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T. Banke
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T. Business History
Monopolised, privatised, diversified and incorporated
An institutional analysis of the evolution
of the Dutch Postbank (1945-1994)

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WORC PAPER 95.06.031/3

Paper prepared for the 12th EGOS Colloquium
'Contrasts and Contradictions in Organization'
Istanbul, Turkey, July 6-8, 1995

Sub-theme 2: State, Market and Organizational Form
Convenor: Ayse Bugra, Department of Economics, Bogaziçi University, Istanbul

June 1995

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ACKNOWLEDGEMENT

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WORC, Research Unit Organisational Transformations (P3-03)
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An institutional analysis of the evolution
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Keywords: corporate evolution, Postbank, privatisation, financial services (banking/giro), stakeholder analysis, national payment system (NBC), ING Groep

Abstract

An illustration of the increasing powers of the private sector at the expense of the public sector can be found in the corporate evolution of the Dutch Postbank. As former part of the PTT government department, the Postal Cheque and Giro Service PCGD and the Postal Savings Bank RPS evolved into an integrated subsidiary of the financial conglomerate ING. Although the decision to privatise the PTT Moneyservices was taken by a centre-right Cabinet with a neo-liberal economic ideology in the mid-1980s, this case study suggests that privatisation was not a deliberate political strategy to cut back public spending or 'get the government off the backs of the people', but an opportunistic or negative solution to a long-lasting and complicated policy problem. In 1977 the centre-left Cabinet proposed to create a strong state bank, called the Postbank, with a twofold purpose: to secure the continuity of the Moneyservices and to establish a countervailing power in the Dutch oligopolistic banking community. Originally the Government supported the PTT Moneyservices in its quest for extending its portfolio of financial services to the business community and to promote competition in the relatively concentrated banking sector. Organised banking accepted the first reason for integrating the Postal Giro and the Postal Savings Bank (i.e. securing continuity), but effectively opposed the establishment of a strong state bank. In 1984 the centre-right government dropped the idea of a state bank and the PTT Moneyservices merged into a commercial bank, that was to be privatized, which implied - although restricted - entering into wholesale banking. In 1986 the decision was put into effect: the status of the Postal Giro and the Postal Savings Bank changed from government-owned and
politically controlled to a general commercial bank with a limited liability status, to be called the Postbank. After almost ten years of laborious negotiations, a final agreement was reached in which an eventual privatisation of the PTT Moneyservices was linked with restricted market access for the Postbank in the wholesale business market.

The research question is the following: how did the Moneyservices/Postbank cope with the major techno-economic and (de)regulatory challenges in its business environment, and how did it come to terms with the interests of the various stakeholders in the Dutch financial community? The stakeholder concept refers to any group whose collective behaviour can directly affect the focal organisation’s future, but which is not under the organisation’s direct control. The drastic changes in the status and organisation of the Postbank were partly shaped by the deliberate strategies of the focal organisation itself, but were also influenced by its internal and external stakeholders, who were selectively pushing for or blocking institutional changes. Examples of influential stakeholders were: the two related PTT-directorates of the telecommunications and postal services, the Cabinet, Parliament, the labour unions and the larger banking community. By identifying and examining all these groups with different stakes in the focal organisation, a map of all its stakeholders can be made, that allows for an analysis of the corporate strategies pursued, the policy preferences advocated and the policy outcomes achieved. Together with the general environmental constraints set by information technology, market developments and political-legislative measures, the strategic interactions between the Moneyservices/Postbank and its major stakeholders, have shaped its corporate evolution and substantially transformed the financial services market in the Netherlands. The PTT Moneyservices/Postbank adjusted itself to the newly merging business environment and the political and market pressures of the private banking community by following a strategy of reorganisation, privatisation and the incorporation into the financial conglomerate ING. So the Postbank has become a fully recognised member of the private banking community; or in other words, the concentrated banking sector has absorbed its former contender, the 'public' Moneyservices/PCGD into its policy determining framework.
'Monopolised, privatised, diversified, and incorporated'. An institutional analysis of the evolution of the Dutch Postbank (1945-1994)

1 Introduction

From the sixties onwards the Postal Savings Bank RPS and the Postal Giro PCGD, both government-owned and politically controlled, increasingly had started to work together in retail banking, i.e. providing financial services to the general public. The need to integrate the administratively separated PCGD and RPS, gained momentum when the PTT Moneyservices were confronted with strong competition from the private banking community. As a consequence of the aggressive diversification strategies of individual banks, the boundaries between the traditionally separated domains of merchant banking, savings, giro, credits, and mortgages became eroded. From the early seventies onwards, the PTT Moneyservices were losing ground to the commercial banks, even threatening the long-term provision of savings and payments services to the public. The ability of the PTT Moneyservices to react to this competitive challenge was limited. The company's overall strategies were constrained by political interference: the marketing of new products and services needed political approval and the carrying out of its operational functions was subjected to parliamentary supervision. These institutional constraints to enter new markets, together with the time-consuming character of political decision making, prevented the PTT Moneyservices from a real response to the threat posed by the commercial banks, which had started to enter its domain of retail banking. The administratively separated Postal Savings Bank and the Postal Giro responded by increasingly working together in retail banking, eventually leading to a full integration into one Moneyservices Directorate within the PTT administration.

In the mid-seventies, the centre-left Government hoped to counteract this negative trend through the establishment of a strong and fully integrated Post-bank, hereby consolidating the Postal Giro service and the Postal Savings Bank. In addition to the goal of safeguarding the continuation of the public PTT Moneyservices through the creation of the Postbank, a second more controversial policy objective was involved, making the situation even more

1 The title of this paper has been inspired by Folded, Spindled and Mutilated: Economic Analysis and U.S. vs. IBM (MIT Press 1993), a discussion of the anti-trust case against IBM as provided by F.M. Fisher, J.J. McGowan and J.E. Greenwood.
complicated. The prediction was that a strong and diversified Postbank would act as a countervailing state bank to promote competition in the concentrated and cartelised Dutch banking sector. In the original plans the Government, therefore, allowed the Postbank to enter the *wholesale banking* market, i.e. to offer customised financial services to the business community. These proposals were received with mixed feelings in Parliament. Although supported by the political parties represented in the Cabinet, they were strongly opposed by the liberal-conservatives and the banking community, who argued that competition in the banking sector was sufficient and that there was no need or necessity for the government to intervene in the wholesale banking market. Furthermore, it was believed that the not-for-profit Postbank would not operate under the same market conditions as the other banks would do. Therefore, the normal banks argued that the portfolio of a future Postbank needed to be restricted to its core business of providing public giro services and that the Moneyservices were excluded from providing 'wholesale' financial services. The whole situation became even more complicated through the linkage of the reorganisation of the Moneyservices with the harmonisation of the PCGD network and the payments system of the banking community in the policy process and cabinet shifts between 1975-1985: from centre-left to centre-right to centre-left to centre-right again.

Finally, in 1984 a minimal compromise was reached within Parliament and in the larger community of organised banking over a less ambitious plan for the PTT Moneyservices. The PCGD and RPS would be integrated within the Postbank, allowing it economies of scale to safeguard the provision of public giro services in the near future. This Postbank would become a 'normal' retail bank with only limited access to wholesale banking. The lobby of the banking community proved to be effective: the proposal to grant the Postbank the privileged status of a state bank was replaced by the alternative of corporatised and privatised bank that would meet the rules and conditions of fair competition. On 1 January 1986, the RPS and the PCGD merged into the limited liability company of the Postbank, hereby changing their status from government-owned and politically controlled institutions to that of a semi-commercial bank. After almost ten years of laborious negotiations between the government, PTT Moneyservices and organised banking over the structure of the Dutch market for giro and financial services, privatisation of the PTT-Moneyservices, together with a controlled expansion of the Postbank in the wholesale market, was seen as the only way out of the political stalemate. The Government, the Moneyservices and the larger PTT
administration on the one hand and the organised banking with their private/commercial interests on the other, could not agree about the degree of government intervention in the financial sector.

In this research the attention will be directed to the various configurations of various public and private actors in the political decision making process and the problems, policies, and political events that emerge within that policy making process. The focus is upon deciphering the complex web of strategic interactions between the PTT administration and the other parties involved around the policy issues of reconsidering PTT’s responsibilities and redefining the governance structures of the Dutch giro market. The focus will be on how the (near) monopolies on giro/postal savings of the Moneyservices/Postbank were broken up and opened up to (more) competition. This contribution analyses at first the consolidation of the Postal Giro and the Postal Savings Bank into the integrated Moneyservices directorate within the PTT administration and to be followed by the divestiture of the Moneyservices from the PTT Administration and its corporate development towards a (semi-)commercial bank. These drastic changes in the status and organisation of the public Moneyservices were of course shaped by the focal organisation itself, i.e. Postal Giro, Postal Savings Bank and the PTT-administration, but also by other actors and groups in the larger policy community, either stimulating or blocking institutional changes. The stakeholders in the policy process have to act and to pursue their objectives within the rules defined by the established institutional framework. At the same time, however, these existing rules also provide a (potential) arena
for conflict, in which some actors strive to change these institutional constraints in their favour. So we will focus on the importance of firms, strategic alliances or industrial groups as economic actors, and their increasing ability to shape the rules of the competitive process.

This paper deals with the development of the PTT Moneyservices towards a privatised Postbank from a stakeholder perspective. The stakeholder concept refers to any group whose collective behaviour can directly affect the focal organisation’s future, but which is not under the organisation’s direct control (Mitroff 1983; Freeman 1984). The stakeholder analysis attempts to identify the major and minor parties and their interests that are critical for the firm’s functioning and how they affect and are affected by the focal organisation. The stakeholder approach models strategic management as the building of bridges between its stakeholders and effectively managing the relationships with its employees, stockholders, management, suppliers, customers, banks, government, labour unions etc. Evan (1976) has examined the organisation-environment interface from the selective point of view of one specific organisation and its task environment and typified the exchange relationships between the focal organisation and other organisations as an organisation-set in which each social unit is involved in a configuration of roles and role relationships. Examples of influential stakeholders, which affected the organisational evolution of the PTT-Moneyservices/Postbank were the two related PTT Directorates of telecommunications and postal services, Cabinet, Parliament and other governmental agencies such as The Treasury, the Ministry of Transport & Public Works and the Dutch Central Bank DNB, and organised commercial banking (general banks, cooperative banks and savings banks). By identifying and examining all the diverse groups, which have varying stakes in the organisation central to the research, a map of all its stakeholders can be made (see fig.1.). Such a stakeholder map offers a framework for strategy and policy analysis, because it contributes to a further understanding of the political and business environment, in which the focal organisation is operating. The focus in this paper will be on the converging and diverging interests between the PTT Moneyservices/Postbank and its stakeholders in the restructuring of the public moneyservices and how this focal organisation has attempted to cope with and to control the changing contingencies in its institutional environment.
2 Theoretical background

In this study we will follow an organisational and institutional perspective. Such an approach acknowledges both the strategic and tactical moves of actors driven by calculated self-interest and the collective dynamics of competition and collaboration on the one hand, and institutional conditions and rules, constraining the strategic interaction on the definition of problems and the formulation of appropriate solutions. We will focus on the search for and the negotiations about more appropriate governing arrangements by public and private stakeholders and producers and consumers in both the market place and the policy arena. This action logic does not automatically include an imperative for continuous change, it could also imply institutional inheritance and persistence. The degree of governance transformation seems to depend upon the distribution of power and interests among the stakeholders, shifts in the technological and economic characteristics of industries and the larger political-institutional setting promoting and foreclosing particular courses of action. In today's policy process we can see, along with De Swaan (1990), a change from policy-making by command towards policy-making through negotiation. This means that the policy process increasingly depends upon the specific structural dependencies between public and private stakeholders and their ongoing negotiations about the maintenance or reconstitution of rules. In order to analyse the politics of policy-making we will conceive the policy process as a complex action system, in which actors are involved in forming temporary alliances for a limited purpose, promoting collectively certain issues or hiding other issues away from political attention.

The policy process itself could be typified as an overall game of antagonistic cooperation embedded within specific government-industry networks, which encompasses multi-level and mixed sub-games, nested games and multiple ties among numerous interdependent stakeholders (Wassenberg 1985, 1990). The participation of the stakeholders, their mutual dependencies and the strategic interactions between them to (re)shape the negotiated order, are the central elements in such an approach. Wassenberg (1991: 183) has defined negotiation as 'a process of potentially opportunistic transactions by which two or more parties (organisations, groups and institutions) with partly conflicting interests try to reach a more satisfactory result, by coordinating their behaviour, than they might have done otherwise.' The negotiation behaviour of actors is aimed at the scope of their mutual dependence, by recognising
the ambitions, plans and interests of their allies and adversaries, and on the other hand by getting support from the various stakeholders for or against a change in public policy. The negotiation perspective attempts to make clear that the availability of blueprints is no guarantee for the effective development of policies, but basically, policy and strategy are the product of bargaining within and between mutually dependent organisations. The disposal of discretionary power for the players involved is in that respect crucial: whether the possessor of power is able to change the range of options open to others without apparently putting pressure directly on them to take one decision or to make one choice rather than others.

