COMMERCE ACT 1986: BUSINESS ACQUISITION SECTION 66: NOTICE SEEKING CLEARANCE

Date: 18 August 2003

The Registrar
Business Acquisitions and Authorisations
Commerce Commission
PO Box 2351
WELLINGTON

Pursuant to s66(1) of the Commerce Act 1986 notice is hereby given seeking clearance of a proposed business acquisition.

PART I: TRANSACTION DETAILS

1. ***What is the business acquisition for which clearance is sought?***

1.1 The business acquisition for which clearance is sought is the acquisition by Westpac Holdings-NZ-Limited ("Westpac Holdings"), or another wholly owned subsidiary of Westpac Banking Corporation ("Westpac"), of 100% of the shares in NBNZ Holdings Limited ("NBNZ"), which owns 100% of the shares in The National Bank of New Zealand Limited, ("National Bank") from Lloyds TSB Group plc ("Lloyds TSB").

1.2 [ ]

The Person Giving Notice

2. ***Who is the person giving this notice?***

2.1 This notice is given by:

Westpac Banking Corporation
Westpac House
318 Lambton Quay
PO Box 691
Wellington
Telephone: (04) 498 1447
Facsimile: (04) 498 1462
Attention: Simon Jensen
Email: simon_jensen@westpac.co.nz

2.2 All correspondence and notices in respect of this application should be directed in the first instance to:

Simpson Grierson
92-96 Albert Street
Private Bag 92518
Auckland
Telephone: (09) 358 2222

Facsimile: (09) 307 0331
Attention: Peter Hinton/Mark Tan
Email: peter.hinton@simpsongrierson.com/
mark.tan@simpsongrierson.com

Confidentiality

3. ***Do you wish to request a confidentiality order for:***

3.1 ***The fact of the proposed acquisition?***

- No.

3.2 ***Specific information contained in or attached to the notice?***

- The applicant has provided three versions of the notice to the Commission:
  - one copy marked "Confidential Version", which is unaltered;
  - one copy marked "Confidential Highlighted Version", in which the confidential information the applicant wishes the Commission to withhold is highlighted in square brackets; and
  - one copy marked "Public Version", in which the confidential information has been deleted.
- The foregoing request for confidentiality is made not only in relation to this application, but also for all additional information of a similar nature that the parties provide to the Commission.

3.2.1 ***If so, for how long?***

- The applicant requests that the confidential information identified in the Confidential Highlighted Version or in additional information provided be subject to a confidentiality order for an indefinite period, or until the applicant advises the Commission that it may disclose the information concerned.

3.2.2 ***Why?***

- Confidentiality is sought under section 100 of the Commerce Act 1986.
- After the expiry of such an order, confidentiality is sought:

- under section 9(2)(b)(ii) of the Official Information Act 1982 on the grounds that the information is commercially sensitive and its disclosure would be likely to unreasonably prejudice the commercial position of the parties;

- under section 9(2)(ba)(i) of the Official Information Act 1982 on the grounds that certain information provided is subject to a confidentiality agreement entered into between Westpac and Lloyds TSB for the purposes of making a bid. The applicant believes disclosure of that information would prejudice supply of information from Lloyds TSB whereas it is in the public interest for such information to be supplied as it encourages competition for control of National Bank; and

- the applicant believes that there are no other considerations which render it desirable in the public interest to make the information available under the Official Information Act 1982.

Details of the Participants

4. ***Who are the participants (ie the parties involved)?***

4.1 The participants are as follows:

- Westpac Holdings-NZ-Limited or another wholly owned subsidiary of Westpac (the acquirer);
- Lloyds TSB (the seller);
- NBNZ Holdings Limited (the target company).

4.2 The contact details of the participants are as follows:

- Westpac's details are set out in paragraph 2.1.
- Lloyds TSB's details are as follows:

C/- Grant David
Chapman Tripp
PO Box 993
Wellington

Telephone: (04) 498 4908
Facsimile: (04) 472 7111

5. ***Who is interconnected to or associated with each participant?***

5.1 ***Acquirer group/associates:***

5.1.1 ***If the acquirer is a member of a group of interconnected bodies corporate, identify all members of the group.***

5.1.2 ***Identify all companies in which the acquirer or its interconnected bodies corporate own 10% or more of the shares.***

5.1.3 ***Identify any company which owns over 10% of the shares in the acquirer or any company of which the acquirer is a subsidiary.***

5.1.4 ***Identify all interconnected bodies corporate of any company identified under 5.1.3 and all companies in which it, or its interconnected bodies corporate, own over 10% of the shares.***

- See Appendix 1 for corporate diagram. Please note that all shareholdings indicated in Appendix 1 are 100% shareholdings unless otherwise noted and that the diagram relates to the New Zealand business only. A full description of the Westpac subsidiaries in Australia is set out in pages 131-134 of Westpac's Annual Financial Report for 2002. The Report is available on Westpac's website, www.westpac.com.au, or can be supplied in hard copy upon request.

- The Report notes that, as at 30 September 2002, one shareholder, JP Morgan Nominees Australia Limited, controlled more than 10% of Westpac shares outstanding.

5.2 ***Target company group/associates:***

5.2.1 ***Identify all subsidiaries of the target company and all companies in which the target company or any subsidiary owns 10% or more of the shares.***

- Refer to Appendix 2

6. ***Does any participant, or any interconnected body corporate thereof, already have a beneficial interest in, or is it beneficially entitled to, any shares or other pecuniary interest in another participant?***

- No

7. ***Identify any links, formal or informal, between any participant/s including interconnected bodies corporate and other persons identified at paragraph 5 and its/their existing competitors in each market.***

- There are several industry-owned bodies corporate involved in switching and payments services. Most banks, including Westpac and National Bank, have an interest in these companies. The companies include Visa New Zealand Limited, Electronic Payments Services Limited, and Interchange and Settlement Limited.

8. ***Do any directors of the 'acquirer' also hold directorships in any other companies which are involved in the markets in which the target company/business operates?***

- The directors of Westpac Holdings are also directors of several companies within the Westpac Group. Outside of the Westpac Group, Simon Jensen is a Westpac appointed director of Visa New Zealand Limited, but there are otherwise no further directorships.

9. ***What are the business activities of each participant?***

9.1 ***Please include a summary of all the business activities of each participant including all interconnected bodies corporate thereof and any other business identified in question 5.***

- Westpac is a company incorporated in New South Wales, Australia and has its primary listing on the Australian Stock Exchange. Westpac in New Zealand operates as a branch of Westpac and is a registered bank under the Reserve Bank of New Zealand Act 1989. Westpac is engaged in the business of providing a broad range of banking and financial services including general banking (retail, commercial and institutional banking), investment management and insurance services. In addition, in Australia, Westpac is also engaged in finance company activities, sharebroking and gold bullion sales and trading.

- Westpac Holdings is a wholly owned subsidiary of Westpac.

- NBNZ is the holding company of National Bank.

- National Bank is a company incorporated in New Zealand and is a bank registered under the Reserve Bank of New Zealand Act 1989. National Bank is engaged in the business of providing a broad range of banking and financial services including general banking (retail, commercial and institutional banking), finance company activities, investment management, and insurance.

- The companies in which Westpac and NBNZ hold shares are set out in the response to question 5 above. A detailed summary of their business activities is set out in the response to question 11.2 below.

10. ***What are the reasons for the proposal and the intentions in respect of the acquired or merged business?***

- [ ]
- [ ]
- [ ]
- [ ]

PART II: IDENTIFICATION OF MARKETS AFFECTED

Horizontal Aggregation

11. ***Are there any markets in which there would be an aggregation of business activities as a result of the proposed acquisition?***

11.1 ***Are there any markets in which the acquirer (and/or any interconnected or associated company as identified in question 5.1.1 - 5.1.4), and***

- ***the business to which the assets relate, or***
- ***the 'target company' (and/or any interconnected or associated company identified in question 5.2.1 and 5.2.2 above)***

are both engaged?

