluation of the portfolio. Neither would a guarantee create a profit opportunity for the state (Tweede Kamer der Staten-Generaal, 2009a).

The back-up facility came with several conditions for ING. First, ING was forced to reduce their balance sheets, reduce risks, reduce complexity of its business model, increase equity and sell parts of the business. In technical terms, the government set a target of reducing their Risk Weighted Assets by 3%. In terms of governance, the state forced ING to refrain from granting bonusses for 2009 and subsequent years to the executive board. The appointment of a new CEO required the consent of the government’s newly appointed member of the supervisory board. Lastly, the governance conditions attached to the €10 billion capital injection will remain in place for the duration of the back-up facility (until 2048) (EC, 2009; Tweede Kamer der Staten-Generaal, 2009a)

The European Commission approved the back-up facility, expressing that the restructuring program tied to the emergency measure was according to EU state aid rules, and was sufficient to restore ING’s viability. In addition, the measure is a ‘good’ solution for the distortion of competition caused by these measures, and an attempt to remedy a ‘serious disturbance in the economy of a member state’ (EC, 2009).

5.6 Conclusion

The state’s capital injection was a proactive emergency support measure to portray its willingness to step in and support distressed financial institutions. The goal to stabilize the financial markets entailed granting capital to various financial institutions under certain conditions. Most notably, the institutions must be Dutch banks or insurance company, and should be a 'healthy' and 'viable' institution. These concepts never seem to have been defined at the time, and an institution's health seemed to be assessed on an ad-hoc basis.

Based on the analysis, it has become clear that ING, at its core, is a healthy and functioning financial institution. It had its first ever annual loss as a result of the global financial crisis, and no major remarks have been made by the DNB nor AFM on their business model prior to the financial crisis. Therefore, the government believed ING had become distressed as a victim of turbulent market conditions, instead of malpractices. In addition, ING adhered to capital ratios mandated by the DNB, yet it wanted a 'sweater for the cold'. With the government lending out capital to healthy institutions, it was granted such support.

Early 2009, ING's US Alt-A portfolio of mortgages became illiquid, devaluating their portfolio, affecting its equity, and posed a major risk to the bank. The Dutch state believed that its Alt-A portfolio lost its 'intrinsic' value due to the turbulent market conditions – something ING became victim of. The back-up facility was specifically designed to revert this depreciation and reduce ING's risk. The facility laid in between purchasing and guaranteeing, and was uniquely tailored to ING's distressed situation. The scheme was developed with a specialized third-party who believed the state would have a significant chance (75 percent) of making a (significant) profit on this measure (€2 billion). The facility was furthermore designed in a way that balanced the risks between the state and ING.

The government also had an incentive; its previous capital injection would be more effective upon the activation of the back-up facility. The devaluation of the Alt-A portfolio would render the previous capital injection useless. The back-up facility would counterbalance the devaluation, and thus make the capital injection more effective.

Combined with the fact that the state believed ING was of systemic relevance, and its downfall could enact a spillover effect in the financial market across Europe, the state had motives to intervene. The state believed this particular form of state support was best suited at the time as ING was healthy and viable (i.e. not on the verge of bankruptcy) while facing turbulent market conditions. The Illiquid back-up facility did come with much stricter conditions than the capital injection.

6. Case III: The bankruptcy of DSB

This chapter will explore DSB's history, and the developments up until its bankruptcy declaration by the Court of Alkmaar on October 19, 2009. This chapter contains an in-depth analysis between the years 1975 and the beginning of the 2008 global financial crisis, as the developments in these years significantly shaped the narrative of the DSB.

6.1 1975-2005

The DSB Group began in 1975 with the establishment of Buro Frisia, acting as an intermediary in insurance and consumer credit. The holding company Dirk Scheringa Beheer (DSB) emerged in 1978, with Scheringa as its main shareholder. In 1991, the Group established its first *advance bank*, specialising in offering mortgages and loans, and was not engaged in other financial products, such as bank accounts, payments and insurances (Scheltema et al., 2010). An advance bank is financed on the interbank lending market, and no customer savings are held on its books. Therefore, such banks are exempted from supervision from a central bank, nor need to hold a banking licence (Scheltema et al., 2010). Between 1995 and 1999, the DSB expanded to extent mortgage and consumptive loans, and in 1999 the group founded a 'regular' bank: DSB Bank N.V. (Scheltema et al., 2010).

The bank experienced significant growth in the following five years, and a reorganisation took place in 2005. All companies merged into one company: DSB Bank N.V. DSB Ficoholding was established as the holding company. Schering was now both the CEO of DSB Bank, and majority shareholder owner of the holding company (Scheltema et al., 2010). The reorganisation resulted in an organisation with an executive board and supervisory board. DSB was granted a banking license in that same year as it fulfilled all (solvability, liquidity and profitability) requirements posed by the DNB (Scheltema et al., 2010).

However, the DNB already noted some peculiarities in regards to DSB's governance. The DNB noted that within DSB Bank N.V., less importance was given to the administrative part of the organization and towards meeting compliance requirements, a point to which the DNB would pay attention to as part of the ongoing supervision (Scheltema et al., 2010).

DSB was criticised multiple times by both regulators between 2002 and its bankruptcy in 2009. In 2002, the AFM reported violations in regards to its advertisements, and reported some Consumer Credit Act (Wck) violations. However, due to AFM's limited mandate under the Wck, it refrained from imposing sanctions and instead had an insinuating discussion with the board instead (Scheltema et al., 2010). The DNB likewise criticised the DSB's business processes on a number of occasions. Among other things, the criticism focused on perceived shortcomings in compliance with the Organisation and Control Regulations (ROB) which attempts to force integrity in business operations. In 2003, the DNB concluded its risk management system to be inadequate: it lacked a clear strategy with (written) objectives, lacked practices to measure (business) risks properly and lacked provisions for evaluating and adjusting to these risk (Scheltema et al., 2010). In April 2003, the DNB indicated to not authorise the establishment of a German branch, until it addressed all shortcomings first. In July 2003, the DNB concluded that improvements in both the transparency of the organisational structure and the functioning of the executive and supervisory board itself were required. In a follow-up meeting with the DNB, supervisory board members Scheringa and Van Dijk disregarded the conclusions. Despite the violations, the DNB granted the DSB a banking license in 2005 as the central bank did recognise 'untidy' business practices, yet bad faith was absent (Scheltema et al., 2010).

6.2 2006-2007

In January 2006, the DNB found the DSB to be notorious for searching 'the boundaries of the law'. The DSB scored insufficiently on eight out of ten principles developed by the Basel Committee on Banking Supervision (BIB). During interviews with the bank, the DNB noted that this lack of compliance was due to the company culture. According to the DSB's compliance officer, the company acted like a commercial company, and not like a bank (Scheltema et al., 2010).

The DNB devoted specific attention to DSB by scrutinising its credit risk management and the prudential aspects of its mortgage and consumer lending activities. In regards to credit risk management, the DNB noted that management information was inadequate: a lack of reporting made obtaining insights into subjects such as the bank's loan acceptance criteria and credit reports unfeasible. In addition, the DNB noted excessive lending and inadequate compliance with the bank's Duty of Care. In regards to mortgage and consumer lending, the DNB concluded the DSB's credit policy to be insufficiently developed. Customer profiles in particular are a matter of concern: it was uncertain whether sold insurance products suited the customer in question (Scheltema et al., 2010).

In addition, the AFM sent a 'letter of observation' (also known as a 'yellow card'). In this letter, the AFM concluded that the advertisements of some DSB subsidiaries were misleading as they do not comply with the statutory rules. The DNB noted that the problems in regard to the DSB's mortgage and consumer lending activities were being addressed. The DNB noticed a positive development, yet ‘a large amount of work’ still needed to be addressed (Scheltema et al., 2010).

6.3 2007: the onset of the global financial crisis

When the global financial crisis emerged in the course of 2007, the DSB initially seemed to be unaffected as the bank’s activities mainly entailed granting loans to Dutch consumers and had no direct investment in American mortgages (‘toxic assets’). However, the freeze of the global interbank market did affect the DSB’s ability to finance its activities. Up until 2007, the DSB financed itself through securitisation. Securitisation is a technique whereby risks and returns of a portfolio of loans are packaged and transferred to a specially created entity (Scheltema et al., 2010). This entity issues marketable debt securities (notes) to investors, who in turn provide the funds to finance the portfolio. However, during the onset of the global financial crisis, investors became wary of investing in packaged loans such as asset-backed securities, and the ratings of these debt securities were no longer trusted. This caused the market for securitisation – and the main source of financing for the DSB - to freeze completely (Scheltema et al., 2010).

In response to the freeze, the DSB successfully attracted new savings from depositors to finance itself. In one year, the depositor’s total savings on the balance sheet doubled from €1.6 billion to €3.2 billion. The financing of activities through attracting savings meant that long-term commitments such as mortgages were now funded with savings that could be withdrawn on a short-term. The DNB therefore urged the DSB to change its earnings model (Scheltema et al., 2010).

6.4 August 2007 – September 2009: heightened supervision

The solvability issues and dependence on securitisation were reasons for the DNB to put DSB under heightened supervision. The DNB required DSB to maintain a strict 10% solvability ratio, with 12% aim. In addition, the liquidity buffer had to be increased to €1 billion (from €600 million). The unusual circumstances required the DSB to inform the DNB on its liquidity position on a weekly basis instead of on the regular monthly basis (Scheltema et al., 2010).

In discussions with the DSB’s supervisory board, the DNB stressed its concerns about the solvability position, the dependence on securitisation, and threats against its business model. One of the participants from DSB later reported to the DNB that it failed to convince the CEO and COO of the situation. Scheringa, the CEO, believed the DNB was ‘not too concerned’ which reduced his sense of urgency (Scheltema et al., 2010).

This attitude led to the resignation of several executives in the following months. On November 12, the CFO resigned over dissatisfaction on decisions made by the executive board in relation to risk and solvency management. The DSB's compliance officer resigned the same day. Following the CFO's departure, the DNB voiced concerns and asked the DSB how it will fill in the vacancy. During these talks Scheringa disagreed with the DNB's view, and blamed the CFO's departure on the DNB's pessimistic view on recent developments within the bank. The DNB believed Scheringa did not sufficiently appreciate the seriousness of the situation (Scheltema et al., 2010).

In a memo at the end of November, 2007, the DNB voiced concerns about the DSB's disappointing results, threats to their business model, lack of cost control and existing plans for international expansion. These developments increased the DNB's existing concerns. As such, the regulator decided to appointed a 'silent curator' tasked with assessing the bank's governance structure, and obtaining insights into the way decisions were made. The appointed curator Offringa, himself had doubts about the effectiveness of this instrument. The curator believed CEO Scheringa had a dominant position and foresaw one solution for enacting changes within the bank: the dismissal of Scheringa. However, the DNB was of opinion that multiple other banks have a dominant shareholder either in the executive or supervisory board – and was thus not an unique situation – and concluded a silent curator was the most appropriate instrument (Scheltema et al., 2010).