In a democratic society, politics means discussion, searching for compromises and bargaining: the policy struggle basically takes the form of competing efforts to persuade those in a position to make the formal allocation of values. Also the making of industrial regulation by government involves values, interests, conflicts and the making of choices by responsible politicians, administrators and other stakeholders. This means, that in analysing industrial policy a political rationality, next to technological and economic factors, has to be considered (Reagan 1987). By looking at regulatory policy from a political point of view, the focus is on reiterative processes of bargaining and compromise-seeking by and through organisations, and how powerful state and non-state organisations gain, maintain and sometimes lose their dominant positions. The strategic choice between different governance modes of industry can be considered as a strategic game in which interests and values of the involved parties matter and where the political-economic organisation of society is at stake. Regulated firms and industries, public agencies and other actors operating within the political and administrative process just as they operate in the market (Vietor 1989, 1994). For public or private companies that want to operate effectively in a regulatory environment, they must be active in both the market place and the political arena and linking their business plans with complementary political action. For instance, a strategy often followed by organisations operating in (semi-)public spheres to control their (potentially) hostile environment is cooptation, defined by Selznick (1949: 13) as: 'the process of absorbing new elements into the leadership or policy determining structure of an organisation as a means of averting threats to its stability or existence'. The larger business environment provides opportunities for strategic and tactical behaviour: the realisation of economic objectives and innovation could be used as offensive means and information gathering, cooptation of experts, lobbying, cross-subsidisation and litigation are illustrations of more defensive means
to strengthen one's position. Both established parties and prospective entrants try to make extensive strategic use of information in the administrative process; these actors take virtually every opportunity to make detailed economic and technical information available and understandable in ways which emphasise the strong points in their cases and diminish or at least obscure the weaker points. The affected parties in regulatory policy making can also respond by pursuing delaying tactics: for instance by flooding the agency with more information than it can absorb. The responsibility of regulators is to sift through the information received and differentiate between arguments that reflect only special interests and those that support the public interest (as perceived by the policy makers).

The negotiation perspective provides a lucid process-oriented perspective on policy making and strategic interactions among public and private actors. The theory disregards, however, the persistent influence of institutional arrangements, that constrain the bargaining processes. In our research we will acknowledge the relatively independent role of both economic and socio-political institutions. The term 'institutions' is used in this study in a rather general sense, referring to relatively persistent set of rules, norms and values that constrain and shape exchange patterns between stakeholders. From the 1970s onwards, the academic interest in the study of economic, political and legal institutions has increased in the social sciences. New Institutional Economics, Institutionalism in economic sociology, and Institutionalism in political science, have started to conceptualise and investigate institutions as organisational forms, socially constructed and routinely reproduced rule systems, and particular state-society arrangements structuring politics, respectively. According to the New Institutional Economics NIE, institutions are interpreted as being incentive and governance structures designed by rational actors to respond to economic needs by reducing transaction costs and information uncertainty (Williamson 1991; North 1990). The emergence, functioning and transformation of institutions is explained with the help of micro-economics, focusing on the rational choice for the most efficient outcome and the incentives and the benefits, associated with particular institutional structures. For instance, the transaction costs associated with hierarchical forms tends to be lower than the costs of market coordination under conditions of high frequency, high asset specificity and high uncertainty. According to the New Economic Sociology, institutions are more than efficient instruments in the structuring of economic activities. Moreover, the underlying assumptions of NIE of the primacy of economic goals, the rational actor pursuing self-interest and the emergence of institutions
as efficient outcomes to external requirements are strongly criticised.

According to the New Economic Sociology, institutions are shared cognitions and socially constructed rule systems by agents whose actions are embedded in concrete ongoing networks of social relations (Powell & DiMaggio 1991; Granovetter 1985, 1992). Besides pursuing the goal of economic efficiency, actors strive for non-economic objectives as well, such as power, dominance, status and public recognition. The development and the transformation of both political and economic institutions is contingent upon lasting interaction patterns and shared norms and the constraints imposed by the historical background of institutional settings and the overall structure of society. In the domain of political science, institutions refer to 'formal rules, compliance procedures, and standard operating practices that structure the relationships in various units of the polity and economy (Hall 1986: 19)'. The central element in this respect is the notion of institution as a set of rules affecting the structure of particular situations at various levels and in particular ways by requiring particular actions, prohibiting certain other outcomes and/or allowing others (Ostrom 1986). In the political version of institutionalism, it is assumed that the socio-economic organisation of a country both conditions and reflects the distribution of power among the key stakeholders affected by particular state-society arrangements and policy outcomes (March & Olsen 1989). Specific institutional arrangements structure particular kinds of politics by affecting an actor's definition of his own interests as well as the degree of power that any set of agents has over policy outcomes. These institutions are the result of previous situations and rule-settings, in which human actors found themselves and that lead policy makers into some courses of action. Given the fact that each alternative course of action tends to favour the interests of particular stakeholders over others, the parties involved will bargaining about certain institutions and policy outcomes to enhance their well being. So agents actively attempt to further their interests and particular policy outcomes while at the same time they are being subject to larger institutional structures, that set limitations to their operations and interactions.

In this study institutional change will be interpreted as initiated by shifts in the dependencies between the major stakeholders in the policy network, changes in prevailing economic ideas and governing structures, that together make up the governance regime of a sector. Governance transformations are the result of a dynamic interplay between the strategic interactions
of stakeholders in favour of change and reactions of actors preserving the *status quo* and the larger technological, economic, cultural and institutional context, constraining the actions and interactions of private and public actors. In the explanation of why governance regimes emerge, persist or are transformed, Campbell & Lindberg (1991) have suggested five possible factors: the search for economic efficiency, innovation and technological developments, the quest for power and control, shaping cultural beliefs and the role of the state.

The first factor pressing for governance transformation, economic efficiency, relies upon rational actors trying to find more efficient and/or effective ways of doing business. Consequently, economic actors will probably select those governance structures of which they believe to reduce transaction costs and improve economies of scale and scope. The factor technology provides new opportunities for governance transformation by expanding the range of choices to innovate production, to restructure product markets and to facilitate new entry for outsiders. Besides the element of searching for economic efficiency, one has to exclude the importance of power struggles and the pursuit of control over technology, critical dependencies and market competition in maintaining or challenging established governance structures. So actors are also concerned with safeguarding their private interests, balance the power relations with their stakeholders and controlling the terms of exchange under which these transactions and economic activities take place. Culture also plays a role in the occurrence and transformation of economic governance, although its explanatory power is limited. Cultural and ideological factors constrain the range of available governance mechanisms from which actors might choose by inhibiting or facilitating particular coordination mechanism, fitting within the encompassing system of beliefs, norms and values of a particular sector. The role of the state in the structuring and transformation of governance regimes is more complex. State actors shape the selection of governance regimes by defining and enforcing the property rights within the economy and determine the conditions under which each of the governance arrangements may exist. The national government and its associated administrative bodies devise policies that might create pressures for change. They initiate adjustments of the existing socio-economic regime and legitimise and stabilise the newly established governance regime.

In explaining policy change, shifts in power dependencies between stakeholders in the policy network and the larger governance regime play a dominant role, but one should not
overlook the role of new persuasive ideas, intellectual debates and prior experiences with related policies in the political process. Social scientists are seemingly more interested in the 'political' aspects of the policy process, referring to elements like power struggles, bargaining and conflict resolution, and overlooking cognitive and argumentative aspects, like problem solving, advocacy, communication, deliberation, persuasion and learning. Ideas, acting as a propelling force to seek and devise new solutions to collective societal problems, will be thought of as also relevant in explaining the formation and development of public policy (Hall 1989, 1993; Majone 1989, 1992). Hall (1993) has distinguished between three forms of change in policy content: first-order change, caused by incremental and routinised decision making regarding socio-economic problems; second-order change, caused by altering the instruments without challenging the overarching hierarchy of objectives behind the policy and third order change referring to a new coherent set of ideas, that redefine the persistent problem and its possible solutions anew. Elaborating upon the distinction between normal science and scientific revolution as put forward by Kuhn (1970), Hall considers first and second order change as manifestations of normal incremental problem solving and third-order change as a paradigm shift, provoked by an accumulation of policy failures that trigger the promotion and discussion of new conceptions and institutional structures. An application of the paradigm concept to the domain of techno-economic production has been given by Freeman & Perez (1988: 47/48), circumscribing it as 'a combination of interrelated product and process, technical, organisational and managerial innovations embodying a quantum jump in potential productivity for all or most of the economy and opening up an usually wide range of investment and profit opportunities.' Innovations can initiate the emergence of anomalies in which the established institutional framework no longer corresponds to the potential of a new techno-economic paradigm (e.g. Dosi 1982). The subsequent structural crisis of adjustment might initiate stages of a further application and diffusion of the new technologies, a push for new market and pricing structures, and finally a political debate on the appropriate institutional form before a new leading techno-economic paradigm is established.

Whether these policy alternatives become widely accepted and implemented depends on their techno-economic, political and administrative viability and the support for these proposals from communities of experts, leading socio-economic groups, politicians, and administrators (Hall 1986,1989; Rose 1993). From a dialectic view on the relationships between institu-
tions, problems, policies and political events are dialectic, March & Olsen (1989) and Kingdon (1984) have referred to the linkage of four largely independent streams, namely the flows of the energy from participants, problem recognition, available alternatives and choice opportunities, that all together makes policy breakthroughs possible. Derthick and Quirk (1985) give an account how drastic changes in US regulatory policies were achieved as the outcome of shifting constellations of dominant interests, joined with conceptual innovation through the generation of new arguments, evidence and proposals, that supported the deregulation of transport, airlines and telecommunications. Originally, the policy alternative of regulatory reform was developed by economic experts, that advocated deregulation as a way to cut back often unnecessary forms of regulation and hence to reduce social costs. These intellectual suggestions for pro-competition policies were picked up and supported by leading politicians, that were responsive to public concerns about high levels of inflation and government intervention and/or inclined to free market ideologies. Although hindered by a relatively late and ineffective reaction from the affected industries to protect their vested interests and slow down far-reaching reform measures, entrepreneurial office holders, commissions and advisory working groups further advanced the ideas for deregulation and eventually implement them.

In this study we will follow an evolutionary theory of governance transformation, in which institutional change is shaped through search strategies pursued by the actors and environmental contingencies, set by technological and sectoral properties and socio-political institutions, setting limits to the range of interests and opportunities available to actors without completely determining them. In other words, the development of governance transformation will be conceived as an interactive process, emphasising rational variation and (re)adaptation on the one hand and the constrained selection of appropriate organisational forms and the elimination of all the others (Aldrich 1979; DiMaggio & Powell 1983; Campbell & Lindberg 1991). The mechanism of variation refers to the more or less purposive motivations and cumulative search efforts to improve organisational capabilities and strategic position. The strategic or opportunistic responses of economic and political actors to transform governance regimes more favorable to their interests are triggered by the changing circumstances of a particular sector or the wider national economy. Organisations try to adjust themselves to the changing environmental conditions by intentionally seeking for new institutional forms, that either are developed by entrepreneurial actors or inspired by
already existing exemplars from other fields. This more or less intended variation process is seriously constrained by strong inertial forces, like established routines and experiences, shared values and regulations and other initial properties of organisations, that set strong limits to organisational adaptability (Hannan & Freeman 1984; Nelson & Winter 1982). As argued by North (1990: vii), the continuity of history and institutional persistence often act as a constraint on the ability of organisations to respond to changes in its environment: 'History matters. It matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society’s institutions. Today’s and tomorrow’s choices are shaped by the past. And the past can only be made intelligible as a story of institutional evolution.' So policy responds less directly to the current social and economic conditions than it does to the consequences of previous initiatives: ‘policymakers are inheritors before they are choosers (Rose 1993: 78)’.

The selection mechanism refers to the filtering process of how better-fit structural forms are picked out by the environment and less-fit forms are replaced or rejected. The final shape and form of organisations and institutions takes place over the years through experimentation, trial-and-error learning, persuasion and negotiation among the major stakeholders. The mechanism of structural adaptation refers to the incremental choices and policies made by policy makers aimed at reforming and adapting institutional structures in response to environmental changes, threats and opportunities. Those particular forms are selected out, that are effectively pursued by powerful actors and are best suited to the changing environmental conditions. The thrust of the evolutionary perspective is that environments select only those policy ideas and arrangements, that are perfectly adapted to fit within a predefined configuration of interests, and filter out those forms that are maladapted to meet the demands of the political and economic environment. Notwithstanding the relevance of deliberate search efforts and purposive policy shifts, it is the ultimate survival of compelling policy ideas and specific institutional structures, that illuminates the relative effectiveness and superiority of those forms.

The process of selection within the environment is conditioned by historically grown techno-economic structures and the number of trajectories on which a configuration of actors can embark is limited. Organisations, that are confronted with high levels of uncertainty, resource scarcity and constraints, often follow ‘best practice patterns’ and ‘survival paths’ by
borrowing or emulating structural forms of relevant other organisations. Constrained by the long-term commitments of firms, intangible capital and the administrative legacy of past policy choices, the organisational and institutional adjustments tend to be largely incremental and evolutionary. This 'path dependent' behaviour comes from the fact that an alteration of institutional rules and practices will involve high switching cost; instead the increasing return mechanism will reinforcing the direction on a given trajectory (North 1990). Dimaggio and Powell (1983) have emphasised that organisational fields are continuously (re)shaped by environmental developments and ultimately stabilise through the emergence of (inter)organisational form that is the most compatible with its environmental characteristics and requirements. So organisations and institutions may model themselves deliberately or necessarily after similar organisations and institutions in the field, that they perceive as more legitimate or more successful or they may model a structural form, which has shown to be efficacious in another context. The mechanism of imitation refers to the availability of blue prints, that could function in cases of high uncertainty and ambiguity as exemplars of problem-solutions in the reform of organisational and institutional forms at hand. Majone (1990) and Rose (1993) have pointed out that policy makers, operating under tight resource and time constraints, often rely on pre-existing models, emanating from politically and economically powerful countries instead of developing new frameworks. Given differences in cultural, economic and social settings foreign institutional forms are of course never exactly and directly implemented, but only partially imitated with some minor adaptations and adjustments to fit with the local circumstances.

