Chapter 4

Recent Australian bank mergers

The Westpac takeover of St George Bank

4.1 Westpac (the second-largest bank by market capitalisation) announced its intention to take over St George Bank (the fifth-largest bank, which also operated 100 branches under the BankSA brand in South Australia) in May 2008 and sought informal clearance for the merger from the ACCC.[1] The offer of 1.31 Westpac shares for each St George share was equivalent to around a 25-30 per cent premium on St George's share price. It was not a hostile takeover as the St George board recommended acceptance by its shareholders. In November 2008, around 95 per cent of votes by St George shareholders were cast to accept this advice.

4.2 When the deal was announced, Westpac's share price fell and that of St George rose (as also happened when the deal was sanctioned by the ACCC in August). As noted above, this is not an unusual response to bank mergers.

4.3 Westpac's CEO described the motive for the merger as cost savings:

> The increased scale and integration of operations would drive further investment in our back office processes ensuring more reliable, consistent and improved customer service.[2]

4.4 It would also allow St George, currently rated A, to raise funds more cheaply given Westpac's AA rating. This advantage has been increased since the global financial crisis, but it is wrong to suggest that St George was 'in trouble' before the merger:

> St George made a stable $1.17 billion net profit in the financial year 2007-08. Moreover, return on equity remains at over 20 per cent, compared to much lower figures for the ANZ and the NAB. St George was not vulnerable.[3]

4.5 Expected annual cost savings from the merger are around $400 million, with one-off integration costs of around $700 million being incurred over three years.[4]

4.6 Most of St George's branches are in NSW (where it emerged as a building society in the eponymous region) and South Australia (mostly from its inheritance of

---

1 At various times ANZ and NAB had taken significant shareholdings in St George but did not proceed to making a takeover offer.

2 Gail Kelly, quoted in *The Australian*, 13 May 2008.

3 Dr Evan Jones, *Submission 5*, p 11.

4 *Australian Financial Review*, 18 December 2008.

the former State Bank of South Australia – see Chart 2.4). As Table 4.1 shows, unlike some previous bank mergers, this one is not 'plugging a gap'; Westpac was already strongly represented in these two states, and after the merger has many more branches than the other major banks. For example, in the Belconnen shopping mall (in the ACT) the combined bank now has two branches and four ATMs. In Lane Cove (suburban Sydney) there is a St George branch at 134 Longueville Rd and a Westpac branch at 138 Longueville Rd. A St George branch in Junction St, Nowra (in regional New South Wales) is in the same block as a Westpac branch.

Table 4.1: Bank 'branches'[5] by state, June 2008

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
St George	174	37	31	13	118	0	13	4
Westpac	277	190	163	104	51	22	10	9
combined	*451*	*227*	*194*	*117*	*169*	*22*	*23*	*13*
Commonwealth	365	293	150	77	60	42	17	5
ANZ	230	217	160	85	81	24	9	10
NAB	241	218	167	73	49	10	11	5

Source: APRA, *ADI Points of Presence*, June 2008.

4.7 As discussed in more detail below, Westpac claims it will continue to operate St George as a distinct retail brand. Initially, Westpac had expected to lose some St George customers as a result of the merger but this has not been happening to any marked extent.[6]

4.8 Scepticism about whether the merger was a fair contest motivated purely by a desire to realise efficiencies was fuelled by Westpac's appointment of the former CEO

---

5 Strictly speaking, 'points of presence offering a branch level of service', which APRA defines as offering the following services: 'accepts cash and other deposits (including business deposits) and provides change; facilitates the keeping of accounts for customer access, including the provision of account balances; opens and closes accounts; can facilitate or arrange the assessment of the credit risk of existing and potential customers; and offers additional services in the one establishment such as financial services, business banking and specialist lending.'

