

Dear Chairman,

The State Secretary of the Interior and Kingdom Relations has promised to inform your House about the possibilities for improving the services with regard to banking on Bonaire, Saba and St. Eustatius (BES islands).<sup>1</sup> As a background, I would like to present to your House the summary of the report by PricewaterhouseCoopers (PwC), which is the result of the investigation into the possibilities of guaranteeing a minimum offer of banking services on the BES islands and at the same time strengthening supervision. This report provides useful insights that I will discuss with local parties. The purpose of these discussions and previous measures is to guarantee good and accessible financial services on the BES islands. Because this stimulates economic growth and employment on the islands and explicitly also because it has positive effects on the social development and the self-development of the inhabitants of the islands.

### **Banking services, payments and supervision**

The functioning of the banking services, the payment system and the prudential supervision of the BES has long been a point of attention.

In the first place, the continuity of banking services on the BES is under pressure due to its limited scale and insularity. Banks find it difficult to offer their services profitably. This applies in particular to St. Eustatius and Saba: on those islands only one bank per island is still active through a branch office. This situation raises the question of what the desired minimum level of service is.

Furthermore, the electronic payment system on the BES islands and between the BES and the European Netherlands functions poorly. Partly because the payment and savings culture on the BES is strongly focused on cash and innovation is lagging behind, entrepreneurs, for example, make high costs for payments to suppliers outside the BES and it is sometimes difficult for consumers to gain access to certain financial services or to make online purchases. This leads to complaints, inhibits economic growth on the BES islands and stands in the way of the social development and self-development of the inhabitants.

A final point of attention concerns the supervision of the banks on the BES islands. The banks that are active on the BES islands consist almost entirely of branches of financial enterprises with headquarters on Curaçao or Sint Maarten. In those cases, the CBCS, as home supervisor, is responsible for the prudential supervision of those companies and the associated branches on the BES. De Nederlandsche Bank (DNB) is a host supervisor with limited prudential possibilities. DNB has frequently expressed its concerns about the functioning and integrity of the CBCS and has difficulty in understanding the prudential situation on the BES.

### **Previous measures**

Various measures have already been taken in recent years, including the introduction of the BES Deposit Guarantee Scheme (DGS BES) in October 2017.<sup>5</sup> If a bank with registered office on Curaçao or Sint Maarten fails, this may have consequences for the BES if the financial institution concerned has clients on the BES through a branch office. Account holders on the BES would also be affected in that case. The DGS BES guarantees deposits held with

(branches of) banks on the BES, up to an amount of \$10,000 per bank per deposit holder. The banks participating in the DGS bear the costs of the DGS. If necessary, any payment will be pre-financed by the State.

Furthermore, as of April 1, 2016, article 3:20 of the BES Financial Markets Act explicitly states that DNB is authorized by virtue of the BES Wfm to request information about head offices (seats) located outside the BES islands. As a result, DNB is not always fully dependent on information made available by the home regulator.

Finally, in recent years, DNB and the Dutch Central Bank have pressed for structural improvements in the governance and working methods of the CBCS, so that in the medium term the quality of the prudential supervision by the CBCS on the BES improves.

### **Research: scenarios for sustainable supply and enhanced supervision**

Despite the measures already taken, the current market for banking and payment services does not show a sustainable picture and prudential supervision is worrying. Therefore, at the end of 2017, PwC was commissioned to investigate the possibilities of guaranteeing a minimum range of banking services on the BES islands and at the same time to strengthen supervision. The minimum offer consists of being able to open and maintain a payment and savings account, including access to international payment transactions, being able to take out loans and mortgages, being able to withdraw and deposit cash and being able to bank online.

PwC has examined various scenarios in terms of feasibility, costs and risks, including the introduction of a so-called 'seat requirement' for providers of banking services on the BES. This would oblige these parties to have a registered office on the BES islands, with the result that they would be under the direct supervision of DNB. In that scenario, branches would have to become independent with their own management and capital. This could lead to extra costs, as a result of which the return to be achieved by banks on the BES will come under further pressure. A unilateral introduction of a seat requirement, without an improvement of the supply, therefore does not seem opportune.

PwC has also investigated other instruments that the Dutch government can use to sustainably guarantee the minimum supply, whether or not in addition to enhanced supervision by means of a seat requirement. These include financial facilitation by means of, for example, a subsidy or concession, the provision of the minimum range of banking services by the government itself and the provision of these services as digitally as possible. The report contains business-confidential and competition-sensitive information and therefore cannot be disclosed in its entirety. In order to provide you with the best possible information, a summary of the report is enclosed without the company's confidential and competition-sensitive information.

### **Follow-up**

The PwC report has produced various scenarios that could lead to an improvement of the banking services and to more certainty about the stability of the financial institutions on the BES islands. At the same time, the study makes it clear that the measures are far-reaching, for the BES islands, their inhabitants and their service providers. I will therefore discuss the

findings with local parties. In this respect, I am also including the developments in the CBCS. The Supervisory Board of the CBCS has informed me that a new CBCS president has recently been nominated who is expected to be appointed in the near future. In my opinion, this is an important step towards improving the functioning of the CBCS, which could ultimately have an impact on the quality of the prudential supervision of the BES islands.

An important aspect in the discussions with local parties is the electronic payment system, because it is precisely innovations and digital possibilities that offer opportunities for residents to have access to the payment system. Signals about the functioning of the electronic payment system are discussed in the Caribbean Netherlands Payment System Working Group. These come mainly from residents and entrepreneurs on the BES and concern, for example, high costs for giro transactions, high interest rates for credit and limited possibilities for online banking and payment. Insofar as these signals are not already being picked up by local parties and authorities, I assess on a case-by-case basis the way in which the government can make a contribution. In doing so, I work closely with local parties and authorities, with my colleagues from the Ministry of the Interior and Kingdom Relations and from the Ministry of Economic Affairs and Climate, and with DNB and the Netherlands Authority for the Financial Markets. I will inform your House about the progress at the end of this year.

Yours sincerely,

the Minister of Finance,

W.B. Hoekstra