- Refer to Question 11.2.

11.2 ***Please identify for each market:***

- ***the product(s), functional level, geographical area and (where relevant) timeframe;***
- ***the specific parties involved;***
- ***the relationship of those parties to the acquirer or the target company as the case may be.***

  - The applicant sets out below its views on the relevant product markets, geographic markets and functional level. However, the applicant reserves the right to subsequently argue for a different market definition.

Product Markets

- Banks provide three broad categories of banking services – corporate banking, non-banking financial services and retail banking services. Within these categories, banks provide a variety of products.

- Under the corporate banking category, banks offer a number of products, including corporate lending and transaction services, which could arguably form separate product markets. However, the applicant believes that the structure of the corporate banking category justifies a single corporate banking market as participants consist of the major banks and international banks which offer the full range of corporate banking services.

- Under the non-banking financial services category, banks offer a number of products including insurance, funds management, and corporate superannuation and portfolio services. These products are sufficiently distinguishable from a consumer perspective to arguably form separate product markets. However, the applicant believes there will be no material aggregation issues no matter how broadly or narrowly the market is defined and the applicant therefore suggests that the Commission may wish to consider these products under a single product market of non-banking financial services. However, the applicant has provided market information for the fund management and insurance categories individually in order to assist the Commission in the event that it considers this inappropriate.

- Under the retail banking services category, banks offer a wide variety of products including home loans, other lending products (including personal loans, hybrid personal lending products and credit cards), credit card merchant servicing, deposit accounts, transaction accounts, small/medium business banking and rural banking.

- The applicant is of the view that personal loans, hybrid personal lending products and credit card issuing can be combined into a single product market. In support of this view, the applicant notes Decision 461 (24 April 2003), where the Commission considered retail bank loans, consumer retail finance products and credit cards to form a single product market. The applicant believes that home loans are sufficiently distinguishable from a consumer perspective to arguably form a separate product market. However, the applicant believes that there is a high degree of supply-side substitutability between home loans and other retail lending products, and that their market structures are very similar. Accordingly the applicant suggests that the Commission may wish to analyse all retail lending as a single product market. However, the applicant has provided market information for home loans separately in the event that the Commission considers it to be a separate market.

- The applicant is of the view that deposit accounts and transaction accounts should (at least from a conservative perspective) be treated as separate product markets as they are not reasonably substitutable from a consumer perspective given the payments functionality of transaction accounts as opposed to the interest-bearing nature of deposit accounts.

- Rural banking and credit card merchant servicing could arguably form part of a broader small/medium business banking product market. Where credit card merchant servicing is provided to large corporate organisations it could be argued to form part of the corporate banking market. However, the applicant believes that the market structure for rural banking and for credit card merchant servicing is significantly different from small/medium business banking and corporate banking. The applicant understands that the Commission may wish to adopt a conservative approach in relation to these markets, and therefore suggests that the Commission may wish to consider small/medium business banking, rural banking and credit card merchant servicing as separate product markets.

Functional Dimension

- Westpac and National Bank provide banking services directly to the end user. In the transaction accounts market they also provide services to other non-bank competitors who in turn provide services to end users.

Geographic Dimension

- The following markets do not require a physical interaction between supplier and customer, but can be distributed by a variety of means which make a visit to the provider's premises unnecessary (e.g. through agency arrangements, by telephone or online). A customer is able to obtain these products from anywhere in New Zealand and these products are advertised and marketed on a nationwide basis by all banks and other competing financial institutions and the applicant is therefore of the view that these are national markets:

  (a) corporate banking;

  (b) non-banking financial services category; and

  (c) retail lending.

- The market for credit card merchant servicing similarly does not require a significant physical presence as such services are operated electronically and generally obtained by telephone.

- Markets for the following products have traditionally required a greater extent of physical interaction between supplier and customer, in that a customer traditionally required some contact with the supplier in order to deposit or withdraw cash:

  (a) deposit accounts;

  (b) transaction accounts;

  (c) small/medium business banking; and

  (d) rural banking.

- This limits the extent to which a customer is willing to search outside a particular geographic region for a supplier. However, the applicant notes that the use of electronic payments and other remote access channels is increasing and banks currently provide cash handling alternatives to customers. In this respect the applicant notes that where Westpac has been the last remaining branch in a particular region, customers from competing banks do not tend to switch to Westpac, but rather take advantage of other cash handling alternatives. For example, customers may deposit and withdraw cash from ATM machines, or a competing bank may make arrangements for an agent (such as a post office, a retailer or the remaining Westpac branch in the region) to carry out cash handling on its behalf. The applicant also notes the case of *Re Queensland Co-operative Milling Association* [1976] ATPR 17,223 where it was stated that "[a] market is the area of close competition between firms, or, putting it a little differently, the field of rivalry between them". The applicant is of the view that the field of rivalry in the banking industry should be considered to be national, on the basis that the major banks operate nationally and do not vary their prices, terms, or customer service policy between regions. In support of this view, the applicant notes Decision 482 (6 November 2002), where the Commission considered there to be a national market on the basis that a number of suppliers operated nationally and there did not appear to be any substantial regional impact on pricing.

- Although the ACCC largely favours national markets for banking services, it has on occasion considered regional markets within Australia. Generally these are statewide markets. Based on the difference in geographic size and the absence of a federal system of government, the applicant does not believe that it is likely that there will be found to be regional markets in New Zealand.

- The applicant has provided all market information on a national basis in this application as market information on a regional basis is not readily available. However, if the Commission considers that a regional market is appropriate in the markets where physical interaction is required as between customer and supplier, the applicant notes the presence of regionally based institutions (such as Southland Building Society and Ashburton Building Society) that are able to provide regional competition against the major banks. In this respect please refer to the response to question 18 for a more detailed analysis of regional competitors.

Summary

- The applicant believes that the proposed acquisition involves the following markets:

  (a) national market for corporate banking;

  (b) national market for non-banking financial services;

  (c) national market for retail lending;

  (d) national market for deposit accounts;

  (e) national market for transaction accounts;

  (f) national market for small/medium business banking;

  (g) national market for rural banking; and

  (h) national market for credit card merchant servicing.

Differentiated Product Markets

12. ***Please indicate whether the products in each market identified in question 11 are standardised (buyers make their purchases largely on the basis of price) or differentiated (buyers make their purchases largely on the basis of product characteristics as well as price).***

- Refer response to question 13.

13. ***For differentiated product markets:***

13.1 ***Please indicate the principal characteristics of products that cause them to be differentiated one from another.***

- The applicant believes that customer service is the most important differentiating characteristic between suppliers and that it applies equally across all product markets in the banking industry. Consumer surveys suggest that customers do perceive a difference in customer care between suppliers, and that there is a relationship between customer service and the ability of a supplier to retain existing customers and attract new customers.

- Another differentiating characteristic involves the terms and conditions upon which banking services are supplied. The importance of terms and conditions as a differentiating characteristic varies for different product markets.

- In this respect the applicant believes that the terms and conditions of supply are relatively important in the markets for corporate banking, non-banking financial services, lending and deposit accounts. For example:

    - terms and conditions of corporate banking transactions are customised and heavily negotiated as a result of the countervailing power of the borrower.

    - important terms and conditions for insurance products include relevant insured risk, maximum coverage, excess and exclusions.

    - important terms and conditions for funds management include the type of investments made, the level of investment risk and performance of the fund manager.

    - important terms and conditions for retail lending include the type of loan, the requirement for security, whether interest is calculated on a fixed or floating rate (in the case of home loans), access to transaction and credit card accounts, access to revolving mortgage products and the ability to prepay and redraw.

    - important terms and conditions for deposit accounts include minimum balance requirements, penalties for early withdrawal, minimum terms and interest rates.

