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Saving the Dutch financial sector from itself: A decade after the Financial Crisis in the Netherlands

Molenaar, Dominique

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Leiden

Saving the Dutch Financial System from itself

A decade after the Financial Crisis in the Netherlands



Authors note

Master thesis for the degree MSc in Crisis and Security Management

Name: Dominique Pascal Molenaar

Student number: s2174979

Supervisor: Lydie Cabane

Second reader: Jeroen Wolbers

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“The crisis appeared because too much money flowed over the globe. We solved the crisis with even more money

The crisis appeared because money was too cheap, we solved the crisis by making money even cheaper.

The crisis appeared because too many debts were made, we solved it by making more debts” Minister of Finance Wouter Bos (2018 in The Eight Day)

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Abbreviations

AFM= Autoriteit Financiële Markten
CDO= Collateralized Debt Obligation
CDS= Credit Default Swaps
DNB= De Nederlandsche Bank
ECB= European Central Bank
GFC = Global Financial Crisis '08
IPO = Initial Public Offering
KYC= Know Your Customer
LOLR= Lender of Last Resort
MMT = Modern Monetary Theory
NPL= Non-Performing Loan
OTD= Originate to Distribute
PEPP= Pandemic Emergency Purchase Programme
SPV= Special Purpose Vehicle
SREP= Supervisory Review and Evaluation Process
TBTF= Too Big to Fail
VAR= Value at Risk
WRR= Wetenschappelijk Raad voor overheidsbeleid

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Chapter 1: Introduction

1.1 Problem statement

Bank bailouts spark controversy among a wide spectrum of actors within capitalist societies. When Dutch policymakers were confronted with financial institutions facing bankruptcy during the Great Financial Crisis of 2008 (GFC), a conflict of interests developed between governments, banks, and citizens. The complexity becomes apparent when one notices that the citizens role is ambiguous due to its dualistic nature of being a taxpayer but also a depositor at a bank in distress. This conflict of interest is problematic for policymakers by contributing to the stress on financial markets and becomes prevalent through an unfolding set of trade-offs, which must be resolved under intense time pressure and media scrutiny. Trade-offs faced by policymakers are embedded by law and consist of creating financial stability, protecting depositors, maintaining new credit creation, and creating a positive economic return on the investment of the public funds (Tweede Kamer, 2012, pp. 420-423).

Which action policymakers decide on, all of them will be received with controversy. One ideology applauds massive intervention to keep the financial sector from collapsing, while the other finds it unacceptable and dangerous to fund failing institutions resulting in a climate which sustains unreasonable investment decisions in the future otherwise known as moral hazard. In times of crisis financial markets act erratic, while on the long-term decisions can be reversed by the EU when it comes to illegitimate state support. This causes initial viable solutions to deteriorate quickly during negotiations between banks and their regulators. When it comes to the financial system, countries do not choose their banking systems in any coherent meaning of the word. Rather, countries get the banking system that their political institutions will permit (Calomiris & Haber, 2014). During a crisis the boundaries of the system are under discussion, whereas the consequences of adjusting those boundaries are unsure or unprecedented. This research will take on the opportunity of having a decade of additional data and information on the consequences of governmental intervention into ABN Amro, ING and SNS Bank.

A decade later in 2020, the pandemic has unfortunately stressed the importance of the understudied concept of bailouts. A recent report from the General Audit office concluded that previous Dutch administrations failed to implement lessons from the past in recent pandemic related bailout operations (Algemene Rekenkamer, 2020, pp. 5-7). When Dutch companies start to experience financial troubles, it eventually translates to its creditors from the financial sector. A few months prior to the pandemic crisis, Dutch Central Bank (DNB) Klaas Knot rated

the economy with a nine combined with solid capital reserves of the banking sector (Buitenhof, 2020). In March 2020 the Covid-19 virus struck the Netherlands which forced the Dutch government to impose a lockdown to prevent spreading of the virus. The pandemic created a shock throughout society which led to economic and financial consequences comparable to the GFC. The GFC was a financial shock that took a severe toll on the real economy resulting into years of austerity politics to deal with consequential deficits on public spending.

In those financial consequences an uncomfortable scenario is emerging. In October DNB expressed fears that Dutch banks are becoming a part of the problem instead of the self-proclaimed solution of the pandemic (DNB, 2020). Despite the banks self-proclaimed sufficient crisis management of extra loans and postponement of repayments, the second wave beholds the danger that banks start to constrain lending activities. When that happens bankruptcies will translate themselves towards credit losses, that will act as a turbo and transform the crisis from an economic to a financial crisis experienced in 2008 (idem: 3-4,11). However, this frame of banks saving the economy and Dutch entities is incorrect because these loans are for 90 percent guaranteed by the government. Considering that this liquidity is provided by the ECB on a negative 0,75 percent interest rate and is distributed to clients with a 1 to 14 percent interest rate indicates that banks are risk free in this process (Bollen, 2020).

The fact that a decade after the GFC a new systemic banking crisis is looming in combination with transferring lending risk to governments, resembles how little the international financial system has changed fundamentally. As financial historian Niall Ferguson (2018) argued: “Rating agencies still work the same, central banks are equally important to stabilize assets. The real estate market, which triggered the credit crisis a decade ago, still relies on a government promoting home ownership. The total debt level is still historically high. The banks now have slightly larger buffers, but that's it. The international financial system is not much more robust than it was ten years ago. The crisis management of the GFC can be portrayed a technocratic success but failed politically”. In a recent simulation from the European Central Bank (ECB) they estimated that the non-performing loans (NPL) could reach up 1400 billion euros because of the pandemic, raising questions on the implementation of a European bad bank (de Boer, 2020). Regarding the Netherlands, a recent risk report from the CPB revealed an increase in the search for yield, stating that prior to the pandemic the investment portfolios of financial institutions have become more speculative and riskier in comparison to the risk appetite prior to the GFC. When analysing government intervention, one should consider the thin line policymakers are balancing on. Either the bailout is considered too generous, and you are financing ‘zombie’ companies, or you are damaging

the economy by shutting down businesses where a transition phase would have been more appropriate. Defining the success of a bailout is therefore not an easy question to answer, because policymakers must deal with several trade-offs, whereas it also takes time for regulations and measures to unfold and to evaluate their effects.

Due to the far-reaching impact of government intervention made during a systemic banking crisis they are important to study, as they are crucial in understanding the public policies that follow a crisis (Sjögren & Jes Iversen, 2019, p. 172). What is interesting is when these policies display differences in how actors are being treated by the government. In the Dutch banking landscape three significant cases received different treatments because of the GFC. Governmental intervention led to the allocation of 27 billion euros to ABN Amro shareholder Fortis (Bökkerink & Couwenbergh, 2020, p. 82), 32 billion euros in guarantees to ING (Janssen, 2019, p. 189) and 4,2 billion in liquidity support to SNS Bank in combination with enforcing the expropriation law (Kreling & Rosenberg, 2014, p. 265) (Algemene Rekenkamer, 2019). Due to the understudied differences in types of interventions made by the Dutch government there is the necessity to analyse them from a crisis management perspective. The recently published books on ABN Amro (Bökkerink & Couwenbergh, 2020) and ING (Janssen, 2019) have revealed new data when it comes to the negotiations behind the scenes between the board of directors, regulators and the ministry of Finance.

The fact that they are released a decade later resembles the salience and secrecy of this subject. This grants the possibility to examine what triggers government to intervene during the stages of dealing with troubled banks. Additionally, this new data could help to analyse the complex puzzle policymakers find themselves in these rare situations. As a result, the research question is: ***What factors impacted policy responses to troubled Dutch banks during the great financial crisis of 2008?*** In essence, this research will try to uncover the strategy of the Dutch government to cope with instable financial markets and rationalizations on a political, economic or policy spectrum to justify the intervention. Due to the fact systemic banking crisis are highly political, government intervention must be defended publicly by policymakers and supervisors to citizens and parliament. The sub-question of this research is, how did the structure of the Dutch financial sector affect the dynamics between policymakers and banks during bail out negotiations?

First, the literature will be reviewed on the political and economic debates as both disciplines are involved in the process and shape possible government intervention. After outlining the case study research design and methods, the first analysis chapter will provide context on how the GFC originated and eventually affected the Dutch banking landscape.

Subsequently, the three cases are in detail discussed along the political, economic and policy factors. The conclusion will state main findings and in regard reflect on theoretical discussions while stressing on further research possibilities.

1.2 Academic relevance

Although extensive research has been conducted by scholars on questions regarding the effective regulation on the financial sector, little is known on the coordination during the escalation of the financial crisis in the Netherlands. Public rescue schemes have been studied in major economies such as the United States, the United Kingdom, Germany and France (Grossman & Woll, 2014) (Woll, 2016) (Culpepper & Reinke, 2014) (Rosas, 2006) (Mitchell, 2016). Comparisons on government intervention have been drawn between Sweden and Denmark (Sjögren & Jes Iversen, 2019) and Ireland and Denmark (Kluth & Lynggaard, 2013).

When it comes to the Netherlands, a few studies have elaborated on the history building up to the crisis (Chang & Jones, 2013) and the narrative of the banking sector when it came to granting a lenient policy on securitization in the Dutch housing market (Engelen, 2015) (Aalbers, et al., 2011). However, studies concerning the leeway of government when crafting a public rescue scheme for intervention during a systemic banking crisis have been lacking or are basically non-existent when it comes to the Netherlands. Grossman and Woll (2014) made a pioneering effort with their four case studies of Irish, Danish, British, and French bank bailouts drawing conclusions on the relationship between policymakers and banks. Their findings will be compared to the Dutch case and reflected on in this research.

It seems that the parliamentary inquiry (Tweede Kamer, 2012) created a sentiment that a framework was developed to build a more resilient Dutch financial system and that further research would not be necessary. Emphasis was put more on the financial system as a whole and not the specific interventions, illustrated by the report of the WRR (2015) on financialization and consequential fragilities of the system. Consequently, academic studies on the Dutch government intervening in the banks have been understudied, which is illustrated by several descriptive reports from supervisory institutions such as the DNB (2009;2014;2015). A recent study performed by the General Audit Authority stated that the last 40 Dutch administrations have only learned through trial and error when it comes to bailing out companies or distributing financial aid in times of crisis (Algemene Rekenkamer, 2020, p. 5).

1.3 Societal relevance

The societal relevance of this study is attributed towards the contribution of knowledge on bailout interventions in the financial sector. A stable financial system is one of the crucial conditions for a prosperous economy which benefits the participants and citizens of a nation. With a greater understanding of efficient bailouts strategies policymakers can in times of crisis and uncertainty make more informed decisions. Clear and informed decisions will eventually lower the cost of intervention and therefore benefit the taxpayer. Especially the Dutch nation experienced financialization that transformed the economy in many ways. Financial institutions and regular business changed their focus from realizing profit from the production of goods and services, to realizing capital gains and interest income from the trading and creation of financial assets (WRR, 2015, p. 9).

Because of the GFC, numerous banking employees lost their job within the financial industry. Due to the interconnectedness the economy went into recession leading to the economic crisis of 2010. These macro-crises are then translated towards ordinary examples such as the loss of capital by multinationals and small and medium sized entities and possible bankruptcies, the rise of unemployment and possible house evictions (WRR, 2019, p. 125). Desirable or not, finance has become the oxygen of our economy, especially in combination with the Dutch characteristic emphasis on international trade and financial services. Subsequently, during a crisis, the government intervenes in various ways to keep the system up and to ensure that the crisis does not get worse. Although the ideology of financialization of Dutch economy has led to welfare for the state and the sector, it undoubtedly has created unintended financial fragility in balance sheets and fuelled a housing crisis.

At last, the societal necessity of this research is relatable to an unintended consequence of the Dutch crisis management policies illustrated by the following paradox: while an increasing proportion of the banking system has started to operate as purely commercial institutions in the past fifty years, the banking system has - unnoticed - started to play an increasingly influential public role. Due to major stakeholders' positions of national government originating from taxpayer funding, banks have become semi-public institutions which created a disbalance between public and private interests (WRR, 2019, pp. 10-11) (DNB, 2015). This is not only an issue in the Netherlands but became more prevalent throughout Europe because of the Eurozone debt crisis (Dijsselbloem, 2018, p. 39).

Concluding, this research will analyse how government dealt with these political, economic and policy fragilities that dominated the Dutch banking and regulatory landscape

caused by the credit crunch. If finance is so good for the growth and welfare of a nation, it is interesting that stable and efficient banking systems are so rare (Calomiris & Haber, 2014).

Chapter 2.1: Literature review

A decade after the Global Financial Crisis (GFC) scholars from economic and political disciplines have researched the controversy over the causes and consequences of the crisis, which basically led to the hybrid discipline of political economy. It is in this regard that both economic and political scholars are being discussed. First, an introductory framework of the origination of the GFC will be outlined by the works of Minsky (1982) and Wright (2010) discussing financial crisis models. Economic scholars (Mitchell, 2016) (Goodhart, 2009) and determine which type of financing or economic regulation was considered adequate for dealing with bank bailouts. Political science scholars (Woll, 2016) (Grossman & Woll, 2014) (Sjögren & Jes Iversen, 2019) (Kluth & Lynggaard, 2013) have tried to discover and explain the relevant variables of lobbying, collective action, structural power etc. in bank bailouts, as they can vary substantially throughout economies and nations (Walter, 2016). Regarding the Dutch financial sector this dualistic approach is justified because of the open economy and highly politicized financial elite (Engelen, 2015). Due to this dualistic nature of the crisis, this theoretical framework is divided into an economic and political interpretation of the financial crisis.

2.1 Political explanations on bank bailouts

2.1.1 Structural power of financial interests

When the bank bailouts became a fact and the aftermath of the financial presented itself, the academic inquiry can be summarized as; what where the banks doing? A simple yet crucial question necessary to be answered by scholars to prevent a new financial crisis, because the crisis itself exposed a lack of understanding, hampered often by a lack of information, of the implications of many bank activities across politicians, regulators, academics, and most bankers themselves (Hardie & Howarth, 2013, p. 22). For years there has been a false dichotomy in comparative political economy, consisting of bank versus market based financial systems. According to Hardie and Howarth this can be debunked according to three arguments: First, the fact that in developed economies do not support the distinction, as the immediate pre-financial crisis period must be understood as a combination of rapidly expanding financial and credit markets on the pillars of market-based banking. Second, the lack of explanatory power of the standard analysis in term of the consequences and impact of the GFC (massive bankruptcy causing losses, variable impact on national systems, size and nature of losses and development of the nearly avoided credit crunch and implosion of the financial system). Third,

the former two problems originate from the limited focus in political economy attention regarding banks and banking, which is why a new understanding of market-based banking model is necessary to further develop the understanding of the impact of the worst financial crisis in over eighty years (Idem: 23).

Debates in political science regarding the subject of banking rescue schemes and the politics surrounding them have been underdeveloped, especially regarding the Dutch landscape. A number of scholars have focussed on the root causes of the crisis, analysing the run up and (mis)management surrounding the GFC, but these have mainly focussed on the US (Johnson & Kwak, 2010; Stiglitz, 2010; McCarthy, et al., 2013) because of its origination with the collapse of the housing market and catalysator Lehmann. Mitchell (2016, p. 27) states that as such, mainstream political science failed to develop appropriate tools of examining the role of market power, because it only focussed on the role of state power and left market power towards the scope of economists. The rise of political economy literature can therefore be seen as the response to bridge the gap between the disciplines, researching the role of market power and how the constitution of market actors may shape the model choices – and thus policy choices – of policymakers in response to crises (ibid). Policymakers do have a third option which is not to choose one of the models and don't act during a financial crisis, however they do have a strong political incentive to act no matter what, despite effectiveness of the rescue scheme, because in hindsight they can state they did at least something instead of nothing. It is in this regard that Peters et al. (2011) argue that a financial crisis, or any crisis for that matter, is likely to produce a variety of responses from governments.

Studying these responses is possible through the understanding of problem pressures in the political science, that originate from the structure of country's financial industry (Grossman & Woll, 2014, p. 577). Helleiner et al. (2010) argued that the rise of financial interests combined with a general ideology of deregulation and complex risk management planted the seeds for the crisis. The process of globalization and integration of financial regulation in corporate finance, created functional incentives for states and firms to create an institutional design of best practices prior to the crisis. Wolf (2014, in Mitchell 2016, p.28) revealed how this resulted into financial firms being pressured into promoting a fusion of American type of loosened regulation in combination with German orientated universal banking.

Following from these global pressures, Woll (2014, p. 430) argues that the “structure of the financial sector and the political organization that follows from it, crucially shapes the crisis response”. Lobbying efforts have always interested political science research, however regarding the financial sector this has focussed more applied to regulations, not the GFC when

it comes to the Netherlands itself. Contrary to studies that focus on lobbying, structural power or the influence of beliefs, the comparison highlights that governments depend on contributions of specialist knowledge from the financial industry during crisis management. Woll argues that banking-government relations during a crisis are comparable to a classic game theory scenario referred to as 'chicken'. Both actors prefer avoiding the economy crashing, but the first one to admit, would take on the costs and inevitably lose. In essence, the paradox is when the industry endeavours to fund itself, the costs for individual banks can be significant and cause a negative spiral on financial markets. Contradictory is that government intervention intrinsically holds the risk of paying off the debt for decades (Woll, 2014, p. 428). Negotiations can therefore on a political level be analysed as a balancing act by policymakers between punishing the sector to a degree that it will not cause an implosion of the whole financial system.