The DSB found a new interim CFO – Zalm - in December 2007. Commissioner Offringa provided Zalm a memo containing areas of attention: improve the bank's capital position, liquidity, solvability, profitability and reporting structure. In February 2008, the DNB noted that the DSB improved its solvability- and liquidity position, yet still held concerns over its governance structure and its loan acceptance criteria. In particular, the DNB was concerned whether its supervisory board had enough powers vis-à-vis its executive board as Scheringa has the ability to dismiss members in both boards (Scheltema et al., 2010).

The interbank market freeze continued to put pressure on the bank's solvability ratio. Later in April 2008, Chief Information Officer de Jong, the director of Risk Management and the Compliance Officer resigned. Both the AFM and DNB opened a new investigation into the bank. The regulators believed the bank had fundamental problems in regards to governance, opaque decision-making processes, and insufficient information was provided to the supervisory board. The DNB also noted that Scheringa is 'not a real banker', and lacked experience (Scheltema et al., 2010).

6.5 September 2008: The beginning of the end

In November 2008, the Minister of Finance, after taking a controlling stake in ABN-Amro, considered Zalm as the potential new CEO of ABN-Amro. The DNB saw danger in Zalm's departure from DSB as it was 'far from healthy'. Yet three days later, Scheringa informed the DNB that Zalm had left the DSB for ABN-Amro (Scheltema et al., 2010).

Before Zalm's departure, he presented DSB's adjusted business model: funding would come from the deposit market, and as long securitization was unavailable, from the European Central Bank (ECB). The DNB criticized this way of funding: the bank would become dependent on ECB refinance operations and it was doubtful how long the ECB would continue to support the market with liquidity (Scheltema et al., 2010).

The DNB and AFM agreed that the DSB would find an appropriate replacement for Zalm. The governance issues remained present within the bank and the DNB and AFM concluded that Scheringa was not changing its way of business. The regulators foresaw two options: either accepting that Scheringa remained CEO to which mitigating measure had to be taken (e.g. more powerful supervisory board) or Scheringa steps down. Both the AFM and DNB appeared to favour Scheringa's departure, but the formal options for dismissal were limited at that point. To that end, both parties agree to a joint strategy containing increased pressure on the DSB, with the goal that Scheringa would eventually step down and replaced by an externally sourced CEO (Scheltema et al., 2010).

Despite his lack of banking expertise, the DNB approved De Grave as DSB's new CFO early 2009. The supervisory board was not consulted in advance about De Grave's proposed appointment. Simultaneously, the relationship between DSB (the bank) and DSB Beheer (its parent) drew the attention of the DNB: DSB Bank's lending to DSB Beheer increased to €80 million in the course of 2009 (Scheltema et al., 2010).

In February 2009, DNB entered into a discussion with the DSB about the economic outlook of the bank. Here, Scheringa was of opinion that the global financial crisis would not affect the DSB. The DNB questioned the soundness and accuracy of his beliefs, and the DNB reiterated the importance of implementing improvements timely. As a result, the regulator explored what formal measures it could take if improvements were not implemented accordingly (Scheltema et al., 2010).

In March 2009, an article in the Telegraaf was published, publicly criticizing the DSB's business practices. Later in April, the AFM discussed the negative publicity with the DSB, in which the bank announced to halt the sale of single-premium policies, effective May 1 (Scheltema et al., 2010). In May 2009, the AFM imposed two administrative fines to DB for over crediting (AFM, 2009). That same month, DSB's CFO was fired by Scheringa due to a difference in opinion about the relationship between DSB Bank and DSB Beheer. The CFO believed the halt of the single-premium policies would cut into the banks' revenue, which put pressure on its solvency. As such, the CFO believed a dividend payout to DSB Beheer should not be made. He was subsequently fired by Scheringa (Scheltema et al., 2010).

On July 31, the DNB, based on staff meetings, analysis of half-year figures and meeting minutes of the executive board, concluded that the situation within DSB had deteriorated. The limited improvement regarding its business model, the continued pressure on its solvency and the lack of power of the supervisory board made the DNB believe the DSB Bank would not survive the financial crisis on its own. As such, the DNB was advised to search for solutions, including a potential take-over or state support (Scheltema et al., 2010). For the DNB, the relationship between DSB Beheer and DSB Bank continued to be problematic. The CFO of DSB Beheer informed the DNB about the lack of liquidity. In return, the DNB required DSB Beheer to draft a plan before September 18 on how it would improve the solvency and liquidity position of DSB Beheer. DSB Beheer timely provided the DNB with information on how it would address the issues, yet the DNB was not convinced it was sufficient. The DNB believed DSB Beheer underestimated the problems. The DNB expected DSB Beheer to be unable to meet its liabilities in the short term (Scheltema et al., 2010).

6.6 October 2009: The endgame

In the early morning of October 1, 2009, Lakeman – representative of *Stichting Hypotheekleed* – in the morning tv-program 'Goedemorgen Nederland', called on savers to withdraw their money from the DSB. Lakeman's message instigated a bank-run: an outflow of savings of more than €88 million euros (Scheltema et al., 2010).

In response, the DNB monitored the DSB's liquidity on an hourly basis. The watchdog concluded that an immediate solution had to be developed, and specific attention should be given to stabilize the current situation. To this end, solutions such as the sale of shares, appointing a curator, and find private market take-over or mergers were considered. At the end of the day, the DNB, following a suggestion from the Ministry of Finance, publicly stated in a press release that the DSB met the requirements of liquidity and solvency in an attempt to neutralize the effects of Lakeman's appeal (Scheltema et al., 2010).

The press release came to no avail. The outflow of savings accumulated to €101 million the next day. Internally, the DNB considered whether or not Scheringa should step down as CEO. Scheringa's position as majority shareholder made the situation precarious, and the DNB was unsure whether his departure would improve the situation at all. The DSB emphasized that cooperation of Schering would be essential is it wanted to prevent the ‘emergency regulation’. (Upon activation of the emergency regulation, a court on the request of the DNB, would appoint special administrators to (temporarily) take over the reins). The supervisory board was held responsible Scheringa’s cooperation. DSB’s supervisory board in talks with its executive board, concluded that the executive board had lost control of the situation and proposed the dismissal of CFO Van Goor (Scheltema et al., 2010).

On the October 5, the DNB in cooperation with the DSB’s supervisory and executive board, jointly agreed on the following points: (i) the bank’s liquidity position is worsening which may prompt DNB to evoke the emergency regulation; (ii) the DSB should immediately enter into confidential discussions with reputable parties in the financial sector to see whether arrangements could be reached on an adequate liquidity safety net; and (iii) as the DNB is worried about Scheringa as CEO but an immediate dismissal might further destabilize the situation, the DNB and DSB agreed that Scheringa will step down January 1, 2010, the latest (Scheltema et al., 2010).

On that same day, the DSB’s auditors notified the DNB that the financing of DSB Beheer and its subsidiaries was not guaranteed, and expressed doubts about the recoverability of the outstanding loans the DSB Bank had with DSB Beheer. The uncertainty of the impact of claims from customers, the value of the DSB’s collateral, and the increased correlation with DSB’s creditworthiness led DNB to impose a ‘haircut’: a ceiling of €1 billion was placed on DSB’s collateral value (instead of €1.8 billion). As the DSB was able to apply for the emergency liquidity assistance (ELA) scheme, the DNB believed the haircut had no direct impact on the DSB’s liquidity position (Scheltema et al., 2010).

The DNB approached a consortium of banks for the liquidity safety net for DSB. Rabobank, ING, ABN-Amro, Fortis Bank and SNS Reaal were approached (de Graaf & Kreling, 2009). The DNB believed that a collapse of the DSB would primarily be a problem for these banks, as they would need to take part in and finance the deposit guarantee scheme (DGS). The DNB asked the consortium to draft a plan without the involvement of the state. In this scenario, the social damage, loss of confidence and liability risks would be limited. The disadvantages however, are in the areas of competition and moral hazard. If a private solution proves impossible, the involved parties would have to fall back on a liquidation scenario in which only the emergency regulation (and default) seems realistic. This would increase the social consequences. The consortium had access to information about DSB through the DNB, but time pressure made it difficult to obtain a good insight into the problems DSB was facing (i.e. size of the provision needed for claims) (Scheltema et al., 2010).

On October 7, the Rabobank as a representative of the consortium, disagreed with the view of the DNB and Ministry of Finance and voiced that the collapse of DSB Bank would not only be a problem for the banking sector, but for the state as well. Rabobank was of opinion that in order to find a private solution, financial involvement by the state was necessary. The consortium of banks was willing to take over the normal business risk and agreed on a €5 billion safety net, but were not prepared to take over the reputational risk and potential claims made by victims. The Ministry of Finance neither accepted nor denied the plan (Scheltema et al., 2010). The next day, the consortium of banks notified the DNB that they do not consider it impossible to find a solution to make the DSB a viable institution. The consortium believed in an reorganisation and 'restart' of the DSB. The DNB considered the plan unrealistic: it saw a high risk of bankruptcy (Scheltema et al., 2010).

On the October 10, 2009, the consortium presented a draft agreement to the DNB, Ministry of Finance and representatives of the Ministry of General Affairs. The plan was met with several counterarguments. The Ministry of Finance expressed that the state support would come with strict conditions, including that at its core, an institution needed to be a 'healthy institution', and in addition, needed to be of systemic importance. The DNB was unwilling to argue that DSB could be or was a healthy and viable institution, and neither the DNB nor the Ministry believed the DSB was of systemic importance. The DNB furthermore expressed that the plan was unbalanced: the benefits accrued predominantly to the consortium and the risks accrued to the state (Scheltema et al., 2010).

Restrictions imposed by the European Commission limited possibilities for private market solutions. The consortium of banks who received governmental support – ABN-Amro, Fortis, ING and SNS – were not allowed to increase their market share through acquisitions. As such, a capital injection for DSB would most likely cause problems with Brussels (Nods, 2009).

In the night of October 10 and 11, 2009, the Ministry of Finance and DSB concluded no agreement would be reached with the consortium. For the government, no other options were left, and the DNB subsequently applied for the emergency regulation at the Court of Alkmaar. Although DSB's supervisory board agreed with the regulators, its executive board believed the measure was disproportionate, and believed not all options had been considered. The DNB took precautions for a bankruptcy announcement, including preparing a press conference (Scheltema et al., 2010). In the meantime, the DSB wanted to meet its liquidity needs through the emergency liquidity assistance (ELA) scheme. According to the DNB, the ELA could only be provided to solvent institutions with sufficient collateral. It had become clear this is not the case with the DSB: with the potentially large claims in connection with its failing business model, and the posed haircut, the DSB's solvency was significantly short of the legally required minimum of 8% (Scheltema et al., 2010).