- Terms and conditions are not as important for transaction accounts, as suppliers offer similar basic services with similar terms and conditions. There is a degree of product differentiation (such as the maximum daily withdrawal limits), but the differences would not be considered as important to customers as they are in other markets.

- There is some degree of differentiation in small/medium business banking and rural banking where the provision of finance is concerned (this aspect of the small/medium business banking market is similar to the retail lending market in terms of product differentiation). As is the case with other transaction accounts, terms and conditions for small/medium business banking and rural banking transaction account services are not considered as important from a customer perspective.

- The market for credit card merchant servicing is too narrowly defined to allow for significant product differentiation.

13.2 ***To what extent does product differentiation lead firms to tailor and market their products to particular buyer groups or market niches?***

- Competitors offer various products in each product market in order to cater to particular buyer groups, especially where terms and conditions are considered important factors from a customer perspective. For example, competitors in the deposit accounts market offer a wide variety of products with different minimum balances and different fixed terms.

13.3 ***Of the various products in the market, which are close substitutes for the products of the proposed combined entity? - which are more distant substitutes?***

- In the market for retail lending, home loans are a relatively distant substitute for the other lending products given the requirement for mortgage security. Credit cards can also be considered a substitute for other types of retail lending (the applicant refers the Commission to Decision 461 (24 April 2003)).

- The markets for corporate banking and non-banking financial services contain a variety of product types which are not close substitutes. This is discussed in more detail in the response to question 11.2.

- In the market for deposit accounts and transaction accounts, the applicant believes that various products in the market are relatively close substitutes for each other notwithstanding product differentiation.

- In the small/medium business banking market, trade credit and finance provide a relatively close substitute for lending products. Similarly finance and credit facilities provided by stock and station firms and rural supply companies are substitutes for borrowing within the rural banking market.

13.4 ***Given the level of product differentiation, to what extent do you consider that the merged entity would be constrained in its actions by the presence of other suppliers in the market(s) affected?***

- The applicant does not consider that product differentiation would substantially lessen the degree of constraint that other suppliers would provide. The applicant believes that the effect of product differentiation is limited by the practice adopted by market participants (in particular the major banks) of supplying a variety of products to cater for different customer segments, at least where terms and conditions of supply are considered an important differentiating characteristic in a market. It is also relatively inexpensive for competitors to reposition products or introduce new products should they perceive gaps in the market that others are endeavouring to exploit. Any market power derived from product/service differentiation is likely to be insubstantial and transient.

Vertical Integration

14. ***Will the proposal result in vertical integration between firms involved at different functional levels?***

14.1 ***Are the "acquirer" (or any interconnected or associated company as identified in questions 5.1.1 -5.1.4) and:***

- ***the business to which the assets relate, or***
- ***the 'target company' (or any interconnected or associated company as identified in question 5.2.1 and 5.2.2)***

engaged at different functional levels of the same product market(s)?

- No.

15. ***In respect of each market identified in questions 11 and/or 14 identify briefly:***

15.1 ***All proposed acquisitions of assets of a business or shares involving either participant (or any interconnected body corporate thereof) notified to the Commission in the last three years and, in each case,***

15.1.1 ***the outcome of the notification (eg cleared, authorised, declined, withdrawn)***

- An application for clearance was made by GE Capital Finance Australasia to acquire Australian Guarantee Corporation from Westpac. The Commission granted clearance in Decision 461 (24 April 2002).
- The market affected was the consumer finance market, which the applicant believes forms part of the lending market.

15.1.2 ***whether the proposed acquisition has occurred.***

- Yes

15.2 ***any other acquisition of assets of a business or shares which either participant (or any interconnected body corporate) has undertaken in the last three years.***

- The applicant has made the following asset or share purchases during the last three years:
  - Westpac Financial Services Group Limited, a wholly owned subsidiary of Westpac, agreed to purchase all the shares in BT Financial Group (NZ) Limited, including its subsidiary BT Funds Management (NZ) Limited in August 2002.
  - Westpac agreed to purchase AXA New Zealand's Residential Mortgage Book in October 2000.
- The applicant has also made certain acquisitions in Australia over the last three years and would be able to provide details of these acquisitions if required by the Commission.

PART III: CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION

Existing Competitors

16. ***In the market or markets, who are the suppliers of competing products, including imports?***

16.1 ***Please identify the owners of those suppliers (including ultimate owner/s).***

- See answer to 16.2. To the best of our knowledge, the owners of competing suppliers in each of the relevant markets are listed in the tables below.

16.2 ***What are their estimated market shares, both in terms of productive capacity and of sales?***

General Limitations of Market Share Data

- The applicant has obtained market share by the value of assets rather than by number of customers. This measure of market share could be argued to overstate the market power of the merged entity as Westpac and National Bank may have higher average transactions than other competitors.
- [ ]
- [ ]

- These market share figures do not take into account the market shares of Kiwibank and Superbank, which have recently entered the New Zealand banking industry. In particular, Kiwibank is growing rapidly and is starting to make inroads in certain markets. The applicant has noted below the markets affected by the entry of Kiwibank and Superbank.

- These market share figures do not reflect very recent changes in the markets. For example, both HSBC and Rabobank have recently made acquisitions, which will supplement their respective organic growth and which will not be reflected in the market share figures.

- The applicant has also noted limitations on the accuracy of market share data in relation to specific markets.

Sources of Data

- Reliable sources of information are not available for estimates of productive capacity. Accordingly, we have not attempted to populate the tables below with this data. However, each of the major banks, as well as Rabobank and HSBC, is well resourced and part of a multi-national banking enterprise, and the applicant assesses their productive capacity as being broadly similar to Westpac and National Bank's capabilities.

- The applicant has noted below the source of market share data for each individual market.

Corporate Banking

- No market share data available.

- All major banks operate in the market for corporate banking together with international banks such as HSBC, Citibank, Deutsche Bank, and ABN Amro.

Non-Banking Financial Services

- The market for non-banking financial services contains several distinct products – insurance, funds management, and corporate superannuation services and portfolio services.

- Market share data is unavailable for corporate superannuation and portfolio services. However, the applicant is able to advise the Commission that the market structure for corporate superannuation services and portfolio services is broadly similar to the market structure for funds management, in that there are a relatively large number of non-bank competitors providing such services.

- The applicant has provided market share data for insurance and funds management individually to assist the Commission in the event that it considers a single non-banking financial services product market inappropriate.

- Market share data for insurance relates to the term category of insurance and is based on annual premium income. Market shares are as follows:

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	AIA	American Insurance		
	AMP	AMP		
	AXA/National Mutual	AXA		
	National Bank	Lloyds TSB		
	Royal SunAlliance	Promina		
	Sovereign Assurance	Commonwealth Bank		
	Westpac	Westpac (Australia)		
	Others			
Total				100%

* refer 'Sources of Data' above

- Market share data for funds management is as follows:

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	AMP	AMP		
	ANZ	ANZ (Australia)		
	Armstrong Jones(ING)	ING		
	ASB	Commonwealth Bank		
	AXA	AXA		
	BNZ	NAB		
	NZ Funds Management	TBA		
	Others			
	Royal & Sun Alliance	TBA		
	Sovereign	Commonwealth Bank		
	Tower	Tower		
	Westpac	Westpac (Australia)		
Total				100%

* refer 'Sources of Data' above

- Market share data for insurance and funds management obtained from internal documents prepared by Westpac.

Retail Lending

- Market share data for retail lending is as follows:

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	ANZ	ANZ (Australia)		
	ASB	Commonwealth Bank		
	BNZ	NAB		
	National Bank	Lloyds TSB		
	Others	Various		
	Westpac	Westpac (Australia)		
Total				100%

* refer 'Sources of Data' above

- The applicant also provides market share data for home loans to assist the Commission in the event that it considers home loans to be a separate product market:

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	ANZ	ANZ (Australia)		
	ASB	Commonwealth Bank		
	BNZ	NAB		
	National Bank	Lloyds TSB		
	Others	Various		
	Westpac	Westpac (Australia)		
Total				100%

* refer 'Sources of Data' above

- The other providers include HSBC, TSB, Wizard, building societies and credit unions.

