



**CONSUMERS'
FEDERATION
OF AUSTRALIA**

Developing and promoting
the consumer interest

PO Box 16193
Collins Street West
VIC 8007

11 January 2023

By email: ANZ-SuncorpMerger@acc.gov.au

Australian Competition & Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2600

Dear Commissioners

ANZ proposed acquisition of Suncorp Bank

Thank you for the opportunity to comment on Australia and New Zealand Banking Group Limited's (**ANZ**) application for merger authorisation for its proposed acquisition of Suncorp Bank (the **proposed acquisition**)

The Consumers' Federation of Australia (**CFA**) considers that the proposed acquisition is likely to substantially lessen competition for retail banking services in Australia. We also consider the likely detriments of the proposed acquisition exceed any likely public benefits. Our reasoning is set out below.

About Consumers Federation of Australia

Consumers' Federation of Australia (CFA) is the peak body for consumer organisations in Australia. CFA represents a diverse range of consumer organisations, including most major national consumer organisations.

CFA advocates in the interests of Australian consumers with and through its members, supports consumer representatives to industry and government processes, develops policy on important consumer issues and facilitates consumer participation in the development of Australian and international standards for goods and services.

CFA is a full member of Consumers International, the international peak body for the world's consumer organisations.

Impact on competition

In its application for merger authorisation, ANZ submits that the proposed acquisition would not substantially lessen competition in any of the relevant national markets for retail banking, including deposit products, home loans and credit cards.¹

We disagree. The proposed acquisition will materially increase the risk of coordinated conduct in a number of these markets by removing a key competitor, Suncorp Bank. This is because, as described below, the big four banks operate largely as one, with respect to pricing and product differentiation. There is no effective competition between the big four banks. To the extent there remains competitive pressure in Australian banking, it comes from outside the big four, particularly the small number of second-tier banks including Suncorp Bank.

Removing larger second-tier banks inevitably reduces competitive pressure and, should it proceed, will establish both a precedent and regulatory dynamic ensuring that the other remaining second-tier banks become open game for acquisition by the four majors. Smaller banks such as mutuals, and neo-banks, do not provide effective competition for the big four.

This acquisition thus represents a ‘tipping point’—if approved, there will be no limits on further bank mergers, resulting in an even more concentrated Australian banking market with only the big four ‘acting as one’. This will result in increased bank profits, more expensive banking products, as well as poorer and less accessible services, to the detriment of Australian consumers.

The big four are an oligopoly and operate largely as one

Numerous reports, including from the ACCC, as well as our observations, lead us to conclude that the big four banks are an oligopoly and operate largely as one. Competition between the big four banks is ineffective. These reports and observations include:

- The 2018 ACCC Residential Mortgage Pricing Inquiry found ‘there are signs of accommodative oligopoly behaviour among the big four banks’, pointing to ‘the intense focus the big four banks have on each other when setting variable interest rates’ and ‘the way in which pricing strategies are often used to accommodate, rather than challenge, rivals.’² In its final report, the ACCC described this as an ‘accommodative and synchronised approach to pricing’.³
- The 2020 Productivity Commission Inquiry into Competition in the Australian Financial System (the **PC Inquiry**) found that the size and scale of Australia’s big four banks given them substantial market power.⁴ See Figure 3.1 from its report, reproduced below.