3 The political-administrative framework of Dutch banking

In the early 1980s the Dutch banking system consisted of a number of clearly defined groups of financial institutions: the central bank, the commercial banks, the cooperative or agricultural credit banks, the savings banks and the PTT-Moneyservices (Bosman 1986). The pivot in the Dutch financial industry is the Netherlands Central Bank DNB, acting both as the Government’s Bank, the Bankers’ Bank and the Bankers’ Watchdog. Although wholly owned by the state, the Central Bank has a private law status to safeguard its autonomy vis-à-vis the government (e.g. the Treasury) and Parliament (Van Wijk 1988). The 1948 Banking Act granted advisory, executive and regulatory functions to the Dutch Central Bank. The DNB could be regarded as one of the main advisory bodies of the Government in
macro-economic and fiscal policy. As an executive agency, the DNB was responsible for the implementation of certain aspects of monetary policy, like the issuing of bank notes, controlling official reserves and inflation levels, managing the national debt and regulating the exchange value of the national currency. In order to compensate for the main imperfections of financial markets, like asymmetric information and systemic risks and securing overall market stability, the Central Bank was also in charge of regulating and supervising the financial sector in the Netherlands. The DNB adopted an informal and prudential system of regulating the banking institutions involved by closely monitoring their market behaviour and their performance. On the basis of the 1978 Credit Control Act the Central Bank was empowered with considerable powers over the individual banks to set levels for their capital reserves, liquidity, solvency and rate-of-return ratios.

Besides scrutinising the individual banks at the micro-level, the DNB was also in charge of structural supervision at the industry level by controlling the entry and exit conditions of the banking sector vis-à-vis non-banking firms and industries. Until 1990 there was a clear administrative division between the Dutch banking and the insurance market (the so-called structuurbeleid). The two independent agencies responsible for regulating the two financial sectors, the Central Bank and the Insurance Chamber, had established a clear-cut division of jurisdiction. For instance, banks were allowed to sell insurance services, but only as an independent intermediary for more than one insurance company. Furthermore the participation of banks in insurance companies and other companies (and vice versa) were limited. The reason for the regulatory separation of banking and insurance was to prevent consumers from the consequences of the undesirable concentration of market power by financial conglomerates and to restrict the risk-taking activities of financial institutions in corporate ventures, project planning and real estate development. The internationalisation of capital markets and the emergence of the European Common Market by 1993, both challenging the existing boundaries in financial markets, made clear that the restrictions on market entry for foreign participants and the separation between banking and insurance could no longer be maintained. In 1986 the Dutch Government decided to liberalise the entry to the domestic capital market. Three years after this modest deregulation programme had been implemented, the Government decided to abolish the regulatory division between banking and insurance. From 1990 onwards, banks were allowed to provide insurance services and
insurance companies were allowed to enter the banking sector. The two regulatory agencies in charge of supervising the financial services sector, the Central Bank and the Insurance Chamber, reconfirmed their established division of labour in the newly deregulated situation. The restriction on ownership and participations in non-related businesses, imposed on Dutch banks, was left untouched.

As stipulated in the Banking Act, the Central Bank was also responsible for the coordination and promotion of payments systems. The Central Bank was concerned about the cashflows between financial institutions and the 'public' functions of funds transfer, such as ensuring equal access for providers, standardisation, efficiency, security and privacy, and promoting the development of new financial services. Originally, the Central Bank had been involved in the transfer of funds between financial institutions, but gradually its clearing facilities had been replaced by the giro systems of the PCGD (Post Office) and the BGC (the banking community). Two departments were responsible for the giro services in the Netherlands: the Ministries of Finance and Transport & Public Works: the former was responsible for reasons of monetary policy, the national interest of giro services and the stimulation of public saving, while the latter was responsible for the infrastructural aspect of the giro services and the relations with the other directorates of the PTT administration (notably Post and Telecommunications). Former RPS/PCGD president Schotsman (1990) characterised the relationship between the Ministry of Finance and the Ministry of Transport & Public Works as an 'unstable relationship', illustrated by an unclear division of tasks and battles over turf. This unclear relationships made it extremely hard to change course in the development of the Moneyservices.

In the shaping of monetary policy and the carrying out of its administrative functions, the Central Bank relied upon the participation of stakeholders, such as the individual banks, the PTT-Moneyservices and branch associations, representing the collective interests of a group of financial institutions. The Central Bank recognised the following collective organisations, as speaking on behalf of a clearly-defined group of actors within one (sub)sector: the Dutch Banker’s Organisation (representing the general banks), the Raiffeisenbank and the Boeren-

2 The intention to deregulate the Dutch financial market was announced by the Minister of Finance in June 1989 (TK 1988-89 20800 IXB 61) and eventually led to a legislative amendment of the Credit Control Act by 1992.
leen bank (representing the cooperative banks), and the Netherlands Association of Savings banks, representing the interests of the various savings institutions. In the domain of securities trade, the Central Bank recognised the Association for the Stock Market as its interlocutor in the policy process. The general, cooperative and savings banks (including the Dutch subsidiaries of foreign banks) coordinated and promoted their common interests through the Consultative Board of Organised Banking. This collective banking association had a representational monopoly on the intermediation of interests between individual banks and governmental agencies like the Central Bank, the Treasury and Parliament. The Consultative Board functioned as an informal platform, through which the various banks could structure internal discussions to set political priorities and prepare the development of joint projects, such as the establishment of the Bank Giro Centre (a joint clearing house), the introduction of salary accounts and guaranteed cheques. In 1989 the Netherlands Association for Banking NVB was established, that included both the general and the cooperative banks as well as the then privatised Postbank.

At first the commercial or general banks were active in the wholesale market by granting credit to business, and mostly short-term, to industry and well-to-do securities customers. They acted as full-service banks, providing a wide range of financial services to businesses: credit provision, investment banking, corporate financing, mergers & acquisitions, equity broking, the underwriting of shares and bonds etc. These commercial or merchant banks also looked after the national and international transfer of payments, particularly with regard to large payments, mainly on behalf of enterprises to one another and from and to the government. Savings accounts as a rule were not offered. Later, the commercial banks diversified in the retail banking market by successfully enlarging their customer base and extending their range of financial services. The commercial banks were organised through the Dutch Bankers' Association NBV, which set general rules for the conduct of business within the wholesale banking market.

The cooperative banks formed a group of financial institutions clearly distinguished from the general banks on the one hand and the savings banks on the other. At the turn of the century two central cooperative banks had been established: the Coöperatieve Centrale Raiffeisenbank in Utrecht for the protestant communities and the Coöperatieve Centrale Boerenleenbank in Eindhoven for the catholic groups in the country. The cooperative banks granted
short-term and medium-term credit to farmers, shopkeepers and cooperative societies in the local community; securities and foreign exchange transactions occurred only rarely. In rural areas the cooperative banks fulfilled the role of both a commercial bank and a savings bank. In the 1960s, however, the cooperative banks extended their domain to the urban areas by establishing a large number of branch offices in the cities. The cooperative banks could no longer be considered as mere agricultural credit banks, mainly active in rural areas. Nowadays they have established a nation-wide network of outlets and have built up a solid customer base among small- and medium-sized businesses and the bigger customers. In 1972 the two cooperative banks merged into one central cooperative bank: Rabobank Nederland. By this strategic move the Rabobank became a serious competitor for the other banks, namely the general and the savings banks and the PTT Moneyservices. The main objective of the Dutch savings banks, organised within the Netherlands Association of Savings Banks was to promote savings services to the public; the legal form of these institutions was essentially that of a foundation. For a long time this was their only objective, but in the sixties they followed the same path as the cooperative banks, by extending their services to a whole range of financial services (mortgages, credits, travel insurance and the like). In 1971 the majority of the savings banks merged in the Bank of Associated Savings Bank (Vereniging van Bondspaarbanken) in 1971, and became officially registered as a general bank, to be called VSB.

The Postal Savings Bank RPS and the Postal Cheque and Giro Service PCGD were part of the Moneyservices Directorate of the PTT administration. Obviously the RPS and PCGD had close links with the other PTT services. The post offices were made available for the cash payments of both the PCGD and the RPS and the Telecommunications branch provided the required telephone and data links for carrying out funds transfers. The Postal Giro and the Postal Savings Bank were conceived as public utilities to provide basic financial services to society. The RPS was originally established as a savings institutions for the general public by the government in 1881, because the commercial and savings banks at that time did not fully meet the need for savings opportunities for small savers. The Postal Savings Bank was supposed to play a role complementary to those of the commercial banks and the savings banks by providing savings schemes to lower income groups. The PCGD was established in 1918 and had a near-monopoly for giro services (postal cheques and giro traffic) in the Netherlands. The Postal Giro was originally called into being by the government to meet the
banking needs of the general public through a close network of local post office outlets with convenient opening hours. Furthermore, the large majority of government authorities and businesses had giro accounts to facilitate the transfer of money to these 'households'.

The status of the Postal Giro was laid down in the 1954 PTT Designation Act, stipulating that the Postal Giro was part of the PTT. The status of the Postal Savings Bank was laid down in the 1954 Postal Savings Bank Act, defining the position of the RPS as a legal body and regulating the public savings market (Ottenheijm 1974). Gradually the Post Office Savings Bank RPS and the Postal Cheque and Giro Service PCGD started to work together with respect to providing financial services to the public. In 1972 the Postal Giro and the Postal Savings Bank became integrated into one directorate within the PTT-administration: next to the directorates of Post and Telecommunications the directorate of Moneyservices was created. In 1978 the Municipal Giro Services of the City of Amsterdam was integrated into the PTT Moneyservices directorate. The portfolio of the Moneyservices gradually expanded in the 1960s and 1970s from giro salary accounts, automated debits and credits, payments and funds transfer to savings, mortgages, consumer credits, travel insurance etc. The entry to the wholesale market (cf. credits to business, stockbroking, securities etc.) was prohibited. A real asset in the Moneyservices/Postbank business strategy was its large customer base of more than 5 million account holders and its dense network of post offices, functioning as distribution channels for direct marketing and providing ideal outlets for a variety of financial services. From January 1986 onwards the RPS and the PCGD were hived off from the PTT administration and consolidated into an independent Postbank NV with full state ownership.

4 Techno-economic developments in Dutch banking

In his analysis of innovation trajectories in the service industries, Barras has drawn attention to a particular path that differs from the tractional product life cycle (plc) theory. This theory describing a first take-off stage, characterised by rapid technical advances and product innovations, followed by a second stage of radical process innovations designed to improve the quality of products and a final stage of incremental process improvements aimed at reducing unit costs and standardisation. For user industries like retail banking, Barras (1986; 1990) has shown that the plc theory is not applicable, instead he proposed a reversion
of the theory. His Reverse Product Life Cycle theory is based on a sequential innovation trajectory of incremental process innovations to improve efficiency, radical process innovations to improve quality and product innovations to generate new products and services. In the first stage, characterised by modest market competition, new technologies are implemented to increase the efficiency in the delivery of existing services and to obtain cost savings. In the second stage, characterised by the formation of financial conglomerates, the emphasis is on the implementation of radical process innovations to improve service quality with cash dispensers and electronic funds transfer. In the third stage, radical product innovations generate a multitude of new (types of) services, like home banking, home shopping or interactive networking. An application of the Reverse Product Life Cycle theory of Barras for retail banking is given in table 1. This overall picture of chronological clustering of innovations, based on technological breakthroughs, services available and industry characteristics, is largely applicable for the Dutch banking sector. The Dutch peculiarity concerning Barras innovation pattern, could be located in stage two and three taking place simultaneously, namely front office automation intended to improve service quality and product innovation, leading to a proliferation of new financial services (Bulthous et al. 1989).

Table 1: The Reverse Product Cycle in Retail Banking (Barras 1990: 227)

<table>
<thead>
<tr>
<th>Period:</th>
<th>Technological possibilities</th>
<th>Application</th>
<th>Type of service innovation</th>
<th>Industry structure</th>
<th>Market demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>mid 1960s</td>
<td>mainframe computers</td>
<td>automated transactions &amp; financial records</td>
<td>improved efficiency</td>
<td>clearing bank cartel</td>
<td>growth of personal accounts and transactions</td>
</tr>
<tr>
<td>mid 1970s</td>
<td>corporate networking with dumb terminals</td>
<td>automated cash dispensing (ATMs)</td>
<td>improved quality</td>
<td>first wave of deregulation/increased competition</td>
<td>extended and easier access</td>
</tr>
<tr>
<td>mid 1980s</td>
<td>corporate networking with intelligent terminals</td>
<td>financial/customer information systems</td>
<td>improved/new services</td>
<td>second wave of deregulation/integration of financial industries</td>
<td>financial advice &amp; broader range of services</td>
</tr>
<tr>
<td>1990s onwards</td>
<td>ISDN networking</td>
<td>cashless shopping (EFT-POS)</td>
<td>new services</td>
<td>integration of banking and shopping</td>
<td>convenience and flexibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>home shopping</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Automation and services differentiation

From the 1960s onwards banking in the Netherlands became dominated by the application of mass production and mass consumption methods (Aders 1984). Before that period the Dutch banking community was largely oriented towards serving the business and professional elite of the country. The commercial banks became heavily involved in the sponsoring of the reconstruction of the Dutch economy in the 1950s and 1960s and the expansion of domestic firms through the granting of credit to businesses. In order to increase their existing credit levels the banks were forced to seek additional or alternative sources for funding. The funds to finance the expansion of private sector activities were to be found in the large 'money pool' of households that could easily be transferred into short term deposits to business. The rising economic prosperity in the post-war period and the associated boom of wages in the late 1960s strongly increased the demand for retail banking services. An increasing number of the population opened bank accounts and employers started to pay wages through the bank or giro, rather than in cash. As a consequence, the volume of transactions going through each account increased substantially and the retail banking market finally became into being.

