



**CONSUMERS'
FEDERATION
OF AUSTRALIA**

Developing and promoting
the consumer interest

PO Box 16193
Collins Street West
VIC 8007

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By email: ANZ-SuncorpMerger@acc.gov.au

Australian Competition & Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2600

Dear Commissioners

ANZ proposed acquisition of Suncorp Bank – response to Statement of Preliminary Views

Thank you for the opportunity to comment on the ACCC's Statement of Preliminary Views (the **preliminary view**) responding to Australia and New Zealand Banking Group Limited's (**ANZ**) application for merger authorisation for its proposed acquisition of Suncorp Bank (the **proposed acquisition**).

Executive Summary

The Consumers' Federation of Australia (**CFA**) is supportive of much of the preliminary view put forward by the ACCC. We agree there are regulatory and structural barriers for smaller providers and newer entrants in the Australian banking market, and that the ACCC is right to identify a risk of increased coordinated conduct resulting from this proposed merger and question claimed public benefits arising from the acquisition.

We also consider:

- That the ACCC should consider, in its analysis of competition in the banking market, markers of *competitive outcomes* (efficient prices, innovation, quality services etc.) as a richer and more meaningful approach than only considering the number of choices or level of switching.
- That in considering claimed public benefits arising from the merger, the ACCC should give weight to concomitant detriments that arise from the removal of a mid-tier competitor from the market or the loss of opportunity for a stronger competitor that might arise should Suncorp Bank merge with another mid-tier bank.
- That the ACCC should be concerned not just with efficiency of services when considering bank branch closures, but also with accessibility and inclusion which are stand-alone public benefits.

- That the ACCC consider as a public detriment any innovative or good practices of Suncorp that may be lost should the proposed acquisition proceed.

About Consumers Federation of Australia

Consumers' Federation of Australia (CFA) is the peak body for consumer organisations in Australia. CFA represents a diverse range of consumer organisations, including most major national consumer organisations.

CFA advocates in the interests of Australian consumers with and through its members, supports consumer representatives to industry and government processes, develops policy on important consumer issues and facilitates consumer participation in the development of Australian and international standards for goods and services.

CFA is a full member of Consumers International, the international peak body for the world's consumer organisations.

Competitive effects of the proposed acquisition

CFA agrees with the analysis put forward by the ACCC in part two of the preliminary view, that smaller banks and new entrants face significant barriers in the Australian banking market. The various barriers outlined in the preliminary view—including capital requirements, the benefits of scale, control of distribution channels, and the need for large technology investments—all inhibit newer entrants and hinder the competitive capacity of smaller banks. In relation to technology investments, which are important to consumers recognising there is widespread use of banking apps, we note that while smaller firms (including neo-banks) may be able to develop more innovative and consumer friendly technology, these firms are often acquired by the large banks and fail to incentivise innovation over time.

In CFA's initial submission, we referenced numerous reports that lead to the conclusion that the big four banks are an oligopoly and operate largely as one. The preliminary view references reports and analyses, including from the Productivity Commission, that find that large banks can exercise market power over their competitors and consumers.¹ However, we remind the ACCC that its own previous work made similar findings, including that the major banks have pursued an 'accommodative and synchronised approach to pricing'.² CFA considers that the ACCC should have particular regard to its own previous analysis and conclusions when examining the question of competition in banking.

Furthermore, in terms of analysing competitiveness in particular market sectors, CFA considers there are difficulties with relying on the number of product choices or the level of consumer switching in a market as measures of effective competition. Those two measures do not reliably indicate positive outcomes associated with competition such as efficient pricing, positive innovation, and quality services. While there are many options in markets like home loans and retail deposits, both within individual firms and across firms, research has shown that people do not necessarily always prefer to have more choice.³ Moreover, more choices may not improve the quality of decisions. There is research that suggests where there is a large choice set, people can make objectively worse choices.⁴ As the Productivity Commission in its inquiry into competition in the financial system found: "What often is passed off as competition is more accurately described as persistent marketing and brand activity designed to promote a blizzard of barely differentiated products and 'white

¹ ACCC, Preliminary View, Para 2.4.

² ACCC, Residential Mortgage Pricing Inquiry, Final Report, page 6.

³ Sunstein, C. R. (2015), *Choosing not to choose: Understanding the value of choice*, New York: Oxford University Press

⁴ Schwartz, B and Cheek NN, (2017) *Choice, freedom, and well-being: considerations for public policy*, Behavioural Public Policy.

labels’.”⁵ It found in 2018 there were nearly 4000 different home loans and over 250 different credit cards in the market. Despite this, it found there was a lack of meaningful competition for retail products, including credit cards and home loans.

These comments on problems with illusory choices should not be taken to imply that there should not be many banks in the marketplace. We consider that genuine market competition and innovation only thrives with a critical volume of different providers and that the removal of a large mid-tier bank will only reduce competitive pressure on the remaining banks.

To pay due regard to these issues, the ACCC’s analysis should rely less on the level of switching or number of products to choose from, and more on whether prices, innovation and service quality are meeting the needs of consumers and improving the welfare of Australians.⁶ These are the intended outcomes of competition and should be the focus of analysis about the substantial lessening of competition.

