

APPENDIX 2.1

(referred to in paragraphs 2.243, 2.261, 2.275, 5.67, 5.124, 6.99 and 6.101)

Issues and remedies statements

Issues statement released on 11 April 2001

Market definition

1. Is it reasonable to view as separate markets each of the main product sectors for personal customers where LTSB and AN overlap—that is, current accounts (including overdrafts), deposit accounts (including similar savings vehicles), credit cards, mortgages, other loans, life assurance, other long-term investments and pensions? Do some of these markets need to be considered at both retail level and wholesale level (ie where products are supplied through intermediaries)?

2. For the purposes of this inquiry is it reasonable to consider other overlap sectors at a more aggregated level—that is banking services for small and medium-sized enterprises (SMEs); and wholesale banking/Treasury operations?

3. Is the geographical extent of each of the product markets the whole of the UK or are there, for example:

- different markets in England and Wales, Scotland and N Ireland for any of the products, such as personal current accounts, SME banking services;
- any product markets which operate at a level wider than the UK?

4. *Note:* For the purposes of the rest of this issues statement it has been assumed, without prejudice to the Commission's eventual conclusions on market definition, that the various product sectors listed in paragraph 1 can be treated as separate markets.

Public interest issues: general

5. In relation to all the product markets where there is a significant overlap between LTSB and AN, the principal issue for the inquiry is whether the merger would significantly reduce competition and, if so, whether there would be adverse effects for the public interest as a result. Adverse effects might take the form of:

- (a) higher prices (which in these markets may take the form of lower interest rates on credit balances and savings, as well as higher fees and higher interest rates on borrowing);
- (b) lower quality of service to customers;
- (c) a narrower range of customers served;
- (d) reduced choice of products and of providers;
- (e) a reduced rate of innovation

compared with the situation which could be expected in the absence of the merger.

6. Paragraphs 7 to 17 bring out, inter alia, some factors affecting individual product markets which may be relevant in addressing the general issue enunciated in paragraph 5.

Personal current accounts (PCAs)

7. Should the existing level of competition in the supply of PCAs be regarded as weak given the following considerations which have been put to the Commission:

- (a) the level of switching of accounts between providers (less than 2 per cent per year on the basis of Department of Trade and Industry and National Opinion Poll figures we have seen), the factors affecting it and how switching may be expected to change in future;
- (b) the level and stability of market shares, in particular the shares held by the four leading clearing banks (the 'Big 4': Barclays, HSBC, LTSB and Royal Bank of Scotland/NatWest);
- (c) the similarity of the terms offered by the Big 4 and their higher prices (as defined in paragraph 5(a)) compared with those offered by some other providers;
- (d) the lack of buyer power;
- (e) the alleged lack of innovation by traditional suppliers compared to newer entrants;
- (f) the low level of entry by providers not related to existing UK banks or other large financial institutions?

8. On the other hand, should the level of competition in the supply of PCAs be regarded as strong given the following further considerations put to the Commission:

- (a) the number of new entrants into the market in the last 10 to 12 years and their progress in acquiring customers;
- (b) the ability of non-traditional players to enter the market;
- (c) the growth in non-branch-based methods of distribution, notably automated teller machines (ATMs), telephone and the internet;
- (d) the increasing range of products offered?

9. The Commission will also wish to consider a number of factors relating to barriers faced by new entrants to the market including:

- (a) the importance of a branch network to entrants and the difficulty of establishing such a network and the potential role of the Post Office as an alternative to conventional branches;
- (b) the significance of brands and the difficulty and cost of establishing a brand;
- (c) the level of switching, of customer inertia in that context, and how this may be expected to change (see paragraph 7(a)).

10. Has AN acted as a constraint on the Big 4 and, if so, to what extent? Should particular importance be attached to competition from AN as one of the few other players which has a national network of branches?

11. Would the merged company have additional influence in the organisations which control money transmission, including APACS and Link, to the detriment of consumers?

Mortgages and deposit accounts

12. In these two markets where both LTSB and AN already have substantial shares, should the existing level of competition be regarded as strong given the following considerations which have been put to the Commission:

- (a) the increased level of switching of mortgage accounts ('remortgaging');
- (b) the significant role played by intermediaries in helping customers to find best buys;
- (c) the level of and trends in the margins made by providers;
- (d) the relatively low level of concentration in supply;
- (e) movements in market shares of providers;
- (f) the number and variety of new entrants?