- Market share data obtained from 2002 annual reports.

- Market share data does not take into account market share held by Kiwibank, which has recently entered the market for lending as a vigorous competitor, and which is building market share.

Deposit Accounts

Rank	Supplier	Owner(s) of supplier	Estimated % of productive capacity*	Estimated % of market sales
	ANZ	ANZ (Australia)		
	ASB	Commonwealth Bank		

	BNZ	NAB		
	National Bank	Lloyds TSB		
	Others	Various		
	Westpac	Westpac (Australia)		
Total				100%

* refer 'Sources of Data' above

- Market share data obtained from 2002 annual reports.

- Market share data does not take into account the recent entry of Kiwibank and the recent entry of Superbank into the market. Like Kiwibank, Superbank is considered to be a vigorous competitor, offering a high interest deposit account with no fees, charges, fixed term or minimum balance. Superbank has not built a significant market share as it has only been active in the deposit accounts market for a very short time. However, given its backing by St George Bank, and given its large branch network, the applicant believes that it has the capacity to rival the major banks.

- Market share data does not take into account the presence of smaller deposit taking institutions in the market. It also does not take into account non-bank savings products such as corporate bonds, which the applicant believes are reasonably substitutable for bank deposits and therefore part of the market. The applicant therefore believes that the market share data overstates the market power of the major banks in the market for deposit accounts.

- The market share data is for all deposits. As such it includes deposits which do not fall into the deposit accounts market such as transaction account balances. Accordingly, the accuracy of these market share figures is limited.

Transaction Accounts

- No market share data exists for transaction accounts in isolation. However, the applicant believes that market share data for deposit accounts (detailed above) provides a reasonably accurate estimate of market share in the transaction accounts market.

- Kiwibank is also active in the market for transaction accounts and the comments above relating to Kiwibank will be relevant in this market.

Small/Medium Business Banking

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	ANZ	ANZ (Australia)		
	ASB	Commonwealth Bank		
	BNZ	NAB		
	National Bank	Lloyds TSB		
	Other	Various		
	Westpac	Westpac (Australia)		

Total				100%

* refer 'Sources of Data' above

- Market share data obtained from internal documents prepared at Westpac.

Credit Card Merchant Servicing

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	ANZ	ANZ (Australia)		
	ASB	Commonwealth Bank		
	BNZ	NAB		
	National Bank	Lloyds TSB		
	Westpac	Westpac (Australia)		
Total				100%

* refer 'Sources of Data' above

- Market share data obtained from internal documents prepared at Westpac.
- Market share is highly variable in the credit card merchant servicing market as customers are easily and quickly able to switch suppliers (switching suppliers can generally be achieved in less than a day). [ ]
- [ ]
- The applicant notes that the demand side of this market is relatively concentrated, with retailers, supermarkets and retail chains possessing significant countervailing power. [ ]

Rural Banking

Rank	Supplier	Owner(s) of Supplier	Estimated % of productive capacity*	Estimated % of market sales
	ANZ	ANZ (Australia)		
	ASB	Commonwealth Bank		
	BNZ	NAB		
	National Bank	Lloyds TSB		
	Others	Various		
	Rabobank	Rabobank		
	Westpac	Westpac (Australia)		
Total				100%

* refer 'Sources of Data' above

- Market share data obtained from internal documents prepared at Westpac.

Sources of Estimates:

16.3 ***Please indicate the source of the data provided, and where they are estimates, the likely degree of accuracy.***

- Refer to 16.2

16.4 ***Where available, please provide data in the form of the table above for any, or each of the past five years, as well as for the most recent year.***

- Figures for previous years are not available. To the extent that they have been determined, they are subject to a limited degree of accuracy.

Other Considerations

16.5 ***Please identify any firms that are not currently producing the product in the market, but could enter the market quickly (using essentially their existing productive capacity) in response to an attempt by suppliers to raise prices or reduce output or quality ('near entrants').***

- Currently, Superbank is operating only in the deposit accounts market. The applicant understands that Superbank is entering the transaction accounts market, and may enter other retail banking markets over the next two to three years (in this respect the applicant refers the Commission to "Store bank branches out" NZ Herald, 4 August 2003).

- GE Finance & Insurance is in a good position to enter the market for small/medium business banking.

- Kiwibank and Superbank could also be considered near entrants into the market for small/medium business banking. Even though they presently do not focus on this market, they are well resourced and have the capacity to quickly enter the market on the basis of their branch network and their operations in other markets in the banking industry.

16.6 ***Estimate the productive capacity that such near entrants potentially could bring to the market.***

- Estimates of productive capacity are difficult to determine. Kiwibank and Superbank are well resourced and potentially have similar capacity to the other major banks.

16.7 ***Please indicate the extent to which imports provide a constraint on domestic suppliers. What costs are incurred by importers that are not incurred by domestic suppliers? How sensitive is the domestic price of imports to changes in the New Zealand dollar exchange rate?***

- Corporate banking and funds management services can be supplied from overseas. However, the importation of banking services is not viable for the other relevant markets.

16.8 ***To what extent is the product exported?***

- Aside from financial markets activities primarily related to trading in the New Zealand dollar, New Zealand banking products and services are not exported.

16.9 ***Please indicate whether the 'target company' could be described as a vigorous and effective competitor, taking into account its pricing behaviour, its record of innovation, its growth rate relative to the market, and its history of independent behaviour.***

- The applicant believes that there is relatively keen competition amongst the major banks across the relevant markets. However, the applicant does not believe that National Bank can be considered an especially vigorous or maverick competitor in the same way as Kiwibank or Superbank, as its operations are broadly similar to the other major banks.

Conditions of Expansion

17. ***The following listing gives different types of market conditions that may affect the ability of existing firms to expand:***

- ***Frontier entry conditions***
  eg tariffs, quarantine requirements, international freight costs.

- ***Legislative/regulatory conditions***
  eg meat licensing, Resource Management Act requirements, health and safety standards.

- ***Industrial/business***
  eg access to raw materials, critical inputs, economies of scale, access to technical knowledge requirements, capital requirements (and capital market's perception of the risk and return), sunk costs (ie irrecoverable or exit costs), influence of branding and sales promotion, technical specifications.

- ***Other***
  eg responses to expansion by major firms; lack of additional productive capacity; additional productive capacity has a relatively high cost.

Which, if any, of the conditions identified above do you consider would be likely to act as a barrier to the expansion of existing competitors, where they have the incentive to do so in response to a sustained effort by the combined entity to raise price, or to lower service or product quality?

Please provide evidence, where available, of expansion by existing competitors in the relevant markets during the past five years.

Frontier entry conditions

- No frontier entry conditions apply to any of the markets affected by the proposed transaction.

Legislative/regulatory conditions

- The Reserve Bank of New Zealand Act 1989 requires banks operating in New Zealand to be registered with the Reserve Bank.

- Registration with the Reserve Bank is a relevant condition to entry into the banking market because no financial institution can operate as a bank without such registration. Conditions of registration normally include a requirement that the entity meets minimum capital requirements (currently $15 million), limits credit exposure to connected persons, and meets certain governance requirements.

- Registration is also relevant to the transaction accounts market. The Reserve Bank provides settlement account services for registered banks to allow them to settle daily transactions. However, this does not prevent non-bank competitors from entering the transaction accounts market, as the Reserve Bank will provide exchange settlement account services for non-bank financial institutions on the same terms as banks. Major banks are in any case generally willing to assist non-bank competitors by giving them the ability to provide transaction banking services to their customers by facilitating settlement through their exchange settlement account. [ ]

- The applicant does not consider that regulatory requirements pose significant barriers to entry. There is no limit on the number of banks that may be registered and prudential requirements are not excessive.

