



Australian
Competition &
Consumer
Commission

23 July 2008

Statement of Issues — Westpac Banking Corporation - proposed acquisition of St George Bank Limited

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (ACCC) in relation to the proposed acquisition of St George Bank Limited by Westpac Banking Corporation (**proposed acquisition**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's *Merger Review Process Guidelines* (available on the ACCC's website at www.accc.gov.au) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 6 August 2008 and anticipates making a final decision on 20 August 2008. However, the anticipated timeline can change in line with the *Merger Review Process Guidelines*. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Background

5. On 30 May 2008, Westpac provided a submission to the ACCC, seeking informal clearance of its acquisition of St George.

The parties

The acquirer – Westpac Banking Corporation

6. Westpac is the third largest retail bank in Australia by market capitalisation, currently valued at \$48 billion.
7. Its principal business activities include the provision of:
 - *Consumer financial services*: transaction and savings accounts, home loans, personal loans, credit cards, investments and superannuation, insurance and financial advice.
 - *Business financial services*: small to medium enterprise (SME) banking services, agribusiness, lending and deposit products.
 - *BT Financial Group*: wealth management services, including retail managed investments, superannuation, insurance and client portfolio administration Wrap platforms.
 - *Westpac Institutional Bank*: financial services for corporate and institutional customers.
8. Westpac operates a branch and ATM network in each Australian state.

The target – St George Bank Limited

9. St George is Australia's fifth largest retail bank by market capitalisation, currently valued at \$15 billion.
10. Its principal business activities include the provision of:
 - *Personal banking*: transaction and savings accounts, insurance, residential and consumer lending.
 - *Institutional and business banking*: financial services for small business, corporate, institutional and government customers.
 - *Wealth management*: funds management, investment advice, financial planning and client portfolio administration platforms (through subsidiaries Asgard and Advance Funds Management Ltd).
 - *Bank SA*: personal, corporate and agribusiness banking services in South Australia and Northern Territory.
11. St George operates a branch and ATM network Australia-wide (excluding Tasmania), with a strong presence in NSW, ACT and South Australia.

Market inquiries

12. On 11 June 2008, the ACCC commenced market inquiries regarding 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.
13. The ACCC also conducted two customer surveys — one for personal banking customers and the other for business banking customers. The ACCC received a strong response to the surveys. Survey responses assisted with defining the proposed markets and identified areas for the ACCC to explore further.

Areas of overlap

14. Each of the key areas of overlap between the merger parties — personal banking, business banking, corporate and institutional banking, wealth management and insurance — are discussed below. Each section includes a discussion of the ACCC's views on market definition, as well as highlighting any potential competition issues with the transaction. For the purposes of this Statement of Issues, the issues are divided into two categories, 'issues that may raise concerns' and 'issues unlikely to pose concerns'.

Retail banking

Market definitions

15. For retail (personal and business banking), the ACCC has defined the following product markets:
 - transaction accounts;
 - deposit/term products;
 - credit cards;
 - personal loans;
 - home loans;
 - hybrid personal loans (including margin loans);
 - SME banking (including merchant acquiring);
 - equipment finance; and
 - agribusiness banking.
16. The ACCC notes that changes in the modes of distribution for many of these products, in particular a greater reliance upon the Internet and broker channels, have allowed institutions to compete in regions where they do not have a physical presence. Accordingly, the ACCC considers that the relevant geographic dimension for many of these markets — deposit/term products, credit cards, personal loans, home loans; hybrid personal loans and equipment finance — is national.

17. For transaction accounts, SME and agribusiness banking, on the other hand, the ACCC considers that the local dimension of service provision is still an important element of customer choice. However, the ACCC is aware that many important aspects of the final offering to customers — in particular, product manufacture and pricing — are determined on a national basis. The ACCC has therefore considered the effects of the acquisition on aspects of competition on a local and a national level.
18. The ACCC welcomes any comments from market participants regarding the proposed retail market definitions.

