Public Competition Assessment

13 August 2008

Westpac Banking Corporation – proposed acquisition of St George Bank Limited

A Introduction

1. On 13 August 2008, the Australian Competition and Consumer Commission (**ACCC**) announced its decision not to oppose the proposed acquisition of St George Bank Limited by Westpac Banking Corporation (**proposed acquisition**). The ACCC was of the view that the proposed acquisition would not be likely to have the effect of substantially lessening competition in any relevant market, in contravention of section 50 of the *Trade Practices Act 1974* (the **Act**).

2. The ACCC formed its view on the proposed acquisition on the basis of the information provided by the merger parties and information arising from its market inquiries. This Public Competition Assessment outlines the basis on which the ACCC has reached its decision on the proposed acquisition, subject to confidentiality considerations.

B Public competition assessment

3. To provide an enhanced level of transparency and procedural fairness in its decision making process, the ACCC issues a Public Competition Assessment for all transaction proposals where:

   - a merger is opposed;
   - a merger is subject to enforceable undertakings;
   - the merger parties seek such disclosure; or
   - a merger is not opposed but raises important issues that the ACCC considers should be made public.

4. This Public Competition Assessment has been issued because the proposed acquisition is considered to raise issues of interest to the public.

5. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues. It also alerts the market to the

circumstances where the ACCC's assessment of the competition conditions in particular markets is changing, or likely to change, because of developments.

6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on its own merits.

7. Many of the ACCC's decisions will involve consideration of both non-confidential and confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources. While the ACCC aims to provide an appropriately detailed explanation of the basis for the ACCC decision, where this is not possible, maintaining confidentiality will be the ACCC's paramount concern, and accordingly a Public Competition Assessment may not definitively explain all issues and the ACCC's analysis of such issues.

C The parties

The acquirer – Westpac Banking Corporation (Westpac)

8. Westpac is the third largest retail bank in Australia by market capitalisation, valued at approximately $45 billion. Westpac's principal business activities include:

- *Personal banking*: transaction and savings accounts, home loans, personal loans, credit cards, insurance and financial advice;
- *Business banking*: small to medium enterprise (SME) banking services, agribusiness, lending and deposit products;
- *Corporate and institutional banking*: through Westpac Institutional Bank, includes the provision of a range of financial services to corporate and institutional customers; and
- *Wealth management and insurance*: through subsidiary BT Group and its affiliates, the provision of funds management, superannuation, insurance, financial planning and wrap and master trust platform products.

9. Westpac operates a comprehensive branch and ATM network in each Australian state.

The target – St George Bank Limited (St George)

10. St George is Australia's fifth largest retail bank by market capitalisation, currently valued at around $16 billion. St George's principal business activities include:

- *Personal banking*: transaction and savings accounts, insurance, residential and consumer lending (through St George Bank and Bank SA);
- *Business banking*: a range of financial services for small business and agribusiness (through Bank SA);
- *Corporate and institutional banking*: financial services for corporate, institutional and government customers; and
- *Wealth management*: through subsidiary Asgard and its affiliates, the provision of funds management, investment advice, financial planning and wrap and master trust platform products.

11. St George operates a branch and ATM network Australia-wide (excluding Tasmania), with a strong presence in NSW, the ACT and SA (through Bank SA).

D Areas of overlap

12. The merger parties overlap in the areas of personal banking, business banking, corporate and institutional banking, wealth management and insurance. Section I includes a discussion of the ACCC's views on market definition in each of these areas. Section J summarises the ACCC's views on the likely impact of the transaction on competition in each market.

E Industry background

Retail (personal and business) banking

13. The national retail banking landscape has historically been dominated by the four major banks — the National Australia Bank (NAB), Commonwealth Bank of Australia (CBA), Australia and New Zealand Banking Group (ANZ) and Westpac — with a number of regional banks competing against the majors in each state. Key regional banks include: St George in NSW, Bendigo Bank in Victoria, Suncorp and Bank of Queensland in Queensland, Bank West in WA and Bank SA in SA.