According to Woll this translated to the fact that the financial rescue plans for the US, UK Germany, France, and Denmark shared the similarity that all of them tried to coerce their financial sector to act collectively to share the cost, which failed in the UK and Germany. One of the explanations is that governments with close one-on-one relationships between policy makers and bank management had the tendency to develop unbalanced bailout packages, in contrast to countries where banks negotiated collectively developed solutions with a greater burden-sharing from private institutions (Grossman & Woll, 2014, p. 576). Basically, there are three possible outcomes to finance government relations: a) once the financial sector has the capability of organising collective and pays for its rescue, this will contain the cost and while having the least the impact on the public budget, b) When a cooperative commitment is lacking from the sector it is most suitable for an administration to unilaterally enforce a solution to failing banks, c) a combination of unequal regulatory approach in combination which collective action from the industry will not have an sufficient impact in resolving a financial crisis (Woll, 2014, pp. 446-448). As a result, similar exposure to the financial crisis can nevertheless lead to vast differences in bank bailouts. In a Danish-Irish comparison, bank representatives and governments both worked closely together. But only in Denmark did the private sector agree to be part of a collective solution, which ultimately helped to ring-fence the failing banks and use only a minimal amount of taxpayers' money (Grossman & Woll, 2014, p. 599)

It's in this regard that in a more recent paper Woll (2016) stresses the concept of collective inaction instead of political science debates about lobbying influences. When it comes to politics a lack of organisation is generally viewed as a sign of weakness. Opposing negotiation analysis in a structural setting to pure accounts of lobbying influence is crucial due

to the fact it produces different policy recommendations .”If lobbying was the source of political bias, a simple solution would be to regulate business access to politics or encourage the participation of countervailing groups such as trade unions” (Woll, 2016, p. 387) Therefore, to escape the rigid conclusion that banks were just bailed because of their structural power, it is necessary to consider how structural advantage was translated through the negotiations between banks and governments at this has led to different outcomes(ibid).

The work of Culpepper and Reinke (2014) further elaborates on this debate of structural versus instrumental power of banks during the bailout negotiations. In short, the lobbying view views banks as powerful because they can acquire the best lobbyist and lawyers to preach and defend their interests, where the empirical setting of this research is based around regulation and legislation processes. The structural argument concerns the debate about the appropriate size of banks, which will lead to the too big to fail argument. It also stresses on the importance of international cooperation, as administrations can build international legislation that reduce the ability of international banks to escape regulatory and public scrutiny (idem: 448). More importantly, strategic structural power focusses on the exposure of the financial sector to the distressed markets and through the ability of disinvestments. Although industry exposure and dominant business models do not fully explain variation across countries when it came to Denmark and Ireland (Kluth & Lynggaard, 2013, p. 771).

However, Culpepper and Reinke do put forward examples of UK HSBC and German Deutsche Bank where both defied their regulator due to the fact only one third of their revenue was generated in their domestic’s markets. Subsequently, exposure and disinvestment are known to be sensitive among regulators and policymakers. In general, regulators prefer a strong financial industry as it grants them credibility and prestige, whereas policymakers need investments to realize their election plans and capital is crucial in modern economies for societies to function well. Therefore, the exit option is a strong card banks hold, but there is the exception when banks business models are relying on the domestic market which was the case with the US banks (Culpepper & Reinke, 2014, p. 449). These dimensions are illustrated by figure 1.

Due to the vast differences in types of policy’s area some follow the distinction made by Rosas (2006, p. 177) between bagehot and bailout. The term Bagehot originates from banking theorist Walter Bagehot during the the financial Panic of 1792, which showed that the government can thwart a financial panic by lending at a penalty rate to all borrowers who can post good collateral. The collateral requirement ensures that only safe firms receive aid. The penalty rate ensures that firms borrow from the government only as a last resort. The economic

pain of borrowing at a high rate, even if it is just a percentage point or two above the usual level, limits moral hazard and risk taking. The rule also minimizes losses to taxpayers by requiring that loans be well collateralized and yield a good return. In fact, the government (and hence ultimately taxpayers) has the possibility to profit from such policy implementation (Wright, 2010, p. 4). Basically, it is letting markets discipline work by allowing financial institution to fail and punish them from wrongdoing when the system is failing. In contrast, a bailout is when state policies are solely to save the banks with favourable terms (Rosas, 2006, p. 177). Figure three at the end of the literature section will include an overview with a Dutch interpretation of 'Bagehot versus bailout' based on the works Rosas.

As mentioned in the previous section, structural power can be tracked through analysing the negotiations of rescue schemes. Policymakers must make decisions regarding trade-off's based upon narratives and arguments put forward by bankers. Arguments put forwards from the finance industry point to systemic risks. This result into the classical policy paradox that bailing out the banking will create moral hazard but doing nothing will result into a collapse of the financial system, resulting in the well-known concept of too Big to Fail (TBTF). The article by Levitin (2011, p. 455) provides arguments on the systemic risk of failing banks, due to the interconnected of the system also known as counterparty contagion. Informational contagion occurs when the failure of one firm result in market confidence erosion in similar firms, whereas a bank run panic can be seen as an example. A third transmission mechanism of systemic risk is common shock, which refers to sectors of the economy suffering mass failure of individual firms, harming the whole economy (idem: 450-460)

Different types of degrees of crises demand different types of bailouts, therefore context is crucial (Wright, 2010, p. 3). This notion is substantiated by Hryckiewicz (2014), which conducted an analysis of 23 bank bailouts in 23 countries from 1994 till one. She concluded that there is no one-size fits alle formula when it comes to successful or long-term effective bailouts. Findings suggest that government interventions are inevitable and help countries to limit the negative consequences of financial crises, but interventions cause a subsequent risk to increase in the post-crisis period. This risk originates from institutions targeted by government intervention and may be a result of at least three factors: "reduced market discipline, inefficient bank's management and/or a lack of restructuring processes helping banks to recover from their distressed position" (Idem: 262).

The study of Sjögren & Jes Iversen (2019, p. 187) specify this generic analysis towards government bailing out Swedish and Danish banks while summarizing the essence of this

literature analysis. They conclude that there are always political and economic motives for rescuing distressed banks. Intervention is positively correlated with critical infrastructure interests, while during the GFC there was the explicit goal to restore trust in the market economy among investors and citizens. There is an international toolkit for crisis management, however each administration must search for its own contextual bound instruments. “What determines the very choice of instruments is the likelihood to obtain legitimacy for the use of them, and to what extent previous solutions been economically successful in a national and international perspective” (ibid). Especially when it comes to the argumentation for government intervention, it must be massive, resolute, and rapid to tackle distress in the market before it translates towards society. The interpretation of a toolkit is useful in putting the policies from the Dutch administration in perspective, making it possible to analyse political alongside economic argumentation regarding the leeway and eventual implementation of the bailouts.

2.2. Economic explanations on bank bailouts

2.2.1 Competing models of Financial Crisis

This section will start with a brief introductory framework regarding the origination of the financial crisis. This is necessary because in economic literature there are several schools of thought with different interpretations of what constitutes a financial crisis. acceptable levels of national debts and types of governmental intervention in financial institutions. First, two financial crisis cycle models will be discussed followed by a brief meta-analysis of modern monetary theory versus austerity politics. This will lay the foundation for specific rescue packages which will be structured through the lens of a balance sheet, simplifying the economic debates and options that policymakers faced during the GFC.

Within the economic literature there are two competing models of understanding financial crisis, based on being a product of random exogenous shocks or an endogenous result of a firm's actions and the business cycle (Mitchell, 2016, p. 23). The exogenous shock is commonly referred to as the sunspot model, in which a financial crisis is basically presumed random in nature causing targeted panics despite their fundamental healthy solvency. Anno 2020, the Covid-19 crisis can be viewed as an exogenous shock which led to panic on the financial markets. Deriving from this model, the definition of a financial crisis by Diamond and Dybvig (1983, p. 403) stresses on the time inconsistency of banks' short- term lending and long- term borrowing, together with information asymmetries that enable banks to conceal their

true health, leave even healthy banks susceptible to bank runs driven by the rational behaviour of depositors and creditors. Utilizing this sunspot models paves the way for the narrative of banks framing financial crisis as the product of random shocks, making it easier to argue that the crisis was not their fault. Which creates room for justifying more generous terms on their liquidity rescue schemes produced by the state (Mitchell, 2016, p. 24).

In contrast, in the business cycle model firms engage in speculative practices, such as proprietary trading during the financial crisis, that leaves them more vulnerable to bank runs. It is in this regard that financial crisis can be seen as a deviation of banks and financial institutions to from regular practices (ibid). In this context, financial crisis understood from the perspective of Minsky's (1982 in Mitchell 2016, p.25) financial instability hypothesis where financial crises are the culmination of long- term cyclical dynamics in financial markets. This perspective focusses on the aftermath of a financial crisis where firms, supervisors and regulators embrace risk aversive practice to repeat a similar crisis. "This crisis aversion leads to prudential investing and state fiscal policies focused on maximizing stability, producing both stability and moderate growth. This stability, however, becomes its own undoing. A long period of stability reduces the fear of future crises. There may be a general feeling that financial crises have been "solved" and that new financial instruments or policies can increase growth without threatening stability" (Ibid). This can be accurately described by the narrative of this time it's different, where economic actors and policymakers express this genuine believe leading to riskier investments and the process of deregulation of the sector in the name of future growth of the economy and eventual increasement of welfare of the population (Reinhart & Rogoff, 2009). It is argued that this cycle of capital expansion increases the exposure of firms towards risky investments and decreases their liquidity buffers. Consequently, losses become more likely as well as more likely to create significant problems, as banks are much more highly leveraged. This increased leverage makes financial systems highly vulnerable to crises from events that would be only minor disturbances in earlier times" (Mitchell, 2016, p. 25). In this regard, when states are responding to financial crisis in the business model cycle, more strict terms on rescue schemes should be institutionalized to avoid moral hazard in the behavior of banks.

	<i>Strategic</i>	<i>Automatic</i>
<i>Instrumental</i>	Organizational lobbying Campaign contributions	Pro-business policymakers Public-private revolving door
<i>Structural</i>	Outside exit option Investment strike	Disinvestment Unappealing investment climate

Figure 1: Dimensions of business power

The consequence of utilizing one or the other approaches is that these two models generate different culpability of firms and thus the danger of state intervention creating “moral hazard” and increasing the danger of new financial crises in the future. This is relatable to the general understanding that the response of policymakers to a crisis shape the parameters of the next crisis. Contemporary, there is little empirical consensus which of the two models is more valid in understanding crisis (ibid). The complexity and the interconnectedness of the financial system therefore needs more research, as accidents as the GFC are destined to become the new standard Perrow (2011). When complexity is high among systems, they intrinsically increase the risks of crisis bound to happen. As a result, both models can only offer best practices in responding to financial markets from their own boundaries of the utilized model, making the choice of the model prone to contentious, politically, and self-interested choice (Mitchell, 2016, p. 26).

What does not help, is that the solutions for policymakers are becoming increasingly technocratic. Walter argues that that despite the high salience of crisis politics, the fundamental choice between different crisis strategies is largely technocratic in nature (2016, p. 867). From this perspective, policymakers have two options of internal adjustments: steering on austerity politics or implementing structural reforms. External adjustment relates to exchange rate devaluation, but within the Eurozone this was not a possibility for Dutch policymakers because of having the Euro as national currency. Due to the turmoil on the inflated financial markets the natural reflex of policymakers was to enforce austerity politics to mitigate public deficit. However, Kelton (2020) argues that this should be questioned through the lens of Modern Monetary Theory (MMT). Her book, *The Deficit Myth*, challenges the status quo of austerity politics to mitigate the public budget deficit. Instead, in times of crisis politicians should pursue sustainable investments or grant loan subsidies to companies in distress to refrain them from firing employees. This was recently the case during the pandemic when the Dutch government subsidised the loans of sectors that were disproportionally affected by the lockdowns of society and the economy. In essence, a modern revive of the classical Keynes economic model.

2.1.2 Specific economic policy responses to financial crisis

One of most common mistakes when analyzing financial crisis is that scholars tend to merge the terms of liquidity and solvency (Goodhart, 2009). In order to analyze why banks go into default and the consequential different types of responses, one needs to distinguish the differences between the two. Bankruptcy of a financial institution as result of insolvency relates to the fact that a “bank owes more money to investors or depositors than it holds in assets (loans

and investments), then the bank will fail simply because it will not be able to pay its obligations unless it somehow increases the value of its assets, typically through an injection of fresh capital from a new investor” (Mitchell, 2016, p. 3). As generally knowns, the roots of the GFC where the assets of mortgage-backed securities that held no underlying value, resulting into the collapse of the balance sheets of the banks.

Liquidity risk is somewhat more complex to explain but pertains relationships banks have with other banks, also known as interbank relationships and through capital markets. The operating model of a bank consist of funding long-term investments with short-term credit provided by commercial and investment banks. The fact that this is short term reveals that investors have to possibility to withdraw their cash any moment. “If many demand repayments, the bank may be forced to close because it has run short of liquidity, even if it has valuable assets that it simply cannot convert to cash in time” (idem: 4). It is therefore mentioned that the GFC was in hindsight considered a crisis of trust within the sector, which result into the phenomena of bank-runs. But even when banks are solvent, a bank-run can be considered rational when its customers believe that their money is becoming inaccessible. “Unless some form of deposit insurance program is in place, everyone who had not already withdrawn their money will lose it when the bank closes. This means that bank runs are rational even if the bank is otherwise healthy: once enough people start withdrawing their money from the banks, the remaining depositors or creditors should also withdraw their funds to avoid losing out when the bank closes, deepening the crisis. This principle holds whether the initial run was sparked by legitimate concerns over the bank or a baseless panic” (ibid). This fear of missing out on life savings is not restricted to one bank, as it could lead to contagion to other healthy firms. When that happens, as former ECB chairman Trichet mentioned, the financial system will implode (The Eighth Day, 2018).

This interconnectedness between banks, capital markets and the public results policy dilemmas for policymakers in a period where time is of essence. Wright (2010, p. 18) argues that, despite the variety and complexity of different responses to financial crisis, they can be evaluated along two parameters: their effectiveness at reducing the crisis and the degree of moral hazard that is caused by the policy response. “At one extreme, relying only on private market solutions creates no moral hazard issues but may prove ineffective at containing the crisis. At the other extreme, using state funds to completely insulate market actors from losses contains the crisis but with severe distortions of incentives and massive redistribution of wealth” (ibid). More specifically, Rosas and Jensen (2010, p. 108) argue that government intervention to financial crises can be into divided into three categories: private solutions,

liquidity solutions, and capital solutions. Each group has different policy implementations which will vary in dealing with the crisis and preventing moral hazard. To analyze different policy responses, it is crucial here to understand their goals and methodology to assess the impact on moral hazard (Rosas, 2006).

As mentioned before by Walter (2016), economic policy for governmental intervention has become increasingly technocratic. To simplify these complex policies of governmental intervention and rescue schemes is to visualize the target of these bailout packages: the balance sheet of the bank or financial institution in distress. Figure one displays a generic balance sheet that structures the debate of possible government intervention. Before this literature section specifies the different specific economic policy approaches, there are basically two distinct perspectives of banking bailout. The general view holds that bailouts privilege the interests of a few over those of many because failing banks receive tax-payers money that rescue the speculations of bankers. The second perspective is more benign, as it emphasizes less on the individual privileges of bankers but on the outcomes of bailouts, as they stabilize the financial system, prevent a recession, and generate benefits for society by keeping the economy running (Reinke, 2014, pp. 39-40). It's a distinction between viewing bailouts as investments for the future or illegitimate funding for the failed speculation of bankers.

2.1.2.1 Private rescue schemes

The first category of state responses consist of private solutions indicates that no public funding is used, which is part of the neoliberal free market logic of leaving everything to the markets with as little governmental interreference as possible. When governments intervene, it will distort the market prices resulting into inefficient behavior of financial institutions. Doing nothing will “eliminate market distortions but also the problem of moral hazard. If firms know no public rescue is coming and that they will be held accountable for their bad decisions, they will act in a more prudent manner” (Mitchell, 2016, p. 6). However, doing nothing does impose the risk of contagion, especially when the bank is considered a systemic bank. This will be especially applicable to electorally sensitive policymakers because they will want to appear to be acting to solve the crisis, even if they are sceptical that intervention will be effective (ibid).

<i>Assets</i>		<i>Liabilities</i>	
<i>Assets (Loans) →</i>	1. Widening central bank collateral 2. Asset guarantee 3. Asset purchase	Debt & → deposits Equity →	1. Liquidity 2. Deposit insurance 3. Debt guarantee 4. Capital Injection

Figure 2: Balance sheet options of government intervention

The second option within this category of rescue schemes is that policymakers become a broker to rescue a firm in distress, setting up private parties to issue a loan to help the firm. This will lower moral hazard implications and contagion for the sector. For example, two banks at risk might be complementary to each other and propose a merge, so that a bankruptcy can be avoided, and a stronger institution will be built in the future. However, “state involvement in brokering such private rescues may be politically problematic. By actively brokering mergers, policymakers risk accusations of undue meddling in markets” (idem: 9). A last possibility for policymakers is illustrated through the rescue of the failing hedge fund Long-Term Capital Management in 1998, where the Federal Reserve formulated a consortium of financial institutions to assist with liquidity (Woll, 2016, p. 383).

2.1.2.2 Public rescue schemes: liquidity approaches

The second category of state responses consist of liquidity approaches, which can be distinguished through the options of regulatory favoritism, guarantees and lender of last resort (LOLR). Liquidity responses resemble the need for immediate cash but does not influence the balance sheet of the of the firm/institution at risk. Regulatory favoritism is defined as the removal or relaxation of capital reserve requirements, which allows the bank to free liquidity from its reserves (Mitchell, 2016, p. 9). Anno 2020 amid the Covid-19 crisis, an example of these practices is the request policymakers of the ECB to ease the accounting rule IFRS 9 banks and accountants need to comply with. A rule which was designed in direct response to the GFC. IFRS 9 requires banks to predict their own financial health, in combination with the money lent to, based on independent macroeconomic measures such as gross domestic product or unemployment figures. On that basis, banks put money aside to absorb losses on their outstanding credit (Baurichter, 2020). In addition, policymakers can also choose for a permanent option, which is to change the firm’s legal status which holds certain advantages. Banks have the possibility of more generous terms of lending while policymakers reduce the degree of moral hazard in comparison to other types of bail outs because no state funds are being used.