The Court of Alkmaar initially dismissed the petition posed by the DNB on the grounds that although the DSB's liquidity position was worrisome, the outflow of savings was slowly coming to a halt. In addition, the DNB's projected consequences of DSB's mortgage activities were not sufficiently clear for an accurate estimate to be made by the Court (Scheltema et al., 2010). Although the denial of the emergency regulation should have remained confidential, the *Volkskrant* took wind of the verdict and reported the survival of the DSB was 'hanging by a thread' (Nods, 2009). The ensuing media exposure led to a renewed run on DSB. On the same day, the DSB applied for another ELA of €100 million. The DNB denied the request on insufficient funds (Scheltema et al., 2010).

Between October 1 and 12, the total outflow of saving accumulated to €622 million representing about one fifth of total savings (Nods, 2009). The DNB applied for the emergency regulation once again, and this time the DSB's executive board did not object.

On October 15, the Court approved the application, and declared DSB subject to the emergency measure (Scheltema et al., 2010). The following day, the DNB appointed administrators Schimmelpenninck and Kuiper to take over the reins. The DSB presented a new business model (based on interest margin model) to the consortium of banks in the presence of the DNB and Ministry of Finance. DSB proposed to turn itself into an internet-based bank, and no longer sell single-premium policies, and asked for a €200 million capital injection and a capital guarantee of €1 billion. The consortium believed the calculations were incorrect: a capital injection of €300 million and a guarantee of €5 billion was more realistic.

The American investment company Lone Star showed interest in DSB and performed due diligence investigation on October 15. Only the next day it decided not to research further after the conditions for an investment (including a €5 billion euro investment) were known (Nods, 2009). In a last try, the DSB proposed a 'Plan B' in which they proposed that depositors could convert their savings into company shares, which would raise €100 million. Since another €100 million euro was needed, and funding was still necessary, the Ministry of Finance considered the proposal unrealistic (Scheltema et al., 2010).

Under these circumstances, the DNB and Ministry of Finance were of the opinion that there was no viable proposal (Scheltema et al., 2010). The DSB (bank) was officially declared bankrupt on October 19, 2009, and several days later, the bankruptcy of DSB Beheer was announced too (Scheltema et al., 2010).

6.7 Conclusion

For years, both AFM and DNB criticised the DSB Bank for its ways of doing business. Not only was its business model of selling single-premium polices flawed, it lacked a corporate governance system with proper checks and balances. Most notably Scheringa caused problems as he had a dominant position: he was both the CEO of DSB Bank, and majority shareholder of DSB Beheer - the parent company of DSB. As a result, he had the power to dismiss board members in the supervisory and executive boards.

Although the DSB Bank was not exposed to any toxic assets, the freeze of the interbank market as a result of the global financial crisis did affect its way of financing. Securitization was no longer possible, and the DSB Bank found an alternative to fund its business: attract more savings. This changed the nature of the business: savings that could be withdrawn on a short term, were used to finance long term commitments of the businesses. Attracting savings meant the DSB's reputation became more important than before. The 'commercial attitude' of Scheringa was unsuited for a such a business model, but Scheringa never adapted. In addition, despite DNB's repeated concerns about DSB's solvency position, Scheringa underestimated the problems at hand.

Lakeman's appeal to withdraw deposits on October 1, 2009, led to a bank run. At this point, the DNB was seriously worried about DSB's future, and started looking for solutions. However, DNB's haircut to limit the DSB's access to liquidity support from the ECB, complicated the situation. Initially, the DNB preferred a private solution in an attempt to lower the moral hazard to the state. A consortium of banks was approached to discuss a private takeover. However, since said parties (i.e. ING, Fortis/ABN-Amro) had received state support the year before, the European Commission enacted an acquisition ban, and banks were not allowed to grow their market share. Capital injection would most likely cause problems with Brussels. There was also disagreement between DSB and the consortium of banks in regards to the extent of capital support. The consortium of banks reiterated that the DSB underestimated the required financing. Ultimately, and nevertheless, the consortium's draft proposal was rejected by the DNB and Ministry of Finance as they considered it unbalanced: too much risk to the state, too little to the market.

Both the DNB and Ministry of Finance did not believe the DSB Bank was a 'healthy' bank. Over the years, the DNB criticised their business model in an effort to improve it. It also believed Scheringa lacked expertise and favoured his dismissal at one point. The regulators however, lacked the instruments to take him out of this position. These motivations, tied to it not being a bank of systemic importance due to its limited size and amount of depositor's savings, and not adhering to certain capital requirements, meant state support was not an option as far as the government was concerned.

7. Case IV: Nationalization of SNS REAAL

In this chapter, the case of SNS Reaal is explored. SNS Reaal is an interesting case as it received two divergent forms of state support spread over time. SNS Reaal received capital support in 2008, and was eventually nationalized in 2013. This case study will enlighten why SNS Reaal was nationalized, after receiving capital support five years earlier.

7.1 History, initial public offering and growth

The roots of SNS Reaal through several different banks and insurance companies can be traced back to over 130 years (SNS Reaal, 2009). SNS Reaal itself emerged in 1997, when the SNS Group (*Samenwerkende Nederlandse Spaarbanken*) and the Reaal Group united. The banking activities from SNS and insurance activities from Reaal combined created the bancassurance group SNS Reaal (De Rechtspraak, 2021; De Volksbank, n.d.). SNS Reaal's initial public offering was announced in 2006. The offering made one third of the shares in SNS Reaal freely marketable, while two thirds remained in the hands of the holding company *Stichting Beheer SNS Reaal*. The bank-insurer raised €1.368 million, and used the proceeds to strengthen its market position, predominantly in the Netherlands (De Rechtspraak, 2021; Hoekstra & Frijns, 2014).

SNS Reaal's first acquisition- approved by the DNB - happened in that same year, with the acquisition of *Bouwfonds Property Finance* from ABN-Amro (Hoekstra & Frijns, 2014; SNS Reaal, 2008; Trouw, 2006). SNS Property Finance became one of the Netherlands' largest financers in real estate investment and projects, with only limited international operations (SNS Reaal, 2009). Shortly thereafter, in 2007, SNS Reaal acquired the insurance activities of *AXA Nederland*, *Winterthur Verzekeringen* and *DBV* (SNS Reaal, 2007). Later in the year, SNS Reaal also acquired *Zwitsersleven* and *Swiss Life Belgium* (De Rechtspraak, 2021; Hoekstra & Frijns, 2014; Swiss Life, 2007). These Netherlands-based acquisitions involved a total amount of approximately €4 billion, equal to the total stock market value of SNS Reaal at the time. Then, analysts observed that the acquisitions were significant in nature, but because it acquired mostly healthy companies, the risks were 'probably less' than it appeared (De Rechtspraak, 2021). This acquisition strategy was met with sympathy from the DNB, who preferred to see diversification on the banking side, in addition to scaling of the insurance side (Hoekstra & Frijns, 2014)

7.2 2008: receiving capital injection

With a balance sheet total of €124 billion, SNS Reaal was the fourth largest financial institution in the Netherlands in 2008 (SNS Reaal, 2009). Albeit at a distance, considering ING, ABN-Amro and Rabobank had much larger balance sheet sizes of €1.076 billion, €697 billion and €612 billion respectively in the same year (De Rechtspraak, 2021). SNS Reaal as a Dutch financial institution focused predominantly on the Dutch retail market, including middle and smaller enterprises. The bank-insurer offered mortgages and real estate finance, savings and investments, and insurance (SNS Reaal, 2009). SNS Bank had an significant impact on the SNS Reaal group, and accounted for over 60 percent of the group's total profits (SNS Reaal, 2009)

In 2007, SNS Reaal argued that due to 'professional risk management and a solid balance sheet' the direct effects of the global financial crisis were limited (SNS Reaal, 2008, p. 12). It furthermore stated that the international liquidity and credit crisis had no effect on its bottom line, and found itself 'well positioned to face 2008 with confidence' (SNS Reaal, 2008, p. 12) . It would continue to uphold a 'moderate' risk profile (SNS Reaal, 2008)

However, in 2008, it seemed SNS Reaal had not been immune to the global financial crisis. The market turbulence had direct consequences for its revenue, portfolio and share price (Tweede Kamer der Staten-Generaal, 2008d). Over 74 percent of SNS Reaal's portfolio consisted of Dutch residential mortgages, and had nearly no exposure to higher-risk securities. Nevertheless, the credit crisis led to significant volatility, and despite SNS Reaal's 'moderate' risk profile the institutions was 'hit hard' by the crisis (SNS Reaal, 2009, p. 7). In total, SNS Reaal's net result was negatively affected by turbulent market conditions by €726 million, of which €488 million related to the losses on its equity. The SNS Bank unit itself remained profitable, yet group-wide it experienced a net loss of €504 million for 2008 (SNS Reaal, 2009, p. 7). The worldwide depreciation of stock markets led to a significant depreciation of the investment portfolios of SNS Bank, Reaal Insurances and Zwitserleven. This depreciation significantly and negatively affected SNS' financial result, effectively impairing its solvency (SNS Reaal, 2009).

The turmoil surrounding its share price made the situation precarious. At the end of September, 2008, SNS Reaal started talks with Rabobank about a possible takeover. The executive board presented the proposal twice to the supervisory board. The supervisory board however, was of the opinion that with a takeover the heritage of SNS Reaal would be thrown away and the company could no longer operate independently. SNS Reaal would no longer exist, something the supervisory board wanted to prevent. In the meantime, solvency continued to deteriorate, and SNS Reaal was anxious about how the market would react if it had become aware of the talks between SNS Reaal and Rabobank. The talks with Rabobank were ultimately not pursued (De Rechtspraak, 2021).

In the meantime, SNS Reaal contacted Stichting Beheer for €500 million in capital support. Because of the signal this would give to the market, there was initial hesitation to actually call in that support. Yet, only two weeks later when ING announced state support, SNS changed its mind (De Rechtspraak, 2021). Several solutions were discussed during an internal meeting on October 24 (De Rechtspraak, 2021). Ultimately, SNS Reaal decided to work out the details of a €500 million capital support from its parent company, and raised the question of whether the Dutch state could provide a solution. The board was of the opinion that an internal SNS solution would be the preferred one (De Rechtspraak, 2021).