Industrial/Business Conditions

- The banking industry traditionally required a physical interaction between customer and supplier across all relevant markets. This required competitors to establish a significant branch network in order to generate a sufficient volume of borrowing, lending and transaction activity to be profitable.

- However, in certain product markets the importance of a branch network is declining. The applicant has noted above that a physical interaction between customer and supplier is not now required in the markets for retail lending, corporate banking, insurance, funds management, corporate superannuation and portfolio services and credit card merchant servicing. These products can be distributed in ways which render a physical presence unnecessary and remove the requirement of the branch network in order to generate sufficient business to be profitable.

- For example, in the lending market the applicant notes that there is an increased emphasis on mobile lending managers, as opposed to a branch network, as a channel of distribution (although a competitor wishing to offer a mobile lending service would require staff with experience and expertise in these areas that could provide these services).

- Even though a physical presence may be required in relation to the remaining markets, alternative cash handling solutions are available and there is an increased use of technology (which emphasises electronic and ATM networks, as opposed to branch networks, as being critical to successful new entry). Obtaining access to ATM and electronic networks is significantly less problematic than establishing a branch network, as major banks are generally willing to allow new entrants access to their networks on non-discriminatory terms and are likely to continue to do so in the future. In addition, the universal access to EFTPOS allows access for small withdrawals without the need for access to an ATM network.

- In the market for small/medium business banking, a new entrant would require certain credit management skills in order to successfully enter the market. However the applicant believes that these skills are relatively easy to obtain.

- A new entrant into the credit card merchant servicing market would be required to either be an authorised deposit taking institution under credit card company rules or accepted as otherwise qualifying for entry into the credit card schemes.

18. ***Please name any business which already supplies the market – including overseas firms - which you consider could increase supply of the product concerned in the geographic market by any of the following means:***

- ***diverting production into the market (eg from exports)***

- ***increasing utilisation of existing capacity***

- ***expansion of existing capacity.***

Specify in each case which of the above three points applies.

- All of the major banks are capable of increasing supply in any of the relevant markets.

- For markets where a physical presence is required, there are few barriers which would prevent any of the major banks from rebalancing its profile in a particular geographic region. ANZ, BNZ and to a slightly more limited extent ASB currently operate in most geographic areas and it would be relatively easy to increase the supply of banking services (in this respect the applicant believes that ASB has serious national ambitions and is currently looking to expand its national network). This can be contrasted with institutions such as Southland Building Society and Ashburton Building Society which tend to focus on a distinct geographic region. To the extent that these regional markets require a branch network as opposed to an ATM network or electronic network (this has been discussed above), such institutions may find it more difficult (but not impossible) to increase supply in a particular geographic region.

- Kiwibank is a relatively new entrant into the New Zealand banking industry and is currently active in the retail lending, deposit accounts and transaction accounts markets. It is growing rapidly at present which demonstrates its capability to increase supply to those markets. Moreover, to the extent that a market requires a physical presence in the form of a branch network, Kiwibank has a very extensive branch network and operates in most geographic areas. It could easily increase supply in those markets using its current capacity. In this respect the applicant understands that Kiwibank is considering entering the market for small/medium business banking (the applicant refers the Commission to "Kiwibank fighting fit and eyeing lucrative business banking", NZ Herald, 27 July 2003).

- Superbank is a very new entrant into the banking industry. It is currently active in the deposit accounts market and has plans to enter other markets in the near future. Like Kiwibank, Superbank has significant financial backing and an extensive branch network. It could increase supply in the deposit accounts market, and could also enter at least into the markets for retail lending and transaction accounts in any geographic area on the basis of its existing capacity. The applicant understands that Superbank is entering the transaction accounts market and may enter other retail banking markets over the next two to three years (in this respect the applicant refers the Commission to "Store bank branches out" NZ Herald, 4 August 2003).

- GE Finance & Insurance is not yet in the market for small/medium business banking but could enter into that market using its existing capacity and on the basis of its existing relationships with business customers in other markets.

- As both are part of well-resourced international financial services providers, HSBC could increase supply to the retail lending market and Rabobank could increase supply to the rural market.

- There are a number of international banks, such as Bank of America, Deutsche Bank, and Citibank, operating in the corporate banking markets which could easily increase supply using their existing capacity.

19. ***Of the conditions of expansion listed above, which do you consider would influence the business decision in each case to increase supply?***

- To the extent that establishing a branch network is a critical success factor in a market, the applicant believes that regionally based institutions looking to expand into a new region would take into account the capital cost of establishing a branch network outside the geographic areas in which they currently operate.

- To the extent that the regionally based institutions can rely on mobile mortgage managers, mortgage brokers and mobile agribusiness relationship managers to sell lending products into a new region, those institutions would consider that ongoing cost of training and expanding its labour force to establish a presence outside the geographic areas in which they currently operate.

20. ***How long would you expect it to take for supply to increase in each case?***

- In markets where a physical presence is not an important factor, an increase in supply could take place almost immediately. As discussed above, most relevant markets fall into this category.

- For markets requiring a physical presence, institutions may take a significant period to increase supply outside their home region. Where an increase in the employment base is required, a reasonable period of time for hiring and training would be needed.

21. ***In your opinion, to what extent would the possible competitive response of existing suppliers constrain the merged entity?***

- The ability of the other major banks and other strong niche providers such as HSBC and Rabobank to almost immediately increase supply in all of the relevant markets would provide a strong constraint on the merged entity exercising market power.

- The position of Kiwibank also poses a strong constraint in the markets for retail lending, deposit accounts and transaction accounts. The applicant considers Kiwibank to be a vigorous competitor. Its large branch network and its financial capability would allow it to take advantage if the merged entity exercised market power.

- Superbank has only been in the New Zealand banking industry for a short time, and its business model is as yet untested. However, given its backing from St George Bank in Australia, it cannot be discounted as a significant constraint on the merged entity, particularly in the markets for retail lending, deposit accounts and transaction accounts.

22. ***Looked at overall, and bearing in mind the increase in market concentration that would be brought about by the acquisition, to what extent do you consider that the merged entity would be constrained in its actions by the conduct of existing competitors in the markets affected?***

- Refer to question 21. The applicant believes that all major banks would provide a strong competitive constraint and would effectively prevent the merged entity from exercising market power in all the relevant markets.

- Existing competitors in the market for credit card merchant servicing provide an especially strong constraint. Merchants can switch suppliers inexpensively and on short notice. All that is required is for banks to change the switching for merchants' transactions. This can be done quickly and inexpensively. Merchants who are not satisfied with service or prices offered by their current credit card service provider can and often do switch providers. In many respects because of the ease with which customers can transfer suppliers, it is amongst the most competitive of banking and financial services markets. [ ]

- Kiwibank and Superbank would provide an additional constraint in the markets for retail lending, deposit accounts and transaction accounts. In addition, the retail lending market includes a strong contingent of smaller non-bank competitors to which customers could turn if the merged entity exercised market power.

- As HSBC and Rabobank are well resourced and competitive in their niche markets, the applicant believes that they would provide particularly strong constraints in each of their relative markets.

- The market for corporate banking similarly contains a number of smaller competitors such as international banks which have strong financial backing and which would easily be able to expand. They would therefore provide an additional effective constraint.

- In the non-banking financial services category, other competitors would be significantly more powerful than the merged entity and would effectively constrain the merged entity from exercising market power.

Coordinated Market Power

23. ***Identify the various characteristics of the market that, post-acquisition, you consider would either facilitate or impede coordination effects.***

- Refer Table at Appendix 3. The applicant has provided information for home loans, insurance, funds management, corporate superannuation and portfolio services as if they were individual markets to assist the Commission in its analysis.