14. In recent years, regional banks have been expanding outside of their home states (through organic growth and acquisition). For example, Bank West is expanding its presence on the eastern seaboard and Bank of Queensland and Suncorp are expanding into the southern states and WA.

15. Foreign banks entered the Australian market following deregulation in the mid-1980s, including HSBC, ING Direct and Rabobank. While these banks have a limited presence in retail banking overall, they are significant competitors for particular products (e.g. ING Direct for savings accounts and Rabobank for agribusiness banking).

16. Deregulation also facilitated competition from non-banks, such as building societies and credit unions, which tend to differentiate themselves from the major banks based on service levels.

17. Mergers between the ‘big four’ banks are currently prevented by the ‘four pillars’ policy, introduced by Treasurer Paul Keating in 1990. The Federal Treasurer, Wayne Swan, recently announced that the current Australian Government would retain this policy.

F Timing

18. The following table outlines the timeline of key events in this matter.

Date	Event
02 Jun 2008	ACCC commenced its review under the Merger Review Process Guidelines.
11 Jun 2008	Market inquiries commenced.
23 Jun 2008	Closing date for submissions from interested parties and survey responses from banking customers.
23 Jul 2008	ACCC published a Statement of Issues outlining preliminary competition concerns.
30 Jul 2008	Former proposed date for announcement of ACCC's findings, amended to allow for comments on the Statement of Issues.
06 Aug 2008	Closing date for submissions relating to the Statement of Issues.
13 Aug 2008	Announcement of ACCC’s decision.

G Market inquiries

19. The ACCC conducted extensive market inquiries in relation to the proposed acquisition. A range of interested parties provided responses including competitors, industry and consumer associations, downstream users of products (including mortgage brokers and financial advisors) and interested third parties.

20. The ACCC also conducted two confidential customer surveys — one for personal banking customers and the other for business banking customers. The ACCC received 240 responses to the personal banking survey and 25 responses to the business banking survey.

21. Similar to the ACCC’s general market inquiries process, responses were used to assist with the ACCC’s understanding of personal and business banking habits and to identify areas of customer concern for the ACCC to explore further. The survey results were not treated as necessarily reflective of the banking habits or concerns of the general population but were used as a starting point for the ACCC’s further inquiries.

H Statement of Issues

22. On 23 July 2008, the ACCC published a Statement of Issues regarding the proposed acquisition. The Statement of Issues identified the aggregation of the BT (Westpac) and Asgard (St George) wrap platforms as a preliminary competition concern. All other areas of aggregation arising from the transaction were noted as unlikely to raise concerns.

23. The ACCC sought further submissions from interested parties regarding the matters raised in the Statement of Issues. The Statement of Issues is available on the ACCC's website at www.accc.gov.au/statementsofissues.

I The ACCC's merger assessment process

24. Section 50 of the Act prohibits an acquisition if it would be likely to have the effect of substantially lessening competition in a *market*. Accordingly, to analyse the competitive impact of a particular merger, the ACCC's first task is to define the relevant market(s). The ACCC's views on market definition in relation to this matter are summarised in section J.

25. The ACCC's second task is to analyse competition in each market. In doing so, the ACCC examines the actual and potential sources of constraint on the merged firm if the acquisition were to proceed (based on the merger factors included in section 50(3) of the Act). A summary of the ACCC's views on the likely impact of competition in each of the relevant markets is provided in section K.

J Market definition

26. The ACCC considered a number of relevant markets under each of the key product areas – personal banking, business banking, corporate and institutional banking, wealth management and insurance.

Retail (personal and business) banking

27. The market definitions adopted by the ACCC for the purposes of assessing this matter are summarised in table 1.

Product dimension

28. The ACCC's market inquiries broadly supported the delineation of product markets in table 1. The only areas for which conflicting views were raised were in relation to personal lending products and the small-to-medium enterprise (SME) banking 'cluster'.