The second option policymakers have is through guarantees regarding repayments to creditors and depositors. This option is a direct response on preventing bank run’s, which is why after the Eurocrisis a European deposit insurance scheme of €100.000 per account holder was implemented (Dijsselbloem, 2018). “Guarantees do create moral hazard issues with both the firms themselves and depositors and creditors. The firm gets to substitute the state’s

superior creditworthiness for its own, escaping market judgment of its likelihood to honor its obligations” (Mitchell, 2016, pp. 9-10). However, states do charge a fee on guarantees, even when they are not used. This is mainly because of their symbolic message to the market and to reduce moral hazard.

The third option within this category is in the form the Lender of Last Resort (LOLR), which is when a state or central bank will lend directly to a firm when no institutions are willing to do that. More specifically, a LOLR “is to lend freely on good collateral at a high, or penalty, rate of interest. This formula would ensure that solvent banks do not fail from lack of liquidity, but at a high enough cost to make it an undesirable option. Modern central banks, however, have frequently forgone a penalty rate of interest, fearing that a penalty rate would discourage firms from taking advantage of such funds” (ibid). When a financial crisis, such as Covid-19, hits the financial markets, central bankers may loosen their strict definition of good collateral. This was the case with the ECB released the Pandemic Emergency Purchase Program (PEPP) to cover sovereign and corporate debt (Arnold, 2020).

2.1.2.3 Public rescue schemes: solvency approaches

Regarding state responses a third category consists of solvency approaches, specified towards cash grants, state-subsidized private purchase, partial nationalization (capital injection), full nationalization and at last a bad bank. Cash grants are the simplest from in which states provide funding without the expectation of repayment or conditions attached. Despite creating moral hazard, when they are weighed against a full-blown crisis the rational logic is that saving one firm will prevent contagion. Subsequently, a subsidized private purchase is when the state creates incentives for private actors to purchase a failing firm (e.g., creating a backstop that the state will absorb piece of prospective losses) (Mitchell, 2016, p. 12)

Another option is when policymakers provide capital through the purchase of stocks, which does not only address solvency issues but also restores confidence to the markets, hence indirectly addressing liquidity issues because enhancing additional collateral is good for interbank lending. A recent but out of scope yet applicable example is when the Dutch state acquired €680 millions of stocks in airliner Air France-KLM to create a ‘healthy and sustainable’ firm (FD, 2019). Moral hazard occurs when state acquire stocks above-market rates, when it is below it dismissible because private actors do not profit from state intervention. It is common that states opt for preferred shares which do not include voting rights, so that control from ordinary shareholders is not deluded. “Preferred shares are generally “senior,”

meaning their dividends are paid in full before ordinary shareholders see any return, and preferred shareholders will recover more of their money in any bankruptcy proceeding” (Mitchell, 2016, p. 13).

A more radical step is when states take full ownership and nationalize a firm to address solvency issues, as was the case with ABN Amro (Bökkerink & Couwenbergh, 2020). Policymakers can either acquire all current shareholders or it may seize the firm by fiat, whereas not the market but law determines discreet compensation. Since the nationalization of SNS Bank in 2013, compensation has still to be determined by court at the end of 2020 (Rooijers, 2020). Once acquired, “policymakers may inject capital into that firm without redistributive consequences, as this is a transfer of funds from taxpayers to a state agency, and not from taxpayers to a private firm. Although it may distort competition, such a move does not create moral hazard for private actors that are no longer in control of the firm” (Mitchell, 2016, p. 13).

The last option is that of creating a bad bank through the purchase of toxic assets from the failing financial institution. In this option preventing moral hazard is impossible, as states purchase assets that have lost value at above markets price to transfer losses from the firm towards the state. “By insulating firms from the costs of having bad assets on their balance sheets, bad banks must pay above- market rates for bad assets, if they are to be more effective than having the firm simply write off the value of assets and take the loss” (Mitchell, 2016, p. 15). Bad banks avoid the phenomena of zombie banks, where underlying issues remain but became manageable through subsidies, they have become a popular tool for policymakers in cleaning up bank’s balances sheets and avoiding extensive state ownership of firms. In essence, they are a tool of buying time for the banks.

In conclusion, this section has discussed the spectrum of various instruments policymakers have when dealing with a financial crisis. The fact that there is no consensus within the economic discipline on the dominant model of financial crisis puts policymakers in a situation where they must choose between them. Different liquidity and solvency instruments have opened the door for policymakers to influence banks because in the absence of a clear consensus which model is dominant, self- interested actors will have an interest in promoting a model that casts them in the most favorable point of view.

2.3 Tracking policymaking narratives and leadership behind rescue schemes

Due to the policymaker's dependency on information from the financial sector, in times of crisis it might be harder to distinguish industry's position from prudent action which could lead to regulatory capture. Carpenter and Moss (2013, p. 61) state that regulatory capture is, "the result or process by which regulation (in law or application) is, at least partially by intent and action of the industry regulated, consistently or repeatedly directed away from a defeasible model of the public interest and toward the interests of the regulated industry". This notion is applicable when it comes to the securitization of the Dutch housing market. Aalbers et al. (2011, p. 1779) suggest that the Dutch state has been actively implicated in the facilitation of the securitization market perceived as the root of the GFC. Additionally, this can be attributed to a 'cognitive closure' of regulators instead of regulatory capture due to the fact "Dutch pro-banking regulation is not so much an effect of bankers hijacking regulators but, rather, more the result of bankers seducing regulators with their stories". Engelen (2015, p. 1620) states finds that post-democratic elites respond to radical uncertainty through storytelling, which are of interest for researchers as these stories always carry traces of positional interests. Regarding the GFC, Engelen stresses on the funding gap, "which turned Dutch banks into victims instead of perpetrators and effectively made Dutch households co-responsible for the Dutch housing boom and bust. And the mindless repetition of this trope throughout the elite network, which transformed what was a half-truth at best into quasi-religious doxa" (Ibid).

Reflecting on the importance of leadership during crisis, the articles from Boin et al. (2016, pp. 15-20) will provide guidance with the coordination during and after the crisis in combination with accountability from leadership through the usage of policy reports. In addition, the part on organizational barriers and social and political threat perception could help in structuring and analysing threat perceptions from Dutch governmental regulatory institutions (e.g., ministry of Finance and DNB). "In crisis negotiations, for instance, adversaries use urgency as a strategy: they impose ultimatums or deny the time sensitivity of a problem. Authorities can and do treat time and urgency as a lever to increase or release pressure on their colleagues and adversaries. But adversaries do the same, as they try to coax government into action or seek to delegitimize governmental actions" (Boin, et al., 2016, pp. 6-7). Practically, this manifest itself through the Supervisory Review and Evaluation Process from the DNB, which is basically an individual stress test for banks (ECB, 2017). Supervisors can utilize this letter to pressure banks to increase their buffers and dismantle leveraged portfolios like the subprime mortgages causes the GFC. Over time scholars have devoted

significant attention to the construction of crisis typologies, but in essence they can be distinguished into the three key elements of threat, urgency and uncertainty which contributed to understanding how crisis can differ and thus shape different challenges for public officials (idem: 7).

The aspect of threat can be explained as the locus of a crisis, or in essence what it hits or disrupts. Relating to the financial crisis it hits our critical infrastructure, as money is crucial in keeping our society and economy running. In addition, the financial crisis was institutional crisis, as the performance of the banking organizations, or the competence and integrity of key officeholders, threatens the legitimacy of an organization or public institution. This is because there was the assumption that systemic banks were considered institutions that could not go bankrupt, until Lehmann failed. “Crises that threaten multiple geographical or policy domains – we call them transboundary crises – are much harder to manage than crises that respect the man-made borders that are used to organize administrative and political response capacities. These are usually “cascading” crises where a crisis in one societal subsystem (e.g., geophysical, socio-technical, political, economic, information, or service supply) causes disruptions in others (idem: 8).

Secondly, there is the distinction based on the perceived urgency of the threat. The more people agree that a problem needs to be resolved quickly, the higher the crisis perception. When there is little time to act, leaders may have more authority to unilaterally impose changes. The third distinction of crises is based on the level of uncertainty. Former U.S. Secretary of Defence Donald Rumsfeld famously suggested that there are “known unknowns” and “unknown unknowns” (Ibid). The unknown unknowns can be described to the fact that policy makers had no idea if there would be a domino effect of collapsing banks in the eurozone. Contingency plans common in a natural disaster for example could not been consulted as this situation was unprecedented.

This literature section has tried to illustrate the complexity when one engages with the concept of a bank bailout. It should be acknowledged that political and economic responses are often intertwined by policymakers to justify an intervention. Economic conditions are utilized to address financial consequences of a bank bankruptcy, whereas the political frameworks illustrate the actions of policymakers as an inevitable measure to secure the bank accounts of their citizens. Due to economic scholars’ inability to predict the next financial crisis, political theories from Woll (2016) have showed that governmental strategies aimed at coping with the intrinsically instability of international financial markets depend on not only economic

decision, but rather are a product of the complex puzzle of institutional and political landscape of individual countries.

Building on both academic debates, their conclusions have been used in figure three by constituting a Dutch interpretation of bagehot versus bailout. This framework will therefore be applied to the Dutch rescue schemes, to illustrate how these dynamics have unfold during the GFC. Based on the political and economic literature framework, leeway is conceptualised as the amount of freedom policymakers must move or act being influenced by political, economic and policy factors, with the goal of implementing bailout reforms.

Figure 3: Dutch version Bagehot versus bailout

<i>Concept</i>	<i>Variable</i>	<i>Bagehot</i>	<i>Bailout</i>
<i>Impact on bailout</i>		Negative outcome for banks	Positive outcome for banks
	Political	1. No action by policymakers. 2. Nationalization or expropriation of assets. 3. Banks closed immediately after concluded insolvency.	1. Collective inaction of sector leads to public grants for banks. 2. Constitution of bad banks. (Equals to buying time on toxic assets). 3. Insolvent bank allowed to pursue activities.
	Economic	1. Sector collectively paying for or private recapitalization of troubled banks. 2. Expensive interest loans and restricting conditions for banks.	1. Public money for recapitalization of troubled banks. 2. Cheap interest loans or grants by policymakers.
	Policy	1. Increased regulatory burden for banks. 2. Few depositors if any are protected. 3. Penalties for moral hazard	1. Regulatory favoritism. 2. Blanket protection of all depositors. 3. No penalties for moral hazard

Chapter 3: Research design

3.1.1 Qualitative case study and methods

I adopt a case study design, because governmental interventions into the financial sector are complex regarding economic and political instruments of government interventions. More specifically, due to the explanatory nature of Dutch financial rescue schemes, the research design of this study consists of a structured single case study, with a process tracing (CPT) approach which will be further discussed in this section (Yin, 2009) (Blatter & Haverland, 2012). Case studies are useful in describing, contextualizing, and gaining in-depth insights in specific phenomena (Bryman, 2012, p. 68). George and Bennet state that they are useful when scholars “focuses on interventions by various policy instruments, interventions on behalf of different goals, or interventions in the context of different alliance structures or balances of power” (2005, p. 63). Regarding the Dutch case, policymakers utilized various policy instruments to address issues at the troubles banks. According to (Yin, 2003, p. 5) the appropriate research strategy is archival analysis, which has become a possibility ten years after the crisis as this resulted in the possibility of policymakers to reflect on their actions. The single case study design is therefore picked to do justice to the complexity of the process of bail out negotiations, especially during a systemic financial crisis.

In addition, explaining variation is quite difficult when it comes to analyzing it in a quantitative method, because the number of relevant explanatory variables highly aggregate and the number of cases is quite small. When it comes to the Dutch case, economic and political aspect of a bailout tend to influence each other. Additionally, the reliability of provided statistics that are shared by international financial institutions can be questioned. At the IMF and the EU Commission have been subject to numerous negotiations over accounting and categorization methods. Changes or misinterpretations in accounting methods led to a 55 billion euros overestimations of the German rescue scheme for the Hypo Real Estate Bank (Grossman & Woll, 2014, p. 582). It is in this regard that a qualitative descriptive case study will provide a more valuable and detailed understanding of the trade-offs faced by the Dutch Government.

Another advantage of qualitative research is tracing causality. While the quantitative analysis demonstrates a statistically significant correlation, defining a causal chain requires more in-depth argumentation. This is not just an issue for quantitative analysis, as the nature of business influence on policymaking has generally been taken for granted but is undertheorized. Much of the bailout literature merely demonstrates that regulatory capture is a

viable story, without being able to clearly specify the channels by which industry actors can shape regulators' decisions. As Mitchell noted, "single- country responses, meanwhile, can offer a superior level of detail in addressing crisis management in a single case, but in the absence of comparative cases, it can be difficult to establish a baseline from which to evaluate how effective policies were, let alone evaluate the relative strength of various causal arguments" (2016, p. 27). The qualitative case study will include a policy analysis of documents and regulation put in place during and after the GFC. Emphasis will be put on the policy dilemmas and their intrinsic trade-offs governmental official faced during the crisis.

Regarding the methods, Blatter and Haverland (2012, p. 9) state that when it comes to within case analysis, a process tracing approach is suitable when one tries to explain or has interest in a specific kind of outcome (Y), which in our case consists of the variance in rescue schemes of ABN Amro, ING and SNS Bank. "The investigator asks what factors lead to a concrete outcome or which preconditions are necessary and sufficient in order to make a specific kind of outcome possible, because the researcher is interested in the (various) causes of an effect rather than in the effect of a specific cause (independent variable), this approach can be called Y-centred research" (Ibid). George and Bennet (George & Bennet, 2005, p. 72) outline the process as follows. First step is to gather easily accessible academic literature and interview data on the case and its context. This is followed by a process known as soaking and poking, which lead to the construction of a chronical narrative to understand the basic outlines of the case and influence of the context on empirical results.

These methodical guidelines will therefore practically translate to building a narrative, which is possible through studying the negotiations between government and banks to draw conclusions on actors' perceptions and motivations. This has become possible a decade after the GFC due to the fact actors and institutions are now willing to discuss the implications of their actions. This is illustrated by the release of the documentary *The Eight day* (2018) in which former President Balkenende and Minister of Finance Bos revealed their negotiations, assumption and personal concerns when dealing with the Belgian government while bailing out ABN Amro. In the three mentioned books on ING, SNS Bank and ABN Amro politicians, banking employees have already been interviewed. This claim is substantiated by Culpeper and Reinke (2014, p. 449), as they state that "strategic structural power can be observed through its effect in negotiations, of which there is an empirical record. It can be readily demonstrated through process-tracing that is embedded in an analysis of market position and of bank-government interaction. As such, it is a distinction that will allow other scholars to test our propositions about the dependence of companies on national regulatory authority in a

globalized economy”. In order to move further than the simple banks hold structural power answer as the reason why all advanced economies bailed out banks, research has to consider how structural advantages was translated through negotiations, especially when it comes to collective action or inaction (Woll, 2016, pp. 386-387). The analysis will be concluded by aligning the results with theoretical finding, approaching it as iterative process (Dubois et al, 2002; Yin 2014).

3.1.2 Case selection

Due to the explanatory nature of this thesis and the necessary criteria of receiving a bailout, the cases of ABN Amro, ING and SNS Bank are chosen through a most likely case selection, because they are the only major banks who received funding or a form of bailout because of consequences of the financial crisis. Together, the three cases exemplify the largest interventions of the Dutch administration in terms of liquidity size, time, political influence, legal effects, and new legislation regarding the enforced expropriation law. Because this study adopts the process tracing approach requires the cases to have the ability to reveal the temporal interplay among conditions or mechanisms that led to the specific outcome of a bank bail-out or form of government intervention.

As the goal of this research is to study bank bail outs within the Dutch financial sector, eligible banks should have their lending activities and operations for the majority focussed on the Dutch economy. Subsequently, an unfolding bankruptcy of a Dutch financial institution should affect other Dutch banks through contamination, which basically boils down to the concept of systemic risk. Theory of collective action (Woll, 2016) and structural power (Culpeper and Reinke, 2014) illustrate the importance of balance sheets when negotiating with governments for aid. When utilizing the CPT approach, Blatter and Haverland (2012) argue that the primary precondition for researching cases is that they are accessible to the scholar. The foundation of CPT approach is built on creating comprehensive storylines that unfold the causal process. From these storylines critical moments will be defined and analysed to expand knowledge of perceptions and motivations of important actors, which in this research consist of the negotiations between policymakers, supervisors, and banks (Idem, pp. 10-11). Thirdly, opting for the Dutch case is justified when relating it to the committed bailout as a percentage of the GDP and eventual losses, displayed by comparison of other EU countries (in Grossmand & Woll, 2014, p.580). On average, the costs of the Dutch solutions can be seen as average compared to other EU countries, making it a suitable case for analysis on this topic.

Before selecting cases, one should taken into account that governmental interventions in the Dutch financial sector are luckily quite rare, especially when it comes to bailing out individual banks. Due to scarce amount of cases, in the line of argumentation of George and Bennet a plausability probe is usefull when selecting cases. A plausability probe in process tracing research is incorporated to develop and refine many theories that are not yet capable of generating testable predictions about causal processes and outcomes (2005: 155). Blatter and Haverland (2012: 15) further developed this approach, by stating that accessibility and outcome should be crucial determant when chosing a CPT appropriate case.