24. ***Identify the various characteristics of the market that, post-acquisition, you consider would facilitate or impede the monitoring and enforcement of coordinated behaviour by market participants.***

- Refer Table at Appendix 4. The applicant has provided information for home loans, insurance, funds management, corporate superannuation and portfolio services as if they were individual markets to assist the Commission in its analysis.

25. ***Indicate whether the markets identified in paragraph 9 above show any evidence of price co-ordination, price matching or price following by market participation.***

- The applicant is not aware of evidence in relation to any of the relevant markets of price co-ordination, price matching or price following by market participants.

26. ***Please state the reasons why, in your opinion, the transaction will not increase the risk of co-ordinated behaviour in the relevant market(s).***

- See responses to questions 24 and 25 for factors mitigating against the risk of coordinated market power.

- The applicant does not believe that the proposed acquisition would lead to an increase in the risk of coordinated behaviour because, apart from a nominal reduction in the number of competitors, there will be no material change to any of the other factors relevant to coordinated market power.

NOTE: **If you believe that the constraint imposed by the conduct of existing competitors would be sufficient to ensure that competition would not be substantially lessened in any market, you may choose not to answer any further questions at this stage. However, the Commission may require written answers to any further questions it considers necessary to ask (see s68(1)). Otherwise, applicants should answer the further questions below.**

- The applicant believes that existing competitors provide a sufficient constraint to prevent the merged entity from exercising market power. However, it has provided responses to the following questions to assist the Commission in its analysis.

PART IV: CONSTRAINTS ON MARKET POWER BY POTENTIAL COMPETITION

PLEASE ANSWER QUESTIONS 27-41 BELOW IN RESPECT OF EACH MARKET IDENTIFIED IN QUESTIONS 11 AND 14

Conditions of Entry

27. ***The following listing gives different types of market conditions that may affect the ability of new firms to enter the market:***

- ***Frontier entry conditions***
  eg tariffs, quarantine requirements, international freight costs.

- ***Legislative/regulatory conditions***
  eg entry licensing, Resource Management Act requirements, health and safety standards.

- ***Industrial/business conditions***
  eg access to raw materials, critical inputs, economies of scale, access to technical knowledge requirements, capital requirements (and capital market's perception of the risk and return), sunk costs (ie irrecoverable

or exit costs), influence of branding and sales promotion, technical specifications.

- ***Other conditions***
  eg responses to expansion by major firms.

Which, if any, of the conditions identified above do you consider would be likely to act as a barrier to the entry of new competitors, where they otherwise would have the incentive to do so in response to a sustained effort by the combined entity to raise price, or to lower service or product quality?

- The applicant believes that similar barriers exist to new entry as for "near entry". These have been described in the response to question 17.

28. ***Please name any businesses (including overseas businesses) which do not currently supply the market but which you consider could supply the relevant market(s) by:***

- ***investing in new production facilities to produce the product;***

- ***overseas companies diverting production to New Zealand;***

- ***domestic companies expanding, or changing the utilisation of, existing capacity to produce the relevant products (where this would involve substantial new investment)***

Specify for each named business which of the above three might apply.

- The applicant believes that there are a number of international banks that could make a de novo entry at least into the corporate banking market, and possibly into other markets in the banking industry, by investing in new facilities.

- The applicant notes that Superbank represents an entry into the deposit accounts market by a second tier Australian bank. The applicant further notes that there are a number of other second tier banks which potentially could also enter into the deposit accounts market or any of the relevant markets other than the corporate market and the non-banking financial services market, for example, Suncorp Metway, Bank of Queensland, BankWest and Adelaide Bank.

- The applicant has noted above that there exist a number of smaller institutions which compete alongside banks in all of the relevant markets except for corporate banking and credit card merchant servicing. These smaller institutions are particularly important in the retail lending market. The applicant believes that *de novo* entry into these markets is possible although it is unable to identify any particular new entrant.

- Please refer to question 31 for an analysis of the likelihood of such new entry.

29. ***What conditions of entry do you consider would most influence the business decisions to enter in each case?***

- To the extent that entry into a market requires a branch network, a new entrant would have to be influenced by the costs and time of setting up a branch network. To the extent that entry into a market requires training and expanding a mobile workforce or setting up or adding to a call centre, a new entrant would have to be influenced by the costs of staff recruitment and training. To the extent that entry into a market requires access to an ATM network, EFTPOS, telephone banking and internet banking systems, a new entrant would be influenced by the cost of setting up or accessing such networks and systems. Please refer to our responses to questions 17 and 18 above.

- The credit card company requirements have been described in the response to question 17. Although the applicant does not believe that these requirements would have a significant effect on *expansion* in the credit card merchant servicing market, they are more relevant to a decision to *enter* the market.

Likelihood, Sufficiency and Timeliness of Entry

30. ***How long would you expect it to take for entry to occur, and for market supply to increase, in respect of each of the potential business entrants named above?***

- Difficult to determine, but depending on the business model chosen, no longer than 12 months.

31. ***Given the assessed entry conditions, and the costs that these might impose upon an entrant, is it likely that a potential entrant would consider entry profitable at pre-acquisition prices?***

- The applicant believes that it is possible for an international bank to make a de novo entry into the corporate banking market, although the applicant does not believe it likely that such banks would enter into the other markets in the banking industry.

- The applicant does not believe it is likely for the second tier Australian banks to enter into the corporate banking market because these banks are limited in their ability to lend large sums and would be at a competitive disadvantage, although the very recent entry of Superbank has shown that entry by such banks into the retail banking markets is a possibility at pre-acquisition prices.

- The applicant believes that smaller institutions similar to those which currently operate alongside banks in the relevant markets are relatively likely to enter at least into the market for retail lending. Entry into other markets such as transaction accounts, small/medium business banking and rural banking is likely to be more difficult for these institutions to the extent that a branch network assists entry, but there is still a real possibility that a new entrant may enter into those markets profitably, as the importance of branch networks is declining due to an increasing reliance on ATM and electronic networks and the availability of other cash handling alternatives. The applicant refers the Commission to the response to question 17 for a more detailed analysis of branch networks.

32. ***Would the threat of entry be at a level and spread of sales that it is likely to cause market participants to react in a significant manner?***

- Refer to question 35.

33. ***What conditions of entry do you consider would influence the business decision to enter the market by setting up from scratch, ie de novo entry?***

- Refer to question 29.

34. ***How long would you expect it to take for de novo entry to occur?***

- Difficult to determine, but depending on the business model chosen, no longer than 12 months.

35. ***In your opinion, to what extent would the possibility of de novo entry constrain the merged entity?***

- The applicant believes that entry into the markets where a physical presence is not necessary is relatively easy and can be achieved relatively quickly. The applicant does not believe that there are significant barriers to expansion which would prevent a new entrant from achieving a level and spread of sales that would cause a reaction from market participants. *De novo* entry would therefore significantly constrain the merged entity.

- Entry and expansion in the markets where a physical presence is necessary is more difficult, given the traditional requirement of a branch network. However, the applicant notes that the importance of a branch network is giving way to a reliance on ATM and electronic networks, obtaining access to which is relatively unproblematic for a new entrant. This would make new entry quicker and make it easier for a new entrant to expand to a level of sales that would cause a reaction from market participants. Accordingly, in these markets, the applicant believes that the possibility of *de novo* entry would provide a meaningful constraint on the merged entity.

PART V: OTHER POTENTIAL CONSTRAINTS

Constraints on Market Power by the Conduct of Suppliers

36. ***Who would be the suppliers of goods or services to the merged entity in each market identified in questions 11 and/or 14?***

- Not applicable

37. ***Who owns them?***

- Not applicable

38. ***In your opinion, to what extent would the conduct of suppliers of goods or services to the merged entity constrain the merged entity in each relevant market?***

- Not applicable

Constraints on Market Power by the Conduct of Acquirers

39. Who would be the acquirers of goods or services supplied by the merged entity in each of the markets identified in questions 11 and/or 14?