13. On the other hand, is there still inertia among a sizeable proportion of existing account holders who experience significantly worse terms than new customers?

14. Would the degree of consolidation in these two markets which would result from the merger be harmful to competition?

Other personal financial services

15. Given the level of competition in the supply of the other personal product markets listed in paragraph 1, could the merger be expected to give rise to any adverse effects in those markets taken in isolation?

Banking services for SMEs

16. Should the existing level of competition in the supply of banking services for SMEs be regarded as weak given the following considerations put to the Commission:

- (a) the high degree of concentration among providers, in particular the high shares of the Big 4;
- (b) the low level of new entry and the apparent existence of significant entry barriers (see paragraph 9)?

17. Should particular importance be attached to potential competition from AN as one of the few players, outside the Big 4, which has a national network of branches?

Combined effects on LTSB

18. Would the merger, by strengthening the position of LTSB across a range of different banking markets, give LTSB:

- (a) the ability to increase its margins in order to protect and increase the profitability of its enhanced customer base; and
- (b) the ability to deter and repel entrants by offering low prices for new customers, cross-subsidised from the profitability of long established customers?

19. Would the merger, by strengthening LTSB in the supply of 'gateway' products such as current accounts and mortgages, enable it to increase its cross-selling of other financial services? As a result of customer inertia, would LTSB be able to cross-sell products which give poor value for money?

Profitability of retail financial services

20. Does the level of profitability of the leading suppliers of retail financial services in the UK point to there being a low level of competition in these markets, or some of them?

Employment and efficiency

21. Should the loss of jobs which would be likely to result from the merger be seen as an effect of increasing efficiency and hence an improved use of resources?

22. Would the regional incidence of the job losses represent a deterioration in the distribution of activity and employment in the UK?

23. Would the merger, by reducing LTSB's unit costs, lead to customers being offered products at lower prices than could otherwise be expected?

Customer service and choice

24. Would the merger result in a significant reduction in the choice of products available to some customers?

25. Would the closure of branches cause a deterioration in choice for, and standards of service to, customers and other consumers?

Remedies

26. On the hypothetical basis that the Commission were to find that the merger could be expected to operate against the public interest, with some or all of the possible adverse effects listed in paragraph 5, the Commission would welcome views on the practicability and effectiveness of the following possible measures in remedying or preventing those adverse effects:

- (a) prohibition of the merger;
- (b) divestment of branches to competing providers of retail financial services in localities where LTSB and AN together have a high share of total branches;
- (c) divestment of any of the existing businesses of either LTSB or AN, eg Cheltenham & Gloucester, cahoot (AN's internet-only current account business);
- (d) undertakings relating to the terms of individual products offered by the enlarged group, eg personal current accounts, services for SMEs, for a period of years following the merger;
- (e) steps to improve customers' awareness of the terms of the products they are buying from the enlarged group and how those terms compare with those available from competing providers.

Remedies statement released on 2 May 2001

Possible remedies remain unchanged following hearings

On 11 April, the Competition Commission (the Commission) published a statement identifying the issues it wished to consider in this inquiry (Commission News Release 16/01 refers) together with an outline of possible remedies.

The Commission has subsequently held hearings with both main parties to the proposed acquisition and with additional third parties; and has received further written submissions. The Commission is also aware that Halifax and Bank of Scotland have announced that they are in discussions over a possible merger.

On the hypothetical basis that it might find that the Lloyds TSB/Abbey National merger could be expected to operate against the public interest, the previously stated possible measures for remedying or preventing any adverse effects of the merger remain unchanged. These were:

- (a) prohibition of the merger;
- (b) divestment of branches to competing providers of retail financial services in localities where Lloyds TSB (LTSB) and Abbey National (AN) together have a high share of total branches;
- (c) divestment of any of the existing businesses of either LTSB or AN, eg Cheltenham & Gloucester, cahoot (AN's internet-only current account business);
- (d) undertakings relating to the terms of individual products offered by the enlarged group (eg personal current accounts, services for small and medium enterprises) for a period of years following the merger;
- (e) steps to improve customers' awareness of the terms of the products they are buying from the enlarged group and how those terms compare with those available from competing providers.

The Commission emphasises that it has not yet reached conclusions on any aspect of the inquiry. It remains interested, however, in any further comments on the above possibilities, and in any additional possible remedies that interested parties might want to propose. The Commission asks for any such submissions, in writing, by Friday 11 May.