
Anticipated acquisition by Yorkshire Building Society of Chelsea Building Society

ME/4363/09

The OFT's decision on reference under section 33(1) given on 24 December 2009. Full text of decision published on 13 January 2010.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. **Yorkshire Building Society (Yorkshire)** is a mutual building society incorporated under the Building Societies Act 1986. It provides financial services to personal customers including savings, mortgages, and insurance services (as distributor for a third party product provider), and share dealing services through Stocktrade. It also provides share plan administration services for its corporate clients and their employees and refers customers seeking financial planning advice to Legal & General. Yorkshire has a network of around 143 branches located throughout the UK.
2. **Chelsea Building Society (Chelsea)** is also a building society incorporated under the Building Societies Act 1986. It also provides financial services to personal customers including savings, mortgages, financial planning services in partnership with Aviva,¹ insurance services through an agency agreement with Legal & General and will writing services. Chelsea also offers share dealing services in partnership with the investment broker Hargreaves Lansdown. Chelsea has a network of 35 building society branches, the majority of which are located in the South of England. Chelsea's turnover for the previous financial year was £124.7m.

¹ These include investments (for example, stocks and shares ISAs, bonds and joint savings/investment opportunities) and retirement planning (for example, pensions, annuities and advice on inheritance tax liabilities).

TRANSACTION

3. Yorkshire proposes to acquire Chelsea through a statutory transfer of engagements. This would require a requisite majority of eligible saving and borrowing members of Chelsea and Yorkshire to vote in favour of the transfer. It is anticipated that the transfer of engagements will become effective on 1 April 2010.
4. The parties notified the transaction to the Office of Fair Trading (OFT) by means of a Merger Notice under section 96 of the Enterprise Act 2002 (the Act) on 7 December 2009. The statutory deadline for the OFT to decide whether to refer the merger to the Competition Commission (CC) expires on 7 January 2010.

JURISDICTION

5. As a result of this transaction Yorkshire and Chelsea will cease to be distinct. The merger does not have a Community dimension under the EC Merger Regulation. The UK turnover of Chelsea exceeds £70 million, so the turnover test in section 23(1) (b) of the Act is satisfied. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

MARKET DEFINITION

6. The parties overlap in the supply of a range of financial services to personal customers, in particular savings and mortgages. They also overlap in the supply of insurance products, although each of the parties is only a distributor of these services. Furthermore, the parties overlap in the supply of other services, including foreign money, share dealing² through third parties, and will writing services. Finally, Yorkshire and Chelsea act as distributors of financial planning services, referring their customers to Legal & General and Aviva respectively.

² This involves advising personal customers on the process of buying and selling shares.

Product scope

7. In Lloyds/Abbey,³ the CC concluded that the financial services sector may be broadly categorised as follows:
 - a) markets for financial products sold to personal customers
 - b) markets for financial products sold to small and medium-sized enterprises (SMEs)
 - c) markets for financial products sold to large firms, and
 - d) wholesale banking (for example, money market and foreign exchange dealing).

8. The CC also determined that financial products sold to personal customers include eight separate markets: 'PCAs (personal current accounts), deposit accounts and similar savings accounts, mortgages, other loans, credit cards, insurance (life and other), other long-term investments, and pensions'. This same approach has been adopted by the OFT in a number of recent decisions, including in Nationwide/Portman,⁴ in its report to the Secretary of State in Lloyds/HBOS,⁵ in Nationwide/Derbyshire,⁶ Nationwide/Cheshire,⁷ and more recently in Nationwide/Dunfermline.⁸

9. The OFT did not receive any evidence suggesting a departure from that market definition. Therefore, separate frames of reference will be considered for the provision of mortgages, savings accounts, and insurance to personal customers. In addition, the OFT considered the supply of financial planning services, foreign money, share-dealing and will writing, as separate frames of reference.

³ Competition Commission Lloyds TSB Group plc and Abbey National plc: a report on the proposed merger, July 2001, section 2, p. 13 (Lloyds/Abbey).

⁴ OFT decision on the anticipated acquisition by Nationwide Building Society of Portman Building Society, 21 November 2006.

⁵ OFT report to the Secretary of State on the anticipated acquisition by Lloyds TSB Group plc of HBOS plc, 31 October 2008 (Lloyds/HBOS).

⁶ OFT decision on the anticipated acquisition by Nationwide Building Society of Derbyshire Building Society, 19 November 2008.

⁷ OFT decision on the anticipated acquisition by Nationwide Building Society of Cheshire Building Society, 19 November 2008.

⁸ OFT decision on the anticipated acquisition by Nationwide Building Society of parts of Dunfermline Building Society, 15 May 2009.