The Postal Savings Bank and the Postal Giro had established a solid market position in the transfer of funds from and to consumers on a relatively large scale. It also was relatively successful in the promotion of financial innovations like the introduction of current accounts, savings accounts, electronic funds transfer at the points-of-sale EFT-POS, pre-printed giro slips, guaranteed cheques, standing orders, direct debits and home banking. The commercial banks decided to build up a large consumer base by attracting the salaries and savings through a rapid expansion of their network of branch offices. In order to penetrate the mass market of people's savings and salaries more effectively, the banks started to offer, through their branch offices, a broad range of services for various market segments, which were closely related to current accounts, such as overdraft facilities, loans, insurances and mortgages and even travel arrangements. This 'full service' strategy of the banks did take place at the expense of the market shares of the Postal Giro, the Postal Savings Bank and the other savings banks, which traditionally dominated these market segments (Bosman 1977; Kulsdom & Van De Westeringh 1983). In 1960, the Postal Savings Bank RPS and the Savings Banks had a market share of 45.8 and 32.3 per cent in the savings market respectively; the Cooperative and the General Banks only had market shares of 20.1 and 1.8 per
cent respectively. Fifteen years later, the distribution of market shares among the four institutions had significantly changed: RPS 29.0, Savings Banks 24.6, Cooperative Banks 34.9 and the General Banks 11.5 per cent. Between 1965 and 1975, the dominant position of the Postal Giro in the market for current accounts decreased from more than 65 per cent to 46 per cent (Aders 1984; Verkoren et al. 1989). The PTT Moneyservices booked some small successes in the market segments of mortgages and consumer credit provision: after the granting of permission to enter these formerly closed, but highly competitive markets, the Moneyservices decided to penetrate them.

The banking sector is a highly information-intensive industry in which the dependence on information and communication technology and automation expertise is great. By introducing information systems, datanetworks and the development of new ICT-based services, the banks wanted to increase internal efficiency, handling the traffic flows among banks and between banks and their customers more effectively and increase the quality of their service. Four levels of automating financial transactions can be discerned (Sliae 1983; see fig.2). At the first level of terminal applications, front office activities at the counter are rationalised and automated through the introduction of cash dispensers, point-of-sale terminals, home banking systems, chip cards etc. At the second level of the individual branch, clerical activities, like data entry/retrieval, bookkeeping, and office automation were more efficiently organised through the introduction of local and decentralised micro and mini-computer...
systems. At the third level of the individual banking company, information flows are automated through the installation of mainframe computer centres, centralising the handling of transfer payments and electronic data processing, and the interconnection of the various internal information networks within the banking company. At the fourth level, these separate corporate information systems become connected to the networks of other banking institutions, like the PCGD’s giro system and the clearing house BGC of the private banks, and the externalisation of these networks to business (cf. electronic banking) and to households (cf. telebanking network.

The automation process in Dutch banking began with the automation of back office operations in the late 1960s. The introduction of mainframe computers and centralised data-processing departments allowed for the automation of manual and clerical tasks that were dealing with customer accounts, book keeping and information handling. Facilitated by the advancement of digital switching and other rapid transmission methods in the early 1980s, the automation of financial transactions spread from the banking headquarters to the lower level of the branches with the establishment of integrated network systems and to wholesale operations between banks via electronic transfer of funds. During the 1980s front office terminals, like cash dispensers and point-of-sale POS terminals were installed that allowed for another stage in automating money transfers in Dutch retail banking. While the workforce in the Dutch banking sector increased at the end of the 1970s, it stabilised in the 1980s and decreased gradually in the 1990s. The recent shedding of labour is caused by front office automation, cutback in the number of branch offices and the further integration and rationalisation of overlapping businesses activities (especially within the newly created ING and ABN AMRO conglomerates).

A distinction can be made between two different payments system, which have both different patterns of automation and diffusion of innovation: a cheque system and a giro payment system (De Wit 1987, 1990). The first system gave clear priority to strengthening the relationships of the banks with their clients by promoting the use and the processing of cheques. The implementation of front office automation and electronic banking systems actively stimulated various modes of self-banking like credit cards, cash dispensers and point-of-sale terminals. The second system followed a different path by automating the account records of clients and giro transfers first, relying upon mainframe computer systems
at the central back office of banks, automated clearing houses and harmonised interbanking datanetworks. Such an extensive giro system among the larger banking community also facilitated the development and introduction of new services, based on the automation of regular transactions, like giro salary accounts, automated debits and credits and periodical payments (such as salaries, mortgage payments and monthly rents).

The banking system in the Netherlands is an illustration of the giro model. Just because of their excellent transfer payment system and the high density of branches, the Dutch banks were reluctant to invest time, money and energy in encouraging financial innovations (Aders 1984; Tijdens 1993). Although relatively advanced in the provision of nation-wide giro services and a high density of bank accounts, branch offices and outlets, the Netherlands was lagging behind in the penetration of new electronic banking devices, like EFT-POS, cash dispensers, home banking and chipcards. Later, the Dutch banks also started to introduce front office automation and promoted new electronic banking services to cut bank the ever-increasing expenses of handling payments and fund transfers. The downward pressure on interest-margins of banks led to a policy of improving efficiency-levels, large-scale automation programmes, and increasing their income through commission fees in the wholesale services market. Besides the continuous efficiency drive and the search for developing new services, another imperative to speed up the automation of funds transfer was the potential entry of relative outsiders in the domestic financial domain, such as foreign banks, but also insurance companies, petrol stations, department stores, mail order companies, credit card companies, and institutional investors, which could potentially develop near-banking activities on the basis of new technologies (cf. chipcards) or alternative distribution channels (direct marketing and direct writing). In order to maintain effective control of output levels, prices and markets, the banking institutions had to monitor the moves of these non-banking institutions closely.

**Diversification and concentration in Dutch banking**

Before World War II the market for financial services was strongly compartmentalised and de-concentrated. There was a clear division of labour between the commercial banks, cooperative banks, savings banks and PTT-Moneyservices, each respecting each other's domain. The degree of market concentration was still relatively low: a C-5 ratio of 47.7 in 1918 and 51.4 in 1938 (De Jong 1991). But after World War II this peaceful picture...
changed, mainly as a joint result of the erosion of the established boundaries between market segments and the increase of competition through diversification strategies of the individual banks. Especially the traditional areas of the Postal Savings Bank and the Postal Giro (i.e. savings and payments traffic) were challenged by the erosion of boundaries and the increase of competition. The larger banking community changed from a stable and well-organised sector, divided up between the various banking institutions into a dynamic and concentrated system. The different banks, that previously had nothing to do with each other, gradually entered into competitive relationships with each other or joined forces by consolidating their business activities. From the 1960s onwards, the level of market concentration increased drastically: the C-5 ratio went up from 55 per cent in 1960 to more than 90 per cent in 1992.

The general and the cooperative banks started to diversify their service provision by entering the classical market segment of bulk payments and savings of the PTT Moneyservices. To attack the rather strong position of the PTT-Moneyservices on the mass market of private savings and payments in terms of efficiency and effectiveness, the general banks (and to a certain degree also the cooperative banks) took three initiatives: the introduction of cash or salary accounts with interest provisions, the guaranteed cheque and the standardisation and interconnection of interbanking transfers by way of an alternative automated clearing house, the private Bank Giro Centre (as an alternative to the 'public' Giro). The commercial banks tried to persuade potential customers to open a bank account by offering them the so-called 'salary accounts' with relatively high interest rates. By this strategic move the banks hoped to lure customers away from the Postal Giro Service, which had taken the lead in utilising computers in the payment of wages, salaries and pensions into giro accounts (previously, such payments had generally been made in cash). These first steps of automating the payment of wages by the Postal Giro were soon followed by the various banking groups that followed suit, when they also started to automate their financial transactions. A further development took place in 1967 when the general banks, the cooperative banks and after a short while also the general savings banks introduced the guaranteed cheque. The Postal Cheque and Giro Service reacted on its turn by introducing the guaranteed payment order through the giro payment card. After the negotiations with the 'public' PCGD about jointly developing a clearing centre for handling payments came to nothing, the general banks, cooperative banks and the savings banks decided to establish their own private system. In
order to protect the integrity of its already established network and to prevent a draining away of funds, the PCGD held on to the design principles of a centralised network and standardised accounting arrangements for each individual institution (i.e. no preferential treatment for the 'closed user group' of banks). So the banking community was more or less forced to standardise the processing and clearing of non-cash payments between banks and from banks to other giro systems by itself (Wolf 1983). For that purpose the Bank Giro Centre (Bank Giro Centrale BV) as an alternative clearing house for giro transfers was established in 1967.

From the sixties onwards a drastic trend towards concentration took place in Dutch banking. It started in the mid-sixties when *Nederlandsche Handelsmaatschappij* and *Twentsche Bank* consolidated into the ABN Bank and the *Amsterdamsche Bank* and *Rotterdamsche Bank* became integrated in the AMRO Bank. In 1972 the two cooperative banks, the *Raiffeissenbank* and the *Boerenleenbank* merged into the central cooperative *Rabobank Nederland*. The next step in the concentration process was taken between 1975 and '78, when the domestic banking sector got reshuffled again. In 1975 the commercial banks ABN and AMRO acquired the medium-sized trade banks, the Pierson, Heldring & Pierson Bank (AMRO) and the Bank Mees & Hope (ABN). Three years later, the Amsterdam Municipal Giro Office, then the last remaining local giro institution, was incorporated in the Postal Giro Service PCGD and the cooperative Rabobank, together with National Westminster, acquired *Van Lanschot Bankiers*. Other medium-sized commercial banks were taken over by big foreign banks: the *Bank De Bary & Co.* was purchased by the *Deutsche Bank*, *Van Lanschot Bankiers* was obtained by *National Westminster* (who sold its share in 1995 to the domestic Friesland Banks and the national investment bank NIB) and *Slavenburg* was acquired by Crédit Lyonnais. The *Nederlandse Crediet Bank NCB* was at first purchased by *Chase Manhattan* and later sold to Crédit Lyonnais. The fourth step was when in 1986 a merger was established between the Post Office Savings Bank RPS and the Postal Cheque and Giro Service PCGD into a privatised Postbank NV. In 1985 there were three big general banks in the Netherlands: ABN Bank, AMRO Bank and NMB Bank; the Rabobank was ranked as the largest cooperative bank and the Postbank (RPS/PCGD) being the fifth largest bank (see table 1).
This was not the end of the concentration trend in Dutch banking, however. The structure of the Dutch financial system has changed radically over the last ten years under the combined pressures of increasing domestic and international competition, the impact of new technologies and drastic automation of financial transactions and an accelerated pace of financial innovation. As a consequence of international deregulation pressures (originally launched in the US and UK), the completion of the internal market by 1992 (i.e. the liberalisation of capital movements and the complete freedom of financial services within the European Community), and the aggressive diversification strategies pursued by the banks in their home market, an international and domestic restructuring in the banking industry took place. The deregulatory process at the global, European and national levels and the concomitant increase of competition has resulted in a new wave of concentration in the European financial sector and in a rapid erosion of the traditional boundaries, separating the various market segments of commercial banking, insurance, underwriting and investment banking. This process of sectoral convergence in the financial industry is illustrated by the launching of concepts like All-finanz or Bancassurances ('Verzekerbanken') and the concept of Banques des affaires or Industrie Bank. The first term includes the joint provision of banking and insurance services by large financial conglomerates and the second refers to the integration of the roles of a trade bank and an institutional investor within one financial institution (e.g. the Deutsche Bank with its substantial stake in Europe's largest industrial conglomerate, Daimler Benz).

The market for financial services is no longer a domestic affair, dominated by national institutions, but is becoming a multi-domestic or even a global industry, in which large financial conglomerates compete with each other to provide a full range of financial services.
worldwide (securities, banking, credits, insurances, investments and the like). In order to expand their scope of business activities across sectoral boundaries and national borders, collaborative agreements between banks are needed. The rationale behind the occurrence of mergers, acquisitions and strategic alliances was to achieve economies of scale, to rationalise automation, marketing, advertising, and management operations and to cut back branch offices. The concentration process that lasted from 1990 to 1992, however, cannot solely be explained by the search for economies of scale and scope, but should include other factors as well (De Jong 1991; Metze 1993). One reason to explain the decreasing number of banks in the domestic market refers to the cartel-like closure strategies adopted by the individual banks to control the stagnating market of traditional banking products by establishing strategic alliances, acquisitions and mergers and to diversify jointly in new financial services. Another imperative stimulating economic concentration was the threat of competition from foreign banks or from insurance companies and credit card businesses, becoming active on the Dutch market. The merging of domestic banks could be seen from a defensive perspective as a protective move to secure their solid position in their home markets against (potential) hostile takeovers by bigger foreign banks, a move that would at the same time strengthen the position of Dutch banks on the European Market.

In the Dutch case, the international and deregulatory constraints of the last decade have led to another concentration trend among banks and to the emergence of various cross-sectoral
alliances and mergers between banks, insurance and investment companies. After the envisaged deregulation of the domestic financial market in 1990, the merger of the Postbank with the NMB Bank, ranked as the fifth and fourth bank respectively (see table 2 and 3), into the private holding *NMB Postbank Groep NV* in October 1989, was the first step in a new period of concentration in Dutch banking. With this move the NMB Postbank Group became the second bank of the Netherlands, after the ABN/AMRO and just before the Rabobank. The merger of the Postbank and the NMB bank was said to be profitable for the two parties involved and major synergies were expected to be provided (Barkema et al.1992). The Postbank, with its stronghold in providing bulk retail moneyservices to households, and the NMB, with its stronghold in providing wholesale banking services to small and medium-sized businesses, could now jointly achieve economies of scale in the provision of a complete range of retail and wholesale financial services to households and business. The inextricable connection between the capital stock of the State and the legislative restrictions on corporate autonomy became significantly loosened by the transfer of governmental shares into their joint venture NMB Postbank Groep and the Postbank could now develop into a general commercial bank. Another important merger took place in 1990 between the two big general banks ABN and AMRO Bank, resulting in a by far the biggest financial conglomerate in the Netherlands at the time and ranked as the 6th largest bank in Europe (Frankfurter Allgemeine 4-10-1994). Three years later, after their holdings had consolidated their business activities into ABN-AMRO, these banks merged into the Mees & Pierson Bank. In 1990 three smaller banks, *Centrale Volksbank, Algemene Spaarbank Nederland, Hollandsche Koopmansbank*, merged with the smaller insurance companies, *Concordia* and *De Centrale* to create the Reaal holding.