Table 1 **Retail banking markets**

Product dimension	*Geographic dimension*	*Functional characteristics*
Personal banking markets		
Transaction accounts	Local but price competition is national	Provide day-to-day deposit and payment functionality in the form of cheque books, debit cards, BPay, internet and phone banking.
Deposit/term products	National	Traditional savings instrument with a focus on growth in the capital value of the deposited funds.
Credit cards	National	Short-term unsecured lending product for individual consumers.
Home loans	National	Mortgage lending to individuals for the purpose of acquiring residential property.
Personal loans	National	Lending to individuals for the purposes of purchasing large personal consumption items.
Hybrid personal loans (margin loans)	National	Flexible lending provided to individuals for the purpose of acquiring shares or investing in funds or for drawing on the equity in assets.
Business banking markets		
SME banking	Local but price competition is national	A 'cluster' of banking products encompassing credit products, transaction/cash facilities, merchant acquiring services and banking advice.
Equipment finance	National	Includes lease finance products and hire-purchase products. The lease provider purchases capital equipment and leases it to the business for an agreed term, commonly two to five years.
Agribusiness banking	Local but price competition is national	A 'cluster' of banking products for agricultural businesses with a central element being specialised lending products including very long-term credit instruments.

29. Some market participants argued that there are increasing levels of demand-side substitutability between credit cards, personal loans and some home loan products (lines of credit). However, the ACCC considers that there are several practical differences between the various personal lending products that limit demand-side substitutability. Indeed, the differences in interest rates, accessibility and functionality are such that the ACCC considers that these products are appropriately treated as separate product markets.

30. In previous banking merger assessments, the ACCC has defined a SME banking 'cluster' market to include a range of transaction, savings and lending products.[1] Market inquiries for this matter largely supported the notion that SMEs will tend to source a bundle of banking products from their main financial institution. Customer research data obtained by the ACCC provided further evidence of this.

31. However, the merger parties and some market participants argued that there was evidence that SMEs were 'unbundling' certain products from the cluster. In particular, equipment finance and merchant acquiring services were noted as products that were increasingly sourced separately to an SME's primary banking relationship.

[1] Previous matters include Commonwealth/Colonial (2000) and Westpac/Bank of Melbourne (1997).

32. The ACCC considers that there is compelling evidence to suggest that equipment finance is a separate product market. Survey data provided to the ACCC suggests that most SMEs source equipment finance outside their primary banking relationship. Indeed, the ACCC understands that a significant proportion of new equipment finance is written through brokers.

33. For merchant acquiring services, on the other hand, industry survey data suggests that the majority of SMEs still source these products through their main banking relationship. The ACCC therefore considers that merchant acquiring services are appropriately defined as part of the SME bundle.

Geographic dimension

34. The ACCC has considered the geographic dimension of competition for each of the retail banking markets based on:

- the importance of a physical presence (branch and ATM networks) in consumer choice of provider; and

- the geographic scope of decision making of financial institutions, and in particular, the variation across regions in key elements of the service offering — product range, prices and service levels.

35. The ACCC considers that there are several banking products for which a physical presence is a key determinant of customer choice — namely transaction accounts, SME and agribusiness banking. Market inquiries suggested that customers take account of the physical presence of providers— the presence of a branch in a convenient location and the extent of the ATM network — in choosing between financial institutions for these products. This was also supported by market survey data provided to the ACCC and responses to the ACCC customer surveys.

36. For SME and agribusiness banking, the importance of the branch network reflects the ‘relationship driven’ nature of business banking. Most banks stressed the importance of having a face-to-face relationship with their business clients. Market survey data provided to the ACCC suggests that the majority of SME businesses visit their branch more than once a week.

37. For transaction accounts, the importance of a physical presence reflects both demand from certain segments of the customer base for in-branch transactions, and, more generally, customers seeking to avoid ‘foreign ATM’ fees by having access to a comprehensive ‘own bank’ ATM network.