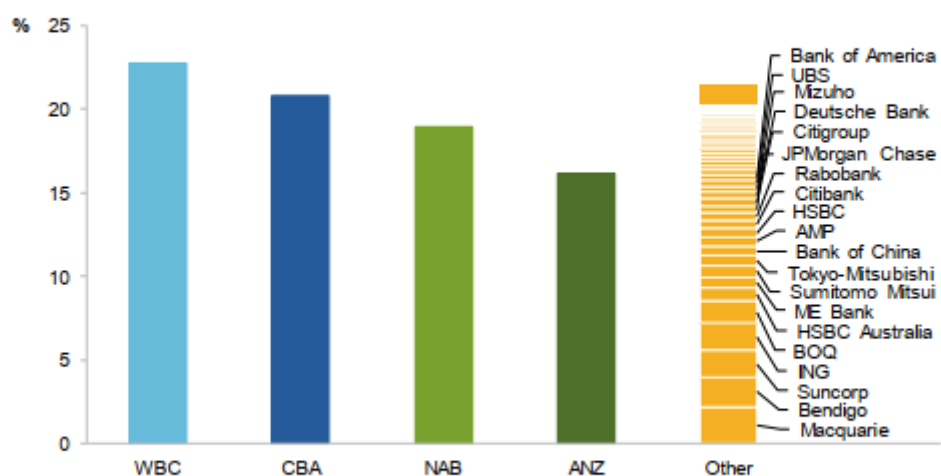
¹ ANZ Proposed Acquisition of SBGH Limited, Application for Merger Application, part 7.

² ACCC, Residential Mortgage Pricing Inquiry, Interim Report, page 6.

³ ACCC, Residential Mortgage Pricing Inquiry, Final Report, page 6.

⁴ Productivity Commission, Competition in the Financial System, Final Report, page 39.

Figure 3.1 To be as large as a major bank, 20 other banks would need to merge
Banks' share of resident assets, April 2018^a



^a Figures reflect share of assets held on banks' domestic books.

Source: APRA (2018m)

- The 2020 ACCC Home Loan Price Inquiry found several pricing practices and market features which inhibit effective competition among the big four banks. These included the presence of discretionary discounts which leads to opaque prices and information asymmetry.⁵
- The PC Inquiry found ineffective competition and market power in other banking sub-sectors. For example, it found that the major banks dominate bank transfers,⁶ and that most people do not switch transaction or savings accounts.⁷
- The ACCC's Foreign Currency Services Inquiry found that the big four banks' margins for international money transfers in Australia were among the highest in the world, and that they did not vie to offer the best prices to consumers.⁸ This demonstrates market power and the fact that the big four banks act as one, not sufficiently affected by outside competition.
- The PC Inquiry also found that differentiated products in consumer credit, particularly credit cards, is not demonstrative of effective competition. The PC described this as 'typically a choice overload for consumers. It also creates an illusion of choice, and the perception of a greater degree of competition among providers than actually exists'.⁹ While it may be suggested that 'buy now pay later' has provided competition for credit cards, two of the big four banks now offer this product.¹⁰ ANZ does not offer this product, but Suncorp does offer a PayLater product, and thus the acquisition will result in limited product differentiation among the big four banks.

⁵ ACCC, Home Loan Price Inquiry, Final Report, page 39.

⁶ Productivity Commission, Competition in the Financial System, Final Report, page 472.

⁷ Ibid, page 147

⁸ ACCC, Foreign Currency Services Inquiry, Final Report, pages 43-44.

⁹ Productivity Commission, Competition in the Financial System, Final Report, page 13.

¹⁰ CBA offers StepPay, NAB offers Now Pay Later.

- Profit levels of the big four banks remain high, as would be expected in an oligopolistic market. A key profitability measure—return on equity—demonstrates that the big four banks are highly profitable, and largely follow the same trajectories.¹¹ Profit levels are higher than those reported in other jurisdictions, for example, the return on equity reported for European banks in 2021 was 6.3%.¹²

CASH ROE	2021	2022
ANZ	9.9%	10.1%
CBA	11.5%	12.7%
NAB	10.6%	11.7%
WBC	7.6%	7.4%

- The regulation of Australia’s banking system promotes system stability over effective competition (and consumer protection and empowerment). The prudential regulator APRA has said ‘APRA’s pursuit of system stability, even if it at times may, at the margin, *reduce competitive pressures*, is predicated on delivering the important community benefit of a stable financial system’.¹³ Stability of the big four seems a particular focus given their importance to the financial system, and this protection supports coordinated activity. For example, the ACCC has found that APRA’s prudential benchmarks have facilitated accommodative pricing behaviour.¹⁴

These reports and observations confirm that Australia’s big four banks operate as one, and thus provide for ineffective competition which leads to poor consumer outcomes.