As a consequence of the erosion of the sectoral boundaries between payments, savings, mortgages and insurance, the insurance companies had become involved in the mortgage banking segment. At the end of the 1980s the two major mortgage banks, *Westland Utrecht Hypotheekbank* and the *Friesch-Groningsche Hypotheekbank* were acquired by *Nationale Nederlanden* and *AEGON* respectively, two large insurers. The business activities of insurance companies and banks became more and more interdependent in the marketing of 'full service' provision in the financial domain. The insurers needed the partnership of banks to enlarge their customer base and banks could widen their product range by collaborating with insurance companies. The next big step in the restructuring process of the Dutch
financial sector was the merger between the NMB Postbank Group and the biggest insurance company of the Netherlands, Nationale Nederlanden (Schreuder 1991). This new organisation, called the Internationale Nederlanden Group ING, is a financial giant in the Netherlands at least, ranked as Europe's 15th largest bank (Frankfurter Allgemeine 4-10-1994). For example in recent times ING acquired the British merchant bank Barings, it strengthened its position in underwriting and started to act as a banque d'affaires by financing large-scale infrastructural projects. The merger between a bank and an insurance company was quickly followed by the Rabobank which in 1990 acquired the medium-sized insurance company Interpolis, in which they already had a minority share (see fig.2 and table 3). One year later the Rabobank established a tight strategic link with the Robeco-group, the biggest institutional investor in the country. Instead of linking up with an insurance company, the newly created ABN AMRO holding decided to enter the insurance business by establishing a fully-controlled subsidiary, called ABN AMRO Risico BV. Another illustration of insurance companies linking up with general banks are the insurer AMEV and VSB (United Savings Banks. Later the AMEV-VSB alliance joined forces with the Groupe AG (the biggest insurance company in Belgium), hereby creating the Belgo-Dutch conglomerate Fortis. In 1993, Forties strengthened its position in the Belgian retail market by acquiring the ASLK/CGER-bank in 1993. The relative success of the Belgian-Dutch success of Fortis was accompanied by three failures: the efforts of the AMRO bank to link up with the Générale de Banque in 1988-89 and the acquisition of the BBL bank and the Belgian Post Office De Poste/La Poste by the ING conglomerate between 1992-95 came to nothing.

<table>
<thead>
<tr>
<th>Table 3 Overview of Dutch Financial Conglomerates</th>
<th>turnover 1993 (in bDFL)</th>
<th>workforce (domestic in 1,000)</th>
<th>branch office (domestic)</th>
<th>Major Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABN AMRO</td>
<td>14.1</td>
<td>37.3 (21,000 employees abroad)</td>
<td>1330</td>
<td>ABN, AMRO, Mees Pierson, ABN AMRO Verzekeringen, Hollandse Bankunie</td>
</tr>
<tr>
<td>ING</td>
<td>49.6</td>
<td>49.0 (banking: 21,000 domestic, 3,000 abroad)</td>
<td>±4000 (incl. post offices, agents, branches)</td>
<td>Postbank, ING-bank, Westland/Utrecht Hypotheekbank, RVS, Nationale Nederlanden, Crediet &amp; Effectenbank</td>
</tr>
<tr>
<td>RABO</td>
<td>8.4</td>
<td>38.5 (1200 employees abroad)</td>
<td>744</td>
<td>RABOBANK, Robeco, Interpolis, Lage Landen</td>
</tr>
<tr>
<td>Fortis NL/B (AMEV-VSB &amp; AG)</td>
<td>20.8</td>
<td>32.9</td>
<td>not available</td>
<td>VSB Bank, GWK Bank, KBW Effectenbank, ASLK-CGER Bank, AMEV, AG, Caifor</td>
</tr>
</tbody>
</table>

Source: Annual Reports
The PTT-Moneyservices consisted of a giro service and a savings bank. In 1983 the Postal Giro had a market share in retail banking of 40% and 2700 branch offices in the Netherlands, against the Rabobank with a market share of 30% and 3000 branch offices, the ABN Bank and the AMRO Bank both with a market share of 7% and 800 branch offices and the NMB Bank with a market share of 2% and 500 branch offices (Slaa 1983). The dominant position and the technological superiority of the Postal Giro in retail banking irritated the private banking community. To streamline the bulk of giro transactions, the Postal Giro and the Postal Savings started early with the automation of their transactions. In the fifties and sixties the PTT-Moneyservices became very successful, owing to the speed and the quality of their services. Also the high level of density of the Dutch giro system was widely acknowledged: almost a third of the population had a giro account. The quality and intensity of the giro transactions in the Netherlands has reached a high level (see table 4). The number of accounts and payments per capita is one of the highest in the world. The services offered to the Dutch account holders are unmatched in other countries. And both for the financial institutions and for their customers the efficiency of the system is without equal in the world. One could easily say that the PTT-Moneyservices have succeeded in creating a national giro system which is all-encompassing and to everyone accessible; they have created one of the most advanced networks for giro transactions in the world (Peekel and Veluwenkamp 1984).

<table>
<thead>
<tr>
<th>Table 4: Giro density (per 1000 inhabitants)</th>
<th>1970</th>
<th>1972:</th>
<th>1974:</th>
<th>1976:</th>
<th>1978:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>157.2</td>
<td>198.1</td>
<td>231.3</td>
<td>254.5</td>
<td>277.1</td>
</tr>
<tr>
<td>France</td>
<td>137.9</td>
<td>140.6</td>
<td>136.0</td>
<td>136.1</td>
<td>134.2</td>
</tr>
<tr>
<td>Belgium</td>
<td>105.3</td>
<td>108.6</td>
<td>111.6</td>
<td>111.3</td>
<td>111.0</td>
</tr>
<tr>
<td>Federal Republic of Germany</td>
<td>44.3</td>
<td>56.5</td>
<td>62.4</td>
<td>58.3</td>
<td>59.0</td>
</tr>
<tr>
<td>Italy</td>
<td>9.2</td>
<td>9.8</td>
<td>10.7</td>
<td>10.3</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: Annual Reports PTT.

The successful computerisation of bulk transactions offered the opportunity to attach new giro services for specialised markets to a highly advanced giro infrastructure. Combined
with the fact that the market for giro services became saturated in the seventies (the growth in giro transactions stagnated) it was decided that the services provided should be expanded. The Postal Giro and the Postal Savings Bank started to coordinate their activities in retail banking. They shifted their attention from single products towards a diversified range of financial services comparable to the ones offered by the general banks, such as personal loans, deposits, consumer credits and mortgages. Together the Postal Giro and the Postal Savings Bank promoted innovative approaches to the provision of financial services through marketing concepts like home banking and telebanking. A further step was their organisational integration by combining the management of the two institutions. Gradually, the Postal Giro and the Postal Savings Bank were incorporated within the PTT-Moneyservices in 1978, the emphasis being on the concentration of management and powerful functional staffs. Continuously diminishing funds and insufficient harmonisation between the two separate giro systems of the private banks and the Moneyservices made cooperation with other financial institutions inevitable. The acquisition of the Municipal Giro of Amsterdam in 1979 proved a successful start, but the desire to link up with medium-sized commercial banks was not satisfied (Schotsman 1990). The efforts to collaborate with the Nederlandse Credietbank NCB, the Nederlandse Middenstandsbank (NMB), and the private savings banks (i.e. Bondsspaarbanken) came to nothing.

The strategy of the PTT-Moneyservices to enter the business market, however, entailed legal impracticabilities: offering financial services to business account holders, for example, was prohibited. The PTT-Moneyservices argued for an increase of corporate flexibility by lessening legislative restrictions on entering the market for business services (Schotsman 1990). It had become clear that the PTT Moneyservices were subjected to a legislation that had become more and more obsolete. The idea to install two government-owned institutions for giro transactions and public savings was developed in a period when the financial markets were still divided into clear-cut market segments for the general banks, cooperative banks, savings banks and the PTT Moneyservices. The previously discussed process of diversification and concentration changed this stable picture. The move of the general and cooperative banks into the retail banking market of the Moneyservices made a revision of legislation necessary. The activities of the PTT Moneyservices were too strictly regulated and de-regulation of legislation was required. Legal hindrances, however, could not really obstruct a bottom-up product diversification of the giro and savings bank services; the range
of financial services was gradually extended to include loans, consumer credits and travel insurance.

The expansionist strategy of the PTT Moneyservices of slowly entering the business market was opposed by the banking community. Impressed by the large market share of the Moneyservices and the speed, quality and capacity of its giro system, the commercial banks decided to take countermeasures. From the sixties onwards the general and the cooperative banks, but also to a certain extent the savings banks, increasingly diversified their services. By aiming their financial services at the general public, they entered the classical retail banking market of the PTT-Moneyservices. To realise this, a dense network of branch office and a separate clearing system for the private banking community was established. This Bank Giro Centre was established with the explicit purpose of competing with the existing public giro system in terms of speed and quality. Technically speaking, there was no need to create a new giro system. According to Schotsman (1990), the existing automated giro system of the PCGD could have taken care of all the giro transactions in the Netherlands (the ones conducted at the commercial and cooperative banks included). The banks, however, decided to organise their clients' payments and funds on their own, without any involvement from or dependence on the PTT Moneyservices and its public giro system. The PTT Moneyservices of course opposed the idea of a competing Bank Giro Centre, which would imply a duplication of giro infrastructures. Consequently, Moneyservices opposed the negotiations that took place about establishing interfaces between these two systems. Later attempts to harmonise the two systems into one National Payments System NBC have not proved very successful until today (see below).

6 The proposal for a State Bank

In the mid-seventies, the PTT-Moneyservices were thrown into disorder by the inroads of the commercials banks on their retail territory: among other things, the formation of the alternative Bank Giro Centre proved very successful. Balances drained away from the Post Office's Giro System to the private giro BGC-system of the banking community and the broad range of financial services provided by the commercial and cooperative banks. The business portfolio of the PTT Moneyservices, restricted to transfer payments and savings
was insufficient to compete with that of the general and cooperative banks. So the growth of both the Postal Giro and the Postal Savings Bank stagnated (see Appendix 1 and 2). Survival in the long run required a change of objectives and immediate action. However, the PTT-Moneyservices were hampered in their response to the imminent threat of private banking by strict government regulations.

The social-democratic Minister of Finance Duisenberg had to make two important political choices to restructure Dutch banking during his term of office (1973-1977):
- to restructure and integrate the Postal Giro and the Postal Savings Bank into the Postbank, which would be more independent of the government and the PTT administration and would compete with the private banking sector;
- to harmonise the two separate giro systems, in order to make the transfer of domestic payments between the Post Office and the banking community more efficient and to develop new innovative services like cash dispensers and EFT-POS (see next paragraph).

To investigate these two policy issues, the centre-left Den Uyl Cabinet appointed two Advisory Committees of Wise Men in 1974/75. Especially when a political choice is unclear and a broad public support for a bill is needed, the installation of a governmental committee of all the relevant stakeholders is the Dutch way of dealing with controversial and hot political issues (cf. for Dutch telecommunications policy making: see Hulsink 1993). The idea of combining the proposals for restructuring the PTT-Moneyservices and reorganising the larger banking sector simultaneously, emerged gradually. The management of the PTT-Moneyservices realised that a response to the draining of the balances of the PTT-Moneyservices to the general and cooperative banks was necessary. In 1972 the necessity for changing the position of the PTT Moneyservices was also recognised by members of Parliament, when questions were asked about integrating and enlarging the scope of activities of the PTT-Moneyservices. The Under secretary in charge of PTT matters, also on behalf of the Minister of Finance, openly declared to be in favour of a further amalgamation of the Postal Savings Bank and the Postal Giro into a real retail bank. First of all it was felt, for the Cabinet to guarantee the continuity of the PTT Moneyservices for its customers. Another highly controversial reason to restructure the Postal Giro and the Postal Savings Bank was added to the argument that their corporate continuity should be secured. By enlarging the scope of activities of the PTT Moneyservices to the business segments of the banking
market, the social-democratic & Christian-democratic Cabinet hoped to stir up competition in the oligopolistic banking sector. It was believed that the encouragement of competition in the financial sector would be advantageous to the general public and business.

In 1974 the Cabinet installed an interdepartmental Committee, containing representatives of the Minister of Finance, Postal Giro, Postal Savings Bank and PTT (the Ministry of Transport & Public Works, also responsible for the PTT Moneyservices was not represented). The Committee 'Restructuring RPS/PCGD' had to give recommendations to the government about the future corporate development of the Moneyservices and to prepare a new 'Postbank Bill, in which two preconditions were laid down:

- to ensure a continuation of the societal services of the giro and savings bank by integrating them into a retailbank;
- to encourage open competition in the banking sector through a State bank (Commissie 1976).