6 *Australian Financial Review*, 18 December 2008.

of St George, Ms Gail Kelly, as the new Westpac CEO, and her reportedly still being a large shareholder in St George when the takeover was announced.[7]

Public attitudes

4.9 A national opinion poll of 1 000 people found that:

- 75% believe that the merger would mean less competition;
- 89% do not believe that the merger would result in lower fees; and
- 69% believe that this merger would mean less pressure on banks to reduce fees and charges.[8]

7 Westpac's Chairman has discussed the 'conflict of interest' arising from Ms Kelly's shares in St George in an interview on ABC's *PM*, 13 May 2008.

Westpac advised the Committee that Ms Kelly has honoured standard confidentiality obligations under her contract with St George; Westpac, answers to questions taken on notice, 27 August 2009. They also said that 'she was kept completely separate to all the dealings around the acquisition. In fact, there was a subcommittee of the board, as you would expect, looking at it and a separate management team looking at that acquisition, and Gail had no role to play in that'; Mr Brad Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 39. They had no comment on her St George shareholdings.

8 The poll of 1,000 people was conducted by McNair-Integrity in June 2008; Finance Sector Union, *Submission 12*, p 3.

The Commonwealth Bank takeover of BankWest

4.10 The Commonwealth Bank's takeover of BankWest has taken it from having the fourth largest representation (by branches) in Western Australia to by far the largest (Table 4.2).

Table 4.2: Bank 'branches'[9] by state, June 2008

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Commonwealth	365	293	150	77	60	42	17	5
BankWest	18	8	4	87	1	0	0	0
combined	*383*	*301*	*154*	*164*	*61*	*42*	*17*	*5*
Westpac-St George	451	227	194	117	169	22	23	13
ANZ	230	217	160	85	81	24	9	10
NAB	241	218	167	73	49	10	11	5

Source: APRA, *ADI Points of Presence*, June 2008.

4.11 A clear difference from the St George takeover is that BankWest's ability to compete was under question. As the Commonwealth Bank and BankWest itself put it:

> …BankWest would be under increasing pressure as a result of the pressure that its parent company was under, which I think was well known. The ACCC's investigations through its discussions, which obviously we were not able to have, gave it a clear view that BankWest was unsustainable in the form in which it had been.[10]
>
> …there would have been a much greater risk of much higher job losses if the acquisition had not proceeded. The reason I say that is that the parent company, HBOS Plc in the UK, was in extreme difficulty…

4.12 This picture was broadly confirmed by the ACCC:

---

9 Strictly speaking, 'points of presence offering a branch level of service', which APRA defines as offering the following services: 'accepts cash and other deposits (including business deposits) and provides change; facilitates the keeping of accounts for customer access, including the provision of account balances; opens and closes accounts; can facilitate or arrange the assessment of the credit risk of existing and potential customers; and offers additional services in the one establishment such as financial services, business banking and specialist lending.'

10 Mr Ian Narev, Commonwealth Bank of Australia, *Committee Hansard*, 12 March 2009, p 19.

> Unfortunately for competition, Bankwest suffered as a consequence of the impact of the GFC on its UK owner and we found quite convincingly, in our review of Commonwealth Bank-Bankwest, that without the merger Bankwest was not going to be the expansionary, innovative price leader that it had been. In fact, it was quite the opposite. It was, if anything, going to contract.[11]

4.13 One point of contention is whether BankWest's competitive potential had been permanently damaged:

> When you dig down a little bit further, the reality is that the parent, HBOS, of Bankwest was bought out by Lloyd's and then Lloyd's was bought out by the government. So I think it was a bit premature to say that Bankwest would not have continued as an effective competitor because of the global financial crisis.[12]

4.14 Another was whether there were preferable ways of supporting BankWest that would not have had a detrimental impact on competition. The ACCC claimed:

> We spoke to every firm, every bank, that had expressed any interest in acquiring Bankwest—and that included international banks, all the Australian banks, others—and it was quite apparent from our inquiries that if Commonwealth Bank did not buy Bankwest no-one else was likely to buy it. Essentially, we concluded that without the acquisition HBOS UK and Lloyds would continue to run Bankwest, but not at all in the way Bankwest had previously been run. It would no longer be the price leader. It would no longer be a vigorous or effective competitor.[13]

4.15 In apparent contrast, Bank of Queensland told another inquiry by this committee:

> I would dispute the assertion that BankWest needed to be rescued by the Commonwealth Bank in the sense that if that deal had been available to the Bank of Queensland on the same terms, with the funding support and implied support from the regulatory authorities, then we would have been quite happy to take on that business; in fact it had a lot of synergies with us…
>
> CHAIR—Were you offered that opportunity?
>
> No.[14]

---

11 Mr Tim Grimwade, ACCC, *Committee Hansard*, 13 March 2009, p 27.

12 Associate Professor Frank Zumbo, *Committee Hansard*, 10 August 2009, p 72.

13 Mr Tim Grimwade, ACCC, *Committee Hansard*, 13 March 2009, p 28.

14 Mr Ram Kangatharan, Chief Financial Officer, Bank of Queensland, *Proof Committee Hansard* (for Bank Funding Guarantees inquiry), 14 August 2009, p 31.

Branding strategies

4.16 Westpac claims it will continue to operate St George as a distinct retail brand and not close St George branches:

> Separate St George and Westpac branch networks and customer relationships will be maintained…no net branch closures. Continuing to invest in separate Westpac and St George brands and branch networks is considered critical to the future success of the merger.[15]

4.17 There have been some doubts expressed about the worth of this assurance:

> Westpac has claimed that if the acquisition proceeds it will continue to operate St George as a distinct retail brand. The ACCC notes that even if this is the case, common ownership will remove the incentive for the two organisations to compete on price or on other aspects of the service offering.[16]
>
> Gail Kelly will say that they will not close any St George branches. People will be sceptical about that. They'll obviously, if they can merge the two businesses, they can cut some costs out which of course will mean jobs.[17]

4.18 Similarly, the Commonwealth Bank and BankWest itself both assured the Committee that BankWest will continue to have an independent identity:

> …the governance of BankWest remains under a board that is separate from the board of the Commonwealth Bank of Australia, and under a managing director who reports to that board. Decisions regarding the BankWest footprint, the BankWest strategy and the BankWest brand are all made by the managing director, John Sutton, his executive team, and approved by a separate board. From the point of view of the consumer in Western Australia, there is still a choice between two quite separate brands and two quite separate looks and feels that are not coordinated through common governance processes.[18]
>
> Bankwest is a wholly owned subsidiary of the Commonwealth Bank but actually maintains an independent board of directors and has its own business strategy independent of the Commonwealth Bank. Bankwest has its own pricing committee, which sets its own mortgage and deposit rates and prices across all of its products. It remains quite independent from the Commonwealth Bank in those decisions.[19]

---

15 Westpac, *Submission 11*, p 2.

16 ACCC, Public competition assessment, 'Westpac Banking Corporation – proposed acquisition of St George Bank Limited', 13 August 2008, para 56, reproduced in ACCC, *Submission 4*.

17 Then shadow treasurer Malcolm Turnbull MP, interviewed 12 May 2008.

18 Mr Ian Narev, Commonwealth Bank of Australia, *Committee Hansard*, 12 March 2009, p 18.

19 Mr Jon Sutton, Managing Director, Bank of Western Australia, *Proof Committee Hansard*, 2 July 2009, p.2.

4.19 When Westpac took over Bank of Melbourne in 1997, it kept the latter's separate identity for a few years but then closed many overlapping branches and the remainder were rebranded. Given this history, Westpac accepts that there is understandable scepticism about their promise to preserve the St George brand:

> Senator EGGLESTON -- …In Western Australia we used to have a bank called Town and Country Bank, which grew out of a building society that was taken over by ANZ. The Town and Country Bank customers were assured that nothing would change, but, of course, it did. In due course, Town and Country disappeared and their mortgages became ANZ mortgages with ANZ rules, which were very different to the kind of rules which had applied under the Town and Country Bank…
>
> Mr Cooper -- …this merger is very different to mergers that have gone on in the banking industry in the past. I note the example you provided for Western Australia. We have a similar example with the previous merger with the Bank of Melbourne. Of course, that brand does not exist anymore in Melbourne.[20]
>
> Senator PRATT—… You cannot blame the Australian public for being suspicious when in the past commitments to keep separate branding, and therefore competition in the products that are offered, have eventually been phased out.
>
> Mr Cooper—I understand some of that scepticism.[21]

4.20 One interpretation is that it is just about marketing the same product with different labels:

> Senator EGGLESTON--…One might suggest it is like marketing of petrol. That all comes from the same refinery, but it is called Caltex, BP and Shell in different locations…What you are offering is finance under this heading of Westpac and St George, but in fact it is the same organisation with the same credit rating setting up different shopfronts.
>
> Mr Cooper—But of course, how the customer experiences that relationship is through the interaction with the staff and the nature of service and quality of service that is provided under each of those brands. So the brand personality and what they stand for is central to why people choose to do business with one bank versus the other. [22]

4.21 This strategy may only work for a limited time. As one regional bank rival put it, the strategy seeks to exploit:

> …the value that those brands have in the marketplace, where there are seen as different to the majors. So you are taking advantage of that differentiated brand value for a period of time until the consumer figures out that they are not doing business with Bankwest but they are actually doing business with

---

20 Mr Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 36.

21 Mr Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 38.

22 Mr Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 37.

> the Commonwealth Bank of Australia; they are not doing business with St. George but with Westpac. It affords the acquirer a period of time where the brand positioning that was built up over a number of years can be exploited,…[23]

4.22 Alternatively the strategy may be about appealing to different customers' preferences, such as the extent to which customers are willing to pay a little more for better service:

> Indeed, the service propositions, whether it is in call centres and so forth, are different as well. The number of staff per call in a St George call centre would be higher than, for example, in Westpac because the associates there would spend more time on the phone than Westpac.[24]

4.23 Indeed, this strategy would imply that the differences between the banks' images and service qualities should be widened rather than narrowed:

> So it is incumbent on us to understand that distinctiveness, and in fact to accentuate it even more so that as a group we can appeal to more customers…[25]

4.24 To the extent that St George will be more focused on appealing to different sorts of customers to Westpac, there is a reduction in the competition for each of these groups.

Possible further mergers

4.25 There is speculation about further mergers.

4.26 Measured by branch representation (Table 4.2) or assets (Table 2.2), the smaller of the four majors are now ANZ and NAB. A merger between them would create the biggest bank in Australia, with a market share of around 30 per cent, and the largest branch networks in New South Wales, Victoria and Queensland. However, mergers between the four majors are prohibited by the Government's 'four pillars' policy (see Chapter 5).

4.27 More likely are one of the majors taking over one of the remaining regional banks:

> Westpac's takeover of St George was preceded by the merger of Bendigo Bank and Adelaide Bank, and there now suggestions that both Bank of Queensland and Suncorp-Metway are for sale.[26]

---

23 Mr Ram Kangatharan, Chief Financial Officer, Bank of Queensland, *Committee Hansard*, 1 July 2009, p 4.

24 Mr Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 37.

25 Mr Cooper, Westpac, *Proof Committee Hansard*, 10 August 2009, p 37.

26 Abacus, *Submission 18*, p 2.

> There are three reasonable size regional banks that remain in the marketplace. If majors want to pursue growth domestically then that would be one of the alternatives that they would look at.[27]

4.28 In terms of share of national market shares, the largest of the regional banks is Suncorp-Metway with 3 per cent of bank assets, followed by Bendigo-Adelaide with 2 per cent and Bank of Queensland with 1 per cent. On a national basis, a takeover of one – or even all – of these by ANZ would still leave it smaller than the Commonwealth Bank or Westpac. The impact by region would be more significant: ANZ combined with the three regional banks would have about half the branches in Queensland and over a third in Victoria.