Three days later, the supervisory board decided to authorize the €500 million in capital support (De Rechtspraak, 2021). Shortly thereafter, another Dutch financial institution (Aegon) also received state support. Nevertheless, SNS Reaal did not yet assume that state support was necessary at that point. In the meantime, SNS Reaal updated the DNB on the measure presented to improve its capital position (De Rechtspraak, 2021).

On November 10, the DNB concluded that the €500 million was insufficient (De Rechtspraak, 2021). Knowing that, in the current investment climate, the market implicitly set higher capital requirements for liquidity and solvency buffers, and to be able to weather any further turbulence in the markets, the DNB believed SNS Reaal needed between €1 and €1.6 billion (Hoekstra & Frijns, 2014; Tweede Kamer der Staten-Generaal, 2008d). The DNB asked SNS Reaal to be 'more forward looking', and consider possible losses of Property Finance in the evaluation of the capital injection amount (Hoekstra & Frijns, 2014). With the lack of interested parties for a takeover, and its parent company unable to inject more than €500 million, the institution knew it had to apply for state support (Tweede Kamer der Staten-Generaal, 2008d).

7.3 Applying for state support

In the meantime, the Dutch government had committed to providing capital to banks and insurers in the Netherlands, regardless of size, that are fundamentally sound an viable, but who nevertheless wished to increase their capital position in view of exceptional market conditions (Tweede Kamer der Staten-Generaal, 2008d).

The Minister marked SNS Reaal as a 'healthy' and 'solid' financial institution (Tweede Kamer der Staten-Generaal, 2008d). Company reports show SNS Reaal had been profitable since its merger in 1997 (SNS Reaal, 2001, 2005, 2008). SNS Reaal furthermore had sufficient liquidity and the size of its buffer capital met the requirements set by the DNB. According to governmental letters, the Dutch Minister believed SNS Reaal had a moderate risk profile, and did ‘not have a subprime mortgage portfolio’(Tweede Kamer der Staten-Generaal, 2008d, p. 3). Upon applying for state support, the Dutch Minister of Finance believed SNS Reaal met set conditions (Tweede Kamer der Staten-Generaal, 2008d).

As such, the DNB, Ministry of Finance and SNS Reaal discussed how to best strengthen the institution’s solvency position. The results of certain stress tests and the principles used by rating agencies were taken into account in determining the level of state support (Tweede Kamer der Staten-Generaal, 2008d). The government offered a capital injection of €750 million, on the agreement that SNS Stichting Beheer would provide the (previously considered) €500 million as well. This brought the total to a €1.25 billion capital increase. The choice was made for a capital increase that qualified as core Tier 1 capital (Tweede Kamer der Staten-Generaal, 2008d). In December, 2008, SNS Reaal issued six non-voting shares in the amount of €500 million to Stichting Beheer, and over 142 million shares worth €5.25 a piece for a total of €750 million to the Dutch State (SNS Reaal, 2009).

According to the Minister of Finance, the negotiations ‘flew by’ (Hoekstra & Frijns, 2014, p. 50). Previous discussions with ING and Aegon already laid the framework for capital support, and SNS Reaal as the ‘last and smallest’ institution went along in the ‘slipstream’ of negotiations (Hoekstra & Frijns, 2014, p. 50). In addition, SNS Reaal, in contrast to internationally operating ING and Aegon, had little to do with foreign regulators (Hoekstra & Frijns, 2014).

Similar to ING, the annual coupon rate (interest or dividend) was set at 8.5 percent. Any costs associated with the capital injection are on the account of SNS Reaal (Tweede Kamer der Staten-Generaal, 2008d). In addition, the government nominated two members for SNS Reaal’s supervisory board. They would have a right of approval with respect to important decisions, such as proposed mergers and acquisitions worth more than 25 percent of the equity of SNS Reaal. This ensured the state can influence important decisions that could impact its investment. Lastly, executives must renounce their bonuses over 2008 (Tweede Kamer der Staten-Generaal, 2008d). The European Commission approved the capital injection on January 28 (Tweede Kamer der Staten-Generaal, 2010).

7.3 2009-2013: Turbulence in the markets and the nationalization of SNS Reaal

The global consumer confidence fell in 2009, resulting in an economic contraction and recession. The Gross Domestic Product (GDP) in the Eurozone fell by 4%. As a result, governments in almost all European countries introduced large-scale stimulus programs in the years 2009-2010 to stem the drying up of credit in the international capital markets and the expected employment effects of the crisis. Real problems arose when the financial markets started to impose high risk premiums on specific Southern European countries. In early 2010 the banking crisis in Europe mutated into a country-debt crisis, which also brought with it a Euro crisis. Financial institutions such as the French-Belgian Dexia Group, found themselves in liquidity problems, even after receiving state support in the 2008 crisis (De Rechtspraak, 2021).

Due to its growth, SNS Bank became a systemic relevant bank in 2011 as assigned by the DNB and Ministry of Finance (Eerste Kamer der Staten Generaal, 2013). The next years, SNS Reaal continued to be of great importance to the Dutch financial system as parent company of ASN Bank, Regiobank and SNS Property Finance. SNS Reaal had a consolidated balance sheet total of nearly €135 billion (SNS Reaal, 2013). SNS Bank and its subsidiaries had a consolidated balance sheet of circa €82.3 billion, and nearly one million checking and 1.6 million saving accounts worth €36.4 billion in 2013 (Eerste Kamer der Staten Generaal, 2013; Tweede Kamer der Staten-Generaal, 2013). After 2008 however, SNS Reaal struggled to stay profitable: between 2008 and 2010 it made losses, made a €87 million net profit in 2011, and booked a loss of €972 million in 2012 (SNS Reaal, 2012, 2013).

As the market for commercial properties deteriorated in the Netherlands and abroad, SNS Reaal ran into problems with SNS Property Finance (SNS Reaal, 2014). In the first half of 2010, the DNB had already asked SNS to prepare exit plans for this real estate portfolio, showing how, when and at what loss this portfolio could be reduced. In a review of SNS' capitalization, the DNB assessed that the bank did not meet the requirements for capitalization after a stress scenario (Eerste Kamer der Staten Generaal, 2013; SNS Reaal, 2013). In addition, it had not been able to repay most of its state support received in 2008 (Tweede Kamer der Staten-Generaal, 2013).

In mid-2011, the DNB required SNS to draw up exit plans for the cutback of its real estate portfolio, consisting of property loans and real estate (Tweede Kamer der Staten-Generaal, 2013). The portfolio was subsequently reduced from almost €14 billion at the end of 2008 to €8 billion at the end of 2012 (Eerste Kamer der Staten Generaal, 2013). Due to market conditions, a write-down of its real estate portfolio between €2.4 and €3.2 billion had to be taken into account (SNS Reaal, 2013). Despite the reduction of the real estate portfolio, the projected losses within SNS Property Finance implicated SNS Reaal's overall solvency: the write-down meant SNS Property Finance would no longer be able to bear its debt. SNS Property

Finance had insufficient capital to absorb such a loss, and the problem would translate into a solvency deficit within SNS Bank. In addition, the DNB concluded SNS Reaal – SNS Bank's parent company - had insufficient buffers to absorb this devaluation (Eerste Kamer der Staten Generaal, 2013; Tweede Kamer der Staten-Generaal, 2013).

The situation also worsened due to the increased skepticism in the market about the risks associated with 'double leverage debt' (i.e. debt raised by the parent company and passed on as equity to its subsidiaries) and the strained solvency of the insurance branch (Hoekstra & Frijns, 2014; Tweede Kamer der Staten-Generaal, 2013). The series of downgrades by analysts, the doubts regarding its solvency and general turmoil in the funding markets, deteriorated SNS Reaal's ability to fund itself (SNS Reaal, 2013). The issuance of capital instruments in the market was therefore rendered impossible and the issuance of new unsecured debt instruments was also no longer possible. In the summer of 2011, the DNB based on its Supervisory Review and Evaluation Process (SREP) concluded that SNS Reaal was insufficiently able to achieve the acquired strengthening of its financial positions by itself (Eerste Kamer der Staten Generaal, 2013).

In December 2011, the DNB in cooperation with the Ministry of Finance, established a project group to analyze the possible scenarios regarding the SNS Group. It considered six scenarios, including: a) bankruptcy, b) strengthen SNS Reaal's capital through private parties, c) asset transfer by the DNB, d1) the sale of SNS Reaal (insurance) and capital injection of the SNS Bank, d2) split up SNS Reaal, and only save SNS Bank, e) save whole SNS Reaal group (Eerste Kamer der Staten Generaal, 2013; Hoekstra & Frijns, 2014). These options were plotted on a chart called the 'ruler'. The government made preparations in the event that it became necessary to intervene in regards to SNS Reaal and the stability of the financial system (Eerste Kamer der Staten Generaal, 2013). Morgan Stanley was approached to provide advice on all options (Hoekstra & Frijns, 2014). The Ministry of Finance also discussed SNS Reaal's proposal(s) for a structural solution (Eerste Kamer der Staten Generaal, 2013).

The government set the following principles to which a solution needed to agree to in 'sufficient degree', if it wanted to be considered: the intervention must guarantee financial stability; must be a structural solution; burden must be placed as much as possible on the private sector; financial consequences for the Dutch State must be limited; the cost of the intervention must be borne by the private sector mostly, and the intervention must be proportional (Tweede Kamer der Staten-Generaal, 2013, p. 8).

According to governmental reports, two-thirds of checking accounts within SNS Reaal's banking division received €500 in deposits each month. This meant that these accounts played an important role in the payment facility of the Dutch society. In the event of a bankruptcy, the deposit guarantee scheme would be activated (DGS). Upon activation, each participating DGS bank was only allowed to finance up to 5% of its own capital per year. The estimation was made that circa €5.8 billion would covered by the participating banks every single year. In essence, this meant the state had to account for the remaining 95 percent every year, for as long as it takes to reach the total amount of savings. For the government, these financing costs could only be financed with the general budget (i.e. taxpayers money), something the government wanted to avoid as much as possible (Eerste Kamer der Staten Generaal, 2013). In addition, the DNB assessed that the DGS process would however take an initial estimated 20 days. Mayor problems and unrest among society could evoke if depositors would be unable to access their funds to pay rent, groceries or other payment obligations (Eerste Kamer der Staten Generaal, 2013). An estimated one million depositors would be unable to access their funds (Tweede Kamer der Staten-Generaal, 2013).

Lastly, a bankruptcy of a financial institution the size of SNS Reaal had not yet occurred in Europe. The Ministry of Finance and DNB believed the bankruptcy could have spillover effects: it would destabilize the Dutch financial system, cause panic reactions and loss of confidence in the markets, and instigate bank runs that would ultimately likewise affect other (healthy) Dutch financial institutions (Eerste Kamer der Staten Generaal, 2013).