38. In contrast, the evidence provided to the ACCC suggests that a physical presence is not an important determinant of consumer choice for other retail banking products — namely, deposit/term products, credit cards, home loans, personal loans, hybrid personal loans (margin loans) and equipment finance.

39. Evidence from market inquiries as well as data on the use of various channels illustrates that branch usage for these products is very low. Responses to the ACCC customer surveys demonstrated that service levels, fees and interest rates, and the availability of internet banking are more important to customers of these products than the location of branches and ATM availability.

40. Changes in the modes of distribution for each of these products, in particular a greater reliance on the internet, telephone and broker channels, has meant that a customer can obtain one of these products, transact and manage their relationship with their financial institution without visiting a branch. This trend has allowed institutions to compete in regions where they do not have a physical presence — for example, ING Direct has attracted a significant share of the Australian savings account market by distributing its products solely through the internet.

41. The ACCC notes there is strong evidence to suggest that price competition in all retail banking product markets is national. Market inquiries indicated that most financial institutions manufacture, distribute, market and price products on a national basis. The merger parties provided comprehensive information about their internal processes for developing products and setting prices that provided further support for this.

42. The ACCC explored the possibility that branch or local area managers could effect local price competition through providing discounts on certain products. However, information provided to the ACCC suggests that while these managers are, in some cases, afforded discretion to discount products, the discretion tends to accord with a pre-determined formula based on the degree of customer risk and the customer's current product holdings.

43. Other aspects of the merger parties' service provision, including staffing levels, marketing and branch opening hours, are also centrally determined. In the case of staffing levels, these are set according to a formula based on historic levels of customer demand. Competition for these aspects of the service offering also appear to be national.

Corporate and institutional banking

44. The corporate and institutional banking segment services the financial needs of large corporations, institutions, and government customers, including specialised service and advice in the areas of liquidity requirements, funding, interest rate management, capital transactions, debt/equity underwriting, foreign exchange markets, trade finance, international payments, international cash management, and project finance and commercial property lending.

45. The ACCC does not consider it necessary to reach a definitive view on the relevant market definitions in this matter because competition concerns are unlikely to arise regardless of the definitions adopted.

Wealth management

46. The ACCC considered the overlap between Westpac (BT) and St George's (Asgard and Advance) wealth management operations in the following areas:

- wholesale funds management;
- multi-manager investments;
- retail (wrap and master trust) platforms;
- financial advice from licensed financial planners; and
- non-advisory stockbroking services.

47. With the exception of the market for retail platforms, the ACCC does not consider it necessary to reach a definitive view on market definition as competition concerns do not arise irrespective of the market definition adopted.

48. Issues were raised by market participants in relation to retail platforms. The relevant market definition is discussed below.

Market definition for retail platforms

49. The ACCC has defined separate (but related) national markets for:

- the supply of platforms to institutions, independent dealer groups and financial advisor businesses; and
- the supply of investments through retail platforms to investors.

50. The significant majority of financial planning groups and platform providers contacted by the ACCC considered that wraps and master trusts compete directly for distribution by financial planners, and ultimately, to attract investors. The merger parties provided evidence (including board papers and other internal reports) that they benchmark their product offering and performance against a number of competing platforms — both wraps and master trusts. Industry studies also tend to benchmark master trusts and wraps against each other.

51. Some participants commented that the difference in legal structure between these products (in particular the custodial nature of the wrap investments) will mean that an investor is unlikely to view investment through a master trust as a viable substitute for a wrap platform. In addition to noting that this distinction between the products only applies for non-superannuation investment (all superannuation platforms are required to operate via a trust structure), most dealer groups submitted that this distinction would not materially influence the majority of investment decisions made at the financial advisor or investor level.

52. While the ACCC understands that wraps have offered investors advantages in terms of electronic transaction capability and access to direct investments (such as shares), market participants submitted that master trusts are being upgraded and are increasingly able to offer similar functionality and investment choices.

