OFFICE OF FAIR TRADING

Proposed merger of Nationwide Building Society with Portman Building Society

The OFT's decision on reference under section 33(1) given on 21 November 2006. Full text of decision published 27 November 2006.

PARTIES

1. **Nationwide Building Society** (Nationwide) is a UK mutual building society registered under the Building Societies Act 1986. It provides a range of personal and business financial services.

2. **Portman Building Society** (Portman) is also a UK mutual building society registered under the Building Societies Act 1986. It also offers a range of personal and business financial services. Portman's UK turnover for the financial year ended 31 December 2005 was £210.9 million.

TRANSACTION

3. The transaction involves the merger of Nationwide with Portman by way of transfer of engagements under section 94 of the Building Societies Act 1986. The transaction was announced on 12 September 2006 and the transfer of engagements is to become effective in August or September 2007.

4. The merger was notified to the Office of Fair Trading (OFT) on 26 September 2006. The administrative deadline is 21 November 2006.

JURISDICTION

5. As a result of this transaction, Nationwide and Portman will cease to be distinct. The turnover test in section 23(1) of the Enterprise

Act 2002 (the Act) is met as Portman's turnover in the UK exceeds £70 million. The OFT therefore believes that it is or may be the case that a relevant merger situation will be created.

FRAME OF REFERENCE

6. The parties overlap in the provision of mortgages, savings accounts, insurance products, pensions and long-term investments to personal customers.

7. The parties also overlap in the provision of general purpose business loans, other business loans and business deposit accounts to small and medium sized enterprises (business customers). However, given Portman's negligible shares of supply in all these segments (below one per cent), the OFT has not considered these segments further in this decision.

Product scope

8. Nationwide submits that the relevant product frames of reference for the purpose of this transaction are the supply of financial products sold to personal customers and in particular current accounts, deposit accounts (also known as savings accounts), mortgages, loans, credit cards, insurance, pensions and long-term investments.

9. In *Lloyds/Abbey National* and *Portman/Sun Bank,* the Competition Commission (CC) and the OFT concluded that personal current accounts, savings accounts, mortgages, credit cards, insurance, pensions and long-term investments constituted separate product markets although there were interconnections between them (for example, some products provided a basis to cross-sell other products and having a branch network may provide an incentive to offer a range of products).[1]

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[1] Please see Lloyds TSB Group plc and Abbey National plc: A report on the proposed merger. Please see also the proposed acquisition by Portman Building Society of Sun Bank plc, cleared in accordance with the Director General of Fair Trading's advice of 18 October 2001.

10. The vast majority of competitors who were approached by the OFT broadly agreed with the product scope proposed by the parties. In the main, customers are unlikely to see the products as being substitutable, although a few competitors suggested that there may be some demand side substitution between some of the products (for example, between credit cards and unsecured loans). Most competitors confirm that supply-side substitution is quite easy for those already offering some financial products to personal customers and who have built up a good reputation.

11. In light of the above considerations, separate frames of reference will be considered for the provision of mortgages, savings accounts, insurance, pensions and long-term investments to personal customers. Current accounts, personal loans and credits cards have not been considered further because there is no overlap between the parties' business activities.

Geographic scope

12. Nationwide submits that the relevant geographic scope for the supply of financial products to personal customers is the UK. Pricing, advertising and marketing strategies are set on a national basis and do not generally vary by region or branch. The only exceptions identified by the parties are Nationwide's household insurance premia, which are partly determined by postcode, and Portman's marketing strategy, which vary by region.

13. In *Lloyds/Abbey National*, the CC concluded that the geographic market for all of the financial products sold to personal customers was Great Britain. In *Portman/Staffordshire*, the OFT considered the geographic scope to be the UK.[2]

14. Most competitors considered the geographic scope to be national, not local or regional. Their evidence on charges and fees for the provision of various financial products to personal customers, which do not show any local or regional flexing, suggests that the relevant

[2] OFT's decision of July 2003 in relation to the Anticipated Acquisition by Portman Building Society of Staffordshire Building Society.

geographic scope for products for personal customers is at least Great Britain wide.

15. For completeness, the OFT also considered whether a local geographic scope measured on a one mile basis suggested by the parties and a few third parties may be appropriate in this case given that access to branches is important for some financial products to personal customers (e.g. long-term investments and pension products, 90-100 per cent of which are sold in branches). However, while branch locations are a factor of competition for some financial products, telephone and internet banking are considered important distribution channels for some financial products (e.g. credit cards, insurance products and personal loans).

16. The OFT has not found it necessary to conclude on the relevant geographic scope as the competition assessment is largely unaffected by choice of scope. The OFT has therefore analysed the merger on a UK and local basis.

HORIZONTAL ISSUES

17. The parties have provided shares of supply data on a UK wide basis where they overlap in the supply of financial products to personal customers. In the UK, the parties have estimated their combined share of supply of mortgages at 10.7 per cent; of savings at 10.8 per cent; of insurance below 10 per cent; of pensions below 6 per cent and of long-term investments below 9 per cent. Increments throughout all these segments are below 5 per cent. The OFT received no third party comments calling into question these figures. None of the shares and corresponding increments above gives reasons, however cursory, for competition concerns. In all product segments numerous competitors remain, including HBOS, Abbey National, Lloyds TSB, Barclays and Royal Bank of Scotland.

18. In considering the merger on a local basis, no competition concerns arise when overlaps are considered on a one mile or any wider basis. Potential concerns could arise in one area only when measured on a 0.5 mile basis but, given the consistent comments of the parties and third parties, the OFT does not believe that this is an appropriate measure to use.

19. Based on the evidence before it, the OFT therefore does not have any horizontal concerns in respect of the merger. Given this conclusion it is not necessary to consider barriers to entry and expansion.

VERTICAL ISSUES

20. No vertical issues arise as a result of this merger.

THIRD PARTY VIEWS

21. Almost all third parties were unconcerned about the proposed merger. One personal customer expressed concern that 'mutuals' constitute a separate banking sector and the proposed merger (between the largest and third largest) was unlikely to be in consumers' interest. The OFT, however, does not view mutuals as being distinct and separate from other financial institutions also engaged in the supply of the services in which the parties overlap (see product scope, above) because we consider that consumers are concerned about products and services on offer, rather than the legal status of the entities offering them.

ASSESSMENT

22. This transaction involves the merger of two of the largest mutual building societies in the UK. Both offer a range of financial products.

23. For the purposes of this assessment, the impact of this proposed merger has been considered in relation to the provision of mortgages, savings accounts, insurance products, pensions and long-term investments to personal customers. These products have been assessed on both a national and local level.

24. Based on the evidence before the OFT, the OFT considers that no competition concerns will arise on any of these frames of reference. At a national level, the parties have a small combined share of supply in relation to each of the product segments, with increments of less than five per cent in all segments. No concerns arise a local

level. No vertical issues are raised by the merger and no third parties raised any substantive competition issues.

25. 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

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