Competition outside the big four banks

Outside the big four banks, the competitive pressure offered by other banks is muted. This is due to a range of reasons but is primarily driven by the fact that these banks tend to target specific customer groups and do not target a broad range of customers that might challenge the big four banks. Our analysis is as follows:

- Australia’s fifth largest bank does not directly compete with the big four—Macquarie Bank targets high net-wealth customers, many of whom are sourced from its financial advice and other wealth businesses.
- Three second-tier regional banks—Suncorp Bank, Bank of Queensland, and Bendigo and Adelaide Bank—provide some competitive pressure for the big four. We consider that removing any of these three will substantially lessen competition. Each retains extensive branch networks (particularly in regional communities) and offers a full-service alternative to the big four banks.
- International banks offer limited competitive pressure. ING Bank target customers who value digital experience over access to physical branches, and HSBC Bank Australia targets high-net wealth customers who perhaps operate internationally. We note that Citibank recently left the Australian market, and its retail banking books were purchased by NAB. That acquisition can be differentiated from the current one, in that ACCC considered that removal of an international competitor bank did not substantially lessen competition.

¹¹ See: <https://www.djerri.com.au/news/australian-banks-good-profit-results-solid-outlook>

¹² European Banking Federation, Facts and Figures 2021, page 17, see <https://www.ebf.eu/factsandfigures/>

¹³ Productivity Commission, Competition in the Financial System, Final Report, page 555.

¹⁴ ACCC, Residential Mortgage Pricing Inquiry, Final Report, page 49.

- Neo- or ‘digital’ banks have not provided the competitive pressure that was hoped. In fact, the very small impact of independent digital banks in consumer markets confirms that there remain significant barriers to entry in banking, or that the market structure is such that the big four will merely purchase any effective competitor. For example, 86 400 was a digital mobile bank that offered competitive pressure, but it was purchased by NAB in 2021.¹⁵ Volt Bank closed its deposit taking business and returned its banking licence in July 2022.¹⁶ Up Bank fits within this category but is owned by Bendigo and Adelaide Bank.¹⁷ Judo Bank appears to be the only independent bank left in this group, and it has a focus on small and medium sized enterprises and does not provide competition in other key areas of banking.¹⁸
- Smaller banks including mutual banks generally target narrow markets and are not seeking to acquire a broad range of customers. Many of these banks target people in specific regions or employees of specific industries. Additionally, there has been substantial consolidation in the mutual sector, such that it no longer provides effective competition to the big four.

Demand side of the market

ANZ contends that competition is being driven by the demand of customers, and their ability to exercise their decision to switch.¹⁹ While consumers can play a role in promoting competition, we consider that there are significant barriers to effective competition on the demand-side, and set out responses to ANZ’s assertions below.

ANZ’s assertion	CFA response
Customers can easily, and increasingly do, switch between providers (bank and nonbank) to secure products and services that suit their needs and requirements	<p>Data presented to the PC Inquiry (see below, figure 5.2 excerpted) demonstrates that rates of switching are low. This is because banking products are ‘sticky’, meaning consumers are unlikely to switch to a better deal. Research from CHOICE has shown that most consumers had not even considered switching in a two-year period.²⁰ There is little evidence that this has changed since the enactment of the Consumer Data Right, which has suffered from slow uptake.</p> <p>The Reserve Bank of Australia has suggested that consumers appear reluctant to switch accounts either because of a lack of information or an assessment that the benefits of doing so are not sufficient to outweigh the ‘hassle’ factor, the costs of switching, or the convenience of having a number of services ‘bundled’ with the one institution. This reluctance to switch tends to dull competition in the system and confers benefits to existing institutions.²¹</p>