When it comes to accesibility, the cases of ABN Amro and ING both took place in the year of 2008, during the climax of the great financial crisis. Due to the extensive and drastic measures, both cases where reviewed by a commission (Committee de Wit, 2010), which formed the basis for the subsequential parliamentary inquiry (Tweede Kamer, 2012). In this inquiry actors had to disclose events under oath, which led to a 700 page report of information. Regarding the case of the SNS bank, a new expropriation law was used for the first time to bail-out the bank, which led to an evaluation commission (Hoekstra & Frijns, 2014) to review the actions by the government. The bailout led to policy reform when it comes to increasing of financial buffers and being subject of scientific reports from the WRR on causing financial fragilities in society (WRR, 2015). At last, three extensive books where written about each case, providing over 1000 pages of literature to futher examine (Kreling & Rosenberg, 2014), of which two where published recently (Bökkerink & Couwenbergh, 2020) (Janssen, 2019). Subsequently, each of the cases had an implicit Dutch governmental guarantee which affected the credit agencies ratings as displayed in figure 2 (DNB, 2015, p. 20). Without this financial surcharge, it would have been more expensive for the banks to attract funding, as investors utilize these rating to calculate interest and acceptable risk. Additionally, it illustrates the knowledge within the financial sector that doing business with these banks was safer because during times of insolvency, banks could count of support from the state. For example, an autonomous BBB+ rating from ABN Amro is there adjusted to an A rating. Although Rabobank is also implicitly guaranteed support, they did not face significant consequences from the GFC and therefore did not receive funding which excludes them from this research. Figure 4 specifies the case selection per criteria and why they fit this study.

Figure 4: Case selection criteria

<i>Case</i>	<i>Criteria</i>
<i>ABN AMRO</i>	• Economic: received state aid through nationalization. • Political: 5 million Dutch account holders which have an impact on the Dutch economy. • Policy reform: Parliamentary inquiry on the crisis negotiations
<i>ING</i>	• Economic: received state aid through loan and transfer of portfolio risk. • Politically: interesting as merger talks with ABN Amro were happening in combination of being the biggest bank of the Dutch financial system. • Policy reform: included in parliamentary inquiry on crisis negotiations.
<i>SNS Bank</i>	• Economic: received state aid through nationalization. • Political: political salient because of intervention by expropriation law. • Policy reform: parliamentary commission has researched the crisis negotiations and enforcement of the nationalization of the new law.

3.2.1 Variables and Validity

This study consists of three independent and one dependent variables. The first independent variable consists of the political considerations during the negotiations between government and bankers, summarized as the decision-making process of intervention. Subsequently, this is operationalized to the ability of bankers to defy their regulators through collective inaction and the distinction between structural and instrumental power of banks. The second independent consists of economic considerations such as, the costs of intervention (liquidity support) and damage to the economy (SREP) during the negotiations and process of governmental intervention. This explanation is further distinguished to the exposure of the financial institution in distress towards the Dutch economy and the economic impact on society. The third independent consists of policy considerations during the negotiations and process of governmental intervention. Particularly, policy explanations are operationalized as laws that serve a purpose of managing the financial crisis by providing policymakers with tools to enforce a bailout with binding conditions.

Concerning the dependent variable of this research is illustrated by the form of bailout granted by the Dutch government towards the bank. Further operationalized, these types of bailouts are classified as favourable or unfavourable to the bank as financial institution. This is due to the fact the negotiations are between policymakers and bankers, whereas shareholders

and depositors are often not present during the negotiations. Although it must be noted that shareholders can exert influence through the media during the negotiations. Although all three cases are equal to the fact they received some type of funding, the degree that intervention harmed their autonomy differed. This will be reflected on during the case studies. It is of crucial importance to highlight which party benefits from the bailout, as this can differ from case to case. In the scenario of a bankruptcy everyone loses, but in a scenario of a bailout it can harm some actors (taxpayers, politicians) while benefitting others (bankers, depositors).

In the discipline of political science, case studies are considered a well-known methodology although they come with a supposed trade-off concerning internal and external validity (Bryman, 2012, p. 69). Although they are considered well proven on the internal validity, their external validity has been heavily debated in terms to what extent case studies can be generalized. (Flyvberg, 2006) argues that this a misunderstanding that one cannot generalize from a single case, and that it is indeed possible in lots of cases because formal generalization is overvalued. Figure five specifies the three variables and how they are measured within the analysis.

<i>Concept</i>	<i>Variable</i>	<i>Indicator</i>	<i>Description</i>
<i>Bailout</i>		Bail out negotiations	The ability of banks to defy governmental aid in times of crisis.
	Political	1. Collective inaction 2. Lobbying 3. Structural power	1. Proposals and perception of accepting aid. 2. Proposals on type of intervention by lawyers and CEO's. 3. Highlighting the possibility of relocating national investments or headquarters.
	Economic	1. SREP 2. Liquidity Support 3. Economic doom scenario	1. Negotiations on crucial status SREP Document. 2. Type of liquidity of solvency aid being discussed. 3. Economic impact of bankruptcy banks and collapse financial system.
	Policy	1. Supervisory Laws 2. Crisis management Plans 3. Reform of the financial system	1. Analyzing to which extent there is a case of regulatory favoritism 2. Analyzing the toolkit of the state to coerce banks into policy proposal or enforce laws to mitigate systemic risks. 3. Reform of accountability banks regarding systemic risks.

Figure 5: Operationalization table

3.2.2. Data collection

Data collection will consist of policy documents and parliamentary inquiries performed by committees. These investigations reports are full of anecdotal evidence due to the fact interviewees had to consent to a legal oath. It can therefore be assumed that they are speaking the truth. Additionally, a literature study is included which is further specified in figure four. Books explaining banking operations resulting into the outcome of bail outs will be analysed and discussed. Additionally, the history and context of the rise of the Dutch financial industry (Smit, 2008; Chang & Jones, 2013) discussed in a context section. Since the Dutch administration is restricted in its actions by the institution of the European Union, the book of the Eurocrisis by former Chairman of the Eurogroup Dijsselbloem (2018) provides useful inside information of the politics of the crisis on a supranational level. Subsequently, the policy reports consisting of the Committee de Wit (2010), Committee Wijffels (2013) the WRR (2019) and the DNB (2014;2015) will be discussed and analysed in relation to the theory. At last, the three empirical books on ABN Amro (Bökkerink & Couwenbergh, 2020), ING (Janssen, 2019) and SNS Bank (Kreling & Rosenberg, 2014) will provide data about behind the scenes negotiations.

Figure 6: Data collection

<i>Method</i>	<i>No.</i>	<i>Type of Documents</i>	<i>Source(document)</i>
<i>Documents Analysis</i>		Policy documents	(DNB, 2015) (DNB, 2014) (DNB, 2019) (DNB, 2009) (DNB, 2007) (Algemene Rekenkamer, 2020) (Algemene Rekenkamer, 2019)
	1	Parliamentary inquiry	(Tweede Kamer, 2012)
	6	Research journalism books	(Bökkerink & Couwenbergh, 2020) (Smit, 2008) (Janssen, 2019) (Kreling & Rosenberg, 2014) (Kalse & van Lent, 2009) (Dijsselbloem, 2018)
	2	Documentary's	(The Eighth Day, 2018) (Zembla, 2013)
	4	Research Committee's	(Committee de Wit, 2010) (Committee Wijffels, 2013) (WRR, 2016) (WRR, 2019) (WRR, 2015)
<i>Interviews</i>	1	Transcription	Respondent 1 (2022)

3.2.3 Remarks on Covid-19

This chapter has established a methodical framework for conducting this study. The objective of this study is to analyse the leeway of the government regarding Dutch Bank bailouts during the financial crisis. Reflecting on the current state of the Covid-19 pandemic and following financial panic getting a new interview with these actors is considered impossible task. The researcher has worked at one of the banks during the beginning of the pandemic and noticed that while being an employee, reaching out to important actors has been an unsuccessful undertaking. The same can be said when it comes to public institutions, such as the ministry of finance or supervisor DNB. They are confronted by the greatest and persistent crisis second with the second world war. This had limited the research to a substantial policy analysis despite having the desire of conducting interviews. Conducting interviews was not possible due to the pandemic still being prevalent after a year, in combination with policymakers being too occupied.

Chapter 4: Analysis

This analysis chapter is divided into three segments. The first segment will start with a brief historic summary of the financial crisis in combination with how it could affect the three Dutch banks because of its structure of the financial sector. A concentrated and internationalized sector became susceptible to the structural power of a handful of banks. The second segment will closely describe the individual situation of ABN Amro, ING and SNS bank and analyse how policymakers sculpted the three different bailouts. The goal of this section is to reconstruct the crisis narrative between policymakers, bankers, and supervisors. The last section will reconstruct how much leeway policymakers had via a distinguishing and assessing influence of political, economic and policy variables.

4.1 Historic summary: An impatient financial system

The declared bankruptcy and fall of the 158 years old investment bank Lehmann Brothers on the 15th of September 2008 is considered the catalysator that led to the unfolding of the 2008 financial crisis. What started as a solely individual bank in crisis due to subprime mortgages defaults in the United States, rapidly transformed itself towards an international systemic crisis. At the time, a unique situation that can be illustrated by the drop in total market capitalization of banks from 8.9\$ trillion in October 2007 towards 3.1\$ trillion in February 2009 (BCG, 2010, p. 8). This immense decline in liquidity did not only impact the financial sector, but rapidly spread to almost every sector as stocks worldwide plummeted resulting in an economic crisis in 2010. The interconnectedness of the financial and consequential economic crisis revealed that in early 2010 several European member states (Greece, Cyprus, Ireland, Portugal and Spain) were unable to refinance their government debt which resulted in the incapability to bail out national banks in need. The paradoxical dilemma was that the international effects of the failure of Lehmann, implicitly reinforced the too big to fail doctrine (Dijsselbloem, 2018, pp. 38-39).

To understand the impact from the GFC, it is necessary to review the context in which certain conditions contributed to the boom-and-bust cycle in the Netherlands. Since the fall of the Berlin Wall in 1989, an unbounded optimism settled in the financial and economic markets, as the assumption was that markets would become more stable in combination with a diversified distribution of risk (DNB, 2010, p. 9). This was illustrated by two significant financial innovations that became infamous for being the catalysators of the GFC; the originate

to distribute (OTD) model known for its roots of the securitization process and the Credit Default Swaps (CDS). Chairman of the Federal Reserve, Alan Greenspan exemplified the enthusiasm for the innovations on the 5th of May 2005; “the use of a growing array of derivatives and the related application of more-sophisticated approaches to measuring and managing risk are key factors underpinning the greater resilience of our largest financial institutions (...) Derivatives have permitted the unbundling of financial risks” (in DNB 2010: 16). The effects of the OTD model consist of an increase in leverage and the reduction of buffers. The OTD model enables banks to package (securitize) loans and resell them to other institutions. However, these short-term financed vehicles (conduits) were off the balance, but had their credit lines with the banks, which in the end reflected on the bank balance sheets. For example, Standard and Poor estimated that during the credit crunch of 2007 ABN Amro had an exposure between 80 and 100 billion dollars (Kalse & van Lent, 2009, p. 88). Secondly, a CDS is a type of insurance, in which parties agree on contract to speculate against bankruptcy risks by paying a periodic premium to the insurer. On the one hand, this innovation also facilitates more effective risk sharing within the system. On the other hand, because of this innovation, it is not always clear where certain risks ultimately end up, which became the toxic problem spreading throughout the system (DNB, 2010, p. 17).

Macro-economic conditions contributed to the subprime mortgages’ defaults in the US, but also had their impact on the Netherlands. Since the beginning of the nineties a climate is shaped of increasing imbalances in the world economy, constructed by the phenomena of globalization and deregulation in the goods-and capital markets. Technological innovation in risk management and political developments in the eighties caused emerging markets with their strong, export driven growth to take full advantage of this climate of globalization and deregulation, as described earlier by Wolf (2014, in Mitchell 2016, p.28). This period became later known as the era of ‘great moderation’ in economic literature but led to an underestimation of actual underlying systemic risks. At the end of the nineties, interest rates from Federal Reserve and ECB were lowered systematically (6,5% to 3,5) after the internet bubble crash in 2001 (DNB, 2010, p. 14). However, these interest rate cuts eventually constructed the upcoming housing bubble. Adjusted to the inflation, money became basically free for banks around 2004. Along with the efforts of the Federal Reserve to rescue LTCM hedge fund in 1988, it created a sentiment among investors that when something goes wrong, the authorities will stand-in or limit negative consequences of the crisis. This economic situation was later characterized as the Greenspan-Put (Kalse & van Lent, 2009, pp. 92-93).

Alongside macro-economic conditions, a report of the OECD (2008) analyzed the how the mortgage-based crisis could unfold and pointed to six causes, which are all related to public policies or the lack of them. First, the American dream policies pursued by the Bush and Clinton administration for lower incomes to make housing ownership affordable. Secondly, mortgage interest became tax deductible which led to more consumptive borrowing. Third, the 1986 tax reform increased the attractiveness of mortgage securitization by extending the tax exemption for investment banks for repackaging mortgages. Fourth, in 1997 tax policy reform concluded that houses would be excluded from the capital taxation, while stocks were included. Fifth, in 2004 the capital requirements for Fannie and Freddie were deducted, therefore increase their leverage (debt to net equity ratio). Lastly, the dominance of investment banks in American financial culture has been a great booster for the securitization process.

The burst of the American housing bubble therefore challenged the three fundamental pillars on which the international financial system was built. The credit rating agencies resemble the first pillar which were built on quicksand, as the value of triple A rating investments products quickly vanished to zero. The second pillar under the banking system was the assumption that capital market would always have liquidity. This was exemplified by the infamous quote of Chuck Prince, CEO of Citigroup: “When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance. Citi is still dancing” (Wighton, 2017). The third pillar was the original assumption that CDS would result into the spread of risk among the banking system, and with the spread would become manageable (Kalse & van Lent, 2009, pp. 132-135). However, when the off-balance special purpose vehicles (SPV) ran into trouble, they had to request liquidity from the originator. Risk was therefore spread, but not vanished within the system. At the time, risk managers utilized a system known as ‘value at risk’ (VAR) which basically meant that ‘one number’ could resemble the relation between risk and the return on investments. However, the system is deceptive in its essence. For example, if the VAR is 100 million, then it implies that there is a 99-percentage chance of losing less than 100 million and 1 percentage chance of losing more than 100 million. The deceptiveness of this method is challenged by the Black swan theory, as the 1 percentage chance of the assumed impossible situation is becoming more common among society (Taleb & Triana, 2008) (Kalse & van Lent, 2009, p. 256). A claim substantiated by Perrow (1984), which argued that crises and disasters should be viewed as “normal” outcomes of our continuing efforts to make systems increasingly complex and tightly coupled. In this perspective, the very qualities of complex systems that drive modernity also precipitate or exacerbate most, if not all, technological crisis.

During July 2007, the quote of Prince would become reality when the first financial domino started to fall. Two off balance SPV's specialized in CDO's originated from investment bank Bearn Stearns ran into trouble and had to file bankruptcy when housing prices started fall. The CEO of Bearn Stearns, Called CEO Jamie Dimon from JP Morgan, requesting 29 billion euro's overnight (Minute 23 in (VICE, 2019). A month later in August, international bank BNP Paribas sets three investment funds on hold due to dried up liquidity in American securitization markets (DNB, 2010, p. 166). Historically, it is noted that this is the beginning of the GFC, alongside the action of the ECB on the 9th of August 2007 to inject ('or fine tune') the unstable financial markets with 95 billion euros of liquidity to keep the financial system from collapsing.

4.1.2 Structure of the Dutch financial system

So how was the Dutch system exposed to this at first glance American financial disaster of sub-prima mortgages? In 2007, the only bank which suffered consequences was the former Dutch investment bank NIBC. Sentiment among Dutch bankers was strong, as they congratulated themselves for brilliant risk management due to the fact 'only' 16 billion was written off among the sector in contrast to the immense US losses and bailed out banks (Kalse & van Lent, 2009, p. 202). However, to understand the exposure of the Netherlands a brief look into the financial structure policies is necessary.

The Dutch financial centrum is intertwined with the cultural understanding of the Netherlands being a trading nation, exemplified in the 17th century with the VOC being the first company invent the concept of stocks. Fast forward, the policy spectrum after the WW2 can be characterized as structured policies to promote the rebuilding of the sector. This resulted into a diversified system of savings banks, postal banks, commercial banks, agricultural, insurance companies and merchant banks (Chang & Jones, 2013, p. 82). From the eighties and nineties, a liberalization wave in the structure policy resulted into restrictions of merger and acquisition being lifted between banks and insurance companies. The upcoming internal market of the European Unions was the greatest motive for this change, as the free flow of goods but more importantly capital and financial servers was promoted (DNB, 2010, p. 35). This European dogma paved the way for strategic reconsideration of the strictly separated banking and insurance models. This was seen as unpractical in the new European context, as now European foreign banks became direct competitors on the internal market. Consequently, a neoliberal Dutch administration promoted free markets and deregulation among the economy and financial sector.

This regulatory shift in the structure of the Dutch financial system caused three major developments regarding its structure: domestic consolidation, cross sectional integration and internationalization (ibid). Domestic consolidation is illustrated by of the merger between ABN and Amro Bank (Smit, 2008), followed by Postbank and Nationale Nederlanden (ING) and SNS Bank and Reaal insurances (SNS Reaal). There was a great desire to achieve scale in a market that was believed to be internationalized, with the result that the sector became increasingly concentrated (see figure 7). Cross sectional integration occurred between banks and insurers, born from the wholesale business model in which banks basically had the desire to serve clients from the whole spectrum of financial products. Flori et al. (2019, p. 27) confirm “that size (in terms of total assets), and therefore the issue of “too-big-to-fail”, had a significant predictive impact only among modern wholesale-oriented models. This is not the case within the traditional deposit-oriented groups, where size did not play any significant role”. It was one the incorrect assumptions of the pillars of the international finance that the universal banking model would result in the spreading of risk. Internationalization of the system mainly developed through acquisitions of foreign banks. In 1979, ABN Amro already acquired US based Banks La Salle, with later acquisitions of Banco Real and Italian bank Antonveneta. ING acquired Barings, Furman Selz, Bank Bruxelesses Lambert and Equitable of Iowa (DNB, 2010, p. 36). In 2006 SNS acquired Bouwfonds Property Finance from ABN Amro, which was basically an international real estate finance division of the bank, portraying the international ambitions of SNS (Kreling & Rosenberg, 2014).