- Large corporate organisations.

40. ***Who owns them (where appropriate)?***

- Not applicable.

41. ***In your opinion to what extent would the conduct of acquirers of goods or services to the merged entity constrain the merged entity in each affected market? How would this happen?***

- The applicant believes that customers are able to provide an effective constraint against the merged entity in the corporate banking market. Customers in that market consist of large corporate organisations which have significant countervailing power and the ability to negotiate terms and conditions upon which services are provided. Moreover corporate banking customers have a number of alternatives to the banking industry particularly in relation to obtaining finance (for example issuing debt or equity securities or seeking finance from overseas). The applicant believes that this significantly reduces their reliance on competitors in the corporate banking market, and limits the ability of the merged entity (or any other competitor) to exercise market power.

- The applicant also believes that customers in the credit card merchant servicing market have a significant level of countervailing power. The applicant notes that a significant proportion of credit card merchant services are provided to supermarkets and retail chains which possess significant purchasing power, [ ] The applicant believes that the ease with which customers are able to switch suppliers further contributes to countervailing power of customers.

THIS NOTICE is given by **SIMON JENSEN and WESTPAC BANKING CORPORATION**

*I am General Counsel for New Zealand of Westpac Banking Corporation and am duly authorised to make this application.

*I hereby confirm that:

* all information specified by the Commission has been supplied;
* all information known to the applicant which is relevant to the consideration of this application has been supplied;
* all information supplied is correct as at the date of this application.

* Westpac Banking Corporation undertakes to advise the Commission immediately of any material change in circumstances relating to the application.

Dated this day of August 2003

*Signed by **SIMON JENSEN:**

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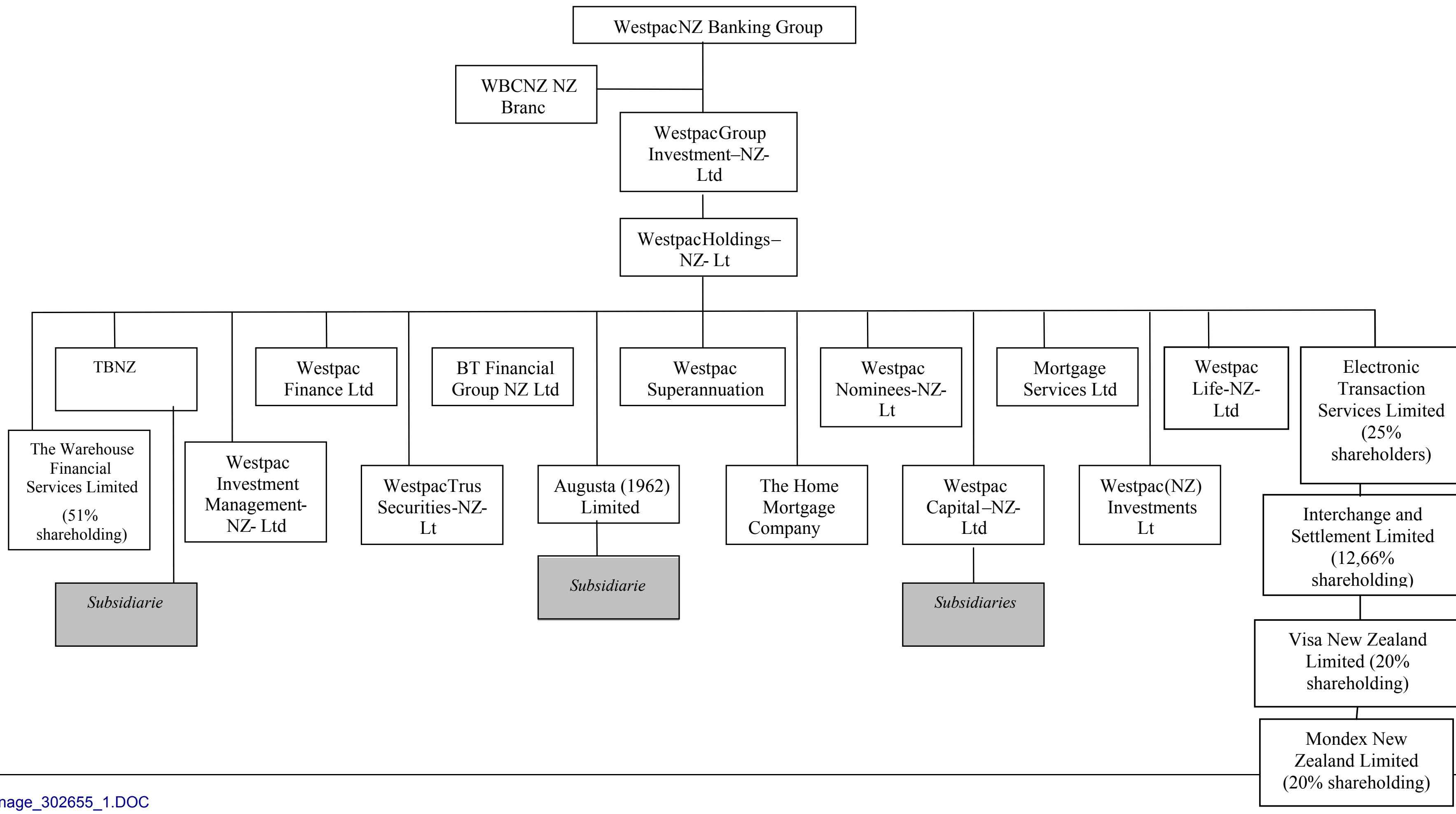
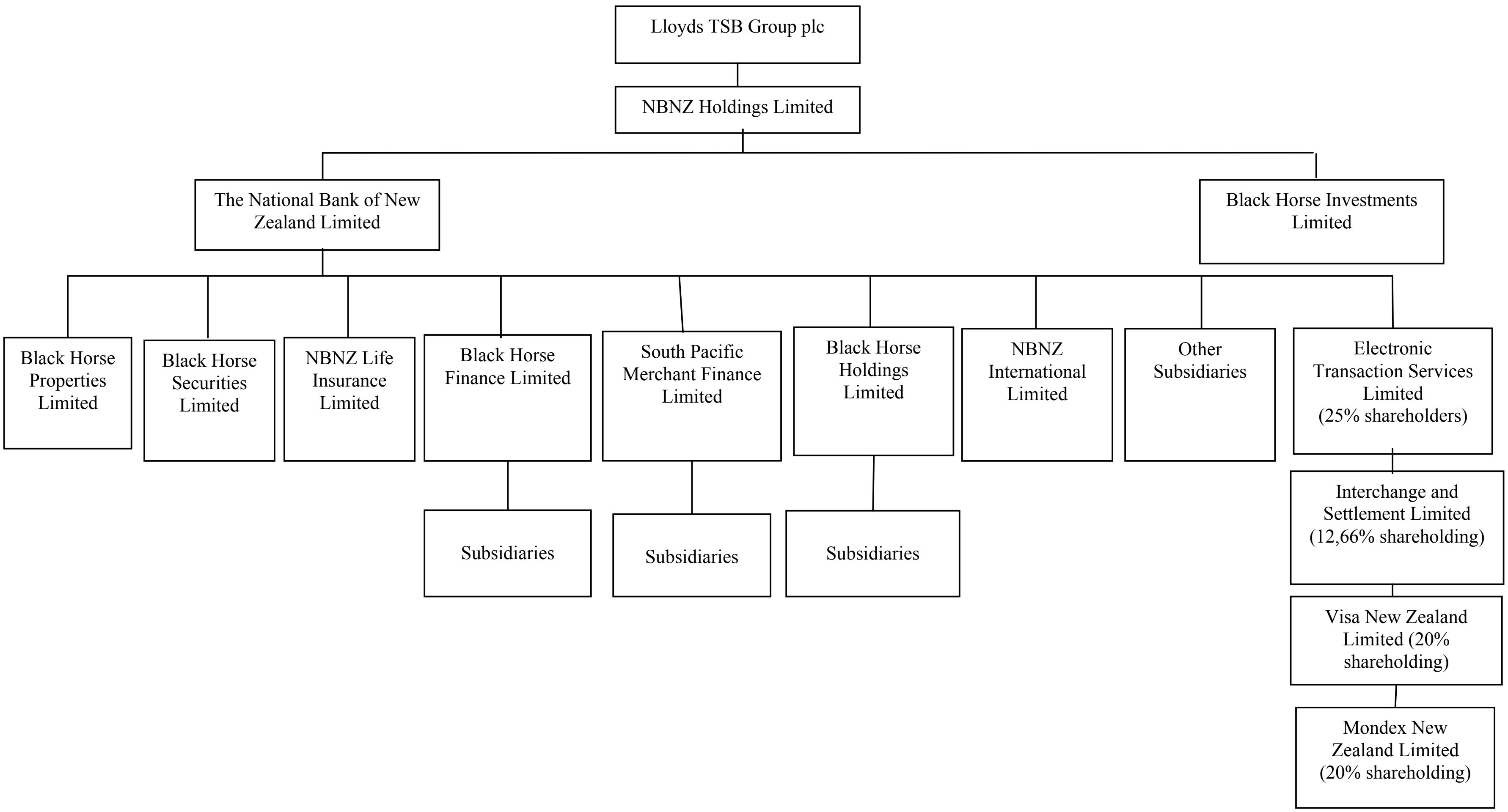
General Counsel for New Zealand
Westpac Banking Corporation