¹⁵ See: <https://www.apra.gov.au/news-and-publications/apra-revokes-86-400-ltds-authorized-deposit-taking-institution-licence>

¹⁶ See: <https://www.apra.gov.au/news-and-publications/apra-monitors-volt-return-of-deposits>

¹⁷ See: [https://en.wikipedia.org/wiki/Up_\(Australian_bank\)](https://en.wikipedia.org/wiki/Up_(Australian_bank))

¹⁸ See: https://en.wikipedia.org/wiki/Judo_Bank

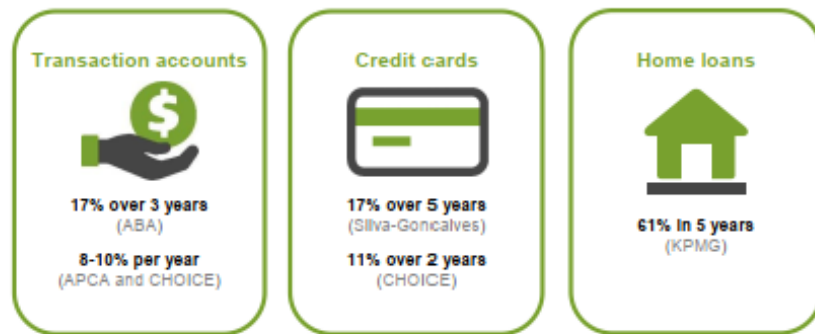
¹⁹ ANZ Proposed Acquisition of SBGH Limited, Application for Merger Application, page 10-11.

²⁰ CHOICE, Submission to Productivity Commission Inquiry into Competition in Financial Services, page 14.

²¹ Reserve Bank of Australia, Submission to the Inquiry into Competition in the Banking and Non-Banking Sectors, July 2008, p. 18.

ANZ's assertion	CFA response
<p>Customers use brokers to identify the product best suited to their needs and to simplify the process of dealing with a lender, particularly in home loans</p>	<p>While the pro-competitive effects of brokers in the market may have been large and obvious in the 1990s, they have since declined. As stated by the PC, 'many mortgage aggregators are now owned by lenders—the revolution has become part of the establishment.' Moreover, this 'aggregator ownership' structure can create conflicts of interest, as lenders have natural incentives to favour their own products.²²</p> <p>Analysis also shows that interest rates on loans obtained through brokers are most often similar to those obtained through banks themselves. While brokers may 'simplify the process', it does not appear that customers are willing to pay for this service.²³</p>
<p>Customers are increasingly multi-bank, with data suggesting 70% of customers split their banking across multiple providers</p>	<p>The data relied on for this assertion is not made public, so we urge ACCC to tread with caution.</p> <p>CFA notes that data about account openings over-estimate and the data about account closures under-estimate the number of consumers who actually switch. This is because customers who switch do not necessarily close their old accounts; consumers who open new accounts are not necessarily switching.</p>

Figure 5.2 Rate of switching across different financial products



Claimed public benefits

ANZ claims that the acquisition will result in a range of public benefits, particularly that the consolidation of the two banks will yield efficiencies and that increased scale encourages digital transformation and innovation.²⁴

CFA considers that it is highly unlikely that these claimed public benefits will eventuate, primarily because ANZ will face less incentive in these areas due to a lack of competitive pressure. Without competitive pressure, firms are less likely to innovate, and any efficiency gains will not be shared with customers.

²² Productivity Commission, Competition in the Financial System, Final Report, page 301.

²³ Ibid.

²⁴ ANZ Proposed Acquisition of SBGH Limited, Application for Merger Application, page 16-17.

ANZ also claims that the acquisition will result in reduced wholesale funding costs for Suncorp.²⁵ CFA similarly considers that this benefit is unlikely to be shared with consumers, given the oligopolistic nature of the market. We consider that any public benefits that are simply captured by the supply side should not be assessed as outweighing anti-competitive detriments associated with the proposed acquisition.