Market structure and competitors

National

19. As noted above, the ACCC's understanding is that major banks manufacture and price their products on a national basis. Even pricing discretions appear to be centrally managed. All elements of price competition are therefore considered to occur nationally.
20. St George has a relatively small share of most of the retail product markets on a national basis — ranging from just under 4% for credit cards to around 8% for transaction accounts, home, personal and business lending and margin loans. The merged entity's national share will range between 19% and 25% across the various markets.
21. The ACCC notes that a range of competitors will face the merged firm in the various markets post-acquisition. In each of the retail markets the competitors include the other major banks, regional banks, credit unions and building societies. The foreign banks and niche players also compete in some markets.

Local

22. The ACCC has considered competition at the local level for those markets it considers are appropriately defined as local — transaction accounts, SME banking and agribusiness banking. Aspects of competition that occur at a local level however are limited and relate to branch presence and, to some extent, service levels.
23. Using state/territory market shares as an indicator of the degree of local aggregation, St George is a significant player in the supply of transaction accounts in NSW/ACT and SA (through its subsidiary, Bank SA). Indeed, estimates provided to the ACCC suggest St George accounts for just under 15% and 20% of the share of account balances in these regions respectively. Westpac has 11% and 4% respectively.
24. Similarly, St George has a strong presence in business (SME) lending in South Australia through Bank SA, accounting for just under 15% by loan value. Westpac's share is 10%.

25. The ACCC notes that key competitors in these local markets are the other major banks, expanding and existing regional banks (particularly Bendigo Bank in NSW and Adelaide Bank in SA) 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 these states (17% and 24% respectively).

Is St George a vigorous and effective competitor?

26. A number of market participants and many survey respondents noted the importance of St George in driving price and non-price competition in banking markets.
27. Some participants claimed that St George is a strong competitor on price for certain retail banking products. However, the ACCC has not seen evidence to suggest that St George is a price leader in any of the relevant markets.
28. Many participants also noted the strong customer service ethos of St George. This is also borne out by market research data — St George consistently outperforms the major banks (other than ANZ) on measures of customer satisfaction. However, the ACCC notes that the smaller regional banks and credit unions perform even more strongly against these measures. Further, ANZ's move to differentiate itself from the other major banks on the strength of its customer service demonstrates that it is possible for competitors to replicate these elements of the service offering.

Summary of retail banking — issues unlikely to raise concerns

29. The ACCC considers that competition concerns are unlikely to arise in any of the retail banking markets. There are a number of alternative competitors in each of the markets and St George, while competitive in terms of price and customer service, does not appear to be unique or a market leader in either attribute.
30. The ACCC will accept additional comments or evidence from market participants regarding St George's role in driving competition in these markets. The ACCC will further consider these product markets if it decides that such an assessment is warranted.

Corporate and institutional banking

31. The corporate and institutional banking segment services the financial needs of larger 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.
32. The ACCC does not consider it necessary to reach a definitive view on the relevant market definitions in this matter.

Issues unlikely to raise concerns

33. The corporate and institutional banking space appears 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 large corporate/institutional banking.
34. The ACCC considers the proposed acquisition is unlikely to raise concerns in relation to these markets.

Wealth management

35. Westpac (BT) and St George's (Asgard and Advance) wealth management operations overlap in the following areas:
 - wholesale funds management;
 - multi-manager investments;
 - investment and superannuation wrap and master trust platforms;
 - financial advice from licensed financial planners; and
 - non-advisory stockbroking services.
36. Other than for wrap and master trust platforms, the ACCC does not consider it necessary to reach a definitive view on market definitions, as competition concerns do not arise irrespective of the market definition adopted.