As result of this international consolidation, the Dutch financial sector assets were worth 4.3 trillion Euro’s, establishing itself among the ten largest system of the world contributing 7 percent of the GPD (DNB, 2010, p. 33). In December 2007, international liabilities of the Dutch system were estimated at 150 percent of the GDP. The salient thing is, that while bank deposit runs are rather uncommon, seizures in international wholesale markets are not out of the ordinary. Especially when it comes to banks being exposed to the shadow banking system (hedge funds, SIV, etc.), that encouraged excessive lending pre crisis throughout the EU (Kalse & van Lent, 2009, p. 106). “In the Netherlands by early 2007 securitization reached almost €109 billion (DNB 2007, 16). In Europe, the United Kingdom (43per cent), Spain (15 per cent), the Netherlands (11 per cent)

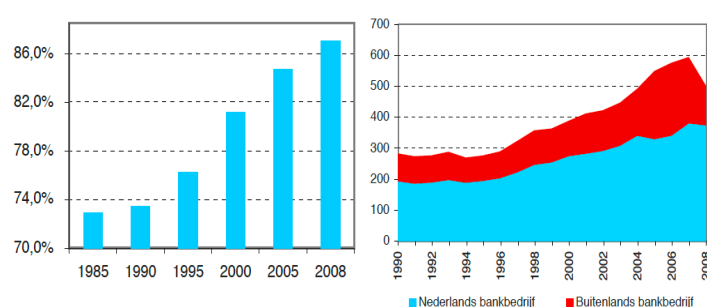


Figure 7: Market share top 5 banks & balance sheet banks as of Dutch GDP (DNB, 2010: 36)

and Italy (10 per cent) had the highest concentration of underlying collateral in CDOs at the end of 2007 “ (Chang & Jones, 2013, pp. 89-90).

To put these developments into context, the rapid expansion of debt in the Netherlands did not only took place in high finance but also in domestic household. As the GFC originated from the US, an explanation was the us citizens debt inflated consumerism. However, when in fact related to income, Dutch households are internationally considered the champions of debt and not US households. In addition, US bank had greater equity compared to Dutch banks (van Duijn, 2011, pp. 7-9). A trend that established itself from the 70’s when more families started to buy a house. In general, from that point of history the general notion of saving eroded among Dutch household and consumptive credit rose (Idem: 73-74, 77). The book ‘the Mountain of Debt’ is therefore an account on how a culture of saving shifted towards consumerism, specifically promoted by fiscal benefits in housing policies.

This was one of the catalysators of the Dutch financial crisis due to the fact banks lost the capability to transfer this type of debt within the financial system, mainly as the international money markets dried up. There are three different approaches in how banks operate when it comes to funding; client deposits which hold accounts at the bank, interbank lending, short term capital markets and by issuing long term debt (bonds) or equity (Holmstrom, 2015). Prior to the GFC, banks were highly reliant on short term financing, known as money markets, which was exactly the trouble Fortis/ABN Amro ran into when it metaphorically ran out of oxygen to have liquidity to meet its obligations. The following table illustrates how stock and money markets differ (idem: 5-6).

Stock Markets	Money Markets
Risk sharing	Liquidity provision/lending
Price discovery	Obviating price discovery
Information sensitive	Information insensitive
Transparent	Opaque
Big investments in info	Modest investments in info
Many traders (exchanges)	Few traders (bilateral)
Trading not urgent	Trading urgent
Volatile volume	Stable volume

Figure 8: structure stock versus money markets (Holmstrom, 2015)

4.1.3 Supervision actors/structures of the Netherlands

Due to the liberalization wave of the sector in the nineties, the influence of the DNB regarding structure of the system has been limited. Since 2004 the Dutch financial sector has been supervised along the conceptual understanding of the Twin Peaks supervision model. In this model supervision of banks, pension funds and insurers have become integrated as a response to the consolidation and mergers within the sector, opposing from the former sectoral supervision. Therefore, prudential Central Banking and financial conduct supervisory activities have become merged in one institution to promote financial stability and resilience. Prudential supervision focusses on the soundness of financial enterprises and the stability of the sector, whereas rules are formulated to reduce the risk of institutions being unable to fulfill payment obligations (DNB, 2010, pp. 37,44). The Authority Financial Markets (AFM) is responsible for the execution of prudential supervision, through investigating the conduct of the financial actors in the sector. Conduct supervision targets orderly and transparent financial market processes, clean relationships between market parties and careful handling of clients (idem: 43)

Although these institutional innovations had good intentions, putting them into practice remained difficult. Therefore, it should be noted that not only the banks hold accountability for the financial crisis, but also the structural lack of understanding among regulators, rating agencies and the IMF regarding their optimistic outlooks. In 2007, Supervisor DNB stated that “Dutch banks were impacted by the market turbulence, but their solvency buffers proved amply adequate (DNB, 2007, p. 65). At the time, Dutch banks had not stated in their correspondence with the DNB their exposure to US sub-prime mortgages, it is in this regard that ‘in the Netherlands, there is no cause for concern that a US-style scenario may unfold (DNB, 2007, p. 67). Regarding supervision, during the public hearings an insightful remark was made by Mr. Kleijwegt, division director supervision banks at DNB:

“When the crisis erupted in full force, this simple balance sheet leverage became an important indicator for market participants. While it was not a good indicator, it was for the market. In these completely uncertain circumstances, market parties were fed up with all kinds of complex calculations that led to a certain level of capital. They no longer believed all those models because they felt they were always wrong. They simply looked at the balance sheet, at the equity on the balance sheet and the balance sheet total. We had not realized beforehand that this could be such

an important indicator for the market in certain circumstances”

(Tweede Kamer, 2012, p. 549).

In essence, the quote resembles what has been happening throughout the history of the financial sector when it comes to the relationship between financial institutions and their supervisors; a type of rat-race between innovation and constituting supervision of that innovation. Regulators supervise what they think the banks are doing, and after innovation banks do something different (Committee de Wit, 2010, p. 170).

Criticism on the functioning of the supervisor during the GFC can be distinguished into four different perspectives, ranging from the public opinion, knowledge and expertise, supervisory culture, authority, and reputation. Especially after the GFC, public scrutiny was aimed at the passiveness of the regulator when it came to comprehending the dangers of the risk appetite of the sector (idem: 169). Although DNB had recent publications on the off-balance vehicles, their effects has been later characterized as insidiously creating fragility within the system. It is therefore said that the culture of the DNB was not flawed “in its supervision, but rather in its reluctance of intervention” (van Wijnbergen in Committee de Wit 2010: 171). However, that reluctance can be explained through a tradeoff explained by former president of the DNB Wellink:

“With the trade-off that a doctor has to make between immediately performing a risky operation and waiting to see whether a drug is prescribed. A well-known premise in medical ethics is that an intervention should be avoided if the potential benefits of that intervention do not outweigh the potentially harmful side effects. A lot can also be achieved with banks without immediately pulling our knife. For example, by having a solid conversation or issuing a warning in an informal atmosphere. A coercive, formal intervention may be necessary, but it can also be counterproductive, for example because the action leaks out and the bank has to deal with a destabilizing market reaction such as a bank run. Then you come into the category operation successful, patient died” (ibid).

When it comes to the last aspect of authority and reputation, it was noted that it has become increasingly difficult for a regulator to point at systemic risks when markets are booming. Criticism is then downplayed, as reality argues against the warnings put forward by politicians. In addition, the acceptance of risks is being promoted in the financial realm through regulatory

competition, as the absence of regulatory pressure increases the competitive position of the same sector (idem: 174).

During the GFC, crisis management was most prominent among a triangle of the following actors: Ministry of Finance, DNB and the AFM. The different responsibilities and of the institutions, manifested themselves during negotiations between government and the banking sector when it came to the types of interventions. However, it should be considered that at the time this was an unprecedented crisis where no policy instruments were available beforehand. The decisions on the increase of the deposit guarantee scheme, the pre-financing of the Icesave assets, the capital facilities and the bank loan guarantee scheme were taken in weeks, where normal circumstances would require at least several months (Tweede Kamer, 2012, p. 454). Differences regarding policy assumptions between the Ministry of Finance and DNB have been summarized in the following table (idem: 454, 469).

Figure 9: Policy assumptions DNB versus ministry

<i>Policy Assumptions</i>	<i>Ministry of Finance</i>	<i>DNB</i>
1	Commitment to European coordination.	Importance of a level playing field.
2	Speed of action and massive response.	Limited role of government in the financial sector.
3	All financial institutions are systemically important.	Importance of financial stability.
4	Only support for fundamentally healthy institutions.	Policy based on customization and flexibility.
5	The government does not take over all risks.	

4.2 Dutch banker pride constrained: the three big interventions

This chapter will discuss the chronological events of ABN Amro, ING and SNS Bank finding themselves in troubled waters. After having described the contextual situation, this chapter will serve as a reconstruction of the crisis narrative between policymakers and the banks, serving as an empirical basis regarding theory section 2.3.2. Establishing this chronological narrative will serve the purpose of building the foundation for the next chapter of reconstructing how much leeway policymakers had during their intervention. Banks, supervisors of DNB and legislators from the ministry of finance are in a constant political arena to find a consensus on conflicted interests. This section will discuss the interplay of these actors in more detail.

4.2.1 ABN-Amro: the case of regaining 5 million Dutch client accounts

On 22 September 1991, two universal banks in the Netherlands, the *Algemene Bank Nederland (ABN)* and *Amsterdam-Rotterdam Bank (Amro)*, merged into the greatest bank of the country resulting in the ABN Amro brand name. After an initial period of internal clashing cultures of the former bank, under the reign of CEO Groenink the bank started to expand internationally from the nineties until it lost its independence in October 2007. At its height around beginning 2006, it had operations in Brazil (Banco Real), US (La Salle), Italy (Antonveneta) and Asia, combining to net profit of 4.7 billion realized by 108.000 employees (Smit, 2008, p. 7). From the nineties till the GFC, the international banking landscape was defined by a quest for efficiency combined with scaling up activities through wholesale banking. Corporate banking activities reached all-time highs, with individual bonuses for investment bankers of 5 million pounds per deal. However, after 2000 the bonus ‘circus’ really took off. It was in this environment that ABN Amro tried to operate, and the corporate banking division started to take the greatest risks within the bank. In 1995 it started the derivatives and structured products in London, becoming a pioneer among the Dutch banks. In 1997, it became the first Dutch bank to securitize mortgages accompanied with bringing those risk off balance in financial innovation of conduits. When the GFC erupted, ABN Amro had an exposure of conduits ranging from 80 to 100 billion dollars (Kalse & van Lent, 2009, pp. 86-90).

However, despite the major investments and risk taking among the corporate division, it was unable to materialize them structurally. This led to investors devaluating the stock, which has serious implications in the financial landscape, as the company becomes more susceptible for hostile takeovers (Smit, 2008, p. 289). However, in June of 2006 it became clear to the management that the costs (11% rise) of the bank outweighed the income (8% rise), concluding

that the strategy project Petra had the unintended consequence that accountability of costs were not felt within the divisions. It was during those months that it became clear to the CEO Groenink that ABN Amro had lost it for self-determination for its own future. The bank was too underfunded to initiate a new acquisition and with a declining stock price classified itself as an opportunity for other banks (idem :310-311). The stock market value was based around 40 billion euros, whilst the bank needed to be at 100 billion euros to survive the upcoming consolidation in the banking landscape. Factors that led to the fall of the 183-year-old institution were the numerous strategy changes, blind ambitions, indecisions among the management and board of supervisors (idem: 25-27).

The critical letter in February 2007 from the investment fund TCI was therefore seen as the symbolic tipping point of the disintegration of the bank. It strategically sparked a long-cherished sentiment of discontent among the shareholders of ABN Amro about the lacking performance of the bank. From February till October a merger and acquisition crusade were undertaken by CEO Groenink. Serious merger talks were first held with national competitor ING but failed due to a rising stock price of ABN Amro and cultural clashes between the banks managements (de Graaf, et al., 2007). After the unsuccessful attempt with ING, Groenink shifted towards a merger with Barclays, but was disrupted by the initiated bidding war from hedge fund TCI with a new formed consortium of Royal Bank of Scotland, Fortis, and Santander (RFS). The outcome: a 70.3 billion euro deal for the consortium and the disintegration of the bank. With the merger, five million Dutch bank accounts were transferred towards the Belgian Fortis Bank. On the 13th of August the shares were officially transferred to the RFS consortium, which was further illustrated by removing the ABN Amro logo from the Gustav Mahlerlaan (Bökkerink & Couwenbergh, 2020, pp. 16,24)

During the first months of 2008 Fortis began with the challenging operation to integration the acquired ABN Amro and Fortis Netherlands into one effective entity, in order to realize the expected synergy. During the year Fortis experienced a decline in the value of assets and investments, causing the board to implement policies of cost saving and bring liquidity from foreign countries to the headquarters in Belgium. During these months DNB developed concerns about the financial position of Fortis Netherlands. This became illustrated by the news that Fortis needed 8.3 billion euro's extra for the acquisition of ABN Amro (totalling up to 24 billion), with a short-term liquidity injection of 1.5 billion euros (Bökkerink & Couwenbergh, 2020, pp. 26-27).

On, 15 September 2008 Lehmann Brothers filed for bankruptcy. It took about a week for the consequences to unfold in the European financial system. It affected Fortis bank due to

three factors, despite having high rated obligations in their portfolio's, these consisted of structured products in combination with the fact that ABN Amro was a pioneer and heavily involved in the supply side of these derivatives. Third, the funding of Fortis was reliant on the interbank markets of lending, which started dysfunction after Lehmann's bankruptcy causing other banks to stop short-term financing creating a vicious cycle (Tweede Kamer, 2012, p. 93) (Kalse & van Lent, 2009, p. 283). It became a perfect storm, and Fortis was the first European bank to see its chances of survival declining by the minute on the financial markets as share and accounts holders started to withdraw money from the bank.

It was this combination of events that translated concerns at DNB towards action by the Dutch government on the 26 September of 2008. On the 27th of September 2008 vast amounts of deposits were withdrawn from the Fortis Bank which resulted into a liquidity risk on the next Monday. In other words, if no action would have been taken Fortis would have been the first systemic bank of the Eurozone to declare bankruptcy. Besides Belgian policymakers being fearful for that scenario, Dutch ministers Bos and Balkenende feared that its consequences would have significant impact on the Dutch sector. Additionally, the ECB feared that the failure of Fortis would initiate a domino effect which would have an unprecedented impact on the Eurozone, and accordingly to former ECB President Trichet would have led to implosion of the Euro (in *The Eighth Day*, 2018). To de-escalate the markets and the population Dutch, Belgian and Luxemburg officials had to cooperate through the Benelux agreement. On the 28th September it was announced that 11,2 billion euros were invested into Fortis, of which the Dutch share was 4 billion euros for a 49 percent share of Fortis Bank Netherlands (Tweede Kamer, 2012, p. 128). Additionally, ING acquired the exclusive right to negotiate with Fortis over the purchase of ABN Amro. It was noble plan but became obsolete by the pure panic of the financial markets on the 29th of September caused by the first rejection of the TARP bank bailout by the US Congress. Unfortunately, Fortis CEO Verwilt made an historic blunder while he walked that day into a Belgian cabinet meeting, not covering up documents regarding the exclusivity deal with ING over ABN Amro. Due to vigilant photographers, the whole world saw a snapshot of the concept bid of 10 billion euros from ING. Markets reacted immediately, the stock price fell drastically, forcing ING CEO Tilmant to react by terminating the deal leaving the Dutch delegation stranded on its private

options¹ (Bökkerink & Couwenbergh, 2020, pp. 31-33). Eventually on Friday the third of October 2008, the Dutch government stated that it had acquired nationalisation of ABN AMRO with a total of 16,8 billion, totalling up to 22 billion euros (Committee de Wit, 2010, p. 64).

4.2.2 The roots of catalysator ING Direct

ING Group originated from the merger between former state owned *NMB-Postbank* and insurer *Nationale Nederlanden* in 1991. In the nineties the Banque assurance model gained popularity, because of the combination of short-term savings and long-term insurance premiums funding (e.g. life insurances) reducing the vulnerability of bank runs and exposure money and stock markets. The crucial benefits for insurance companies would be the access to the clientele of the bank. After a few years of clashing cultures², ING became a rising star on the international haute finance spectrum when it acquired London's Barings Bank in 1995 known infamous for its scandal of trader Nick Leeson that hid one billion pound of speculations losses (Janssen, 2019, pp. 63-65). Unfortunately, Barings did not deliver on becoming the prestigious corporate bank due to high costs and low returns, being sold in 2005. In 1998, ING Belgium acquired Banque Bruxelles Lambert (BBL) transferring their CEO Tilmant to the board of directors of ING. In 2004 Tilmant succeeded CEO Kist with the ambition to expand the brand ING to comparable levels such as Goldman Sachs or Coca Cola (idem: 66). This expansion strategy resulted into a total of 1800 sub companies within the ING conglomerate.

One of those companies was the savings bank model ING Direct that was presented in 1996, that earned the predicate revolutionary by being solely online and telephone based thereby attacking the physical banking model (idem: 71). After being piloted in Canada, it entered the US market in 2000 under the name ING Direct USA. Under the seven-year reign of director Kuhlmann, which focused heavily on marketing, the company became the greatest internet bank of the States holding 8 million accounts with a value of almost 100 billion dollars of savings. Their strategy was based on low costs and higher interest rates for their customers, and these rates were realized due to increased risks being taken on financial markets. More specifically, a combination of US government bonds and high interest rate mortgages. It was considered a money printing machine by the board of ING, and rapidly expanded to countries

¹ In hindsight it was an unrealistic option knowing that ING requested state supported a week later as result of Alt-A sub-prime mortgage portfolio.