In the meantime, the issuance of additional shares for SNS Reaal in order to raise additional capital became unrealistic: SNS Reaal would have to raise a multiple of its own market value. Due to the inherent risk (i.e. uncertainties) of SNS Property Finance, no domestic nor foreign parties were interested in acquiring SNS Bank (Eerste Kamer der Staten Generaal, 2013). SNS Reaal's share price had dropped by 95% compared to its IPO (Tweede Kamer der Staten-Generaal, 2013). The involved parties realized raising additional capital on the market, or a default were unfeasible options. In addition, the options to split up SNS Reaal and save either its insurance or banking divisions would be unfeasible: the DNB was of opinion that in the default of either its banking or insurance business, the remaining business would be negatively affected. The DNB doubted if market participants would continue to do business with whichever part of the business that would be left. The DNB also believed the default of SNS Bank or SNS Reaal (insurance) would likely have spillover effects (Hoekstra & Frijns, 2014).

With this knowledge, the involved parties analyzed two public-private solutions in more detail. The first scenario involved a cooperation between the Dutch state and the three major Dutch banks. Here, the risks of the real estate portfolio would be addressed through a guarantee from the State, whether or not transferring the portfolio to a separate vehicle in which all parties become shareholders, and restructure of SNS Reaal's and SNS Bank's assets (Eerste Kamer der Staten Generaal, 2013).

The second scenario would involve a capital injection into SNS Reaal from a private equity company, and the Dutch state would take a participating stake into a SNS subsidiary: ASR Netherlands. Here, the real estate portfolio would be transferred into a separate vehicle managed by the Dutch state and the three largest banks. The State would, in addition, guarantee Property Finance's real estate loans (Eerste Kamer der Staten Generaal, 2013).

In the meantime, SNS Reaal's auditor expressed that without the additional commitment of third parties to strengthen the capital position, reasonable doubt existed about the continuity of the company (Eerste Kamer der Staten Generaal, 2013).

Negative media attention covering the situation significantly increased. The situation deteriorated especially after the first aid plan involving the three largest banks got rejected by the European Commission (Reuters, 2013). Negative media attention likewise increased after speculation about the use of the new 'intervention act' arose; this clearly portrayed a loss of confidence in a public-private solution. Here, the Minister of Finance can intervene at any financial institution with its seat in the Netherlands if the minister believes that the stability of the financial system is seriously and immediately threatened by the situation in which that company finds itself. The powers of intervention also extend to the parent company if its seat is in the Netherlands. The Minister may, in agreement with the Prime Minister, and with consultation from the DNB, decide to take immediate measures with respect to the company concerned (Article 6:1), or to expropriate (Article 6:2) (Eerste Kamer der Staten Generaal, 2013). The negative news resulted in a fluctuating share price and steady outflow of savings (SNS Reaal, 2013).

7.4 January 2013: SNS Reaal's last month

The deteriorating situation prompted the DNB to set SNS Reaal an ultimatum for 31 January, 2013. SNS Reaal must supplement its capital by at least €1.9 billion, or present a final solution which would be with sufficient certainty approved by the DNB. This gave the involved parties a chance to find a final solution before SNS Reaal had to publish its annual results on February 14 (Eerste Kamer der Staten Generaal, 2013). This deadline was in addition dictated by a possible subsequent trigger that was about to occur: the auditor would have to approve the financial statement of SNS Reaal. Under the uncertainty about the recapitalization of SNS Bank, it was 'very doubtful' if the auditor would approve (Hoekstra & Frijns, 2014).

On January 24, the DNB informed the Ministry of Finance of the precarious situation and set ultimatum. It believed that if SNS Reaal is unable to comply timely, it would no longer be ‘responsible’ for the institution to be carrying out is banking business (Eerste Kamer der Staten Generaal, 2013). SNS Reaal’s main capital ratio (Core Tier 1 ratio) meanwhile deteriorated sharply. Whereas the ratio was still at 9.2% at the end of 2011, it dropped to 6.1% at the end of 2012 (SNS Reaal, 2013) The now stricter capital requirements under Basel III led to higher capital standards: 10% instead of 5%. As such, SNS Reaal was now at risk of no longer being able to access credit (ELA) from the ECB. This, combined with an outflow of problems, put SNS into immediate liquidity problems (Eerste Kamer der Staten Generaal, 2013).

According to an evaluation report of the nationalization of SNS Reaal, the DNB was ‘in a split’ (Hoekstra & Frijns, 2014, p. 175). On the one hand, it had objection against nationalization of the concern. DNB believed the nationalization could be threat to the financial stability, because it would require high financing costs by other institutions, and the state. On the other hand, it wanted a solution as ‘quickly as possible’, and a private market-based solution might take a significant amount of time (Hoekstra & Frijns, 2014). However, the likelihood of a nationalization increased after Cushman & Wakefield concluded that the write-down of Property Finance would be ‘significantly worse’ than previously estimated (Hoekstra & Frijns, 2014, p. 175).

Hereafter, DNB advised the Ministry of Finance about the precarious situation. It advised that if SNS Reaal was unable to strengthen its capital, or come up with a credible solution, nationalization was the only viable option. DNB also believed nationalization was the only way to minimize damage to the broader financial system. No nationalization meant the DGS had to be enacted, meaning significant utilization of tax-payers money (Eerste Kamer der Staten Generaal, 2013). As such, the Minister believed that due to SNS Reaal’s systemic relevant character, its bankruptcy ‘must’ be avoided (Tweede Kamer der Staten-Generaal, 2013, p. 8). The continued uncertainty on the willingness of other institutions for a private market-based takeover, made nationalization a more attractive option at that point (Hoekstra & Frijns, 2014)

At the end of January 2013, the DNB and Ministry concluded that €2.4 billion was needed to keep SNS Reaal afloat, and despite consultation with all involved parties, there was no credible private solution due to lack of interest in the market. Nor did the private solutions met the principles set out by the Minister (Tweede Kamer der Staten-Generaal, 2013). The Minister informed the AFM on January 29 of the intention to make use of the Intervention Act if SNS Bank did not comply with the ultimatum on January 31 (Eerste Kamer der Staten Generaal, 2013; Tweede Kamer der Staten-Generaal, 2013).

On January 31, SNS Reaal's proposal to reach a solution with private equity party CVC Capital Partners, was also rejected. CVC made a non-binding offer, which was rejected by the Ministry as the party assumed a substantial investment by the state. In addition, the Ministry believed CVC underestimated the losses of the Property Finance portfolio, made an insufficient offer (€0.4 billion short) and the lack of commitment from this party also played their part (Eerste Kamer der Staten Generaal, 2013; Hoekstra & Frijns, 2014).

7.5 SNS Reaal misses the ultimatum

At 18:00 on January 31, 2013, the DNB established SNS Reaal had not complied with the ultimatum. This was mainly due to the increased loss of confidence following the turmoil surrounding SNS Reaal, and the increased number of negative media reports, rumors and downgrades by rating agencies. In DNB's opinion, the increased loss of confidence in a system-relevant institution leading to the risk over a spillover effect on the Dutch financial system and other financial institutions (Eerste Kamer der Staten Generaal, 2013).

As such, on February 1, 2013, the decision was made to nationalize and restructure SNS Reaal based on the Intervention Act. SNS Property Finance's real estate portfolio was transferred to a separate financial administration office for managing nationalized financial institutions: Netherlands Financial Investments (NFLI) (SNS Reaal, 2013). Through the use of the Intervention Act, the expropriation of shares issued by SNS Reaal meant the Dutch State had become 100 percent shareholder of the financial institution, for a set price of €0 per share (Algemene Rekenkamer, n.d.-d). It was the first time the Intervention Act was utilized (Hoekstra & Frijns, 2014). Any important (strategic) decisions about the future of SNS Reaal would be made by the Minister. The Minister poised to go public again once the situation had stabilized again (Tweede Kamer der Staten-Generaal, 2013).

The nationalization eventually cost the Dutch State €4 billion, including €2.2 billion for recapitalization, €0.7 billion for isolating the Property Finance portfolio, and €1.1 billion for the acquisition itself (Algemene Rekenkamer, n.d.-d). The nationalization raised the EMU debt by 1.6%. The Minister however was of opinion that this decision was justified, as a bankruptcy would have been significantly worse to the financial sector, and the Dutch economy (Tweede Kamer der Staten-Generaal, 2013). After the nationalization, the SNS Reaal's CEO and CFO stepped down, and the newly appointed executives experienced a pay-cut as per the conditions of the state support. The executives of SNS Reaal had not received any variable bonusses since the state support in 2008 (Tweede Kamer der Staten-Generaal, 2013). After the nationalization, the outflow of savings ended, and growth reappeared (SNS Reaal, 2013).

7.6 Conclusion

After SNS Reaal's initial public offering in 2006, the bancassurance group adopted a growth strategy to strengthen its market position in the Netherlands. In only a few years, the SNS Reaal group acquired several companies worth nearly its own market share. Although the risks were thought to be limited at the time, one of its acquisition – Bouwfonds Property Finance – would become the reason for its downfall.

The fourth largest financial institution in The Netherlands was directly affected by the global financial crisis. The rapid depreciation investment portfolios and its share price, resulted in an impaired solvency. SNS Reaal quickly considered two private options: take-over from a third party, or a capital injection from its parent company SNS Reaal Stichting Beheer.

To this end, SNS Reaal entered into talks with the larger financial institution, Rabobank, for a possible take-over. As SNS Reaal would seize to exist, its supervisory board voted against the take-over on the basis that it would terminate the company culture. No other institution had been considered or approached. It seemed SNS Reaal wanted to be in control of the situation, and therefore reached out to Rabobank itself, despite being anxious of how the market would react. SNS Reaal at first was reluctant to inquire for a capital injection from SNS Stichting Beheer, because of what this would signal to the market. Yet, it changed its mind after ING received capital injections from the state. At this time, SNS Reaal believed a €500 million injection was sufficient, and state support was not needed. The DNB however, concluded that the current investment climate set higher capital requirements for liquidity and solvency buffers, and to be able to weather any further turbulence in the markets, the amount was insufficient. Now that private solutions were off the table, it had to inquire for state support.

State support was granted by the Minister of Finance Bos, as the financial institution ostensibly met the requirements set out by the state. Again, according to the Minister, SNS Reaal was otherwise 'healthy' and 'viable', and merely a 'victim' of the turbulent market conditions. SNS had furthermore sufficient liquidity, and its buffer capital met the requirements set by the DNB. SNS Reaal was given a €750 million Core Tier 1 capital injection with an 8.5 percent coupon rate, based on Stichting Beheer injecting €500 million itself as well – a total of €1.25 billion in capital support. Likewise, the government appointed two members to its supervisory board, with right of approval to strategic decisions. Executives were stripped of their bonusses over 2008.