Issues that may raise concerns

Aggregation of the BT and the Asgard wrap platforms

Appropriate market definition

37. Market participants have raised concerns that the proposed acquisition will result in the aggregation of the BT and Asgard wrap platforms. The ACCC understands that BT, Asgard and Macquarie operate the three largest wrap platforms. Each of these parties uses their platform to supply their own financial planners as well as supplying third party dealer groups and institutional clients under 'white label' arrangements.
38. The ACCC has investigated the demand-side substitutability between wrap platforms and master trusts. Market participants have provided mixed views on this issue. Some have suggested that wraps and master trusts are substitutable while others considered that the two products target different groups of investors with wraps more appropriate for 'high balance' investors.
39. The ACCC seeks further information from market participants regarding the degree of substitutability between master trusts and wraps, and, in particular the implications of differences in the legal structure, fees, the range of investments available to clients and degree of administration (both from the clients and

financial advisors' perspective) that may affect the choice of a wrap vis-à-vis a master trust.

Removal of a key competitor

40. In addition to the biggest three platforms — BT, Asgard and Macquarie — the ACCC is aware of a number of other providers of wrap platforms including: CBA (Avanteos), ING (Oasis) and Australian Executor Trustee. Some market participants suggested that these platforms do not offer the same levels of functionality and 'scalability' as the biggest three.
41. The ACCC seeks further information from market participants regarding the competitiveness of the various providers of wrap platforms, including in regards to price, range of investment products, functionality, reporting, and additional features.

Barriers to entry and expansion

42. Some market participants have submitted that the capital costs associated with establishing a wrap platform are significant, as are the ongoing technology and maintenance costs.
43. The ACCC is interested in further detail about the costs of establishing a wrap platform, in particular:
 - the upfront and ongoing costs associated with establishing a wrap platform similar in scale and scope to Asgard's platform;
 - the cost to existing suppliers of smaller wrap platforms to expand their technological and functional capabilities to the level of the big three platforms; and
 - the costs that would be incurred by existing suppliers of master trust platforms if they were to move to offer a wrap product.
44. Some participants have also noted that customer switching costs may act as a barrier to a new or expanded entrant establishing on a scale sufficient to act as a constraint to the merged entity. The ACCC seeks information regarding:
 - the length of contracts between wrap platform suppliers and dealer groups;
 - the costs to dealer groups of switching between wrap platforms, including transition costs and tax consequences; and
 - an estimate of the minimum funds under administration that would be required to support a wrap platform of the scale of Asgard's.

Countervailing power of dealer groups

45. Some dealer groups have indicated that they do not consider they have the ability to bypass the merged entity through development of their own wrap platforms. In particular, they indicated they do not manage the level of funds required to support a platform.

46. The ACCC seeks any information or costings prepared by dealer groups in assessing the viability of developing their own wrap platforms.

Issues unlikely to raise concerns

47. St George, and in some cases Westpac, have a limited presence in wholesale funds management, financial advice and non-advisory stock broking services markets. For multi-manager investments and master trust platforms, the ACCC notes there will remain a significant number of large independent competitors in these markets post-acquisition.
48. The ACCC therefore considers that the proposed acquisition is unlikely to raise concerns in relation to these markets. However, the ACCC will accept additional comments from market participants and will further consider any of these markets if it decides that such an assessment is warranted.

Insurance

49. Westpac and St George overlap in the supply of retail (general and life) insurance products.
50. Westpac manufactures and supplies a limited range of general insurance products, including home and contents insurance, car insurance and travel insurance. St George does not manufacture any insurance products itself but is distributor of IAG general insurance products.
51. The ACCC does not consider it necessary to reach a definitive view on the relevant market definitions in this matter.

Issues unlikely to raise concerns

52. Both Westpac and St George are very small participants in the sale of general and life insurance products. The leading insurance groups such as QBE, IAG and Suncorp for general insurance and AMP, ING/ANZ and NAB/MLC for life insurance, currently have strong shares of their respective markets and would continue to do so post-merger.
53. The ACCC considers the proposed acquisition is unlikely to raise concerns in relation to these markets.

ACCC's future steps

54. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
55. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
56. Submissions are to be received by the ACCC no later than **6 August 2008**. The ACCC will consider the submissions received from the market and the merger

parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view as to the appropriate course of action to take to resolve any competition concerns that remain.

57. The ACCC intends to publicly announce its final view by **20 August 2008**. However the anticipated timeline may change in line with the *Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.