Impact on consumer choice

4.29 Bank customers may lose if mergers reduce competitive pressures in markets. Choice believes that there is now excessive market power held by the four largest banks, and that risks the following outcomes:

> …crowding out new entrants, poor customer service, poor employee satisfaction, excessive fees and interest rates, low rates of customer switching, poor product innovation, reduced access to essential banking services, and reduced diversity in local areas.[28]

4.30 Particularly at risk may be the poor:

> Previous mergers have been associated with branch closures which can disadvantage people on low incomes, as they often prefer to conduct their banking in-branch. This preference is partly due to limited access to other modes of banking, in particular online banking which requires a secure computer and internet connection.[29]

> [Mergers motivated by cost-cutting are] … particularly troubling when it applies to an essential service such as banking where some consumers and areas may not be 'profitable' and therefore not attractive to companies primarily focussed on the economic bottom line.[30]

4.31 In rural areas, bank mergers may intensify the pattern of closures of rural branches in small towns. This leads to customers going to larger towns for banking

---

27 Mr David Foster, Group Executive, Suncorp Bank, *Proof Committee Hansard*, 10 August 2009, p 57.

28 Choice, *Submission 6*, p 5.

29 Brotherhood of St Laurence, *Submission 8*, pp 3-4.

30 Finance Sector Union, *Submission 12*, p 1.

business and then doing their other shopping there too, which adversely affects other stores in the small town.[31]

4.32 There is mixed evidence about whether larger banks are more likely to neglect small business customers once they are better placed to lend to large companies:

> …the static effects of consolidation reduce small business lending, but are mostly offset by the reactions of other banks, and in some cases also be refocusing efforts of the consolidating institutions them selves.[32]
>
> …large banks are found to lower the probability of obtaining credit for small businesses…[33]
>
> …acquirers tend to recast the target in their own image [so that mergers between small banks have no impact, but a large bank taking over a small bank could reduce credit to small business]…[34]

4.33 Treasury agreed that smaller banks may be more prepared to lend to small business, particularly in difficult conditions:

> Senator EGGLESTON—Do you suppose that the local banks might have a better perception of local economic circumstances and be more prepared to consider propositions because they better understand the local economy?
>
> Mr Murphy—Yes.[35]

4.34 There remains plenty of competition in terms of numbers of products:

> …125 mortgage providers are providing over 2,000 mortgage products in Australia and 78 card providers provide over 330 types of credit cards. We have 114 providers of deposit accounts and there are 900 or more types of accounts. There are 32 providers of 39 different small business commercial loans, which represent a lot of different products.[36]

4.35 However, these numbers are inflated by large numbers of small credit unions offering the same basic products. There are concerns that bank mergers will reduce *innovative* or more keenly priced products:

> Senator EGGLESTON—…In personal banking, the smaller banks, the provincial banks and the building societies offered a wider variety of innovative products than the big four do. The loss of various building

---

31 Ralston and Beal (1997) report that a survey showed that 88 per cent of people shopped less in the local town after the bank branch closed. See also the discussion in Joint Committee on Corporations and Financial Services (2004, pp 35-7), who remark 'the loss of a bank branch threatens to undermine the economic life and confidence of the community'.

32 Berger et al (1998).

33 Craig and Hardee (2007).

34 Peek and Rosengren (1998).

35 Mr Jim Murphy, Executive Director, Treasury, *Committee Hansard*, 12 March 2009, p 30.

36 Mr Jim Murphy, Treasury, *Committee Hansard*, 12 March 2009, p 28.

societies has lessened the range of products available to the public, as a matter of fact, in personal banking.