Furthermore, we note that while there may be heightened levels of switching in the home loan market currently, this is less to do with effective competition and more to do with the increase in interest rates and many fixed-interest loans coming to term. These factors are driving people to switch, but we are not aware of evidence that consumers are getting better deals, let alone the best deal. The headline rates of major banks, for example, are higher than the average interest rate published by MoneySmart for a new home loan.⁷ Moreover, there continues to be a large loyalty penalty in the home loan market. The Reserve Bank of Australia statistics confirm that there is almost a 0.5 percent rate difference between the interest rates on outstanding variable rate loans compared to new variable rate loans funded in February 2023.⁸ Switching, it appears, benefits the ‘switcher’ and not necessarily non-switching customers by putting downward pressure on rates generally. CFA considers that competition can only be considered effective if it delivers positive outcomes across the marketplace.

Similarly, there are some reports of higher rates of returns on savings and deposit accounts in recent times, particularly in term deposit products. Again, we do not consider this to be a reliable indicator of effective competition. Rather, this more likely reflects recent political and regulatory pressure for banks to pass on increases in cash rates to savers.⁹ Moreover, while there are some products with good rates, there remain many deposit products (including transaction accounts) with very low returns. We consider that the ACCC should analyse whether savers are actually getting good returns, rather than the number of offers with particular rates in the marketplace. That is, the focus should be on the outcomes for consumers.

Public benefits v public detriments

The preliminary view considers public benefits associated with Suncorp becoming a stronger insurer and ANZ becoming a stronger bank. We query the prospect of Suncorp being “stronger” without its bank; it loses access to a banking customer base which will no doubt impact its overall business. In terms of ANZ becoming a “stronger” bank, we query any claim that this amounts to a public benefit. We repeat our concern that any increase in ANZ’s size will not produce positive outcomes due to the oligopolistic nature of the banking market.

⁵ Productivity Commission, Inquiry into Competition in Financial Services, <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>, p 2 and 12.

⁶ Competition and Consumer Act 2010 (Cth), section 2.

⁷ See: <https://moneysmart.gov.au/home-loans/choosing-a-home-loan>. ANZ’s standard variable rate loan is currently 6.49% (April 2023), while MoneySmart’s rate is 5.13%. We note that rates may have increased since the MoneySmart rate was published in February 2023.

⁸ See RBA Housing Lending Rates, F6.

⁹ ACCC inquiry into retail deposits, made following Ministerial direction, February 2023, <https://www.accc.gov.au/inquiries-and-consultations/retail-deposits-inquiry-2023>

In such a market, any efficiency gains obtained by size will be minimal due to the lack of competitive pressure to innovate and they will not be shared with customers.

Even if it were the case that some efficiencies will be realised through integration and ‘strengthening’ of ANZ, it is not possible to be certain that the savings from these efficiencies would be shared fairly with consumers. Even if they were shared with consumers, CFA considers that account should be taken of a concomitant ‘weakening’ effect taking place, that in the longer run will outweigh any possible consumer share of the benefits from efficiencies. That is because the acquisition will result in the loss of a competitive mid-tier bank that offers some counterweight to the major banks. Alternatively, should the counterfactual be the purchase of Suncorp by another mid-tier bank, there would be a loss of the opportunity to strengthen competition through a larger and more challenging bank to the big four. These weakening effects, along with the inherent unreliability of consumer benefit actually occurring from efficiencies arising from the proposed merger, should be weighed against any claimed public benefit.

The preliminary view focuses on two public detriments—reduced physical branch networks in regional areas; and employment impacts. On the risk of branch closure, the ACCC notes that it is unlikely to be able to determine whether avoiding branch closures would be an efficient use of resources for society. CFA submits that the ACCC should not only consider public benefit in terms of efficient use of resources. Public benefits should be considered broadly. Clearly, should branch closures occur (as is likely over time), then this is detrimental to the accessibility of banking, particularly for customers experiencing vulnerabilities such as older consumers or living in more remote areas, and is also detrimental to community inclusion. Bank branches are integral in regional communities, including for small community organisations and not-for-profits.

Finally, we consider that the ACCC should consider the potential loss of innovation from the target bank in supporting particularly vulnerable groups as a public detriment. CFA member, Indigenous Consumers Assistance Network, has reported that when scoping the supports available from financial institutions for customers in custody, Suncorp Bank was the only bank that had a dedicated response to prisoner banking needs and was responsive to feedback about suggested improvements. Similarly, CFA member the Financial Counselling Association of Queensland reports that it has developed good relations with Suncorp Bank, which is responsive on banking issues affecting vulnerable groups, including First Nations communities and culturally diverse communities. It is suggested that Suncorp Bank’s smaller size gives it greater capacity for innovation in areas like this, particularly as such businesses can have more efficient communication methods and can trial and implement initiatives without significant internal barriers. While ideally any such positive innovation addressing vulnerability would be maintained (and expanded) post-acquisition, CFA considers this is unlikely, as the smaller entity is likely to be integrated into its larger acquirer with greater bureaucracy, and the conditions for innovation and trialling new approaches to addressing vulnerability will be reduced.

Should you have any questions about this submission, please contact chair@consumersfederation.org.au

Yours sincerely



Gerard Brody
Chair, Consumers Federation of Australia