Problems continued to exist over the following years despite capital injection. Most notably, problems arose in the area in which the government previously said it saw little risk: its real estate portfolio. As the market for commercial properties deteriorated, SNS Property Finance's portfolio devaluated rapidly. Regulator DNB responded to this situation already in 2010, three years before the institution would eventually be nationalized.

In 2011, SNS Reaal became of systemic importance to the Dutch financial sector, with a consolidated balance sheet of €135 billion. It fostered 1.6 million checking accounts worth €36.4 billion. The devaluation of the SNS Property Finance's portfolio, put pressure on SNS Reaal's overall solvency. To this end, the DNB obligated SNS to reduce its real estate portfolio. The reduction of the portfolio was insufficient: the depreciation of the portfolio itself outweighed the reduction of the portfolio, and implicated SNS Reaal's solvency. In addition, the double leverage debt (i.e. the €500 million raised by the parent company and passed on as equity to its subsidiary), the downgrades by analysts, overall turmoil in the markets, and doubts about its solvency, deteriorated SNS Reaal's ability to fund itself on the interbank market. As such, raising new capital on the market – through the issue of additional share for example – became impossible.

The DNB in cooperation with the Ministry of Finance analyzed certain scenarios to solve the issues within the SNS Group. It set out certain requirements to which the solutions should 'sufficiently' adhere to. The DNB also set SNS Reaal an ultimatum: come up with a credible solution before January 31, 2013, or it would be 'irresponsible' for SNS to carry out its banking business.

A bankruptcy never seemed an option for the government. The analysis showed that a significant amount of people would not be able to access their deposits for a significant amount of time. This could have potentially caused social unrest. In addition, upon the activation of the deposit guarantee scheme, the government would bear a significant part of the costs to cover the savings held by SNS Bank, which could only be financed with tax-payers money. Lastly, a bankruptcy the size of SNS Reaal had not yet happened in the Eurozone. The Dutch State believed a default would cause a spillover effect in the Netherlands, and possibly Europe.

The Dutch government prioritized two public-private options. However, the first option – a cooperation between the state and the three largest Dutch banks – was blocked by the European Commission on the basis that two out of three institutions were subjected to an 'acquisition ban' as they had received capital support back in 2008. The second option – involvement of a private equity company – was declined by the government last minute. The government believed the deal was unbalanced (required a large investment from the state), underestimated (the size of the portfolio losses) and apathetic (non-binding offer was made).

The DNB – who had advised the Ministry of Finance to look into utilizing the Intervention Act – informed Minister Dijsselbloem that SNS Reaal had not complied with the ultimatum. The next day, SNS Reaal was nationalized utilizing the Intervention Act. The Dutch state took over all shares for a mandated price of €0 per share. SNS Property Finance was transferred to a separate entity (NFLI). The nationalization costed €4 billion, including €2.2. billion in recapitalization. In the short term, the nationalization seemed to work as depositor savings increased again. Yet as of 2022, the government still holds a stake in the institution.

8. Comparing bank-bailouts

In this chapter, the four cases are juxtaposed to explore similarities and differences between them. The first paragraph starts with observed differences between cases, while the second paragraph discusses the observed similarities across cases. This chapter is build following a 'thematic' approach, meaning every subparagraph covers a certain concept or theme relevant in the comparison. Each case is thematically analysed and compared to one another. A brief summary of the themes across cases can be seen in below table 3.

Each theme considered individually may seem indispensable, but all themes synthesized may provide the analyses needed to understand the rationale behind the Dutch bailout strategy. The overall conclusion, and answer to the research question is given in the next chapter.

Table 3: Differences: thematic comparison of all four cases

Theme	**Fortis/ABN-Amro**	**ING**	**DSB**	**SNS Reaal**
Differences				
Systemic relevance	Systemic relevant	Systemic relevant	Not systemic relevant	Systemic relevant
Deposit Guarantee Scheme (DGS)	€33 billion	€55 billion	€3.2 billion	€36 billion
Cost of bailout versus DGS	Less than DGS	Less than DGS	More than DGS	Less than DGS
Viability and healthiness	Viable and healthy	Viable and healthy	Not viable and healthy	Viable and healthy
Capital Injection	No	Yes, Tier 1 Capital	No	Yes, Tier 1 Capital
Markets	Benelux & International	International	Netherlands	Netherlands
Contagion	High risk of contagion	High risk of contagion	Low risk of contagion	High risk of contagion

8.1 Differences between cases

In the following subparagraphs, the differences between cases are discussed. Following the analyses of the four case studies, it has become evident that the cases differ within certain themes or concepts. Differences between cases have been observed, and will be discussed in the themes of: systemic importance, the activation of the deposit guarantee scheme, costs of bailout, viability and healthiness of financial institutions, (amount of) capital injection, markets, and contagion.

8.1.1 Systemic Importance

When comparing cases, three out of four financial institutions were considered as significantly important banks by the DNB and the Dutch government. While ING, SNS Reaal and Fortis/ABN Amro where considered as systemically important, one was considered not as significantly important, i.e. the DSB. (Fortis/ABN-Amro were seen as two systemically important institutions). It was not specified why these institutions other than the DSB were considered to be systemically important to the Dutch economy and financial system. Their significance was portrayed rather anecdotal, stating that for example, the institution ‘plays a vital role in the payment system’.

The rationale behind their respective significance was never quantified. However, looking at their respective balance sheets gives an indication of their dominance. In 2008, DSB had a total balance sheet of €7.2 billion (DSB Bank N.V., 2009), and was not considered as systemically important (Scheltema et al., 2010). In contrast, SNS Reaal, Fortis and ING had far larger balance sheets - €124 billion, €697 billion and €1.3 trillion, respectively – and were considered as systemically important financial institutions (De Rechtspraak, 2021).

The balance sheet total may indicate whether a financial institution is of systemic importance or not. It has become evident that the larger the balance sheet, the more significant its impact is on the economy, and society as a whole. As such, the balance sheet may correlate with its chances of being systemically relevant. However, balance sheets by themselves did not determine the type of intervention it seemed, as interventions still differed among systemically important financial institutions.

8.1.2 Deposit Guarantee Scheme

By juxtaposing the financial institutions, the difference in the amount of deposits held becomes evident. Due to its business model, DSB did not hold large amounts of deposits on their balance sheets. Only after it ran into liquidity problems due to the interbank market freeze, the institutions had to find an alternative financing solution, and attracted additional savings within the Dutch market. At its peak, DSB held €3.2 billion in savings (Scheltema et al., 2010). ING, Fortis/ABN-Amro and SNS Reaal on the other hand, held over €55 billion, €33 billion and €36 billion in savings, respectively (Eerste Kamer der Staten Generaal, 2013; Fortis, 2009; ING Groep, 2009a; SNS Reaal, 2009).

Dutch depositors are protected under the deposit guarantee scheme (DGS). In essence, in the case of a bankruptcy, depositors are guaranteed to get their savings back. The DGS is not financed by the Dutch government, but collectively by the Dutch financial sector. This means in the case of a bankruptcy, the other financial institutions that are part of the DGS, cover the total cost of lost savings. In October 2008, the DGS was increased to cover €100.000 per checking account. In order to protect the continuity of participating financial institutions, each bank has to finance up to five percent of the institution's own capital per year upon activation of the DGS. In the case of SNS Reaal for example, the savings accumulated to €36 billion. Upon activation of the DGS, and applying the '5% rule', the government calculated that the participating banks would finance €5.8 billion for the first year. In theory, it could take up to six years before all SNS Reaal's deposits are recovered. This could cause disruption in society in the meantime. The government would therefore essentially have to cover the remaining 95% on a yearly basis, until the all depositors were covered. According to governmental reports, and for undisclosed reasons, this required capital could not be lent on the market, and had to be financed from the general budget (i.e. taxpayer's money). The government was unwilling to do the latter.

It seems that the larger the balance sheet of a financial institutions, the larger the depositor savings. The more significant this amount, the less likely it becomes for participants of the DGS to (fully) guarantee the costs. Once the guaranteed amount exceeds the required financing capability of the DGS participants, the government is forced to cover the rest using tax-payers' money. The DGS was introduced to protect the depositor in case of a bankruptcy, yet it seems, rather paradoxically, that it was one of the main reasons a bankruptcy is sometimes not an option.

8.1.3 Cost of bailout versus potential cost of DGS

In addition, in three out of four cases, the amount associated with the activation of the DGS was superior to the final cost of the bailout itself. For example, in the SNS case with €36 billion in depositor savings, and €5.8 billion in costs for the first year, the intervention itself accumulated to €4 billion. Fortis/Reaal held €33 billion in savings, and was acquired by the state for €16.8 billion. ING' balance sheet had €55 billion booked on depositors' savings, received a capital injection of €10 billion, and the back-up facility €21.7 billion, for a combined intervention total of €31.7 billion in costs. Although these interventions were significant in costs, these costs were less than the potential financing costs upon activation of the DGS.

In regards to the DSB case, a consortium of banks believed an immediate capital injection of €200 million was needed, and an additional €5 billion funding guarantee by the state. In this case, and in contrast to the other cases, the intervention cost would exceed the DGS costs of €3.2 billion.

The case study showed that systemically importance, and potential costs of the intervention in relation to the amount of savings, were not sole reasons for a bank bailout. It seemed the way in which financial institutions conducted its business, influenced whether the state was willing to intervene.

8.1.4 Viable and healthy

Both the Dutch regulators DNB and AFM repeatedly criticized DSB's business practices. These malpractices have led to multiple warnings and fines over the years up until its bankruptcy. In particular, the DNB voiced concerns over DSB's corporate governance system, risk management and business model. The DNB believed DSB's business model of selling single-premium insurances was 'flawed'. In addition, the CEO of DSB Bank, Scheringa, was also the largest shareholder of DSB Bank's parent company: DSB Beheer. The DNB eventually appointed a silent curator tasked with assessing the bank's governance structure. The curator believed that Scheringa's dismissal would be the best way forward. The DNB however, was of opinion this situation was not unique, and that other otherwise healthy institutions can have a dominant shareholder as well. These developments did create frustration with the regulators. DNB and AFM repeatably criticized the DSB, and although changes were implemented, it was insufficient in the eyes of the regulators. The regulators preferred to see Scheringa step down as CEO, but lacked the formal measures to do so. These developments may have deteriorated the business-government relationship.

Contrasted with the other cases, ING, SNS Reaal and Fortis/ABN-Amro were rarely criticized by the regulators in the years up before the financial crisis. None of the financial institutions received a fine, and in addition, received state support when needed. Dissecting governmental letters, it became clear ING, SNS Reaal and Fortis/ABN-Amro were seen as 'viable and healthy'. These institutions had become 'victim' of turbulent market conditions. This was contrasted with DSB, who, through its strategy and leadership was not 'viable and healthy' and despite facing the same turbulent market conditions, had not become 'victim', but instead created its own demise.