² After the merger illustrated by battle of attention, power and reputation between the commercial employees of NMB bank and the former civil servants at the Postbank, while oversight was being held by the peacekeepers of Nationale Nederlanden.

such as Australia, United Kingdom, France, Spain, Italy, and Austria. However, being operational in many different jurisdictions meant that ING was obligated by law to reinvest the savings into domestic markets, such as the US Local Community and Reinvestment Act stating that 52 percent should be invested into mortgages (idem: 74-75).

Despite the financial benefits, one of the disadvantages of ING Direct being an online bank was that it had no offices to gain knowledge of the domestic real estate markets, which led to investments in the bundled Alt-A mortgages as they had the lowest risk rating at the time. Nevertheless, from the 2000's till the crisis the quality of these Alt-A deteriorated, exemplified by the fact that 80 percent of the mortgages issued in 2006 had been granted with limited or missing income statements (Tweede Kamer, 2012, pp. 190-191). The New York based company Dynamic Credit owned by Dutchman Tonko Gast was the first to realize this scenario ING was facing. According to him it was an illusion that 80 percent of the 39 billion euro's valued ALT a portfolio of ING Direct could be attributed a triple-A credit rating. A correcting in the US housing market would immediately transforming the triple-A status into a triple-C status, which meant that ING Direct needed to recapitalize its portfolio. The analysis from Dynamic Credit estimated the losses in a crisis between a minimum of 4 and maximum of 7,5 billion dollars. When he visited the headquarters of ING in the Netherlands, his concerns were dismissed, although 1,5 months later they became reality. Eventually the losses would reach a maximum of 15 billion dollars at the beginning of 2009. (Janssen, 2019, pp. 100-104). DNB chairman Wellink concluded during the parliamentary inquiry, that a combination of insufficient data and analytical frameworks led to the supervisor being unaware of these problems. (Tweede Kamer, 2012, p. 203).

A week after the negotiations with fortis over merging with ABN Amro, it became clear that ING was not in a financial position to make a bid. A well represented delegation of the board of directors from ING visited the ministry of Finance on the 8th of October 2008, not more than five days after the Dutch state nationalized ABN Amro and accompanying Fortis parts. The delegation tried to persuade minister Bos to take over the alt-A portfolio of ING as they feared raising the deposit guarantee scheme from 40.000 to 100.000 was insufficient to secure the future of ING. Bos declined, as he had no idea what the risks and costs for the government would were. Neither did DNB and ING. Besides, merely a week ago he had to defend a 17-billion-euro acquisition of ABN, it was impossible to defend taking over a risk of 39 billion euros from ING (Janssen, 2019, pp. 112-117).

4.2.3. SNS Bank: From 1.3 billion surplus to 3 billion liquidity shortage

The story of SNS bank starts with the Initial Public Offering (IPO) of the company in 2006, which could be considered a catalyst towards its bankruptcy. The context in which the bank operated should be considered, as it explains the unfortunate decisions being taken that led to eventual nationalization of SNS banks. Before the IPO of the Bank, SNS was a moderate bank expressed through a conservative risk appetite of its investments, mortgages and insurances. When CEO van Keulen entered the Board of directors in October 2002 this perspective changed drastically, as the concept of ambition replaced the cultural strategy of conservatism (Kreling & Rosenberg, 2014, p. 18). Under the reign of the new CEO SNS flourished with net profits of 85 million in 2002, 240 million in 2003 and 280 million in 2004. In 2005 the board of directors concluded that a net profit of 330 million was not enough capital to realize their ambitions of expansion and an increase in market share. “The company intends to use the net proceeds from the offering of the new shares entirely for general corporate purposes to sustain growth and capture new growth opportunities, both organically and through selected acquisitions” (Hoekstra & Frijns, 2014, pp. 12-13).

On the 18th of May 2006 SNS realized its position on the Dutch Euronext stock market, selling 35 percent of its shares resulted into a total of 1.368 billion euro's. Besides the IPO, the results over 2006 were a balance total of 80 billion with a record net profit of 370 million euros. (ibid) This substantial capital position fueled the desire for further mergers and acquisitions in a time where the housing market was reaching its peak through the earlier mentioned financial innovations, and SNS wanted to get in on the envy-making profits other banks were making (Kreling & Rosenberg, 2014, p. 25). When SNS laid eyes upon the business unit Bouwfonds property finance from ABN Amro, it was a perfect illustration of the characteristic in the financial world of unbridled optimism and boundless ambitions. Bouwfonds property finance symbolized the phenomena of transforming optimism as a core business model. Clients were granted unrestricted funding for building megalomaniac commercial building projects, on the sole basis of trust instead of performing reasonable due diligence. Former clients stated that you would get 50 million after a 5-minute conversation, whereas all the liability was carried by property finance (Zembla, 2013). However, the fact that more risk was being taken also meant higher returns, which from the outside made property finance look like a money printing machine. Especially for CEO van Keulen, which had 1,3 billion in cash. If he would not have used that funding, then why did he execute on the IPO? It would have been interpreted as lack of vision and leadership from CEO van Keulen.

When SNS announced the bid of Bouwfonds property finance for 840 million euros from ABN AMRO the main reaction from the financial markets and analyst consisted of surprise and disbelief, resulting into a decline of the stock price (Kreling & Rosenberg, 2014, pp. 42-43). An acquisition by SNS was to be expected, but this acquisition was definitely outside of the comfort zone of the bank. At the time SNS had no knowledge regarding real estate, let alone international commercial property finance among the board of directors. (Idem: 78-79). Despite concerns, the idea was to pursue Dutch activities of the real estate Bank and to discontinue the international activities of the bank in Spain and the United States. “Time after time the discontinuation of foreign activities was discusses, but due to a lack of strong commitment it became of gradual process of not being on the agenda. Out of the blue we started to grow those activities” (idem: 40-41). In hindsight a rather catastrophic indecision, as SNS has never performed fundamental due diligence on the portfolio of the bank when it was acquired.

An advisory report from KPMG that consisted of a mere timespan of six weeks was used by the board of directors to decide on the acquisition. The report criticized the lack of structured information from Bouwfonds, as the data room was insufficient to make clear judgements on the quality of the loans. Subsequently, the acquisition would not particularly fit the expressed strategy of the bank during the IPO. Bouwfonds is an international company, which would suit an international operating bank like former owner ABN Amro but would have implication for domestic bank SNS as finding funding would also become more expensive as it does not have the same credit rating on the financial markets. Nonetheless, it saw growth the growth opportunity in its entrepreneurial culture of the real estate bank, which would paradoxically cause the downfall for the bank (idem: 45-47). Due to these issues the initial purchase price of 840 million was discounted to 810 million euros. (Hoekstra & Frijns, 2014, p. 30).

Despite the several consultant reports there is one common thing they missed, or where basically unable to disclose. Regarding the nine billion loan portfolio in 2006 a third has been granted to international clients, more specifically to heavily leveraged project in Spain, Portugal, France, Germany, Belgium, and the United States. In some cases, Bouwfonds was the only bank responsible for funding whereas in other projects it contractually arranged co-ownership. The lawyers of Houthoff Buruma were eventually assigned to conduct the time-consuming assignment to review the whole real estate portfolio, reporting monthly on their findings. After a few satisfying cases with no red flags findings, directors of the bank decide to narrow down the selection towards representativeness. However, it should be noted that

archives received from Bouwfonds are often inadequate, which transforms towards a research strategy regarding the loans at face value in combination with common sense. Basically, they are performed behind a desk, instead of going to the actual building sites to review the current state of the construction site. After only half a year of time consuming and thus expensive in combination optimistic result, the lawyers are notified of the closure of the investigation. Concluding the investigation while having only conducted 300 of the 3000 loans, a mere 10 percent of the whole portfolio. When the crisis hits SNS, it becomes clear that even loans within the sample are considered less legal sound than concluded by the lawyers of Houthoff Buruma. (Kreling & Rosenberg, 2014, pp. 48-49). Symbolically speaking, you can't expect a functioning secondhand car without checking the milage and the condition of the engine.

On the 8th of October 2006 it was decision day for the board of directors whether to pursue the acquisition of Bouwfonds. The DNB had released its issue of no objection, but with the side note that this could not be considered a weighted decision as it was not even reviewed by the board of directors but by a division direction. In retrospective, the argumentation was that SNS had enough liquidity (as a result of the IPO) and that the acquisition of Bouwfonds property finance would spread its operations and therefore reduce the risk. Salient is the fact that the division director should have been aware that DNB was undertaking several investigations into allegations of fraud in combination with insufficient knowledge of the clients the bank financed. Regarding financial stability there is the concern that despite a sufficient liquidity position in combination with an addition of 9,8 billion euro on an 80 billion balance sheet, an 810 million purchase is considered modest. The perspective changes when it is compared to a later insufficient 2 billion of equity (idem: 50).

During the early stages of the GFC SNS remained out of harm's way, as the focus of policymakers was at the time centered on the issues at ABN Amro and later ING. As markets experienced turbulence during the month of October, the issues at SNS were temporary disguised because of the additional acquisitions of ING Regio Bank (50,5 million in June 2007), FBS Bankers (August 2007), Insurer AXA (1.75 billion in August 2007) and pension company Zwitserleven (1.535 billion in April 2008) providing the bank with sufficient capital (idem: 320). The negative aspect of the excessive tempo of acquisitions manifested itself through the fact they laid grounds for the deteriorated financial position encountered in November of 2008 when SNS needed to take provisions within the insurance department on their real estate portfolios and reported an 88 million las, forcing the Ministry of Finance³ to

³ The ministry of Finance relied on the judgement from the policymakers of DNB.

take preventive measures by pressuring SNS to accept governmental aid. At first, CEO van Keulen rejected the aid in fear of punishment by the markets, but down the road had no other option to symbolized governmental aid of 750 million as ‘a warm sweater to get through the winter’, while blaming it on the market’s turbulent times and preference of higher capital buffers during the crisis (Kreling & Rosenberg, 2014, pp. 145-146). After SNS was granted the ‘symbolic’ state aid, policymakers failed to set criteria that would guarantee the bank to implement reforms to secure a sustainable future. The policy was that only fundamental healthy institutions would receive aid, but the unintended consequence of this vision was that it reinforced the argument to downplay necessity of reforms by the banks. The parliamentary enquiry concluded that during crisis times this policy view shifts towards what can cause a domino effect through the financial system. However, by granting the state aid based on the judgement of the DNB it gradually revealed the vulnerabilities of SNS structure. Nevertheless, at the time the bank was not considered a priority at the supervisor and the ministry of Finance (Hoekstra & Frijns, 2014, pp. 322-323).

After the received state aid in November, beginning of 2009 SNS reported a historical loss of 504 million euros which were subscribed to the insurance division caused by write-downs of investment. Despite the intention to slim down the property finance division, the international portfolio grew with 19,3 percent, while the domestic increased with 9,2 percent totaling the size of the real estate bank up to 13,6 billion euros. On that exposure property finance was able to realize a 28 million net profit, but according to external auditor KPMG that could as well have been a loss with 40 million extra provisions under new upcoming IFRS rulings (Kreling & Rosenberg, 2014, pp. 147-148). Once several internal major flaws concerning the quality of loans, missing checks and balances, lack of knowledge of the staff regarding real estate, it became clear to the board of directors that SNS property finance was not only a poison pill for hostile takeover but would in the end would lead to bankruptcy of the whole firm. In March of 2009 the portfolio grew again, but so did the provisions as well starting at 150 million and doubling to 300 million in august. At the end of 2009 estimates have risen to over 1 billion euros (idem: 159,162-163, 178).

While in 2010 somewhat of peace is restored at ABN Amro and ING, SNS is desperately trying to sell of bad quality loans of property finance but after the market crash no single institution is willing to purchase a single brick of real estate. Rating agencies start to devalue SNS bank, leading to more expensive capital which creates a vicious cycle for the institution. Leading to one single conclusion from the board: property finance has to close its books (idem: 192). To get an overview, advisors from EY are contracted to analyze the

situation at the real estate bank. Beginning 2011 their best-case scenario is a 745 million loss compared to worst case of 1,51 billion euro. With a deficit of 1 billion euro's there was only one realistic solution, a trip to the Hague. Especially when it became clear 25 percent of the loans was in default (idem: 197,199,202).

On the 8th of July CEO Latenstein and CFO Lamp visited the DNB director Sijbrand, which can be viewed as the beginning of end of SNS. With the looming defaults, a 225 million loss over 2011 and 118 million over the first half of 2011 the SNS directors felt somewhat optimistic of the improvement. DNB disagreed, as a Knot succeeded Wellink it meant a stricter approach towards institutions. With the upcoming Supervisory Review and Evaluation Process (SREP) coming up in December, discussions of the liquidity shortage become prominent in the meeting with DNB. The SREP is basically a bank specific stress test regarding the business model, governance and risk, capital, and liquidity (ECB, 2017). Noteworthy, is that prior to the SREP of January 2012, on 21 December SNS utilized a loan of 1,5 billion from the emergency fund of the ECB to keep the company alive (Kreling & Rosenberg, 2014, p. 232). When the SREP analysis from DNB would become finished, the capital shortage would be determined, putting pressure on SNS to find additional funding. To establish the value of the portfolio, DNB wanted a second opinion by Cushman and Wakefield on the portfolio of property finance (Hoekstra & Frijns, 2014, p. 184). After research from 30th October to 14th of December, the consultants reported a best case of 2,4 billion losses and worst-case scenario of 3,2 billion losses. The SREP analysis was the sword of Damocles above SNS, as it concluded a capital shortage of 1,84 billion euros (Idem: 307-308). Despite the attempt of private equity fund CVC to acquire the bank, fell on the 1st of February 2013 when minister Dijsselbloem decided to invoke the expropriation law and nationalize SNS bank (idem: 190). The clashing of political, economic and policy perspectives is further disclosed in the next three sections.

4.3 Analyzing the case of ABN Amro

This segment will analyze the context, the specific arrangement and the conditions of the ABN Amro bail out by the Dutch government. Through this narrative, independent variables will guide the development of explanation for the outcome of the case.

4.3.1. Political considerations

The bail-out of ABN Amro bank significantly caused turmoil in the political and societal landscape. The bail-out sparked discussions on the structure of, and connections and interactions between the Dutch financial system, economy, and society. Which was formalized through several reports from the DNB (2009, 2010, 2015) and WRR (2016, 2019). Regarding the ABN Amro operation, three specific interactions between politics and the financial sector were under scrutiny; the issuance of no objection from DNB on the bid of the consortium, the eventual two phased crisis management (including the EC Remedy), and lastly additional necessary capital injections. Concluding this section will highlight the political influence in the rebuilding phase of the bank. When it comes to the political negotiations, this case differs from the other two due to the fact the Dutch state had to negotiate with a foreign bank and later on the Belgian government. This restricted the margins of crafting a deal, which was illustrated by the first attempt of the Benelux agreement.

During the bidding war between Barclays and the Consortium, a critical point was the issuance of no objection by the DNB which is required by law to permit a merger or acquisition in the Dutch financial sector. It was a public secret that DNB chairman Wellink was not amused by the idea of ABN Amro being divided among the members of the consortium, therefore losing one of its Dutch financial institutions. When he expressed this publicly, it was answered by a warning from the ECB (Battes & Elshout, 2008, pp. 76-77). A few years earlier during the acquisition of the Italian Antonveneta Bank by ABN Amro, critique was aimed at Italian central bank chairman Fazio, which basically tried to achieve the same outcome of Wellink, disrupting the acquisition of a domestic bank by a foreign financial institution (Idem: 35). Former chairman of the AFM Docters van Leeuwen noticed a certain emotional hypocrisy when it came to ABN Amro case. “Our success is based on an open economy enforced by free trade within the EU and throughout the world. People should not forget that we have taken over plenty of foreign enterprises. Apparently, we think it is normal when we cause psychological damage abroad, but when it happens to us it should be thwarted by the government” (idem: 120-122). Despite this unsettling truth, when ABN Amro was nationalized

the discussion on the issuance of no objection re-emerged. The parliamentary enquiry concluded that it resulted in the following three consequences: The issuance of no objection led to two of three consortium members finding themselves in financial trouble due to the burden of the acquisition. Secondly, there was too much dependence on the reliability of the agreements between members of the consortium. The losses in the RBS part of ABN Amro combined with capital shortages in Dutch business units turned out insufficiently visible and thus monitored. Third, it can be concluded that in the end the financial stability of the Dutch sector was at stake (Tweede Kamer, 2012, pp. 109-110).

Political arguments for engaging in the nationalization of ABN Amro were obvious at the time. When ABN Amro was acquired by Fortis in 2007 4,5 million Dutch accountholders (and voters) were transferred to Fortis, resulting in the consequence that they would not be able to access or withdraw funds in 24 hours (idem: 303) DNB president Wellink stated that “if you acknowledge that there are problems, you basically trigger a bank run, which has far-reaching consequences. The financial crisis was in essence a confidence crisis in the worldwide financial system, so you have to take measures that reinstate that trust” (in *The Eighth Day*, 2018). ABN Amro was according to its size still viewed by policymakers as a systemic bank within the financial sector, but what made situation even more complicated was the fact that the Dutch administration bought two banks as ABN Amro was at the time after being split in three, being implemented by Fortis bank (Bökkerink & Couwenbergh, 2020, pp. 34-35). The Dutch state basically rescued not one, but two banks.