53. The ACCC considers that, based on the functional similarities between the two products and the views of both platform suppliers and dealer groups, wraps and master trusts are appropriately defined as being in the same product market. However, the ACCC notes that wrap products may compete more strongly for certain types of investors.

54. The ACCC also explored the substitutability between retail platforms and other avenues for retail investment such as multi-manager investments, industry funds and direct investments (such as shares). The ACCC notes that platforms offer a range of benefits (particularly in terms of diversity of investment choice, including the potential for investment in wholesale funds) and functionality that are not available through other retail investment channels. The ACCC notes that if the proposed acquisition does not raise competition concerns in the market narrowly defined (excluding other investment products) it is unlikely to raise concerns in any broader market.

Insurance

55. The merger parties overlap in the provision of both general and life insurance products. The ACCC does not consider it necessary to reach a definitive view on these market definitions in this matter because competition concerns are unlikely to arise regardless of the definitions adopted.

J Competition analysis

56. Westpac has claimed that if the acquisition proceeds it will continue to operate St George as a distinct retail brand. The ACCC notes that even if this is the case, common ownership will remove the incentive for the two organisations to compete on price or on other aspects of the service offering. Therefore, the ACCC has conducted its competition analysis on the basis that St George will no longer remain as an independent competitor post-acquisition.

Retail (personal and business) banking

Market structure and competitors – national

57. As noted above, the ACCC considers that the geographic dimension of competition is national for the majority of retail banking markets. Further, the ACCC is of the view that price competition occurs at a national level in all retail banking markets. Accordingly, the ACCC analysed whether the proposed acquisition would lead to a substantial lessening of competition at a national level in any retail banking market.

58. Table 2 illustrates that, on a national basis, St George has a relatively small share in each of the retail product markets – ranging from around 4% for credit cards to 9% for margin lending and SME banking. Post-acquisition, the merged entity's national share will range between 15% and 25% across the various markets.

59. The market share figures are derived from a number of sources. The ACCC considers these figures to be the best estimates available for the purposes of this assessment.

Table 2 **National market shares**

Markets	*St George*	*Merged entity*
Personal banking markets		
Transaction accounts	7%	19%
Deposit/term products	7%	20%
Credit cards	4%	20%
Home loans	8%	21%
Personal loans	8%	20%
Hybrid personal loans (margin loans)	9%	23%
Business banking markets		
SME banking	8–9%	22–23%
Merchant acquiring services	8%	25%
Equipment finance	8%	18%
Agribusiness banking	2%	15%

60. The ACCC notes that a range of independent competitors will remain in the various retail markets post-acquisition and, in particular, each of the other three major banks and the regional banks. Credit unions, building societies, the foreign banks and niche players also compete in the various markets and, in some cases, are particularly strong competitors. For instance, HSBC and ING Direct are strong competitors for deposit/term products and GE Capital Finance has a significant presence in equipment finance.

Market structure and competitors – local

61. The ACCC has considered competition at a local level for those markets it considers are appropriately defined as local — transaction accounts, SME banking and agribusiness banking. The local elements of competition tend to be around branch-based delivery and service levels.

62. The ACCC analysed state/territory market share data as a proxy for local market shares (table 3). St George has a sizeable local presence in NSW, the ACT and SA. In other states/territories, it has a very small share of the market, from as little as 0.1% of the market for transaction accounts in Tasmania to 6.5% in the NT. The merged entity will have a market share between 12% and 21% in each of the state/territory markets post-acquisition.

Table 3 **State/territory market shares**

Markets	*St George*			*Merged entity*		
	NSW / ACT	SA	Other states/ territories [a]	NSW / ACT	SA	Other states/ territories
Personal banking market						
Transaction accounts	15%	20%	<1 – 7%	26%	24%	12 – 21%
Business banking markets						
SME banking	6%	15%	<1 – 3%	22%	25%	15 – 18%
Agribusiness banking [b]	1%	14%	< 1%	16%	19%	12 – 14%

[a] Estimate excludes St George's market share in the NT which is around 7% for transaction accounts and 6% for SME banking. [b] For agribusiness banking, the market share for SA also includes the share in NT.