The Committee finished their preliminary sketch for the bill in January 1976 and in July 1977 the Postbank Bill was submitted to Parliament. In keeping with its assignment the Committee proposed that the continuity of the PTT Moneyservices had to be safeguarded by a further proliferation of the Postal Savings Bank as a fully-equipped state-controlled bank, which would stimulate fair competition in the domestic banking sector. Due to a cabinet crisis within the government coalition and heavy criticism from both the Central Bank and organised banking, the parliamentary discussion of the Bill was postponed. On the whole, the proposals were controversial and lacked general support; the intended continuity of the PTT-Moneyservices, however, was whole-heartedly accepted by nearly everyone. The notion of a strong state-owned wholesale bank to encourage open competition, caused fierce political tensions and proved to be unacceptable for the liberal-conservative Members of Parliament and the private banking and business communities. The Cabinet stated that the market structure in banking at that time was highly concentrated: the oligopoly of ABN, AMRO and Rabobank represented 60% of the total balance sheet in Dutch banking (TK 1977 14632). This strong concentration ratio suggested that the Cabinet was afraid of the

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3 This Committee was also known as the Committee Oort, named after its chairman Oort, Director-General of the Treasury.
occurrence of anti-competitive practices in Dutch banking. The fear of cartel-like behaviour was even more stirred up by the successful effort of private banking to break the (near)monopoly of the Postal Giro for giro traffic by way of establishing the Bank Giro Centre. The Cabinet had to conclude that its set of legal instrument to control the financial services market, as provided by the Credit Control Act and the Fair Competition Act, as ineffective and repressive respectively. The government decided to restore healthy competition in the banking sector by way of installing 'a competitive state enterprise as a countervailing power aimed at breaking the banking cartel' (Kulsdom and Van De Westeringh 1983: 95). The Cabinet hoped that by integrating the Postal Giro and the Postal Savings Bank into a state-owned Post-Bank, empowered to expand its portfolio of activities, could be an effective countermeasure to stop the losses and decreasing profits of the Postal Giro and the Postal Savings Bank respectively and at the same time to encourage competition. This reasoning was represented in the official objective of the Postbank, as formulated in the Postbank Bill: 'It is the Postbank's objective to provide banking services in the interest of continuity of the desired services of the Postal Savings Bank and the Postal Giro to society, and in the interest of a healthy competition within the banking community, all the while aiming for an acceptable profit on capital active within the bank and a balanced promotion of the interests of all those involved. (...) The Postbank is part of the state's public services (TK 1977 14632/1-4: I)'. The legal status chosen for the Postbank was a sui generis form, to guarantee a certain influence of the government and not affecting the civil servant statute (Reinders 1981). Furthermore a substantial degree of government control of the corporate strategy of the Postbank and the giro services had to remain as well. Vis-à-vis the future Postbank the Minister of Finance would have the following responsibilities: to provide broad outlines and give indications concerning its corporate strategy, to appoint high ranking officials, and to approve its business plan and the financial objectives to be achieved.

During the discussions of the Postbank Bill in Parliament, the private banking sector showed at first a tight coalition between the general banks, the cooperative and the savings banks. The banking front was not against a further integration of the Postal Giro and the Postal Savings Bank as such, as long as the scope of the new Postbank would remain restricted to retail banking (i.e. the traditional areas of the PTT Moneyservices). The community of commercial, cooperative and savings banks was against the idea of a powerful state bank in the banking sector, which would be allowed, next to providing payments and savings
services to households, to enter whole-sale banking by providing financial services to businesses. According to the banking community, this would mean a serious distortion of competition in the domestic market. The private banking community of commercial, cooperative and savings banks was not against the merger of the Postal Giro and the Postal Savings Bank into one banking institution as such. An integrated Postbank could be accepted if its field of activities and its services were similar to the ones the Postal Giro and the Postal Savings Bank offered separately. The proposals of the government to extend the scope of the Postbank's activities to credit services to business in order to secure the continuity of the PTT Moneyservices and stimulate further competition in banking, as laid down in the Bill, were unacceptable to the banking community. Another element which aroused fierce criticism from the commercial banks was the fact that a state-owned Postbank would have a number of privileges, compared with its competitors, such as tax advantages, the status of civil servants and financial backing by the government (i.e. state guarantee). Furthermore, the Postbank could rely upon an extensive and free distribution network through the post office outlets.

The Consultative Board of Organised Banking, representing the commercial, cooperative and the savings banks, suggested that the financial situation of the Moneyservices was not as bad as the explanatory memorandum to the Postbank Bill stated. The Consultative Board argued that the reasons for a state bank to develop banking activities were non-existent and inappropriate: private monopoly positions or anti-competitive activities in the markets for financial services were absent and the Dutch banking industry was performing relatively well, offering a wide range of services at competitive prices (CvO 1977). The Consultative Board criticised the Cabinet for arguing for open and fair competition by creating a state bank without proving the need of it: the causal link between the existing oligopoly structure of Dutch banking and the emergence of cartel-like behaviour was not based on and demonstrated by any research, but simply assumed. Evidence of cartel-like behaviour in this case was quite hard to find; a decrease in the number of competitors would not necessarily mean a decrease in competition (De Jong 1977). The Consultative Board argued that competition in banking had not decreased but as a consequence of diversification and the settlement of international banks in the Netherlands, had even increased. The individual banks were performing reasonably well and did not neglect their societal functions. Interfering with Dutch banking by way of creating a state bank in these circumstances, in which competition
between the banks was sufficient, would create an undesirable precedent with respect to government regulation of industry.

The Consultative Board argued further that the proposal to establish a strong state bank contained several elements that could distort fair competition in banking. Unlike the private banks, the Postbank would remain subject to civil law, implying that the future Postbank, just like the Postal Savings Bank, would have the status of a legal body sui generis and its employees would remain civil servants. The direct involvement of the Government in stipulating the corporate targets and financial conditions of the future Postbank could seriously hamper fair competition, for instance by setting the rate-of-return ratios for the Postbank significantly low, by allowing cross-subsidisation between the Postbank's public and private services and by the overall sponsoring by the government, of any of its (potential) lame-duck activities. Furthermore, compared with its private competitors, the Postbank would be exempted from paying turnover tax and would be subject to a soft regime as far as the payment of corporate income tax was concerned. The proposal to create a state bank, according to the Consultative Board, showed a conflict of interests between the Postbank as a commercial banking company on the one hand and a policy instrument utilised by the government to stir up competition in the banking sector and serving the public interest by securing an efficient and differentiated supply of financial services on the other.

The Minister of Finance was responsible for both supporting the corporate strategy and monitoring the performance of the Postbank (on the basis of the Postbank Bill) and supervising, together with the Central Bank, all the individual financial institutions and the banking sector as such (on the basis of its overall responsibility for monetary policy and banking regulation.

The commercial banks, organised in the Dutch Bankers' Association NBV (1980) blamed the Government for wishing to transform the PTT-Moneyservices into a general state-bank, which was allowed to offer business services and hereby to enter the market of wholesale banking. The Bankers' Association argued that the state should not enter the field of business services and wholesale banking, unless private enterprise was unable or unwilling to meet the needs of certain financial services. According to the Bankers' Association, this was definitely not the case. The employers' association VNO ('Federation of Dutch Industry') was also deeply concerned about the government entering a traditional private
sector activity. The VNO argued that the creation of the Postbank, instigated by the state to counteract the 'unproved' collusive behaviour of business, could establish a precedent for other industries: 'A Postbank, however, would be an entirely new precedent: the government presents itself as a competitor to private banking, neither because certain financial services are not being offered, nor to save a needy industry from mass unemployment, but for purely political reasons. And if one sheep (that of the Postbank) has leaped over the ditch, who is to say no more will follow soon? In practice this is bound to lead to political interference: the state will take on tasks belonging to the business community that are adequately performed by that business community (Onderneming 7-05 1976: 4)'.

Another point of criticism was that the VNO considered the conditions to regulate competition in the domestic banking market, as stipulated in the Bill, as insufficient. The Cabinet suggested that the Minister of Finance would be responsible for general supervision and monetary affairs while the Dutch Central Bank would be in charge of supervising the individual banks. The Postbank would be controlled by the Ministry of Finance and be exempted from structural supervision by the DNB. Like the organised banking community, the VNO expected conflicting interests between the government operating as a guardian of the public interest and the government acting as a banker through the 'public' Postbank amidst the private banking sector. In order to achieve fair competition, the employers' association argued for the scrutiny of the Postbank by the Dutch Central Bank as part of its overall administrative responsibility (as laid down in the Credit Control Act) for supervising the credit system and the provision of financial services in the country. The requirement of functionally separating the administrative and the business-like activities of the government and establishing a systems of checks and balances was not met in the Postbank Bill. In short, the VNO argued that any special links between the Postbank and the central government would seriously distort competition in the market place and should therefore be abolished.

The public sector union ABVA/KABO (1981) was positive about the plans to reorganise the Moneyservices and extend its range of services to wholesale banking, as proposed by the Government. For them, the future Postbank would be able to safeguard its existing position on the retail market and could expand into the new markets of providing financial services to the business community. For the labour unions, representing about 40 per cent of the workforce, the consequences of the governmental proposals were only small: the Postbank was able to respond to the competitive challenge of the private banks and to a large extent to
keep up employment levels, and its employees would retain their civil servant statute.

7 The political discussion widened: The struggle for harmonising public and private giro

After the creation of the Bank Giro Centre in 1967 two integrated systems were available for bulk giro transactions in the Netherlands: the public Post Office Giro System and the private Bank Giro System. Although the internal efficiency and effectiveness of the two intrabanking systems was acknowledged, traffic and transfer payments between the Postal Giro and Bank Giro Centre was problematic and cumbersome, taking more time and effort than transferring balances just within either the Post Office Giro or the Bank Giro System. Although the private banks and the Moneyservices had reached agreement about a standard pre-printed giro credit slip in 1975, the centralised PCGD and the decentralised BGC-giro systems were basically incompatible and transferring funds from one system to another was only possible after converting it from computer tape to paper to computer tape again (see fig.4). The banking community became increasingly irritated by the fact that the exchange of payments took place on the terms set by the Postal Giro; the closed and exclusive topology of the Post Giro network required that the commercial, cooperative and the savings banks kept a PCGD-account to make transactions between PCGD and the banking community possible. Unlike its households consumers, the PCGD did not pay out any interest on current accounts to its business customers, including the banks. The transfer of funds from the interbanking system to the giro system of the PCGD was possible, while traffic from the Postal Giro to the BGC system of the banking community could only be structured through the detour of channelling the money through the giro account of the individual banks.

So traffic between the two incompatible giro systems was highly inefficient with the banking community losing high amounts of interest on their Post Giro accounts. A possible termination of the accounts of the individual banks at the Postal Giro, as a consequence of the harmonisation of the two giro systems, would imply that the banking community could keep interest revenues for themselves and attract the vast money pool offered by the large number of PCGD account holders. With competition increasing even further between the Postal Giro and the Bank Giro Centre and with the potential entrance of foreign banks, and with department stores and petrol stations developing 'near banking' activities, the banking
community decided to take a countermeasure by openly contesting the centralised public giro system and to enlarge their market share at the expense of the Postal Giro. The commercial banks developed a masterplan to break up the (near) monopoly of the Postal Giro network by attempting to harmonise and interconnect the public giro system with their private automated clearing house BGC (Kulsdom and Van De Westeringh 1983). According to the banking community such a harmonised national payments system had to be an open network, to which all the participants should have equal access, in spite of differences in software and hardware standards. Such an integrated network for funds transfer would offer substantial cost savings and facilitate the future development of automated banking services.

The idea to rationalise and harmonise the national payments system was supported by the Central Bank as well, which had a twofold interest in harmonising the two incompatible giro systems: as a regulatory body the Central Bank was responsible for promoting giro payments and it also had a private interest in supporting the plans for harmonising giro traffic through integrating its internal giro system into a future National Payments System. The banks needed the Minister’s cooperation in forcing the PCGD to participate, because the Postal Giro refused to participate in the negotiations about the harmonisation of the two incompatible giro systems. The PCGD foresaw an erosion of its financial and economic strength, because such an harmonised system would make the giro accounts of the banks at the PCGD redundant (estimated about 500 mDfl.) and would further provoke a draining away of funds.
and accounts of its customers to the commercial banks (estimated about 2,5 bDFL). As a compensation for these (potential) losses caused by its involvement in the formation of the future National Payment System, the Postal Giro demanded support for its plans to integrate the Postal Savings Bank into a strong and fully-equipped Postbank that would be allowed to enter the 'wholesale' market of business services.

Notwithstanding the criticism and opposition of the Moneyservices, the Ministry of Finance responded positively to the banking communities' complaints about a duplication of the giro infrastructure and to the suggestion that the efficiency of Dutch banking should be stimulated through creating technical interfaces between the two systems. Also the Central Bank and the Municipal Giro Amsterdam had separate giro networks, which could be harmonised with a future fully integrated giro system. In 1975 the Minister installed an official Steering Committee, which had to study the technical, economic, political-administrative and social feasibility of harmonising the two separate giro system of the PCGD and the banking community into one National Payments System. The following organisations were represented in the Committee: the Consultative Board of Banking Organisations (representing the four commercial banks: ABN, AMRO, NMB and Rabobank), Postal Giro/PTT, Municipal Giro Amsterdam, the Central Bank DNB and the Ministry of Finance. The Committee was chaired by the Central Bank. Surprisingly, the small and medium-sized banks, business account holders, consumers and labour unions were not represented. The Steering Committee was asked to study whether the efficiency of Dutch payment traffic could be increased by integrating the two main giro networks of the Post Office and the private banking community into an integrated national giro network (Stuurgroep 1975). Such a National Payments System would not only contribute to the efficiency of the Dutch banking system by reducing the speed and costs of money transactions between the two giro systems, but it could also function as an infrastructural system facilitating the provision of various financial services in the future. The establishment of such an integrated nation-wide giro system would, however, be a complicated technical and organisational process, imply long-term investment and commitments of the stakeholders. The final implementation of the National Payments System was not foreseen before the end of the next decade.

In the beginning the main problem the Committee was confronted with was: how to choose between the Postal Giro system and the network of the private banks. The differences
between the two giro systems, the Postal Giro and the Bank Giro network in terms of structure and organisation were quite clear. The Bank Giro Centre was a decentralised circuit connecting all the associated banks through its automated clearing house, the Bank Giro Centre; the PCGD giro network was a centralised system, tailor-made for the postal giro applications and closed to other systems. The disagreement between the banking community and the Postal Giro was not merely technical: the two parties also had major political and strategic differences. As part of their strategy of penetrating the retail market and building up a large customer base, the commercial and cooperative banks asked for an opening up of the PCGD giro system and for integrating the two networks into one National Payments System. The Postal Giro wanted to be compensated for their potential losses by claiming permission to enter the wholesale market to provide financial services to businesses. The Postal Giro made an explicit connection between the issues of establishing a National Payments System and becoming a wholesale Postbank with their slogan: No National Payments System without a Postbank. In its claim the Moneyservices, in compensation for its participation in the harmonisation of national payments networks, demanded permission to widen its range of financial services to be provided to the general public and the business community. It was believed that this would strengthen the financial and economic position of the Moneyservices.