When it comes to the attempt of policymakers coercing the Dutch financial sector to participate in a collective action plan, it can be boiled down to the brief and unrealistic endeavor of ING merging with ABN Amro until the stock price of ING plummeted when the news broke. Issues of collective inaction were more an issue at the guarantee scheme after ABN Amro was nationalized, which will be discussed in the chapter of ING (Tweede Kamer, 2012, p. 389). Political benchmarks of banks being fundamentally healthy and of systemic relevance, that set the bare minimum for receiving state aid were quickly dismissed by the administration (idem : 357). An exemplary quote of the environment during those days among policymakers and bankers is from the documentarismakers; “everyone was trying to save their own planet, hoping someone else would keep an eye on the universe” (Minute 9 in (VPRO, 2018).

Regarding the concept of structural power in finance relations as disclosed by (Culpepper & Reinke, 2014) one could argue that the Dutch state wanted to regain its international infrastructure of the financial expertise. Before the bid of the consortium, ABN Amro was one of the top ten banks in the world that across the world helped Dutch

entrepreneurs and was in some cases considered a quasi dutch embassy (Smit, 2008). The first day ABN Amro return to its Dutch roots, the logo was reinstalled at the heart of the dutch financial center at the gustave mahlerlaan in Amsterdam. The appointment of former minister of Finance Zalm as CEO of the nationalized banks of ABN Amro and Dutch parts of Fortis resembles the preference from the administration to be closely situated to the bank, further exemplified by the state issued commissioner van Enthoven (Bökkerink & Couwenbergh, 2020, pp. 37,40).

In conclusion, political influence played a major role in nationalising the former international flagship of the Dutch Financial Sector, because there was political will to restore the financial infrastructure as finance was considered one of the key factors of sustainable welfare of the Dutch nation. And the goal of policymakers is to increase or protect the welfare of its economy. As mentioned by AFM Chairman Docters van Leeuwen, the emotional sentiment around the bank was prevalent among society and therefore positively affected policymakers willingness to intervene in the troubling Fortis Bank. During times of crisis policymakers have to natural urge to act in a crisis, especially when it comes to the interconnectedness between bankers of ABN Amro which were fully integrated in Dutch society but also had a international networks upon Dutch merchants counted on. Considering this image, the state had to intervene to also send a symbolic message that it was there to protect society.

4.3.2. Economic considerations

Since 2000 the Netherlands were experiencing years of economic growth and welfare. The economic outlooks in the beginning of September projected unique surpluses for the public budget, which became flawed after the fall of Lehmann. In June the balance of ABN Amro was 177 billion euro's, from which 59 billion was guaranteed by the deposit guarantee scheme, which meant that the bankruptcy of ABN Amro should have been guaranteed by the other Dutch banks. The issue is that 60 billion at that time was the equivalent of 75 percent of capital the whole Dutch financial sector (Tweede Kamer, 2012, p. 103). Economic policy changes during the crisis were aimed at isolating contamination risk. Globally, three main issue affected banks and institutions consisting of a breakdown of trust, weak liquidity and under capitalization to deal with those losses. (Keeley & Love, 2010, pp. 42-44) This crystalized into the following five arrangements; a raise of the deposit guarantee scheme, capital injections into banks and other financial institutions, (partial) nationalization, debt guarantees, toxic assets

relief planning which are also known as bad banks. On the 13th of October 2008 the Dutch state presented its first package consisting of a capital funding facility of 20 billion euro's, a raise of the deposit guarantee scheme to 100.000 euro and an asset backed guarantee up to 200 billion euro's (Tweede Kamer, 2012, p. 85).

Due to the systemic nature of the crisis, the ABN Amro nationalization can be viewed as a strategic nationalization to regain autonomy of one of the biggest banks of the country but also more hands-on supervision. In May of 2008 the Ministry of finance did not foresee any systemic risks at Fortis when it allowed for the transfer over funds, despite being it the exemplary case study when a major bank would face bankruptcy in the newly started program group named Tristan on the 18th of February (Bökkerink & Couwenbergh, 2020, p. 25). This group laid down the economical available options when dealing with liquidity and solvency risks by dividing them into three different phases, basically constituting the first crisis management plan of the financial sector. Phase one consisted of doubt among professional investors, alongside the instrument of demanding a plan for strengthening liquidity, solvability, and moral pressure from foreign central banks. The second phase is of faltering confidence, accompanied by the instrument of Emergency Liquidity Assistance (ELA) in exchange for increased supervisory regimes. Third phase is when markets have lost complete loss of confidence, making the instruments of the government serving as a lender of last resort, making the losses for the State unlimited. It was considered that a necessary capital injection would have been the introduction further nationalization (Tweede Kamer, 2012, pp. 101-102).

After the Tristan report, DNB highlighted the possibility of ringfencing the Dutch systemic relevant parts of Fortis, which eventually became the preferred strategy of Minister Bos (idem: 103). The private options were not an option, due to failed history with Fortis bank. During the beginning of the crisis capital was being transferred from the Dutch business unit towards the Belgium headquarters to cover the rapid deposits being taken from the bank. A capital injection was considered insufficient, as markets still pushed down the stock price of Fortis after the Benelux agreement. Basically, Fortis experienced not a simple bank run, but rather a wholesale run as not only the general population as retracting fund, but also institutional investors and fellow foreign and domestic banks (Janssen, 2019, p. 36). The parliamentary enquiry concluded that the price for financial stability was high and out of proportion to the economic value represented by ABN Amro and Fortis (Tweede Kamer, 2012, p. 178)

When it comes to the SREP of ABN Amro, it should be noted that at the time DNB was not the authorized supervisor to conduct this review but was dependent on its Belgian

equivalent. The parliamentary enquiry concluded that appropriate supervision was therefore problematic in these cross border supervisory situations, contributing to the high price being paid to construct financial stability (idem: 180). In addition to the purchase price of ABN Amro, the state had also raise the deposit guarantee scheme to retain clients at ABN Amro. Through the drafted organogram in the parliamentary inquiry, it becomes clear how complex this operation was due to the dismantlement of an international bank (idem: 95).

4.3.3. Policy considerations

It is noteworthy that even in the most pessimistic scenario's, policymakers at the DNB and ministry of finance had not grasped the severity and amplitude of this crisis. The fall of a major financial institution such as Lehmann Brothers was unprecedented, illustrated by the fact that the ministry of finance there had no existing crisis planning or strategy for its own institutions. Regarding the ABN Amro case, this is illustrated by the fact that the ministry of finance borrowed crisis management plans from the ministry of agriculture because in general they had more experience with crises (Janssen, 2019). The operation to eventually nationalize the Dutch parts of Fortis were an unprecedented action as well, which made minister Bos realize his limited policy instruments. To illustrate the complexity, a week after ING had to stop the negotiations over ABN Amro, it had to request the ministry for financial support.

In essence, there was no hands-on policy in place for crisis management of failing banks, alongside criteria which would serve as classification whether banks could be considered healthy in their core business. The policy that prevailed by government officials was based on the fear of a domino effect, which eventually transformed the argument of solvency towards being a risk for the system. A situation which became later known as the infamous concept of too big to fail. , ue to the fact there was no policy available to evaluate the situation of Dutch financial institutions, decisions were based on the professional expertise of the officials at the DNB, based on the goal of achieving financial stability in extreme times on financial markets (Tweede Kamer, 2012, pp. 457-458). The realization of the vulnerability of the Dutch financial system and the lack of policy instruments led to the eventual expropriation law that was specifically crafted for ING but was later used for the SNS Bank when it was saved from bankruptcy by the Dutch state (de Horde, 2011).

Regulatory favoritism is illustrated by the presence of the NLFI, which is basically the organization that is the stakeholder for the Dutch state. Being a major stakeholder after the IPO of ABN Amro, of the advantages is that fact that it does not ask though question in the media

or behaves like a hedge fund activist such as TCI did with its letter to the shareholders to consider the consortium bid. Concerns are diplomatically expressed which gives the bank the well needed assets of peace and time. During normal times on the stock markets every quarter there is a new intrinsic pressure to deliver good results. Additionally, due to the fact the bank was nationalized till 2016, it had the possibility to attract funding via bonds from the financial markets under the risk profile of the Dutch state, which makes it cheaper regarding interest to be paid. Nevertheless, disadvantages balance the situation as strategic takeover that could have helped the bank in its return to the original state were often denied as the state does not want to carry extra risks. An example is when policymakers rejected the proposal of acquiring the private bank of Société General in France and Singapore (Bökkerink & Couwenbergh, 2020, pp. 138-139).

During the crisis management of dealing with ABN Amro policy criteria did not play a major role in nationalizing the bank. This became more prevalent in the long when the Dutch state had to guide its investments back to the stock exchange. ABN Amro unintentionally became an experiment of the Dutch state as in the 21st century there were the first bank to be nationalized. In hindsight, it created a particular conflict of interests, as the state prefers to make a return on its investment, but also must regulate that same investment.

4.4. Analyzing the case of ING

This segment will analyze the context, the specific arrangement, and the conditions of the ING bail out by the Dutch government. Through this narrative, independent variables will guide the development of explanation for the outcome of the case.

4.4.1. Political considerations

The political situation of ING compared to ABN is somewhat different when it comes to the core of the debate. ABN Amro needed to be bought by the Dutch state, whereas the problems of ING manifested themselves through the alt-A portfolio. The issue of no objection is therefore not applicable to the ING case. However, that does not exclude the political dynamics at play. When ING asked the ministry of finance for help it replied with the only possibility of a capital injection. Despite lobby efforts from ING to consider the alt-A portfolio, Minister Bos pushed through on the capital injection and created the 20 billion euro guarantee capital fund which was later symbolized as a ‘big bazooka’ with the aim of calming down markets. The estimate was that ING would require have required half of the fund, which answered by a declining stock price the next day (Janssen, 2019, pp. 115-117). From that moment team Leo was formed at the Ministry, supported by the bankers from Rothschild to design the simplest method of capital funding with the philosophy that the state should charge a high penalty fee for taking on the risk. An acquisition of shares was unacceptable from the perspective of ING, as it would then be at the mercy of politics (idem: 122- 124).

On Friday the 17th of October the stock price of ING fell by 27 percent because of a sell advice from Johnny Vo from Goldman Sachs (Tweede Kamer, 2012: 206) It highlights the paradoxical situation of financial institutions when it comes to the environment, they operate in. It boils down to a famous quote from Keynes, markets can remain irrational for a longer duration than companies can remain credit worthy. ING needed state support, and fast. It put extreme tension on the negotiations, as stances between the actors became visible. DNB acted like a spokesman for ING, stating the necessity of financial stability and that imposing too many costs on the bank would just be a postponement of its bankruptcy. This led to frustration from the ministry as the they felt DNB acted as a union of the banking industry. According to the ministry the price of the support should reflect a message to ING and to the taxpayer that funding was not free money. At first ING was of the impression that three billion euros would be sufficient, but according to the ministry that was not in contrast to the twenty-billion-euro fund from Bos. To break the stalemate, Wellink proposed ING to accept half of the fund, with

an interest 8,5 percent which ING agreed accepted reluctantly. To restore confidence, Bos and Wellink stated the intervention was a symbolic “warm sweater to get through the winter as ING was considered healthy in its core” (Janssen, 2019: 126-129). The stock price rose with 29 percent.

Overarching these negotiations was the perception of financial markets, which can be viewed as the main force regarding the collective inaction of the banks. This is exemplified by the implementation of the guarantee scheme. The presumption was that financial institution would be eager to request the scheme but came to the surprise that a small car leasing holding named LeasePlan was the first in line. As Wellink noted, “There was something of a weakness to that this was necessary. This was typically a “first mover” problem. If you get your reported before, you were a little less, so was the fear, than your fellow banks “ (Tweede Kamer, 2012, pp. 389-390). In essence, the possibility of stigmatisation by the first mover on accepting the guarantee funding to collective inaction from ING, but also from SNS. (Idem: 391). Former CFO Timmermans attributed this to the perception that ING did not need any liquidity support at the time. SNS rejected the aid, as it did not want to be left holding the bag and lose image. Even after LeasePlan accepted the aid, the governmental officials had to pressure ING into accepting the aid (Tweede Kamer, 2012, pp. 395-396).

The attitude from ING can be further distinguished through the dogma that was prevalent among the board of directors. This perception of the situation was not only highlighted during the negotiations with the ministry but also during talks with the European commission. “ING pointed out to the ministry that the problems with the Alt-A portfolio were mainly accounting in nature: the perception of the portfolio was the big problem” (Tweede Kamer, 2012, p. 214). Half of December Bos and Wellink informed prime minister Balkenende that a second round of support for ING became inevitable, which were the subject of negotiations between ING and ministry Friday 23rd of January 2009. ING proposed that the Alt-A portfolio was fully transferred to the Dutch state, but this Blanco-cheque from the ministry was considered impossible by Bos and his policymaker Ter Haar. Instead, three conditions should have been met for support: 1) the content and the quality of the portfolio should be clear, 2) the state should make a profit on the support, 3) ING should experience greater costs for asking a second round of state support (Janssen, 2019, pp. 145-146). It created a triangle of opposing interests; ING’s fear was facing bankruptcy and fought for its survival, the ministry wanted to contain the cost of the taxpayer and reaction from parliament and DNB wanted to prevent a situation where ING was punished so severely that despite receiving aid would go bankrupt therefore shattering Dutch financial stability. (Tweede Kamer, 2012, pp.

243-246). Eventually, the deal was settled by the government taking over 80 percent of the Alt-A portfolio, for a price of 22,4 billion euro (Janssen, 2019, p. 153). These conflicts of interests led to the following conclusion of the parliamentary inquiry: “based on its investigation, the Committee finds that the Dutch banks have proved unable to act collectively in the 2008/2009 financial crisis” (idem: 563).

A last political consideration concerns the degree of structural power utilized by ING. During the negotiations it could be considered restricted, as ING was first mover in starting discussions on the Alt-A portfolio. Besides, the ministry of finance has a serious advantage structurally in holding the key to the treasury of the state (Janssen, 2019, p. 150). The structural power of crafting policy should also be considered, as during the negotiations minister Bos was seriously considering expropriation shareholders of ING, therefore nationalizing the bank (de Horde, 2011). Despite deemed a horror scenario, he expressed these concerns publicly after the successful negotiations. During the negotiations ING was not able to counter these structural advantages of the state, but with these experience in mind it threatened a few years later to relocate its headquarters to Germany when it flirted with a merger of Commerzbank (FD, 2019).

Concluding, it can be stated that the bail out operation from ABN Amro was on the belief of it being too big to fail, contrasting to the ING which was in that time too big to save. It can therefore be concluded that the political situation of ABN Amro being nationalized a few days earlier significantly influenced that type of government intervention, as it ruled out a new nationalization of ING. Although intervention was politically undesired, it could be easily framed as a precautionary measure.

4.3.3. Economic considerations

The first discussions regarding the economic arguments for intervention was on the value of the Alt-A portfolio, especially financial markets were nervous about the implications of the quality of the assets (Tweede Kamer, 2012, p. 231). It boiled down to the calculations and analysis performed by Dynamic Credit issued by the ministry, versus those of Blackrock commissioned by ING. To the extent that an employee from DNB attempted to persuade Tonko Gast from Dynamic Credit to lower the risk rating on the portfolio in his analysis (Janssen, 2019, p. 151). The first capital injection was rather a hybrid intersection of subordinated bonds and stocks. The second form of state aid was named the *illiquid asset back-up facility* which was more complex: ING sold the economic ownership of the portfolio to the government. The

earnings of this sale were then loaned back to the state by ING, over which the state paid interests. Legal ownership, management and administration remained at ING, over which the state paid a fee to ING. In contrast to these two payments flows, was that ING paid the state the earnings of the portfolio (interest and repayment of the homeowners) and an additional risk premium for taking on the economic ownership (Janssen, 2019, p. 148) This complex financial structure is visualized in the parliamentary inquiry (Tweede Kamer, 2012: 248).

After the costly nationalisation of ABN Amro of 17 billion, it was not preferred by the ministry to also take on the 1360 billion risky balance from ING, which was double the Dutch BBP at the time (de Horde, 2011) (Janssen, 2019, pp. 158-159). In the end, after a first capital injection of 10 billion, the second transaction was around 22 billion euro totalling the total sum of aid for ING to 32 billion euros. Calculations on the net profit of this transaction for the state ranged from a 600-million-dollar loss to a 2-billion-dollar profit (Tweede Kamer, 2012, p. 247) All things considered, it became clear that the state earned a 4,5 billion dollar on the total sum of aid granted to ING (Janssen, 2019, p. 185), which is considering the limited options the state had at the time an unforeseen success.

At last, in hindsight it should be noted that nationalizing ING bank would have led to a greater public budget deficit as the Eurocrisis put the Netherlands in recession. The increase in the national debt would therefore manifest itself to a lowered credit rating and a higher interest rate on financial markets (Couwenberg, 2015) Despite the achieved positive outcome, it was at that time not sure that ING would not face bankruptcy. Justifying the allocated 32 billion for financial stability is easier with a future net profit of 4,5 billion euro.

In conclusion, the complexity of the loan⁴ exemplifies the lengths policymakers were willing to go to save ING from bankruptcy. In this case, the economic considerations were a leading factor of the state when crafting a solution for the troubles of the Alt-A portfolio. Although the directors of ING attempted to decline intervention, the economic situation did not allow this to happen.

4.3.4. Policy considerations

Crafting policy is always a complex process of dealing with several interests and possible unintended consequences, whereas the timing of the possible can sometimes dictate its success. When it comes to the dilemmas faced by policymakers during the critical situation of ING, there are several things to be considered. First, during the negotiations the minister realized

⁴ See structure of loan in parliamentary inquiry (Tweede Kamer, 2012, p.248)

that its instruments were limited when it came to the size of a financial institution as ING (de Horde, 2011). The symbolic nature and effects of crafting the expropriation law were acknowledged by the parliamentary inquiry, as they deemed it appropriate to further prepare for this worst-case scenario (Tweede Kamer, 2012, p. 226).