Mr Grimwade—I think that is correct.[37]

4.36 One major criticism of the industry is that, while there may be plenty of organisations offering services, the services offered are 'plain vanilla':

> Part of my job is comparing competitors' products with our products and the four major banks' products. Every one tweaks a little bit. They will muck around with an ongoing fee or the up-front fee or they will shave an extra 0.1 per cent off a rate or something like that. There is no fabulously sexy product that one of them offers that the other three do not, in my experience, and the minute anyone comes up with a new version of something, the others just copy it anyway… they are all pretty well variations on a theme and, to be honest, everyone in the entire industry has got a similar suite of products.[38]

4.37 A regional rival bank emphasised that it not just bank deposits and loans for which the mergers are increasing concentration, but also wealth management services:

> …all four of the major banks have very, very significant wealth management businesses that seek to access and control the superannuation related savings of Australians. When we define the market and the products in the constructs we have had in the past, I think there is a tendency to miss how the advantages gained from another subsegment of the financial services business can cross-subsidise and give the majors a competitive advantage that they can use to clear the field of the smaller competitors……if you control 30 per cent of the financial planners in the country because you are in the wealth management business and they are tied advisers, it gives you a unique opportunity to bundle those services with banking products and to price it in a manner that effectively excludes competition in the banking market.[39]

4.38 The Law Council of Australia asserted that mergers led to benefits for consumers:

> Mergers… are an important aspect of a fully functioning and efficient economy. Mergers enable efficiencies to be achieved, ineffective competitors to exit the market and product and service innovation to occur.[40]

---

37 Mr Tim Grimwade, ACCC, *Committee Hansard*, 13 March 2009, p 27.

38 Ms Carol Gordon, National President, Finance Sector Union, *Proof Committee Hansard*, 13 March 2009, p 10.

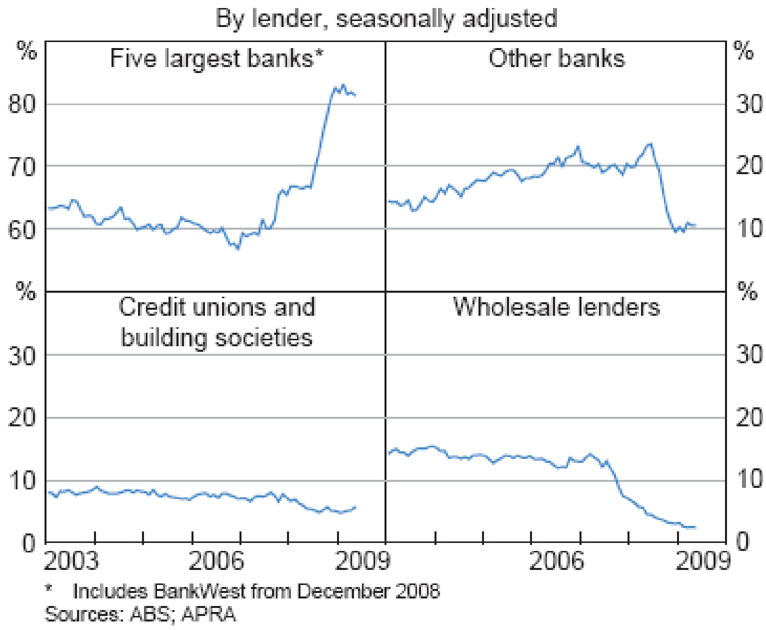
39 Mr Ram Kangatharan, Chief Financial Officer, Bank of Queensland, *Committee Hansard*, 1 July, pp 4-5.