Appendix 1

Westpac NZ Banking Group – Legal Entity Structure as at 28/2/03



Appendix 2: Corporate Structure of National Bank



Appendix 3: Factors Relevant to Collusion

	High Seller Concentration	Undifferentiated Product	New Entry Slow	Lack of Fringe Competitors	Acquisition of Maverick Firm	Excess Capacity	Price Inelastic Demand	Industry Competition Record	Presence of Industry Associations
Corporate Banking	Moderately concentrated but presence of international banks	No	No	No	No	Capacity restraints unlikely to be significan t	Uncertain	No adverse record	Yes – a number of banks are members of the NZ Bankers Association
Insurance	No	No	No	No	No	As above	No	No adverse record	NZIC
Funds Management	No	No	No	No	No	As above	No	No adverse record	Investment and Savings Association
Corporate Superannuation/ Portfolio Services	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	As above	Uncertain	Uncertain	Investment and Savings Association
Home Loans	No – many suppliers	No – customer service and the terms and conditions upon which products are offered are important differentiating characteristics	No	No	No	As above	No	No adverse record	Banks are members of NZ Bankers Association but there is no single association encompassing all market participants
Lending	No – many suppliers	As above	No	No	No	As above	No	No adverse record	As above

	High Seller Concentration	Undifferentiated Product	New Entry Slow	Lack of Fringe Competitors	Acquisition of Maverick Firm	Excess Capacity	Price Inelastic Demand	Industry Competition Record	Presence of Industry Associations
Deposit Accounts	Moderately concentrated	As above	No – especially with declining importance of branch networks	No - competitors in the lending market could enter the deposit accounts market using their existing capacity especially given the declining importance of branch networks	No	As above	Uncertain	No adverse record	As above
Transaction Accounts	Moderately concentrated	Some differentiation	Entry is relatively slow to the extent that a branch network is necessary for entry into the market. The declining importance of a branch network and the increasing importance of electronic networks (to which access is	No	No	As above	Yes	No adverse record	As above

	High Seller Concentration	Undifferentiated Product	New Entry Slow	Lack of Fringe Competitors	Acquisition of Maverick Firm	Excess Capacity	Price Inelastic Demand	Industry Competition Record	Presence of Industry Associations
			unproblematic) makes new entry faster.						
Small/Medium Business Banking	Moderately concentrated	Some differentiation	No	No – Kiwibank and Superbank, as well as GE Finance & Insurance could enter the market using existing capacity	No	As above	Yes	No adverse record	Yes – a number of banks are members of the NZ Bankers Association
Credit Card Merchant Servicing	Concentrated	Yes	Yes	Yes – although customers do have alternative of not accepting credit cards, or only accepting non-bank credit cards such as American Express	No	As above	Yes	No adverse record	Yes – NZ Bankers Association. The major banks apart from ANZ are shareholders in ETSL (which provides the switching network for credit cards).
Rural Banking	Moderately concentrated	Some differentiation	No – especially with declining importance of branch networks	No	No	As above	Yes	No adverse record	Yes - New Zealand Bankers Association although Rabobank

	High Seller Concentration	Undifferentiated Product	New Entry Slow	Lack of Fringe Competitors	Acquisition of Maverick Firm	Excess Capacity	Price Inelastic Demand	Industry Competition Record	Presence of Industry Associations
									(which is a significant competitor in the market) is not a member.

Appendix 4: Factors Relevant to Discipline

	High Seller Concentration	Sales Small and Frequent	Little Countervailing Power	Lack of Vertical Integration	Slow Demand Growth	Similar Costs Among Firms	Little Technological Change	Multi-Market Contact	Price Transparenc y
Corporate Banking	Moderately concentrated but presence of international banks	No	No – customers consist of large corporate organisations that have significant purchasing power.	N/A	Uncertain	No	No	Yes – major banks compete across the entire range of markets in the banking industry but other participants do not.	No
Insurance	No	No	Yes	N/A	Uncertain	No	Yes	As above	No
Funds management	No	No	Variable	N/A	Uncertain	No	No	As above	No
Corporate Superannuation / Portfolio Services	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain	Uncertain
Home Loans	No	No	Yes	N/A	No	No	No	Major banks	Yes

	High Seller Concentration	Sales Small and Frequent	Little Countervailing Power	Lack of Vertical Integration	Slow Demand Growth	Similar Costs Among Firms	Little Technological Change	Multi-Market Contact	Price Transparency
								compete across the entire range of markets. Smaller competitors compete for other types of lending.	
Lending	No	No	Yes	N/A	Uncertain	No	No	As above	Yes, although the relationship between interest rates and fees and assessed risk is less transparent
Deposit Accounts	Moderately concentrated	No	Yes	N/A	Uncertain	No	No	Major banks compete across the entire range of markets.	Yes
Transaction Accounts	Moderately concentrated	Transactions are carried out frequently but choice of bank is a significant and infrequent choice.	Yes	N/A	Uncertain	No	No	As above.	No. While fee levels may be observable, details of a customer's banking activity are not. It would be impossible

	High Seller Concentration	Sales Small and Frequent	Little Countervailing Power	Lack of Vertical Integration	Slow Demand Growth	Similar Costs Among Firms	Little Technological Change	Multi-Market Contact	Price Transparency
									to assess whether an understanding relating to fee levels was being adhered to.
Small/Medium Business Banking	Moderately concentrated	As above.	Variable	N/A	Uncertain	No	No	As above.	No
Credit Card Merchant Servicing	Concentrated	As above.	Demand side of market is relatively concentrated with supermarkets and retail chains possessing significant countervailing power. Ease of switching further contributes to countervailing power.	N/A	Uncertain	Uncertain	Yes	As above	Yes
Rural Banking	Moderately concentrated	As above	Variable	N/A	Uncertain	No	No	As above, although Rabobank specialises in Rural Banking	No

	High Seller Concentration	Sales Small and Frequent	Little Countervailing Power	Lack of Vertical Integration	Slow Demand Growth	Similar Costs Among Firms	Little Technological Change	Multi-Market Contact	Price Transparenc y
								market	