The long-term consequence of implementing these policies is far reaching, resulting into several dilemmas. Once nationalized, it is no longer easy for the state to give up aid. After all, the bank was nationalized to keep it from falling over. If it then later still faces bankruptcy it will seriously affect the credibility of the state as a financial party (Couwenberg, 2015). Furthermore, as a shareholder the role of the government is somewhat paradoxical because of the fact it must regulate the banks it has ownership over. Shareholder and regulators do not behold the same intrinsic values. The state must uphold financial stability for the sector in combination with the interest of taxpayer, whereas the shareholders' interests is in a return on its investment. At last, nationalizing the majority of any sector will harm competition and innovation within the sector. Although this would have been preferable after the debacle with the CDS innovations, the long-term consequences can be more harmful to the sector.

When it comes to the long-term policy effects of the great financial crisis personal accountability of the banking directors has become more prominent with the prosecution of ING CEO Hamers. Until recent, banks managed to prevent such public scrutiny of the board of directors through settlement or insignificant administrative fines. (Betlem & Leupen, 2020) A priori the financial crisis supervisors of the DNB or AFM called for a reassessment of the capability of board members. If those were insufficient the board member would have been granted a resignation fee and leave through the backdoor of the company. Now bank directors face prosecution which is sending a clear signal to the sector. This is in line with the 'Know Your Customers (KYC) implementation of strict supervisory laws against fraud and money laundering (DNB, 2014). This is one of the unintended consequences of the government keeping the financial sector in line when it comes to mitigating risk. It is one of the shifts of the state to put the burden of supervision on the bank themselves, voicing a very different policy than before the credit crisis where no single director had to answer for the banks irresponsible search for yield through risky investments.

Concluding, when it comes to deciding on policy during the credit crisis there are no alternatives with net benefits, there are only alternatives with fewer drawbacks. It is a matter of choosing from two (or more) evils, whereby even the least evil choice can turn out to be seriously detrimental later in time.

4.4 Analyzing the case of SNS

This segment will analyze the context, the specific arrangement, and the conditions of the SNS Bank bail out by the Dutch government. Through this narrative, independent variables will guide the development of explanation for the outcome of the case.

4.4.3. Political considerations

Politics in finance can be seen as a clashing of perspectives, especially when it comes to the relationship between supervisor DNB, the ministry of finance and the board of directors of a bank. During the crisis SNS experienced, on a supranational level a crisis in the European Union was unfolding. The financial position of EU member Greece was reaching critical levels, to which the population of the country was unable to access checking accounts at their local banks (Dijsselbloem, 2018). During the golden era of finance that lasted till 2008, no policymaker would have imagined that big banks could declare bankruptcy, let alone, tear down the whole modern financial system build since the great depression. In 2013, policymakers had already experienced the bail outs of ABN Amro and ING bank and as a result were a little more experienced in dealing with financial institutions in crisis. According to the vision of the board of commissars, the loan from the ECB is necessary because the market for interbank lending at the time dried also known as the credit crunch (Kreling & Rosenberg, 2014, p. 232). However, in 2012 it wasn't that acute but can rather be viewed as the aftermath of the meltdown of financial markets (Holmstrom, 2015)

When the critical situation at SNS became clear, two important factors should be noted, there was a newly installed minister of Finance Dijsselbloem accompanied with an appropriate unused expropriation law that was resting on the shelf. For policymakers, scientifically proven crisis management consist of the following argumentation when implementing policies, it has to be massive, resolute and rapid to tackle distress in the market before it translates towards society (Sjögren & Jes Iversen, 2019, p. 187) and that is exactly what the expropriation law did. Not only did it send a political message to the citizen of the Dutch state, but also to the Dutch financial sector. The policy makers were not afraid to utilize this heavy instrument to protect the financial stability of the country.

A combination of internal and external triggers led to the eventual nationalization of SNS bank. Internal triggers were identified as being unable to further dismantle the property finance portfolio, the exposure regarding foreign activities of the real estate portfolio, impairments on assets and adjustments of solvency ratios. Especially the solvency ratios would

become more stricter over the years, as DNB strived for high buffers of capital. External triggers consisted of a negative adjustment of the credit rating, discount on the stock price, upcoming SREP from the DNB and EBA, upcoming regulation from the EU and a deterioration regarding the prices of commercial real estate (Hoekstra & Frijns, 2014, pp. 87-88).

Collective inaction was only prevalent during the first round of state aid, when it followed ING in its rejection. Although most of the investment from SNS were international as a result of the foreign building project being financed the commercial real estate bank, the core business of SNS was domestic. This made it difficult to defy the regulator, regarding the fact the bank could not extent its foreign activities as they were the poison pill that led to the nationalization of the bank. The two political components that eventually led to the fall of SNS were the SREP letter in combination with the fact that the ministry was not in favor of the private solution from CVC. In that format, the state would have invested a substantial amount in the bank but would not receive an equivalent degree of control over the strategy of the bank (Kreling & Rosenberg, 2014, p. 243). This issue is further explained in the following section.

Concluding, it can be argued that political considerations were not decisive regarding the flexibility SNS had during crisis negotiations, however the recent political events of Greece and recently appointed Minister Dijsselbloem did set the tone within the political landscape.

4.4.4. Economic considerations

The project group named Mercurius/Roos from DNB and the ministry laid down the array of solutions for the bank. These were categorised in the following approaches: private solutions, public-private solutions, public solutions, or a considered default resulting into bankruptcy. Regarding the privatization possibilities, there was one realistic offer from private equity company CVC, but that option gradually transformed into a public private solution as the state had to invest substantial amounts of funding. During 2012 it became clear that only the following private and public solutions were still on the table (see table). DNB had classified SNS bank a systemic relevant bank for the Dutch financial sector. That was mainly attributed to the 35,2 billion in retail deposits which were guaranteed by the national deposit scheme (Dijsselbloem, 2013). As funding would require the assistance from fellow Dutch banks, it was economically beneficial to nationalize the bank at the time. Due to the expropriation law, there was no fee paid by the state to shareholders, but it had to perform a capital injection of 2,2 billion accompanied with a loan of 1,1 billion to keep operations running (Algemene Rekenkamer, 2019). During the writing of this thesis, a court case is still pending, of which the consequences are disclosed in the next section.

On the 14th of December 2012 the crucial report from Cushman and Wakefield were published which estimated the losses on the property finance portfolio. This was the number that could make or break the CVC, as a substantial amount would cause the parties to go back to the drawing board. However, there was no time for crafting a new deal, besides the DNB the EU commission disapproved the deal. The devaluation from Cushman and Wakefield ranged from 2,3 to 3,1 billion euros, which three times the estimate from EY (Hoekstra & Frijns, 2014, pp. 178-180).

Concluding, when it comes to the influence of economic factors on the margins of policymakers during negotiations it can be argued that it was played a crucial role in setting the parameters of intervention. The rejected SREP proposals of the SNS Board in combination with the failed by investors to organize an acceptable injection gave policymakers at DNB no others choice to intervene in the bank and enforce the expropriation law.

4.4.5. Policy considerations

The policy trade-offs during the nationalization of the SNS bank were restricted because of decisions being made by the European Commission, more specifically the acquisitions ban from ABN Amro. ING was unable to make a bid due to the conditions of the received funding from their bailout on the Alt-A portfolio. Although it was preferred by the Dutch state that either ABN Amro or ING would incorporate parts of SNS, the acquisition bans from the European Commission ruled out this option. (Hoekstra & Frijns, 2014, pp. 313-314). Due to the fact the expropriation law was used for the first time, it is legally binding to get it analysed or reviewed by a committee. The evaluation committee of Hoekstra and Frijns (2014, p. 329) concluded that the decision of nationalization can be justified, because financial stability was evidently at stake with no viable alternatives being realistic. “The interpretation of the conditions of nationalization meets the criterion of relieving the taxpayer as much as possible, but places the burden on shareholders, subordinated creditors and to a large extent on a not excessively strong banking system” (ibid). It should be noted, however, that a complete insight into the total costs is not yet available.

The complexity of this case is illustrated by the fact that after 8 years there are still court cases active on whether bondholders of SNS should have been compensated for their losses caused by the expropriation law. This makes the total costs of any decision not available at the time. In February 2021 the court concluded that these bondholders had rights to a compensation of 800 million euros (Rooijers, 2021). If that consequence would have been

foreseen in 2013, a different solution to the capital shortage could have been taken instead of the presumption of Mr. Dijsselbloem that bondholders would have been left empty handed.

A second unintended consequence of the expropriation law is the duty of care established bank needs to adhere to according to the laws of the Dutch financial system. This issue became prominent when minister Dijsselbloem sold the Bad Bank of SNS named Propertize to Lone Star for 895 million euro. As this outweighs the capital injection of 500 million euros in the bank in 2013, the state profited on the deal substantially. The unintended consequence of this deal manifests through the fact that funds as Lone Star have an history to disregard the legal rights of homeowners of the portfolio's it purchases (Vermeulen, 2016). As courts cases against the state have been somewhat considered, compensation for the homeowners can be a possibility in the future. Especially, after the conclusions in 2018 and 2019 that the bank was not ready for finding its way back to the stock market, to becoming privatized again (van Poll & Couwenbergh, 2018) (Brandsma, 2019). Even in 2021 the bank is still troubled by internal conflicts among the board of directors regarding the pursued strategy. (Rooijers & Betlem, 2021).

In conclusion, the variable of policy played an uttermost significant role in the case of government intervention at SNS Bank. The political and economic variables unfortunately created a perfect storm for the expropriation law to be enforced. Although systemic risks were mitigated, in the long term it still is unclear what the price of that mitigation has been, which highlight the interplay and complexity of political, economic, and long-term policy effects in combination with the uncertainty of decisions taken by policymakers in times of crisis. Anno 2021, the ongoing board scandals reveal conflict of interest between government and commercial banks in finding new ways to enhance profitability while ensuring risk reduction for the sector (Rooijers & Betlem, 2021).

Chapter 5: Discussion and conclusion

The research question of this study consisted of: *What factors impacted policy responses to troubled Dutch banks during the great financial crisis of 2008?* The sub-question of this research was, how did the structure of the Dutch financial sector affect the dynamics between policymakers and banks during bail out negotiations? In essence this research tried to uncover the strategy of the Dutch government to cope with instable financial markets and rationalizations on a political, economic or policy factors to justify the interventions. Due to the fact systemic banking crisis are highly political, government intervention had to be defended publicly by policymakers and supervisors to parliament. The goal of this thesis was to explore the underlying factors that influenced bailouts during the GFC in the Netherlands.

This research has shown that within the Dutch context economic conditions did not solely explain the strategies used by policymakers to deal with the bank bailouts, which is in line with the theory of Grossman and Woll (2014). The institutional and political setting of the Dutch financial landscape played a significant role during the crafting of the arrangements. A decade of internationalization and uniformity illustrated by the dominating three major banks affected the structural bargaining power of the banks. The influences of political, economic and policy factors of a bank bailout should be considered crucial when analyzing the Dutch cases.

The crisis narrative pushed policymakers to take unprecedented measures. Actions that during normal times would have never been considered. Since the great depression not a single systemic Dutch bank had run into trouble. The common denominator of all cases is the context in which the Dutch state had to operate. ABN Amro was the first bank to run into trouble, but in the context of being acquired by Fortis forcing Dutch policymakers to rescue the accounts of 5 million Dutch citizens. The case of ING cannot be analyzed without the context of the nationalization of ABN Amro. In the beginning of the process ING was even considered one of the possibilities to merge with the distressed bank. A month later it had to ask the ministry for additional liquidity support itself. In addition, in the context of the GFC taking over the risk of two failing systemic banks during the GFC would have been a political dead wish for any minister of finance, as tax money had to be utilized to resulting in several years of electoral unfriendly austerity policies and political rhetoric.

More specifically, the case of SNS has highlighted the long-term consequences of crafting financial policies during times of crisis. What could be considered a reasonable solution in the short term, could end up with an 800-million-euro price tag in the future

(Rooijers, 2021). However, what should be noted is that in at least two cases the Dutch administration interventions can be classified as massive, resolute, and rapid to tackle distress in the market before it translates towards society. Making decisions on basis of cost efficiency has rather been an unrealistic option during the bailouts. ABN Amro and SNS have been proven to be unsuccessful when analysing through this lens, while the case of ING has indeed been profitable for the Dutch state.

After analysing these three cases concerning explanatory mechanisms, a preliminary conclusion can be drawn when it comes to classifying the Dutch bailouts as favourable or unfavourable. As discussed in the analysis, autonomy of the institution is valued among bankers, as a nationalisation or state aid intrinsically is associated as a sin among bankers. It is in this regard that the theory of Rosas could benefitted by adding an additional pillar of autonomy between the distinction of bagehot and bail out (2006: 177). This study therefore argues to utilize the concept of leeway as it creates more space for interconnected variables and excludes normative frames on the intervention which the theory of Rosas tends to do with its the black and white approach. When it comes to deciding on policy during a financial crisis there are no alternatives with net benefits, there are only alternatives with fewer drawbacks.

Regarding the case of ABN Amro, the analysis has shown that the influence of, symbolized by the restrictions from policymakers on the strategic decisions has limited the leeway of the bankers in expanding its activities. The private branch of ABN Amro was unable to pursue mergers which could have benefitted the institution in realizing a positive economic return for the Dutch government. Additionally, when it comes to autonomy of the ABN Amro bankers, it can be classified as unfavourable. A situation which is subscribed to the prominent political influence in the company, symbolized by the appointment procedure of the new CEO after former minister Zalm. However, when this perspective is shifted towards depositors, the goal of the policymakers in securing financial stability is accomplished.

In contrary of ABN Amro, the case of ING displays more room for autonomy to the operations of the bank. Despite suffering from the controversy of the salary raise from the CEO Hamers, the bank paid the interests on the guarantee but regained autonomy over strategic decisions. Despite this preliminary conclusion of favourable bailout, the regime from Dutch financial supervisors towards banks after the GFC has become significantly stricter, embodied by the governments reinstated policy of making banks gatekeepers of the financial system symbolized by the KYC policies. However, when it comes to the leeway of ING during the negotiations, it was practically severely restricted. The complexity illustrated by the structure of the loan reveals how intensely policymakers were pushing to enhance the economic situation

of the bank. It is one of the rare cases where in the end, policymakers made a profit of the loans and fees of providing guarantees to calm down financial markets.

The case of SNS can be classified as most problematic for both shareholders, bankers, and the government. Whereas ABN Amro was able to at least realize its return on the stock market, SNS bank has been troubled by management disputes and internal problems delaying its return to the stock markets several times. The depositors of the bank can be satisfied with the bailout of the bank, as government intervention created a blanket protection. When it comes to the shareholders, only recently it has become clear that the expropriation law reasoning of a cost-free nationalisation was considered illegitimate by the court resulting into a claim of 800 million euros from shareholders and bond holders to state (Rooijers, 2021). If this consequence was known during the negotiations between the ministry, DNB and SNS, it could have resulted into a different solution. This development once again highlights the complex trade-offs policymakers are faced with, creating financial has a price to protect depositors and reinstating peace and trust among financial institutions and society.

5.2: Theoretical and practical implications

In this section, the theoretical and practical implications are discussed. Relating these conclusions to the theory of Rosas (2006: 177), it seems that the policy issue of autonomy of the banks is missing within the discussed theory. In the cases of ABN Amro and SNS the strategic direction of the company has been limited or decided by the policymakers in charge. Although public leadership changes over the years, interest don't because the state want to realize a positive economic return on its investments. In the cases of SNS and ABN Amro policymakers succeeded to stabilize the interest of the depositor, but on the long term damaged the leeway of the financial institutions regaining their competitive position.

Reflecting on the internal validity of this study, the research endeavoured to explain the factors that influence a bail out within the Dutch financial sector. When it comes to process tracing, two main limitations affected the research. It could be possible that theories do not make specific predictions on all the steps in a causal process, particularly for complex phenomena (George & Bennet, 2005, p. 157). This is especially prevalent when data is unavailable or theories are indeterminate, in that case process tracing can reach only provisional assumptions. In the case of bank bailouts there are always informal negotiations which the research is unable to unravel or reconstruct. Another potential problem for process-tracing is that there may be more than one hypothesized causal mechanism consistent with any

given set of process-tracing evidence(ibid). Additionally, in general the disadvantages of qualitative research consist of reliability as researchers must consider practical and theoretical limitations in interpreting data. Especially during the pandemic, the researchers were unable to cross-examine data with policymakers as they were unavailable for consultations.

Regarding the external validity of this research, case studies intrinsically have the tendency to have difficulties generalizing towards other cases. Especially regarding the subject of bail outs, the Dutch financial landscape did not encounter any other cases where the Dutch policymakers granted aid towards financial institutions. Theory and empirical findings have shown the vast difference among international economies when dealing with financial systems in distress (Mitchell, 2016). An option to enhance the external validity is to compare the findings of this research towards that of Belgium, as it has a similar economy and even tried to integrate ABN-Amro into Fortis bank. Despite the reasoning of Flyvberg (2006) which argues that it is indeed possible in lots of cases because formal generalization is overvalued, this is not the case in the literature of bail outs.

Further research regarding Dutch financial rescue schemes could focus on the following aspects of saving a bank or financial institution. (Un)fortunately the Covid-19 pandemic reveals new issues when it comes to the financial landscape of the Netherlands. Scholars could investigate the process of issuances of no objection by the DNB when it comes to mergers and acquisitions. Prior to the GFC, in hindsight irresponsible acquisitions were made by the SNS bank prior to the nationalization or receiving state funding without having the obligation to reform the institution. Another possibility is to compare the actions of the Dutch state with the Belgian during the GFC. However, if scholars prefer to be more contemporary, the arguments concerning bailing out companies during the covid pandemic can be interesting to compare to these findings. A survey or interviews could be deployed among policymakers to study the rationale of intervening with business during times of crisis.

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