8.1.5 Capital Injection

Being 'healthy and solid' was the primary condition for receiving capital injection from the state. Once the interbank market froze, many healthy banks became (at risk of being) distressed. As such, the government made available €20 billion immediately after the bankruptcy of Lehman Brothers, in an attempt to show the financial markets that the state was willing to support the sector. Every financial institution, 'regardless of their size' and that are 'sound and viable' would, upon applying for state support, receive a capital injection to the levels deemed necessary by the DNB and Ministry of Finance.

SNS Reaal and ING both applied for state support. Both financial institutions received state support on the basis that these institutions were 'sound and viable'. For both, state support did come with similar conditions. There was however a significant difference in the capital injection amount: ING received €10 billion, and SNS Reaal €750 million.

Comparing these two institutions, similarities and differences become visible. In terms of similarities, both institutions received a capital injection in the form of Tier 1 capital at an 8.5% coupon rate. Both agreed to have two government appointed board members to join their respective supervisory boards, and refrained from giving bonusses to upper level management. Lastly, both institutions also agreed to pay for any advisory and transaction fees upon receiving the capital injection.

At the outset, both ING and SNS Reaal were 'healthy and solid' in terms of profit. ING for example, marked its first ever loss in the company's history only in the third quarter of 2008. The turbulent market conditions and devaluation of ING's and SNS Reaal's investment portfolios put liquidity and solvency ratios. ING wanted to 'strengthen' its capital ratios, in spite of meeting the ratios as set by the DNB. At the time, ING learned that many other European banks were strengthening their ratios, at ING could not be 'out of step' with its closest competitors. In addition, the capital injection would act as an 'extra buffer' to cope with the turbulent market conditions. As such, the capital injection of ING was seen as a 'winter jacket', and not a 'life raft'. SNS Reaal's reasoning resonates with the above in that SNS Reaal also wanted to strengthen its ratios in spite of meeting them, and to not be 'out of step' with competitors. Interestingly however, the Minister of Finance Bos, identified SNS Reaal as a 'moderate risk', and did 'not have a subprime mortgage portfolio'. This mortgage portfolio is however, the exact reason SNS Reaal was nationalized five years later. It seemed the only differences between these two cases is the total amount of capital injection. Where ING received a €10 billion injection, SNS Reaal received a €750 million injection.

Although the DSB applied for a capital injection, it was not granted by the state because it did not meet the liquidity requirements set by the DNB. In order to meet these requirements, it applied for the emergency liquidity assistance (ELA) scheme from the European Central Bank. However, the outflow of savings from DSB's accounts meant it did not have sufficient collateral to be granted an ELA. As such, being strained by insufficient capital, it did not meet the requirements to receive capital injection.

8.1.6 Toxic asset purchase

In addition to the capital injection, ING received additional state support in the form of the 'Illiquid Back-up Facility'. Here, the DNB and Minister of Finance agreed to take a shared responsibility in ING's Alt-A portfolio worth €27 billion, in which profits and losses related to this portfolio were shared between the state (80%) and ING (20%). After a mandatory reduction of the portfolio, the state bore the risk of €21.5 billion. At the time of the announcement, ING had a strong financial position (i.e. Tier 1 ratio of 9.1%). However, due to market turmoil, its Alt-A portfolio of mortgage backed securities had become illiquid, and put pressure on ING's financial position. As such, the back-up facility would greatly compensate the negative revaluation of the portfolio, and increase its Tier 1 ratio to 9.5%, thus increasing its capacity to loan capital on the interbank market.

With the back-up facility, ING would remain owner and manager of the portfolio. It was structured in a way that ING would pay the state its share of the cash flows from the portfolio in addition to a guarantee fee. In return, the state payed ING a management fee and a funding fee. To this end, the Ministry of Finance was advised by external consultants from Dynamic Credit. In the best case, the state would make a €2 billion profit over time, or a €600 million loss in the worst case. Another reason for the back-up facility is that it would make the previous capital injection of €10 billion 'more effective'.

The guarantee of the Alt-A portfolio came with strict conditions set by the Ministry of Finance. ING had to reduce their balance sheets, reduce its risk profile, increase its equity and divest parts of its business to make it less complex. The back-up facility was specifically tailored to ING's situation, and as such, was the only financial institutions that made use of this construction.

8.1.7 Markets

The differences between cases is also visible when analyzing the geographies in which the financial institutions are active. The case study shows that ING - as one of the largest financial institutions in Europe - operated worldwide. The Belgian-Dutch Fortis was primarily active in the Benelux, but with the acquisition of the internationally-oriented ABN-Amro, gained significant international presence. After its IPO, SNS Reaal adopted a growth strategy and acquired a strong presence in the Benelux. This is contrasted with DSB, who primarily focused on the Dutch market. As such, for the DSB, any repercussions of a default would be contained within the Netherlands. A default of any of the other financial institutions meant potential spillover effects to (financial) markets outside the Netherlands.

8.1.8 Contagion: preventing an 'European Lehman'

The potential spillover effect across Europe was also mentioned in the case of the 2008 acquisition of Fortis/ABN-Amro, and 2013 nationalization of SNS Reaal. In these cases, the situation of a default was never considered an option, due to the spillover effects across Europe that would ensue.

In 2008, Fortis was in the middle of integrating business units from ABN-Amro. Rumors in the market started to appear that Fortis was not able to fully finance the integration. The announcement of a share issue and cancelation of dividend in June 2008 to improve its capital position strengthened the market's concerns. Combined with the widespread turbulence in the market, clients started to withdraw their money and the share price dropped. The situation became dire on Thursday September 25, 2008. The President of the Belgian regulator CBFA Servais, warned Fortis that its liquidity had completely 'dried up'. Servais believed Fortis would not survive the weekend if it would not find a partner to improve its situation. Fortis was aware of the acute lack of liquidity, and called the situation 'dramatic'.

On Saturday, talks between Fortis/ABN-Amro and the governments of Belgium and Luxembourg started – the Dutch government was not invited at that time. The Belgian government was reluctant to intervene at first; not because of its laisses-faire ideology, but because it was oblivious of the consequences of a Fortis or ABN default. The European Central Bank President Trichet, joined the discussions and made clear the situation was 'unprecedented': the Belgian government must do 'whatever it can' to prevent a default. These words changed the government's attitude, and it now had to find a solution in less than 24 hours.

The Dutch Minister of Finance Bos invited itself into the discussions. Bos was aware of the significant presence of Fortis/ABN-Amro in the Netherlands. The case study showed that a default of Fortis/ABN-Amro was unacceptable for Bos even before he joined the discussion. On the one hand, the default of Fortis/ABN-Amro as one of the largest financial institutions in the market, would undoubtedly create spillover across Europe and negatively affect other institutions. The acquired but not yet fully integrated ABN-Amro was healthy and profitable, but the default of Fortis as its parent company would have significant negative impact on ABN. As such, Bos believed not one, but two significantly important banks to be on the verge of a default. Whatever the Belgian and Luxembourg governments were planning on doing, Bos wanted to buy out and save the Dutch part of the concern.

Europe had not seen a potential default of this size, and the three governments were unwilling to make Fortis/ABN-Amro the first of its kind. The binational nature of the Belgian-Dutch Fortis/ABN-Amro with its presence in the Benelux complicated the situation. The governments realized a joined operation between the three governments would be the preferred option, and a default was unacceptable.

The SNS Reaal case paints a similar dire situation. SNS Reaal's growth strategy had made it a systemic relevant financial institution in 2011. The market for commercial properties deteriorated in the Netherlands and abroad, and SNS Property Finance's portfolio consisting mostly of property loans and real estate experienced a significant write-off. The DNB got hold of the situation mid-2010, and asked SNS Reaal to draft a plan on how to reduce its SNS Property Finance portfolio. Although a significant reduction was made over the next two years (from €14 billion to €8 billion), it was insufficient: the write-offs within Property Finance implicated SNS Reaal overall solvency. Property Finance did not have enough liquidity to absorb losses, thus the problem transmuted to SNS Reaal. Mid-2011, the DNB concluded SNS Reaal would be unable to strengthen its financial position by itself. At year end, the DNB in cooperation with the Ministry of Finance established a working group to analyze various scenarios regarding SNS Reaal.

In January 2013, the DNB set SNS Reaal an ultimatum: supplement capital by at least €1.9 billion, or present a plan that is sufficiently convincing. This date was set two weeks before SNS Reaal would have to publish its financial results, giving all involved parties a chance to find a final solution. Meanwhile, SNS Reaal's financial strength (Core Tier 1 ratio) deteriorated sharply. Under the stricter capital requirements of BASEL III (introduced in 2012), SNS Reaal became at risk of no longer being able to apply for the emergency loan assistance (ELA) at the ECB. Combined with the negative media attention and outflow of savings, SNS Reaal was in immediate liquidity problems. The DNB informed the Ministry of Finance about the best possible solution: nationalization. Without nationalization, the DGS had to be evoked which meant significant utilization of tax-payers money, and social unrest as depositors would not be able to access their funds for an estimated 20 days.

When comparing these two cases, it becomes clear their financial strength was fragile, and did not meet liquidity and solvency ratios as set by the DNB. This meant neither institution could apply for an ELA at the ECB, nor for the (€20 billion) state support scheme evoked by the Dutch government, because it was unlikely that either institutions could finance the obligations attached to state support (i.e. capital injection). Since both were of systemic relevance, the default of either institution was unacceptable.

8.2 Similarities between cases

8.2.1 Private solutions

Comparing above cases it becomes clear that a private market solution is a primary option considered and explored by the government.

Before the bankruptcy of the DSB in 2009, the DNB approached Rabobank, ING, SNS Reaal and Fortis/ABN-Amro for a possible liquidity safety net for DSB. The representative of the consortium, Rabobank, expressed that the involved institutions agreed on a €5 billion safety net, but was unwilling to assume any reputational risk, and possible claims by victims. This unwillingness meant financial involvement by the government. According to governmental letters, the Ministry of Finance did not agree nor disagreed with the proposal, yet the DNB asked the consortium of banks to draft a solution that excludes government intervention. That same day, the consortium presented the new plan which still included governmental intervention, and was met with several counterarguments. The DNB believed the plan was unbalanced since the benefits would accrue mostly to the institutions, and the risks to the state. The Ministry of Finance was of opinion that in order to an institution to receive state support it had to be of ‘systematic relevance’ and be a ‘heathy institution’ at its core. Neither the Ministry nor the DNB believed this was the case DSB.