The other areas where ANZ claims public benefits—increased prudential safety, and greater contribution to revenue through the major bank levy²⁶—should be assessed as being small. Due to Australia’s system for prudential regulation, the banking system and the relevant capital benchmarks are already ‘unquestionably strong’.²⁷ Any additional safety beyond that required by regulation is unlikely to be significant. In relation to the major bank levy, ANZ estimates this to be around \$24m a year.²⁸ CFA considers the public detriments of the proposed acquisition would far outweigh this figure.

Public detriments

CFA considers that there are likely a range of public detriments that arise from the proposed acquisition. Beyond the impact on competition, we make comment on two detriments—accessibility of banking, and the proposed acquisition’s impact on inflation.

Accessibility

ANZ claims that consumers prefer conducting their banking through digital means and have significantly reduced branch visits.²⁹

CFA considers that consumer preferences only partially explain the shift to digital banking, and that there are a range of factors at play. These include increased acceptability of cards, shops and others stopping accepting cash, increased use of online shopping, increased use of cards/mobile apps on public transport etc. In short, consumers are pushed to digital banking rather than shifting solely due to ‘preference’.

Importantly, the closure of bank branches and ATMs has also played a significant role in pushing consumers to online banking. In the past 5 years, the number of bank branches in Australia have dropped by around 30 percent, and ATMs by 53 percent.³⁰ The reduction in physical places for accessing banking is a significant public detriment, particularly affecting people in regional and remote regions.

CFA notes that ANZ commits to maintaining the total number of Suncorp Bank branches in Queensland for at least three-years post-completion.³¹ This does not obviate the public detriments that are likely to arise. First, the commitment does not mean that there will not be closures of ANZ branches in Queensland. Second, the commitment does not mean no branch closures in other states and territories. Third, the commitment is for three-years only. At the end of three-years, it appears that ANZ intends to close Suncorp branches in Queensland, reducing accessibility of banking in that state. Queensland is a large state geographically and

²⁵ Ibid.

²⁶ Ibid.

²⁷ See: <https://www.apra.gov.au/news-and-publications/apra-announces-%E2%80%98unquestionably-strong%E2%80%99-capital-benchmarks>

²⁸ ANZ Proposed Acquisition of SBGH Limited, Application for Merger Application, page 223.

²⁹ Ibid, page 9.

³⁰ See: <https://www.apra.gov.au/authorised-deposit-taking-institutions-points-of-presence-statistics>

³¹ ANZ Proposed Acquisition of SBGH Limited, Application for Merger Application, page 33.

Suncorp has many branches throughout the state. As part of its market inquiries, we suggest ACCC examine the impact of branch closures on banking accessibility over time.

Inflation

While failing competition may not be the root cause of Australia's current high levels of inflation, ineffective competition and the existence of market power can contribute to high prices.

When firms are operating in a highly competitive landscape, they will have no choice but to set prices close to cost, as doing so will otherwise mean that competitors are able to steal customers away by setting slightly lower prices. In contrast, firms that have market power can sell at a large mark-up.

Moreover, as has been stated by Lina Khan, chair of the US Federal Trade Commission, 'an inflationary environment can give companies with market power or a monopoly, power to exploit that party'.³² This means that during times of higher inflation, as exists currently in Australia, firms like the banks can more easily increase their prices in a coordinated way.

As part of its market inquiries, we urge ACCC to consider the impact on the proposed acquisition on inflationary pressure in Australia, which is a significant concern for the welfare of Australian consumers.

Conclusion

In summary, CFA considers approval of the proposed acquisition of Suncorp Bank by ANZ risks embedding ineffective competition in Australia's banking market by consolidating the power of the big four, and will result in broader public detriments, including through reducing the accessibility of banking in regional and remote areas, particularly in Queensland.

Yours sincerely



Gerard Brody
Chair, Consumers Federation of Australia

³² Politico (2022), 'Europe wary of following U.S. in using competition policy to fight inflation', 8 February.