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Bank Mergers in Australia

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Introduction:

This paper focuses on:

- the regulation of banking industry in Australia, with a particular look at mergers;
- market definition issues in bank mergers



Basis for assessing bank mergers in Australia:

- *Trade Practices Act 1974*: section 50
- Treasurer's powers



Bank mergers and Australian competition law:

- role of the Australian Competition and Consumer Commission (ACCC)
- *Trade Practices Act 1974*:
 - “substantial lessening of competition” test
 - statutory factors (s 50(3))
 - previous “dominance” test
- ACCC merger guidelines:
 - types of merger clearances: informal/formal clearances
- Authorisation
- Undertakings



Treasurer's Powers:

- *Banking Act 1959*
- “Four Pillars Policy”



Major inquiries into the Australian financial system, especially:

- Campbell Inquiry (1981)
- Wallis Inquiry (1997)



Role of regulation authorities:

- Reserve Bank of Australia (RBA)
- Australian Prudential Regulatory Authority (APRA)
- Australian Securities and Investments Commission (ASIC)
- Australian Competition and Consumer Commission (ACCC)



History of Bank Mergers:

- pre 1995
- since 1995: Westpac/Challenge (1995)
- St George/Advance (1996)
- Westpac/Bank of Melbourne (1997)
- Colonial/Tasmanian Trust Bank (1999)
- Commonwealth Bank/Colonial (2000)
- Bendigo Bank/Adelaide Bank (2007)-
did not proceed
- Westpac/St George (2008)
- Commonwealth Bank/BankWest
(2008) – *under consideration*



Market definition:

- Demand/supply substitutability
- Product market
- Geographic market
- Functional market
- Temporal dimension
- Potential competition



Market definition (cont'd):

- “National” vs “state” market
- “Cluster” vs “individual products” market:
- “Cluster” market:
 - US approach: Philadelphia National Bank (1963) and Grinnell Corporation (1966) cases
 - Australian approach: Westpac/Challenge (1995)
- “Individual” products market
 - Westpac/Bank of Melbourne (1997)
 - Commonwealth/Colonial (2000)
 - Westpac/ St George (2008)



Products markets:

- Housing
- Small business
- Medium to large business
- Personal loans
- Credit cards
- Deposit/term products
- Transaction accounts
- Wealth management
- Insurance
- Agri-business



Market/competition analysis:

- Focus on recent Westpac/St George merger:
 - Barriers to entry
 - Dynamic characteristics of the market



Banks and other financial institutions:

- Different industries
- Different products
- Overlapping creates competition concerns



Foreign acquisitions of Australian banks:

- Wallis Inquiry and removal of restrictions on foreign ownership
- Increased competition and benefit to consumers



What the future holds?