40 Law Council of Australia, *Submission 15*, p 2.

4.39 Asked about what benefits St George customers might expect from the Westpac takeover, the only tangible example Westpac gave was access to a larger ATM network without fees. They also claimed Westpac was 'a much safer and more highly rated financial services provider', but did not explain in what way Westpac was safer than the equally supervised and the traditionally more conservative, retail-focused St George.[41]

4.40 Arguably the main area of concern about consumer choice is that of housing loans. The effective closure of securitisation markets and cutbacks in other sources of wholesale funding hit non-bank entities particularly hard. This has seen the major banks increase their share of this business. Following the Westpac-St George merger, four banking groups now account for over 80 per cent of new lending for home purchases (Chart 4.1).

Chart 4.1: Share of owner-occupier loan approvals



Source: Reserve Bank of Australia, *Statement on Monetary Policy*, August 2009, p 60; update of chart in APRA, *Submission 16*.

Impact of mergers on system stability

4.41 Mergers may have adverse impacts on system stability, although studies are inconclusive:

41 Westpac, answers to questions taken on notice, 27 August 2009.

> A more consolidated system has fewer banks, therefore we expect to see fewer bank failures. However, in a more consolidated system the banks are bigger, so that a single bank failure has a much greater impact.[42]

> …on the basis of this literature one cannot ascertain a clear-cut relation between the effects of consolidation and bank or systemic risk.[43]

> There has thus been a view (often unstated) that there is a trade-off between the efficiency benefits of increased competition and the risk of instability in the financial sector arising from reduced concentration. There have been a number of arguments advanced in support of that view. First, larger banks may tend to be more diversified …Second, larger banks may be better able to implement sophisticated risk management systems…Third, higher profitability arising from lessened competition generates a franchise or charter value exceeding book value…[which] acts as a disincentive to excessive risk-taking…Fourth, a small number of larger banks may be easier for regulatory authorities to effectively monitor and may involve less risk of contagion…there are equally plausible counter-arguments. The systemic importance of large banks may induce a too-big-to-fail attitude…leading to excessive risk-taking. Market power may also enable banks to charge higher interest rates on loans, possibly inducing greater risk-taking by their borrowers. Big banks may be more opaque, and internal control systems may become less effective with large scale… The empirical literature has produced mixed results…[44]

Impact on interest margins

4.42 Mergers increase concentration in banking markets and this allows greater scope for explicit collusion, or just a less keen approach to competition. Both can lead to wider interest margins. Associate Professor Zumbo submitted:

> There is no doubt that the greater the levels of market concentration, the greater the likelihood that consumers will be price gouged. The reason for this is quite simple. As markets become more concentrated, the opportunities for either collusion or parallel conduct with respect to pricing and related matters grow considerably. Within this context, banking mergers, as with other mergers across the economy, present a real and very serious risk to competition and consumers… the danger of mergers is that any efficiencies or reduction in costs that may be realised through a merger will not be passed onto consumers for the simple reason that as mergers remove competitors from the market, there will be fewer competitors left to take an independent stance to drive down prices to consumers.[45]

42 Kent and Debelle (1999, p 31).

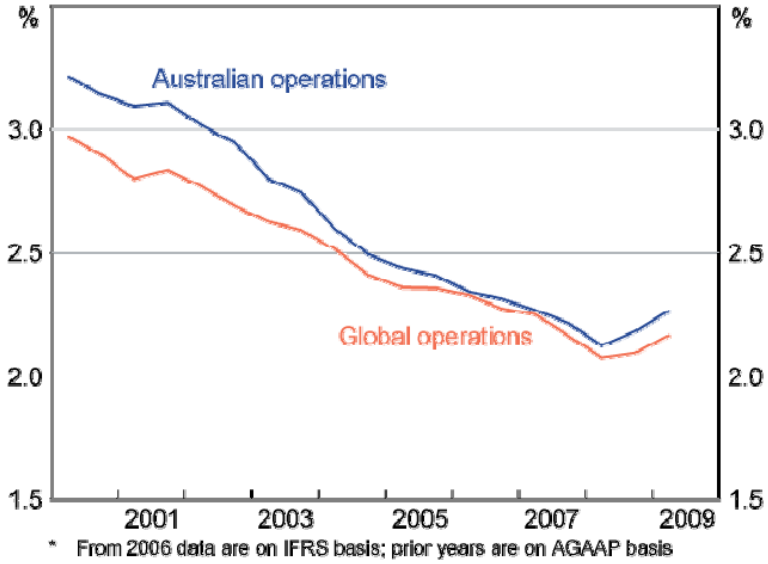
43 Carletti, Hartmann and Spagnolo (2002, p 44).