The stalemate between the Postal Giro, supported by the Municipal Giro Amsterdam, and the other parties was broken in 1979, when agreement was reached between the representatives of public giro and private (banking) giro over the interface and common standards between the two giro systems. The public datanetwork DN-1 of PTT Telecommunications made it possible to harmonise the two giro systems (Van der Vlist 1988). The choice of PTT's Data Network 1 as the technological infrastructure for the National Payments System caused the Postal Giro to abandon its irreconcilable attitude and to increase its readiness to be somehow more involved in the project. The interests of the two directorates of PTT, Moneyservices and Telecommunications, were played off against each other by the banking community. Against the tightly organised lobby of private banking stood the internally divided PTT: the interests of the directorate of Telecommunications and the Moneyservices in harmonising the two giro networks conflicted. The PTT-Moneyservices refused to open up their giro network and to join the project for the National Payments System and PTT Telecommunications promoted the use of its newly developed public DN-1 as the technical
interface between the public and the private giro networks. The PTT Management feared that the private banks would develop their own private datanetwork, and by allowing the Moneyservices to join the harmonisation project, hoped to increase the chances of supplying the needed interface by way of DN-1. The participation of the Telecommunications Directorate in the National Payments System would offer the opportunity for the PTT Management to promote DN-1 as the future infrastructure for such a system.

In January 1979 the Steering Committee was expanded with representatives of PTT Telecommunications, and the public datanetwork DN-1 became accepted as the official standard for integrating the two giro systems. Through an agreement among the participants involved, the Committee committed itself to presenting a preliminary sketch for the National Payments System, allowing for direct giro transactions between the account holders of all the participating institutions. To make more binding and effective negotiations about the implementation of the plan for a National Payments System, the Steering Committee was reshuffled. Besides the consolidation of the Postal Giro and the Municipal Giro Amsterdam, the composition changed also because of a replacement of the Consultative Board of Banking Organisations by its four constituent members: ABN, AMRO, Rabobank and NMB bank. From 1979 onwards, the Committee consisted of eight parties: the four general banks (ABN, AMRO, Rabobank and NMB), the Netherlands' Association of Savings Banks, the Dutch Central Bank, the PTT and the Ministry of Finance. In May 1980 the Steering Committee published an interim report and in 1982 the final report was published (Stuurgroep 1980; 1982). These feasibility studies provided a long-term perspective on the technical, legal, commercial and social aspects of the Dutch giro infrastructure, electronic banking activities and future financial services. The reactions to these reports were mixed, with responses correlating with whether the organisation had participated in the formulation of the reports.

Not surprisingly, the feasibility study received strong support from the Central Bank and the Ministry of Finance; the report, however, was heavily criticised by the labour unions, consumer organisations and small- and medium-sized businesses, which complained that the interests of end-users and employees has been overlooked in the whole process. The labour unions raised strong doubts about the figures on the effects of the introduction of a National Payments System upon employment, as provided by the Steering Committee (Dienstenbond FNV et al.1983). The Committee had estimated that the net number of lay-offs would be
700 (the generation of 900 new jobs and the redundancy of 1600 employees), including the workforce of the Bank Giro Centre approximately 750. The labour unions argued that the figures on the consequences of the harmonisation of the two giro systems upon employment levels, as suggested by the Committee were far from realistic. The unions expected that the shedding of labour would be more drastic, made up of 3293 layoffs (1219 generated, 4512 job cuts) as a direct consequence of the introduction of the NBC and another 3493 redundancies, related to the introduction of new terminal applications, facilitated by a harmonised national payments system. A request from the side of the labour unions, consumer organisations, representatives of small business account holders in 1981 for expanding the Steering Committee, supported by the social-democratic party in Parliament, was refused by the banking community. The preparation for this National Payments System turned out to be a technical and exclusive affair of the financial community, made up of the commercial banks, the PCGD and the Central Bank and the Ministry of Finance, with some minor involvement of PTT Telecom, with hardly any public debate and parliamentary discussion of privacy issues, the legal-institutional framework of the system, (un)employment consequences and the like. Societal actors were kept out of the Steering Committee’s decision making and parliament was only officially informed about the progress in the project after the big feasibility study of 1982 had been published.

Although the parties within the Committee had as early as 1983 agreed upon the system specifications, functional design, and the implementation of the national payments system in the medium-term, the attempts to merge the two systems into one National Payments System went on with complications and difficulties. Job redundancies, but also market developments and changes in government policy, as a result of which a kind of privatised Postbank was preferred to a State Bank, hampered the bargaining process even further. The emergence of relative outsiders in the (electronic) banking arena, such as influential department stores and oil companies/petrol stations, which engaged in near-banking activities, had already resulted in leaving the point-of-sale terminals in shops and petrol stations out of the National Payments System. The mixed reactions to the plans for an integrated national payment system from its external environment, together with internal frictions within the Steering Committee between the commercial and cooperative banks and the RPS/PCGD, caused the actual introduction of the National Payment System to be delayed until October 1985, when a compromise was reached about a less-ambitious system and a Postbank which was to
function at arm's length from government. The stalemate between Moneyservices and the banking community was resolved when the final proposals for the Postbank were discussed in Parliament. In the near future the Moneyservices would become integrated and privatised into the Postbank but still be somewhat restricted in the provision of business services (wholesale banking). As a consequence of these measures the opposition to connecting the public PCGD system and the private Bank Giro system was weakened and the plans for the National Payments System were further elaborated. In 1987, after twelve years of laborious preparations and negotiations, an agreement was reached between the major parties about the actual implementation in phases of the National Payment System before 1995.

The decision-making process in the Steering Committee had a rather closed character, dominated as it was by the banking community, including the four big general (commercial and cooperative) banks, PCGD/RPS, Central Bank and the Ministry of Finance, with the exclusion of consumers, labour unions, business account holders and parliament (Slaa 1983; Van der Loo and Slaa 1986). In the sixties the banking community was challenged by the near-monopoly of the PCGD/RPS on public giro services to develop a counterstrategy through the establishment of the Bank Giro Centre and to control this market even more and increase efficiencies through interfaces between the two systems. The development towards harmonisation in a technical and administrative sense was characterised by laborious negotiations and sometimes even blocked by sabotage behaviour. The PTT-Moneyservices made an explicit connection between the harmonisation of the public and private giro systems networks and the creation of the Postbank. The Moneyservices felt threatened by the National Payments System, because such an integrated system would put an end to the necessity for business account holders to keep, next to their bank account, a second giro account for making payments to its personnel and customers. In order to guarantee their continuity, the Moneyservices had to ask to be treated like the private banks as far as the provision of a broad range of financial services was concerned (e.g. wholesale banking):

'The arrival of the Postbank and the possible creation of a national payments system NBC are to be expected. There is a connection between the two, in that the NBC may seriously affect the market position of the PTT-Moneyservices, while they are not in a position to compete with the existing banks (Annual Report PTT 1981: 5)'.
The PTT-Moneyservices were supported in their claim by the PTT Council (Annual Report PTT-Raad 1981; 1982). The PTT had a twofold character: PTT Telecommunications as a supplier of the technical interface DN-1 and PTT Moneyservices as a participant harmonising their giro system with that of others. The Central Bank had three roles in the Committee: supervising the credit system, promoting giro payments and participating in the project by integrating its own giro system into the National Payments System. The Minister of Finance, who had installed the Steering Committee, played a passive role and kept aloof from the negotiations between the private banks and the Postal Giro. He regarded the collaboration between commercial banking and the Moneyservices to harmonise the two giro systems as an internal affair of the banking community and mainly looked at the technical aspects involved in increasing the efficiency of Dutch banking. The Minister stated that he only played an indirect role in this, since he was generally responsible for a well-performing banking community and the Postal Giro needed his permission to participate in the harmonisation project (TK 1982/83 17906). The Ministry of Transport and Public Works was indirectly involved by supporting the PTT Telecommunications and their lobby for DN-1 in the harmonisation between postgiro and bankgiro networks.

8 The final policy proposal: No State Bank but a Privatised Postbank

The period between the first Postbank Bill of 1977 and its revision in 1985 can at first sight be characterised as a period of non-decision (Van Kulsdom and Van De Westeringh 1983; Reinders 1981). As a result of opposing interests between the public enterprise of the PTT Moneyservices and the private banking community and between the political left and right, and the centrist Christian-democratic party not knowing what to do, decision making dealing with the creation of the Postbank was slowed down. On the surface nothing spectacular happened. At a deeper level it was a period of endless deliberations, discussions and negotiations between Government, Parliament, the PTT and organised banking, prepared the way for a stripped-down Postbank. Eventually it became clear that something had to happen; the position of the PTT-Moneyservices would become seriously endangered as long as a political decision concerning the first Postbank Bill was not made. In the meantime, nothing was done to stop small- and medium-sized business customers from transferring their accounts from the PTT Moneyservices to the private banks. The Moneyservices were not allowed to
introduce new financial services to keep their current customers and to attract business account holders. The deficiency of activities on the business market, due to legal impediments, seriously threatened the position of the PTT-Moneyservices.

The social-democratic party had two main objectives with the installation of a strong and fully-fledged Postbank under far-reaching government influence. For the social-democrats the continuity and reasonable rate-of-return ratios for the Moneyservices company were important, while at the same time the public provision of service in general, and the interests of account holders and employers of the PTT-Moneyservices should be guaranteed. Besides there was the idea of the state-controlled Postbank as a countervailing power, which would promote and stir up competition in the cartel-like banking sector. For the Christian-democratic party the main point of reorganising the PTT-Moneyservices was to guarantee the continuity of the provision of the giro services by integrating the Postal Giro and Postal Savings Bank. Their attitude with regards to the notion of a state bank was moderate; the christian-democrats were not principally against the idea of a fully-fledged Postbank. The liberal-conservative party opposed the idea of a state-bank, which for them was just an ideological pet subject of the social-democrats. A widening of the scope of activities of the Moneyservices was not desirable, because, according to the liberal-conservatives, the Postal Giro and Postal Savings Bank were financially strong enough to continue the competition with the other banks. The idea of state intervention was not valid, because market failure was absent; commercial banking was performing very well by offering all the services the public wanted at reasonable prices.

A change in the government coalition of social-democrats and christian-democrats to a Cabinet of christian-democrats and liberal-conservatives in 1977 prevented a quick materialisation of the first Postbank Bill. The liberal-conservatives in the centre-right first Van Agt Cabinet were not convinced of the urgent need to reorganise the PTT-Moneyservices; they were sensitive to the complaints of organised banking about the idea of a state bank. The consequence of their opposition was a deliberate postponement of the Bill. The Cabinet found itself in a dilemma: the Christian-democratic fraction was convinced of the necessity to take action by integrating and widening the scope of activities of the Moneyservices into the Postbank, while the liberal-conservatives kept postponing and slowing down the discussions about the original Postbank Bill. In November 1980 the possibility of
privatisation was put forward by the centre-right first Van Agt I Cabinet. The social-democratic party indicated that the notion of privatisation was just another ploy to slow down the discussions on the creation of a strong and integrated Postbank. If the Moneyservices were privatised, the public sector union ABVA/KABO (1984) feared a relatively large number of lay-offs and the loss of privileges provided by the civil servant's statute.

Under the influence of a threat of another social-democratic/Christian-democratic Cabinet, the liberal-conservatives took the initiative and dropped the Postbank Bill of 1977. They opted for a political revision of the Postbank Bill. The revised Bill of 1984 was a political compromise between the two governing parties in Cabinet. The Christian-democrats got their societal guarantee of the continuity of the PTT Moneyservices and the notion of state intervention in banking was abandoned. In their turn the liberal-conservatives had their demand for fair competition and the retreat of state intervention complied with: the creation of a level playing field in Dutch banking that would not be distorted by government interference ('market conformity').

A factor which hastened the acceptance of the revised Postbank Bill was that the broad coalition of commercial, cooperative and savings banks fell apart as a result of diverging interests between the general banks and the cooperative banks. The opposition of organised banking lost their strength when the cooperative Rabobank put forward that the Postbank should be subjected to the same rules as the other (general) banks. The Rabobank argued for the option of market conformity: the Postbank should not be equipped with competitive advantages with respect to the other banking institutions. Therefore the Postbank should function as independently from the State as possible (Rabobank 1984; Bosman 1984). After the postponement of the first Postbank Bill (1977), the revised Postbank Bill was introduced and passed in 1984 and came into force in January 1986. In the revision of the Postbank Bill the interests of organised banking were taken into account. The result was that the second objective, encouragement of competition in the cartel-like banking sector, was converted into market conformity. In the new Bill the aim of the Postbank became: 'The goal of the company is the carrying out of banking services in view of the continuation of provision of services as offered by the Postal Giro and Postal Savings Bank, it being the company's task to aim for continuity of the institution as well as an economically speaking reasonable return on the company-controlled capital (TK 1983-1984 18346 nr.3: 23).'

The change in the
political and economic climate caused the idea of encouraging fair competition through a state bank to be abolished. An alternative was found in some kind of privatisation of the Postbank into a limited liability company, subjected to private law with only indirect government supervision and control, to be called the Postbank NV. As a consequence its employees lost their civil servant status and were subjected to the collective labour agreements of the banking sector. This half-way privatisation process, however, would generate conflicting interests between the Postbank as a commercial bank, at arm's length from the government on the one hand and as a fully state-owned enterprise with continuing government interference (for example the appointment of Members of the Management Board, and political concerns about issues like capitalisation of corporate value and dividends (Hulsink 1993)).