Geographic scope

10. The parties submitted that the relevant geographic frame of reference for the supply of financial products to personal customers is the UK. In addition, the parties argued that they offer the same financial products, pricing and service quality throughout the UK creating no differentiation between branches. In particular, the parties argued that all pricing rates are set centrally, and local branches have no scope to flex these prices. Furthermore they argued that there is no variation in product range or availability and customers receive a consistent quality of service at all branches regardless location.
11. The CC in Lloyds/Abbey concluded that the geographic market for all of the products was Great Britain, with Northern Ireland constituting a separate market. In addition, in Northern Irish Personal Banking,⁹ the CC found that no bank in Northern Ireland operated any policies on a local basis, and customers had access to banks from several locations, which would weaken any notion of local markets. However, because customers in Northern Ireland appear to attach significance to the availability of branches and familiarity with the supplier's brand when choosing a PCA, and they do not switch to banks present only in Great Britain, the CC concluded that Northern Ireland formed a separate geographic market from Great Britain.
12. Although the parties submitted that the relevant geographic market for the supply of retail banking services is national in scope, the parties provided data of local areas in which they overlap, based on one mile and one and a half mile radii around Yorkshire and Chelsea branches.
13. In addition, the parties provided data of their market shares based on a regional basis.
14. In Lloyds/HBOS, the OFT could not rule out the possibility of competition concerns arising at the local level. However, in this case, given that the anticipated transaction does not raise competition concerns at either the regional or local level, the OFT does not need to conclude on the precise geographic scope and has analysed each product market on a UK-wide, regional and local basis.

⁹ Competition Commission, Personal current account banking services in Northern Ireland, Market investigation, 15 May 2007, para 3.36.

HORIZONTAL ISSUES

National level

15. The transaction creates an overlap in the supply of mortgages, savings accounts, insurance, financial planning services, foreign money, share dealing and will writing. The parties' share of supply of foreign money services, share dealing and will writing is less than one per cent and therefore these services are not considered further in this decision.
16. With regard to financial planning services, in light of the fact that the parties do not provide financial planning services themselves,¹⁰ and in the absence of any third party concerns, these services are not considered further in this decision.¹¹
17. Furthermore, according to the parties' estimates the combined market share for mortgages is less than [five] per cent with an increment of less than one per cent (measured by value of balance outstanding),¹² less than [five] per cent with an increment of less than two per cent for personal savings (based on the total value of deposits) and [less than five] per cent for general insurance products,¹³ specifically home and mortgage payment protection insurance.
18. In light of the low combined market shares and very small increments, and in the absence of any third party concerns, the OFT does not believe that the merger raises any competition concerns at the national level.

¹⁰ Yorkshire has a contractual relationship with Legal & General and acts as an introducer, referring its customers to Legal & General. Chelsea has partnered with Aviva for over 10 years whereby Chelsea customers are offered an introduction to Aviva for financial planning advice. Chelsea does not provide any financial planning advice itself.

¹¹ No evidence was presented to the OFT to suggest that the parties' combined market share of supply of financial planning services (that is, if the market share of the business referred to Legal & General and Aviva were attributed to them) would be materially higher than for the wide range of products that the parties were able to provide market shares for.

¹² Based on gross mortgage lending in the year, the combined market share is less than [five] per cent ([] per cent) with an increment of less than one per cent. In addition, the parties submitted that in no segment of mortgage products do the parties have a combined market share of greater than [five] per cent.

¹³ Yorkshire and Chelsea do not provide their own insurance products. However, they do overlap in the distribution of third party general insurance products.

Local and regional aspects

19. The OFT examined the data submitted by the parties and concluded that there are no locations in which there is a reduction in the number of branch fascia – on either a one mile or one and a half mile radius - to four (or fewer) and only one from seven to six (all other overlapping areas will include more than six branch fascia post-merger).
20. In addition, the OFT concluded that the transaction does not raise concerns on a regional basis, given the merged entity's relatively low market share post-merger in each of the overlapping products and services. []

Barriers to entry and expansion

21. Given that no competition concerns arise from the merger, it is not necessary to conclude on the issue of barriers to entry.

THIRD PARTY VIEWS

22. The OFT received comments and views about the merger from a number of third parties.
23. No third parties expressed any concerns about the transaction to the OFT.

ASSESSMENT

24. Yorkshire and Chelsea overlap in the supply of a range of financial services to personal customers, in particular savings and mortgages. They also overlap in the supply of insurance products (although each of the parties is only a distributor of these services), the supply of financial planning services (although Yorkshire and Chelsea act as distributors of such services, referring their customers to Legal & General and Aviva respectively) and in supply of other services, including foreign money, share dealing through third parties and will writing services.
25. For the purposes of this assessment, the OFT examined all these financial products on a UK-wide basis. In addition, the OFT examined information provided by the parties on local and regional areas in which the parties overlap.

26. Based on the evidence available to it, the OFT considers that no competition concerns will arise on any of these frames of reference. At the national and regional levels, the parties have a small combined market share of supply in relation to each of the product segments with minimal or small increments in all segments. At a local level, the OFT concluded that there are no locations in which there is a reduction of fascia to four (or fewer), and only one from seven to six (all other overlapping areas will include more than six branch fascia post-merger).
27. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

28. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.