63. The ACCC notes that a number of significant local competitors remain in these markets post-acquisition including the three other major banks, the other regional banks and in the case of agribusiness banking, niche players such as Rabobank. The ACCC also understands that credit unions and building societies — strong competitors on customer service — represent a significant share of transaction accounts in the states/territories where St George has a strong presence (18% in NSW and the ACT and 24% in SA).

64. The ACCC also considered the aggregation of branches and ATMs arising from the acquisition in each state and territory. In NSW and the ACT, the merged entity will operate just over one fifth of branches and around 26% of ATMs. In SA, around one third of branches and ATMs will be owned by the merged entity.

65. There remain a number of competitors in each state with a strong branch presence and ATM network, most notably the other major banks. For transaction accounts — many credit unions, despite being small players independently — provide their customers with access to a comprehensive ATM network through the pooled Rediteller network, and in some cases offering discounted or free transactions at foreign ATMs.

66. The ACCC also notes that a number of regional banks are expanding their physical presence in an attempt to reach 'critical mass' in markets outside their home state. Bank West, Bank of Queensland, Suncorp and Bendigo Bank are all pursuing expansion strategies in states and territories where they have not previously had a large physical presence. For example, Bank of Queensland and Bendigo Bank each have built up a notable physical presence in NSW with 55 branches and almost 600 ATMs and 51 branches and 70 ATMs, respectively.

67. Westpac has claimed that there will be no net reduction in branch and ATM numbers as a result of the proposed acquisition. The ACCC notes that even if the merged firm decided to close some branches — in an environment where most banks are expanding their branch networks, and in particular, the regional banks are expanding into new states — this may create an incentive for further entry or expansion in local markets. The ACCC notes that while barriers to establishing a national presence are high, barriers for existing players to expand their presence into new local markets are comparatively low (see below).

Barriers to entry and expansion

68. The ACCC considers that the barriers to large scale national entry for all retail banking products are high and are particularly significant for branch-centric products. It is notable that even for those products that do not require a physical presence, almost all the new entry in recent years has come from large international financial institutions.

69. Regulatory barriers are significant for authorised deposit-taking institutions but also appear to be high for specialist credit card institutions. Both types of institutions are required comply with a host of prudential regulations, including large capital requirements.

70. Almost all market participants noted that current credit conditions have had the effect of raising barriers to entry for lenders. In particular, the closure of securitisation markets and the increase in the cost of credit has meant that many non-bank players have exited lending markets and some other players have ceased writing new loans in the interim. Similarly, market participants have commented that the *relative* increase in their costs of funds may make it more difficult for the smaller financial institutions (with less favourable credit ratings) to compete in the short term.

71. The ACCC considers that the high degree of customer ‘stickiness’ for many retail banking products may further increase entry barriers. Many market participants noted that it is often difficult and time-consuming for a customer to compare one product with another. In addition, even if a customer is aware of a product that is a ‘better deal’ in terms of price, the inconvenience and, in some cases financial cost (e.g. mortgage exit fees), may deter switching. The ACCC notes that the Australian Government’s switching initiatives may act to somewhat reduce these barriers.

72. For those products that require a physical presence to attract market share, the capital costs of establishing a strong national presence (or indeed even in one state) are significant. The ACCC assessed that it would cost in the order of $70 million to roll out a branch and ATM network of a size sufficient to attract a transaction account market share of at least 10% in a state market the size of WA.

73. The ACCC considers that barriers to expansion for existing players into new local markets are comparatively low. The set up costs of a new branch is around $800,000, while the cost of a new ATM is around $45,000. The ongoing costs do not appear to be particularly high.