44 Dvais (2007, pp 270-1).

45 Associate Professor Frank Zumbo, Submission 19, p 1.

4.43 After a long period when increased competition put pressure on bank interest margins to narrow, they have recently widened (Chart 4.2).

Chart 4.2: Major banks' net interest margin



Source: Reserve Bank of Australia (2009, p 4), reproduced in Associate Professor Frank Zumbo, *Submission 19*, p 4.

4.44 This is mainly attributable to the global financial crisis which reduced the capacity of non-bank lenders to compete by offering loans funded from international securities markets. It is hard to tell the extent to which recent mergers have also contributed.

4.45 Associate Professor Frank Zumbo commented:

> …the four major banks have increased their market share in home lending and in deposits significantly—certainly in the previous 18 months. We have seen increases in fees over a period of time; we have seen an increase in interest margins over a period of time…That is very troubling because all of those are indicia of a competition that is weakening and perhaps failing… in the space of 18 months, we have lost two vigorous competitors—the Commonwealth Bank has taken out Bankwest. Bankwest has been a significant, vigorous and independent player in the market. The Commonwealth Bank previously took ownership stakes in Aussie Home Loans and Wizard. Those two—Aussie Home Loans and Wizard—were significant non-bank mortgage providers. Westpac took out St George and previously RAMS Home Loans… the net interest margins started to increase after Bankwest, St George and those non-bank providers were taken out of the picture.[46]

46 Associate Professor Frank Zumbo, *Proof Committee Hansard*, 10 August 2009, pp 69- 70.

The global financial crisis and bank mergers

4.46 According to the ACCC, the global financial crisis may have reduced the impact on competition from takeovers of second tier banks by the four majors. Commonwealth Bank comment that in approving their takeover of BankWest, the ACCC held that:

> … in the face of the global financial crisis and the financial situation of BankWest's UK parent company, HBOS plc, BankWest's operating model would be significantly scaled back given the parent company's reduced risk appetite. Under these circumstances, the BankWest business would no longer continue to grow and competitive pricing would cease.[47]

4.47 However, it could be argued that the crisis is a temporary phenomenon but any reduction in competition from a merger would be permanent.

4.48 Choice reaches the opposite conclusion about the implication of the financial crisis, arguing:

> The crisis has already reduced competition and will continue to alter the nature of markets for some time. If the recent mergers were being proposed during a period of robust competition, there would at least be non-bank competitors able to keep rates and fees in check in the lending markets. But at this time, in this environment, competition cannot sufficiently constrain excessive market power... the global financial crisis has impacted directly on the competitive dynamics of the Australian financial system. The RBA's specific concerns were in the collapse of non-ADI mortgage originators in the owner-occupied home loan market and the corresponding sharply rising dominance of the Big Four banks…In recent months interest rate margins on credit cards, home loans and personal [loans] have all crept above their long term average.[48]

4.49 Were the crisis to lead to distressed banks in Australia, as it has overseas, there would be a stronger case for being more lenient towards takeovers. There is arguably no more reduction in competition from a bank being taken over than from it failing, and there are advantages in terms of financial stability and preserving jobs.

---

47 Commonwealth Bank, *Submission 2*, p 2.

48 Choice, *Submission 6*, pp 5-6. A similar view has been expressed by Professor Allan Fels, ABC News, 13 May 2008.