The Postbank was given permission to act as a 'normal' general bank in the retail banking market with only restricted access to the wholesale business market. The one and only goal of the Postbank was that of every private enterprise: to strive for the continuation of the company and for a reasonable return on its business capital. Compared with the original proposals, the Postbank had no special privileges or special goals any more and was now subjected to the general rules prevailing in the banking market with no direct state involvement, and its banking activities were subjected to supervision by the Central Bank. This meant that the Postbank was subject to the same tax regimes, had to follow the same salary structure, and pay a market-related price for the lease of the post offices. The Postbank had to apply itself basically to retail banking and was allowed to take up a limited position with respect to wholesale banking, but was nevertheless given permission to offer some financial services to business. In that respect the Government had followed the recommendations, made by the before-mentioned banking community and the Central Bank. In its comment on the revised Postbank Bill the DNB suggested a cautious entrance of the Postbank into wholesale banking (DNB 1983). The Postbank developed into a limited liability company and 100% of its shares should be in the hands of the Dutch government (there was however, no legal impediment to private shareholding). Governmental and parliamentary influence on the affairs of the former PTT-Moneyservices was restricted: the Minister of Finance had no special authority over the Postbank’s policy any more. Direct state interference was absent, although two indirect links remained: the state still owned all the shares and the post offices continued to serve as branches of the Post Bank. And thanks to the
privatisation of the Postbank, the turf war between the Ministries of Finance and Transport and Public Works was finally solved (Schotsman 1990).

The privatisation of the Postbank became a fact in 1986; its objective was to conduct banking business, so as to guarantee the continuity of the services rendered by the merger of the Postal Giro and Postal Savings Bank. The continuity of the two institution and a reasonable return on their own resources were regarded as prerequisites. The Postbank's starting assets were made up of claims on public authorities or of a guarantee by these authorities, a substantial amount of mortgage loans, personal loans and current accounts. For the PTT Moneyservices the decision to merge giro and savings bank removed a great deal of uncertainty, as it provided them with an opportunity to introduce new services and thus to strengthen their management by changing from a functional into a divisional organisation. Privatisation also meant that it was easier to attract more highly qualified personnel. The price that had to be paid for all this was a severance of the close ties with the 'mother' PTT-company and with the public sector unions. The PTT lost its Moneyservices directorate and 11,000 employees lost their civil servant status. Some years after the implementation of the (semi-)privatisation of the Postbank the members of the public sector union ABVA/KABO were transferred to the FNV Services Union, which has banking, insurance etc as its major domains. In 1988 the Government evaluated the market position of the Postbank. The results were far from optimistic: the Postbank was still without a solid base in the business market and its market share in the payments market had decreased from 50% in 1980 to 43 per cent in 1989 (Scholtens 1992).

The Government responded by granting the Postbank permission to enter the insurance and the brokerage markets (under certain conditions) and to consider the alternative of privatisation and selling off a substantial proportion of the shares. The continuation of the Postbank and the prolongation of its money services to the general public could only be secured by the incorporation into a bigger financial conglomerate. As early as in 1987, the NMB bank (in which the state then had a minority share) started negotiations with the Postbank to merge their banking activities. The merger of the Postbank NV with the NMB bank, producing the private holding of NMB Postbank Group NV was confirmed in October 1989. The inextricable connection between the capital stock, fully owned by the State and the legal impediments on the business scope of the Postbank, was succeeded by a combined
equity swap and sale of shares, hereby gradually phasing out the participation of the state from 100 per cent to less than 50 per cent. In 1989 the Management Board of the Postbank and the NMB Bank reached an agreement with the unions about keeping up employment levels for the first five years (NMB: 12,000; Postbank: 11,000 staff). The merger with a commercial bank considerably accelerated the development of the Postbank towards a fully-fledged commercial bank, which became even more pronounced with the merger of the NMB Postbank Group with the insurance company Nationale Nederlanden into the financial conglomerate Internationale Nederlanden Groep. This strategic move reduced the share of the state even further to less than 7 per cent in the newly created financial conglomerate ING Groep. The last phase of the privatisation process was completed in October 1993, when the remainder of the government’s shares were sold at the Amsterdam Stock Exchange.

The merger of the Postbank with the NMB Bank changed the power relations even more. With this move the Postbank finally became a general wholesale bank and subjected to the regulations for the banking community. Thanks to a process of privatisation and incorporation in the development of the Postbank, the far-reaching harmonisation of the Postal Giro and the Bank Giro system seems finally feasible in the near future. From 1987 onwards the incompatibility between the giro systems has been reduced to the exchange of computer tapes, reducing paperwork but still presupposing physical transport between the two institutions. Since 1991 the creation of an on-line communications systems allows for the settlement of standing order and remittance services. Before the end of 1995 the National Payments Systems will be completed by adding the handling of direct debits, guaranteed cheques, EFT-POS, normal transfers and rushing orders to the list of automated transactions between several financial institutions. Until the end the creation of the National Payments Systems is a strategic game in which both the Postbank and the private banking community, notwithstanding their commitments to collaborate, to further individual and preserve their financial and customers base. In January 1995 the Postbank and the banks had a disagreement about the terms of access and the associated accounting rates to each other’s cash dispensers.

In 1987 the general banks and the Postbank decided to work together in the creation of a joint network for electronic funds transfer at points-of-sale EFT-POS. This sector-wide EFT-
POS network, called Beanet and installed in 1989, was temporarily exempted from anti-trust rulings by the Dutch government because of its experimental character. This collaborative effort to create a joint network was instigated by the banking community and the Postbank to coordinate the various competitive experiments with on-line payment systems between 1985-87 more closely. Originally in 1985 the BGC and the Postbank together initiated a pilot with EFT-POS at petrol stations, together with PTT (supplying the X-25 data links), Philips (supplying terminals) and the oil companies. According to the retail traders participating in the experiment, the on-line payment system was considered as being too expensive, lacking any practical applicability. Instead they suggested the utilisation of alternative off-line technologies, like chipcards (Kolijn 1995). After its initial teething problems, the EFT-POS network Beanet became a big commercial success, to a large extent facilitated by enabling datacommunications via telephone lines and herewith associated cost cuts, and low tariffs for consumers (Kolijn 1995). In the early 1990s the banking community, together with the representative bodies of shopkeepers and consumers, launched a programme to cut back the expenses of payments and money transfer (the 'Betaal op Maat' campaign). The banks also proposed the step-by-step introduction of cost-based charges in the provision of some financial services (like subscription fee for standard packages and charges for additional services). In 1994, the Dutch banks decided to merge their electronic banking activities, namely Beanet (EFT-POS), Eurocard (credit cards) and the Bank Giro Centre (the clearing of payments among banks, the Postbank and the Central Bank) into the newly created Interpay company. The Postbank has not given up its corporate autonomy completely. Recently, it established Postkantoren BV, a joint venture with its former sister PTT Post; together with 13 other European girobanks, the Postbank participates in the formation of Euro-Gironetworks, which competes with the international interbanking SWIFT-network.

Before 1986, the Postbank and the private banking community differed in the tariffication of services: the then non-profit-oriented Moneyservices argued that the transfer of payments and the provision of standardised financial services was a 'public' service, accessible and free for all. The banking community argued for a more business oriented position, so that charges, either transaction- or subscription-based, had to be included in services provision. According to the banking community, money transfer was loss-making and had to be cross-subsidised from the interest margins of current accounts and savings, commission fees and value day management. Given the then significant rivalry and competition between the
public Postbank and the banking community, the individual banks did not have the courage to introduce tariffs for the provision of services. After 1986-1990, when the Postbank became gradually incorporated in the bigger financial conglomerates of NMB Postbank Groep and the ING Groep, the banking community more or less successfully attempted to co-opt the Postbank in their cartel-like arrangements on the introduction of new services and to make deals about the harmonisation of the tariffication of services, extra-service charges and payments systems. Today the Dutch banking market shows a clear market distribution, in which ABN AMRO has a solid domestic and international position in corporate finance & credits and brokerage, the ING is strong in payments and insurance, while the RABO has its market niches in consumptive credits and mortgages (see table below).

<table>
<thead>
<tr>
<th>Table 5: Market shares of the Big Three in 1993 (in %)</th>
<th>ABN-AMRO</th>
<th>ING</th>
<th>RABO</th>
<th>Other institutions</th>
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</thead>
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<tr>
<td>credit (business)</td>
<td>55</td>
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<td>10</td>
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<tr>
<td>consumer credit</td>
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<td>33</td>
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<td>20</td>
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<tr>
<td>mortgages</td>
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<td>22</td>
<td>30</td>
<td>32</td>
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<tr>
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<td>5</td>
<td>40</td>
</tr>
<tr>
<td>payments</td>
<td>20</td>
<td>40</td>
<td>35</td>
<td>5</td>
</tr>
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</table>

Source: Annual Reports.

9 Concluding remarks

After almost ten years of negotiations the Postal Giro and the Postal Savings Bank were separated from the PTT and integrated within the limited liability company of the Postbank on January 1st 1986. The original plan to reorganise the Postbank, as laid down in the 1978 Bill, intended to safeguard the continuity of the Moneyservices and to break the cartel of the commercial banks by establishing a competitive commercial bank, owned and controlled by the state, as a 'countervailing power'. The decision to reorganise the PTT Moneyservices and to give it more corporate autonomy was prompted by its persistently shrinking market shares in the increasingly competitive banking industry. The guarantee of continuity was still a motive for changing the legal status and functions of the PTT-Moneyservices, but the second motive for the proposed reorganisation of the PTT-Moneyservices was ruled out of
the equation. As a consequence of active lobbying by the organised banking community and the changing political-economic climate, the idea of encouraging competition between private and public banks was replaced by fair competition, market conformity and the absence of state intervention in the financial sector.

The different banking organisations, i.e. the Dutch Central Bank, the commercial banks, the cooperative and the savings banks, played a key role in breaking the (potential) powers of the PTT-Moneyservices. The commercial and cooperative banks successfully penetrated the retail and the savings market in which the Postal Giro, the Postal Savings Bank and the other smaller savings banks had substantial market shares. The larger general banks created their own alternative Bank Giro network, parallel to the large-scale giro infrastructure of the PTT-Moneyservices, to attract new business customers and to erode the solid base of the PTT-Moneyservices in large-scale financial payments granted as credits to business and industry. The commercial and cooperative banks were not only successful in commercial terms, but also effective in political terms. The banking community, dispersed and divided between the interest of the commercial, cooperative and savings banks in the early 1970s, became integrated by market concentration but also by actively pursuing joint interests, going beyond their particular individual interests and establishing a representational monopoly for the entire banking sector. Relative Outsiders to the banking community were neutralised, such as the Central Bank, or effectively counteracted and later incorporated by the tightly-integrated financial community. So the established issue network of banking policy, a loose coupling between the divided banking community and dispersed state agencies (Ministry of Finance, Ministry of Transport & Public Works, PTT administration, DNB etc., has been replaced by an iron triangle, in which the private banking community has established a system of self-regulation, supported by the Government and the regulatory watchdog DNB. On the basis of duplication of infrastructure the general and cooperative banks started the discussions around harmonising the two networks, or less euphemistically formulated, opening up the giro system of the PCGD. The legally constrained PTT-Moneyservices had to accept that funds drained away from the PTT-Moneyservices to the general and cooperative banks and that its power position in retail banking became weaker every day. Opposite the organised banking front stood the internally divided PTT; there were conflicting interests between the Moneyservices and the Telecommunications Directorates.
services. The privatisation plans offered an ideal opportunity to break the stalemate between the government, organised banking and the Moneyservices by dropping the option of the state bank. The combination of the political trend towards a changed politico-ideological climate and new ideas with regard to banking policy, resulted in the construction of a new, privatised limited liability company, the Postbank.

The two-fold objective of the original Postbank Bill - the guarantee of financial services offered by the PTT and the creation of a strong state bank to break the banking cartel - could not any longer be wholeheartedly supported, also because of the fact that the political climate had changed from a centre-left to a centre-right government. In the political compromise which was reached between the groups involved (government, PTT-Moneyservices and banking) every party got its share. By privatising the PTT Moneyservices the government solved the vexed question of the future development of the Postbank and achieved at the same time an easy and direct result with their started privatisation programme. When the Postbank was converted into a fully state-owned company in 1986, the bank’s remit had been deliberately restricted in order to prevent any increase in the competition with private banks, which was considered politically undesirable at that time. For the Moneyservices the formal creation of the Postbank offered opportunities to enter the business market (albeit with restrictions) and this could put an end to the draining of funds to the commercial banks. But above all organised banking got its way because the proposition of a state bank was dropped. In exchange for the political guarantee that such a newly organised Postbank should act in accordance with fair competition rules, organised banking stopped its opposition to the creation of the Postbank. By a mixed strategy of attacking the market position of the PTT-Moneyservices in retail banking and at the same time postponing or opposing an extension of the sphere of action of the Moneyservices, organised banking succeeded in weakening its position.

The conditions under which a new Postbank could function were at first unilaterally defined by the government - the notion of a state bank in cartel-like banking - but in the end became a bilateral arrangement between the banks themselves: a Postbank characterised by market conformity and the private banking oligopoly re-established. Before the partial sale of the state participation in the Postbank in 1989/90, related to the merger with NMB, the remit of the bank was extended to that of a normal commercial bank in order to increase its
effectiveness and market value. As a result of the merger between Postbank and NMB and of a subsequent merger with the insurer Nationale Nederlanden, the state’s holding became reduced to just over than 6 per cent and was recently phased out. So one could see in the Postbank case a change from government intervention by proposing a strong statebank in order to induce competition in banking, to self-regulation by the private banks themselves. The Postbank has become a normal bank, just like the others subjected to the agreed and operative rules of conduct in the banking sector. Nowadays that the privatised Postbank has become incorporated into the large financial ING-conglomerate and to some extent been coopted by the private banking community, it is difficult to visualise its predecessor as a unique public service institution, namely the government-controlled PTT Moneyservices.
References


TK Parliament (1989-90). Memorandum inzake het per 1 januari 1990 te voeren structuurbe-


### Appendix 1: Volume of Dutch Giro Transactions

Source: Annual Reports Bank Giro Centrale and PCGD/PTT

<table>
<thead>
<tr>
<th>Year</th>
<th>Postgiro</th>
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### Appendix 2: Results of the Postal Giro and the Postal Savings Bank

Source: Annual Reports BGC and PCGD/PTT

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<td>Trading Results (in millions Dfl)</td>
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<td>1890</td>
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65