74. Notably, a number of the regional banks are adopting different models to reduce the cost of rolling out branches into new local areas. For example, Bank of Queensland has a franchise business model whereby individual branches are owner-operated but are branded Bank of Queensland. Bendigo Bank has adopted a community bank business model (whereby individual branches are owned and operated by local communities).

Is St George a uniquely vigorous and effective competitor?

75. The ACCC notes that the level of aggregation arising from the proposed acquisition is relatively low in each of the retail banking markets. Further, a number of competitors, both large and small, will remain in each of the markets post-acquisition. In such circumstances, the proposed acquisition is unlikely to result in competition concerns unless it can be shown that St George is a uniquely vigorous and effective competitor in driving price or non-price competition in the market (including by defeating attempts at coordinated conduct).

76. The ACCC has drawn on a large volume of information in assessing the role of St George in driving competition in the various retail banking markets. This includes pricing data (across all products over a period of three years), documentary evidence provided by the merger parties (including internal pricing committee documents), and information provided by market participants and ACCC customer survey respondents.

77. Based on the pricing information analysed by the ACCC and the information submitted by market participants, the ACCC is aware of instances of St George being a price leader for certain products. For example, at times St George has offered the lowest rate on certain fixed rate home loan products. However, the ACCC notes that such examples of price leadership were relatively rare in the three years of pricing data examined. Certainly there is no evidence to suggest that St George was a sustained price leader (or that Westpac frequently responded to St George’s prices) on any particular product.

78. A number of market participants argued that St George has differentiated its offering from other players in the market through its focus on customer service. Indeed, market research data illustrates that St George consistently outperforms the major banks (other than ANZ) on measures of customer satisfaction. However, the ACCC notes there are other players that perform even more strongly in customer satisfaction surveys including credit unions and the other regional banks. Further, ANZ’s move to differentiate itself from the major banks on the strength of its customer service demonstrates that it is possible for competitors to replicate these elements of the service offering.

79. The ACCC does not consider that there is sufficient evidence to demonstrate that St George has been a uniquely vigorous and effective competitor in any of the retail banking markets, at least to the extent that would be required to show that the removal of St George as an independent player would be likely to lead to a *substantial* lessening of competition. The ACCC does however acknowledge the role that regional banks have played in challenging the major banks as they have entered new states and competed aggressively to gain market share. The ACCC will closely analyse the likely competition implications of any further proposed acquisitions of regional banks.

Conclusion

80. The ACCC considers that the proposed acquisition would be unlikely to result in a substantial lessening of competition in any of the retail banking markets. Barriers to national entry are high and appear to be even more significant for branch-centric products. However, the level of aggregation arising from this transaction is relatively limited and a number of competitors — the other three majors, regional banks, credit unions and building societies, and other niche players — will pose a constraint on the merged entity post-acquisition. Further, while St George is competitive in terms of price and customer service, it does not appear to be unique or a market leader in either attribute.

Corporate and institutional banking

81. The corporate and institutional banking space appears to be highly competitive. It is contested by all national banks as well as the large merchant banks and international securities houses, such as UBS, HSBC, Deutsche Bank, Macquarie Bank and JP Morgan. St George has a minimal presence in these markets.

82. The ACCC considers that the proposed acquisition would be unlikely to result in a substantial lessening of competition in these markets.

Wealth management

83. Other than for retail platforms, no market participants raised concerns in relation to the impact of the proposed acquisition on wealth management markets. Indeed, St George (Asgard and Advance) and Westpac (BT), have a limited presence in wholesale funds management and non-advisory stockbroking services. For multi-manager investments and financial advice, the ACCC notes there will remain a significant number of large independent competitors in these markets post-acquisition.

Retail (wrap and master trust) platforms

84. In the Statement of Issues, the ACCC identified the aggregation of two of the three largest providers of wrap platforms as a potential competition concern. For the reasons outlined above, the ACCC is of the view that wraps and master trust platforms are demand-side substitutes and are therefore appropriately considered as part of broader markets for the supply of retail platforms to dealer groups and to investors.