Lone Star – an American investment bank and asset manager – briefly showed interest in DSB. After some due diligence it became apparent that it would not be able to meet the DNB’s capital requirements, and waived a possible deal. The government decided to enact the ‘emergency regulation’ which meant that the Court at the request of the DNB, had to appoint one or more administrators/trustees who would immediately (temporarily) take over control. During the week of 12-19 October, the trustees continued to search for a potential acquisition candidate. Unfortunately, due to several uncertainties about potential claims and lack of compliance of duty of care, no party was found. The DSB's bankruptcy was declared on October 19, 2009.

When SNS Reaal's solvency became at issue in 2008, it rather quickly initiated talks with the Rabobank to discuss a potential take-over. SNS Reaal's supervisory board voted against the take-over however, on the basis that it would destroy its company culture, and asked for an internal solution instead. It eventually found the solution in the form of a capital injection of €750 million by the government, and €500 million by its parent company, SNS Beheer. Later, in 2013, when SNS Reaal became distressed again, a similar situation to the DSB appeared. The State, ING, Fortis/ABN-Amro and Rabobank agreed on a joint operation, and would create a 'bad bank' to transfer SNS Reaal's 'toxic' property loans. However, the EC blocked this recapitalization plan as ING and ABN-Amro were prohibited from making any takeovers. The Rabobank was unwilling to participate singlehandedly, and refrained from making a deal. On the day of SNS Reaal's ultimatum, a solution with private equity party CVC Capital Partners was presented to the Ministry of Finance. The Ministry believed that CVC underestimated the losses of the SNS's portfolio, and the lack of commitment by making a non-binding offer, forced the State to reject the proposal. With no alternative private solution in sight, state support became the only option.

In the weekend of negotiating possible solutions for Fortis/ABN-Amro, the Belgian, Dutch and Luxembourg governments orchestrated several discussions with market participants. Representatives of ING, Rabobank, Allianz, BNP, Munich Re, Aegon and SPFI/FIPM (for the Belgian government) performed due diligence. Although parties showed interest, only ING and BNP showed 'genuine' interest. None of the parties eventually made a formal offer. It became clear a governmental solution was the only viable option. During the negotiations on the amount of state support by the governments, executives of Fortis mentioned that they were 'totally in the hands of the Government', and had little influence on the total amount.

ING's situation never became precarious enough for a market solution to be considered.

8.2.2 European Commission

Across all cases, the European Commission (EC) had to approve the state support. The most important conditions of EC approval were that the aid had to be kept to a minimum, no possibility of competition distortion, and required a significant return on investment. Most importantly, measures had to be taken to ensure the long-term variability of the financial institution, through for example, restructuring or reducing balance sheets (Hoekstra & Frijns, 2014). Based on the case study, it became clear the EC approved bank specific solutions, but have blocked bank bailout options in the form of private market-based take-overs and proposed mergers. In example, for the DSB, the nail in the coffin for the private solution was the 'acquisition ban' set by the EC. All involved financial institutions aside from the Rabobank had received capital support hitherto. As such, Fortis/ABN-Amro, SNS Reaal and ING were not allowed to increase their market share as per the EC. The Dutch government believed the private solution would be seen as an acquisition, and would be blocked by the EC. Since this option would create further uncertainty, a private market-based option was not pursued.

In the SNS Reaal case, the EC blocked the recapitalization plan as ING and Fortis/ABN-Amro were prohibited from making any takeovers. The Rabobank was unwilling to participate singlehandedly, and refrained from making a deal. No other parties were interested, and SNS Reaal was nationalized hereafter.

8.2.3 Use of external advisors

During the formation of possible private market take-overs or state supported interventions, the Government repeatedly used the expertise of bankers, consultants and lawyers across all cases.

Interestingly, the government – outside the expertise of the DNB – did not use external consultants or banker in the case of the DSB. In the case of ING, the government hired 'Dynamic Credit' to advise on the back-up facility. The government handed over the Alt-A portfolio to the advisory firm, and was able to calculate several scenarios under various economic conditions. Through this advice, it became clear the state the possibility to make a €2 billion profit in the base case, and €600 million lost in the worst case. In the negotiations between Fortis/ABN-Amro, the governments used valuations made by Morgan Stanley as the principle. During the nationalization of SNS Reaal, the government deployed Ernst & Young, and later Cushman & Wakefield for advice. What became clear is that even experts struggled with making estimations: the estimated write-down of SNS Property Finance' portfolio differed by over €1.5 billion between the firms (Hoekstra & Frijns, 2014).

9. Conclusion

This multiple case study focussed on the 2008 adopted bank bailout strategy of the Netherlands. It analysed the divergent bank bailout policy measures based on governmental and commission reports. Although the analysed financial institutions faced similar a challenge (i.e. market turbulence), their divergent business models, financial strength, markets in which they are active account for differences in their bailouts.

Although ING was affected by the deteriorating market conditions during the global financial crisis, it had a strong financial position. After the institution made its first ever loss in 2008, it decided to ask for capital support from the government. The government had freed €20 billion in capital to show the (international) financial market that the Dutch government is willing to support distressed institutions. ING applied, and amply met the conditions for capital injection, and believed the injection would serve as a 'winter jacket' and help to stay competitive and healthy throughout the turbulent time. Only several months later, ING's Alt-A portfolio of mortgage backed securities devaluated rapidly. The government utilized consultants to analyse the Alt-A portfolio, who concluded that if the state would guarantee and share the burden between ING and the government, a significant chance on a €2 billion profit could be made. The government in addition, believed the previously provided capital injection would not go to waste and be more efficient with the back-up facility in place. The back-up facility came with much stricter conditions than capital injection, and required ING to reduce its balance sheet and decomplicate its business model. Although ING had troubles during the global financial crisis, it was never distressed. The underlying functioning of the business was sound, and it met liquidity and solvency ratios. As such, the capital injection and the back-up facility were sufficient in making ING survive the market turmoil, while the government was posed to make a significant return on investment from the aid.

The narrative from the DSB was starkly different. The bankruptcy of DSB Bank incubated over a long period and was multifactorial. The worrying dominant position of Scheringa, flaws in its business model, lack of a proper corporate governance system, tied to an unfavourable bank-state relationship, a non-systematically important institution and lack of interested acquirer and international contagion, eventually lead to the bankruptcy of the DSB Bank. The DSB's, and mostly the CEO's way of doing business was not favoured by the Dutch regulators. After it ran into trouble due to the freeze of the interbank market, it lost control over the situation and a liquidity outflow ensued. After the media took wind, a bank run appeared which greatly exacerbated the already precarious situation. DSB was distressed and did not meet the liquidity and solvency ratios set out by the regulators. As such, it could not apply for any form of capital support. A private market-based take-over was sought after, but on the expectation that the EC would block the proposal, and no other private entities showed interest, only public policy measures were left. At the time in 2008, the ‘emergency measure’ was the only policy option in the Minister of Finance’s toolkit. DSB’s weak financial strength, its non-systematically important character, available policy options, and lack of interested of acquirers, eventually led to the bankruptcy of the DSB, and activation of the deposit guarantee scheme (DGS).

The shortcoming of more appropriate policy options prompted the government to introduce the ‘Intervention Act’ in 2011. This gave the Minister additional powers of intervention for financial institutions in distress. The first time the act was used in 2013 with the nationalization of SNS Reaal. SNS Reaal had been profitable since its merger in 1997, and only ran into trouble due to the turbulent market conditions in 2008. SNS Reaal immediately approached Rabobank and discussed a take-over solution, only to be vetoed by its supervisory board. Similar to ING, SNS Reaal applied for capital support, and amply met the liquidity and solvency measure and was granted state support on similar terms to ING. However, SNS Reaal continued to struggle in the years after the financial crisis, and only made a slight profit in 2011. It struggled with the devaluation of SNS Property Finance portfolio. The DNB had already mandated SNS to cut down on its exposure, yet proved to be insufficient. SNS Property Finance’ solvency was impaired, which implicated SNS Reaal’s solvency. The outflow of savings, and devaluation of assets also limited its ability to apply for capital support, meaning a precarious liquidity situation arose. A capital injection would not solve the solvency issue at hand. Some private parties showed interest in acquiring SNS Reaal, but did not sufficiently adhere to investment requirements set out by the state. Another private solution involving three large Dutch financial institutions was blocked by the EC. Again, only a public solution was left. Yet, in comparison to the DSB, a default was not an option for the government. According to the government, SNS Reaal held a pivotal role in the domestic financial payment system and economy, and the large amount of depositor’s savings caused concerns. Upon activation of the DGS, only a small portion of the savings could be guaranteed by the financial institutions, meaning significant expenditure of tax-payers’ money to compensate the remaining 95%. In addition, SNS Reaal was a financial institution, and its default could cause contagion in the Dutch financial market. The lack of interested parties, combined with its important position in the market, prompted the Dutch government to nationalize SNS Reaal in 2013.

After Fortis's acquisition of ABN-Amro (worth half its own market share), it soon struggled to finance the integration. The deteriorating market conditions during the global financial crisis exacerbated the already worrisome situation. Not only did Fortis' share price drop, its assets became less valuable which implicated the institution's solvency. Its deteriorating reputation made it difficult for Fortis to find credit on the interbank market. For the Dutch government, a bankruptcy of the then half-integrated Fortis/ABN-Amro was never an option: both financial institutions had paramount roles in the Dutch financial sector and economy. As such, the government had to cooperate with the Belgian and Luxembourg governments, who collectively decided to each take a stake in their respective part of the Fortis concern. The respective governments initially took a 49% stake in Fortis/ABN-Amro. Unfortunately, Fortis' liquidity position continued to worsen as the outflow of savings continued to exist. The Dutch government was unwilling risk the Dutch part of the Belgian-based Fortis, and wanted to ensure its continuity by acquiring all Netherlands-based activities of the concern. Although the transaction received the label of an 'acquisition', it had the characteristics of a nationalization: all shares of the Netherlands-based activities of Fortis/ABN-Amro were put in an independent governmental entity.

The reason why Fortis/ABN-Amro and SNS Reaal did not receive a capital injection, is that liquidity provision would likely not have the desired effect since the institutions had a weak financial position. Although it might have strengthened its liquidity position (short-term obligations) its solvency (long-term obligations) would still be endangered. In contrast, ING' financial position was much stronger, meaning the government could expect a return on investment.

This case study has shown that with every single form of government intervention, with the exception of the €20 billion capital injection fund, a private market-based solution was the primary and preferred sought after solution. Unfortunately, such a solution due to stringent supranational conditions set by the EC was often not viable, leading to public solutions instead. Availability and appropriateness of policy options, the underlying institution's financial strength, the possibility on a return on investment for the government, and the institution's systemic relevance, were dominating factors that explained the divergent state response.

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