Market structure and competitors

85. The ACCC analysed market share data based on the level and growth in funds under administration (FUA) for each platform supplier. Outside of the merger parties, there are a range of platform suppliers that have attracted and continue to attract significant funds including CBA/Colonial, NAB/MLC, Macquarie, AXA and ING Australia. As discussed above, both platform suppliers and dealer groups considered that these platforms compete directly with those of the merger parties both in terms of attracting dealer groups and investors.

86. Even accounting for the fact that wrap platforms compete more closely with each other, at least for some investors, a number of significant competitors remain in this segment including Macquarie, Avanteos (CBA) and Oasis. While some market participants submitted that only the largest three wrap platforms (BT, Asgard and Macquarie) would have sufficient ‘scalability’ to meet their needs, this was rejected by other large dealer groups, with many noting that they utilise wrap platforms outside of these three.

Barriers to entry

87. The ACCC considers that the barriers to new entry for retail platform supply are significant. Indeed, there are considerable barriers to entering on the scale that would be required to be a competitive threat to existing key players.

88. Many market participants noted that the capital costs of entry are significant because of the sophisticated technology required. Estimates of the cost to create a platform with functionality similar to the key players ranged from around $30 to $100 million. These participants also noted that ongoing development costs and maintenance costs are significant.

89. Some participants noted that it would be difficult to achieve the scale necessary to defray the significant capital costs of new entry because of barriers to customers switching platforms. The ACCC acknowledges that there are barriers to switching investors’ stock of funds across platforms because of the administrative burden and potential tax implications. However, new flows into this market are growing strongly — Plan for Life predicts that the platforms investment market will grow from around $400 billion today to $972 billion in 2017.

90. The ACCC considers that new funds are far more contestable, indeed, dealer groups have demonstrated a willingness to divert new funds from their clients to a new platform (even if they keep the existing stock of funds with the existing platform).

Dynamic characteristics of the market

91. The ACCC considers that markets for attracting retail investment dollars are highly dynamic, driven by technological advances and the large and growing pool of investment funds.

92. A number of market participants pointed to separately-managed accounts (SMAs) as the 'next big thing' on the investment horizon in Australia. SMAs are a portfolio made up of securities that are beneficially owned by the individual investor and managed by professional managers. There has been recent entry in this space from large international and domestic players — for example, BlackRock Investment Management Australia (formerly Merrill Lynch) and Next Financial.

93. Market participants have noted that SMAs are more tax efficient than investments through retail platforms and typically have lower management fees. The ACCC considers that the threat of expansion by providers of these new products is likely to put further competitive pressure on retail platform providers.

Conclusion

94. The ACCC considers that the proposed acquisition would be unlikely to result in a substantial lessening of competition in the markets for the supply of retail platforms. There remain a number of strong competitors including other wrap platforms — such as Macquarie, Avanteos (CBA), and Oasis (ING/ANZ) — as well as a number of master trust platforms including CFS First Choice, MLC (NAB) and Navigator (Aviva). The ACCC further considers that the highly dynamic and technology driven nature of this market means that new competitive threats are likely to emerge in any case, as already evident in the availability of SMA products.

Insurance

95. Westpac and St George both provide personal (general and life) insurance products. Westpac manufactures and supplies some insurance products while St George distributes IAG general insurance products (one of the largest general insurance providers along with Suncorp).

96. Both Westpac and St George are small participants in the retail supply of general and life insurance products. The ACCC also notes there will remain a number of strong competitors post-acquisition.

97. The ACCC considers that the proposed acquisition would be unlikely to result in a substantial lessening of competition in any insurance markets.

K Conclusion

98. On the basis of the factors set out above, the ACCC formed the view that the proposed acquisition would be unlikely to result in a substantial lessening of competition in any of the relevant markets.