COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 27/LM/May01

In the large merger between:

BoE Bank Limited

and

Credcor Limited

Reasons for the Competition Tribunal's Decision

APPROVAL

On 4 July 2001 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between BoE Bank Limited and Credcor Limited without conditions in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

The merger transaction

1. The primary acquiring firm, BoE Bank Limited ("BoE"), is acquiring the 57.28% shareholding in Credcor Limited ("Credcor"), the primary target firm[1], from the three controlling shareholders, Flack Family Trust, Tanglewood Investments (Pty) Ltd and Ethos Private Equity. BoE currently holds 13.79% of the shares in Credcor.

2. In addition, BoE intends to acquire the entire issued share capital of Credcor by means of a Scheme of Arrangement, in terms of Section 311 of the Companies Act [2] failing which by means of a Section 440 offer. However acquisition of the 57.28% shareholding is not contingent on realization of either of these two options, and BoE will still acquire this (majority) shareholding should neither option be implemented.

3. Following the merger, Credcor will ultimately be constituted as a division of BoE Bank.

[1] Credcor Limited is a holding company for a group of companies trading as Consumer Credit.
[2] Act 61 of 1973

EVALUATING THE MERGER

The relevant market

4. Both parties are active within the general financial services industry in South Africa, however, for the most part, cater to different categories of clients and offer different products.

5. BoE primarily caters to the business and corporate market, as well as the middle to high income individual market. In the business sector, the Group primarily targets the top 300 listed corporates/institutions and medium-sized corporates, with a small customer base coming from the informal sector. Within the individual sector, the Group targets high net worth, middle income and mass market consumers. The mass market segment contributes less than 1% to BoE's total earnings. [3]

6. BoE's products range from investment banking services to treasury to life insurance to offshore retail to secured finance. This is not an exhaustive list of its spectrum of products, such a list would prove too detailed and irrelevant for the purposes of this analysis.

7. BoE (through PEP Bank), has a small presence in the emerging market, targeting the lower income segment of the market. PEP Bank is a Joint Venture between BoE Bank and Pepkor. BoE has licensed the "PEP" name from Pepkor, but Pepkor has no equity in PEP, which is merely a division of BoE Bank.[4]

8. BoE previously held 18% of the ordinary shares in African Bank Investments Limited ("Abil"), competitor of PEP and Credcor, which it has since sold. It has recently acquired a company called Cashbank which provides housing loans to clients in the lower income market. Credcor does not provide housing loans. Thus to the extent that there is any overlap between the businesses of BoE and Credcor that overlap occurs in relation to PEP.

9. PEP's core product is a savings facility offering interest rates ranging from 6-8%. It also offers a personal loan facility to holders of savings accounts with incoming salary deposits. Loans are repayable over a minimum of one month to a maximum of 36 months.[5]

10. Credcor is a short to medium-term finance company providing unsecured finance and assurance products to consumers in the lower income, mass market segment

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[3] BoE Market Focus & Earnings Contribution Schedule
[4] Record, p 350
[5] Advances up to a maximum of R10,000.

of the market. [6] The company's range of services include **retail credit**, which is its core business activity and comprises 85% of its advances, (advancing credit to consumers for the purchase of retail goods through a network of 11 000 independent retailers[7]); as well as **personal loans** through its Credcor branches (15% of its advances) and **insurance products** (including credit life, product and funeral insurance).

11. PEP does not presently provide housing loans, insurance products or retail credit. Similarly, Credcor does not cater to any of BoE's product markets which targets its core business activity to the business, corporate and up-market financial segments.

12. The Commission accordingly identified the only area of overlap and relevant market as being the market for **personal loans provided to low-income consumers by lenders in the formal micro-lending industry**.[8]

13. Micro finance is described as money lending on a small scale to consumers for starting small businesses, or paying expenses including student fees, burial payments and furniture.[9] In recent years, many niche players have rapidly entered the industry, including African Bank Investments Limited ("ABIL"), Unifer Holdings Limited ("Unifer") and Saambou Holdings Limited ("Saambou") through its interest in Thuthukani Group Limited ("Thuthukani"). Traditional banks have entered this segment, ABSA acquiring a majority interest in Unifer and Standard Bank Investment Corporation ("Stanbic") collaborating with ABIL. Such alliances realize the benefits of combining the lenders' customers knowledge and distribution networks, with the traditional banks' wider product scope, secure, cheap funding, IT infrastructure and corporate networks.

14. Furthermore, giant retailers such as JD Group, Ellerines and stores such as Woolworths and Edgars are also entering the fray. These retailers have the requisite access to established client databases, market information and credit systems & scoring abilities to capitalize on their entry into this emerging market.

15. The emerging market segment of the banking industry is accordingly on a high growth curve, estimated to be growing at a rate of 35% per annum, as against the traditional banking sector, which is growing at a rate of 5% to 7% per annum.[10]

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[6] Also referred to as the emerging market or described as consumers falling within the Living Standard Measures 4 to 6 categories. This is a method of segmenting customers into profiles for the purpose of identification of target markets.

[7] In other words, Credcor accepts the credit risk and administers the credit control function on behalf of the retailer. (Record p176)

[8] The parties describe this as providing short to medium term loans to individuals in the LSM 4 to 6 category.

[9] Record p147

[10] Record p 13

16. Whilst we have no reason to dispute the Commission's definition of the relevant market, in our view we do not need to define the relevant market with any greater precision for the purpose of this decision. It is quite clear from what emerges below when we examine the extent of the parties' market shares, that whether we confine the market to personal loans or include retail credit, their market shares are insignificant. Secondly the figures are probably understated because they are confined to the major institutions in the mass market and do not include other players and the informal sector lenders.

Geographical Market

17. While Credcor operates 12 branches throughout SA, PEP outlets are concentrated in the Western Cape area primarily, where it has 50 branches. Since consumers in this market seek location-specific services and lower-end consumers are unlikely to travel across the country for the purpose of taking out personal loans. The Tribunal agrees with the assessment of the geographical market by the Commission, namely that the area of overlap is confined to the Western Cape region.[11]

Market Shares

18. The parties and Commission struggled to ascertain the market shares of the relevant players in the industry. The only reliable figures appear to have been provided by the Micro Finance Regulatory Council.[12]

19. The parties' market share figures were based on financial information gleaned from the various industry players.

Firm	**Gross Advances (RM)**	**% of Total**
Abil	4,655	36.5%
Unifer	3,691	28.9%
Saambou	3,714	29.1%
Credcor	**435**	**3.4%**
Thuthukani	244	1.9%
PEP Bank	**31**	**0.2%**
TOTAL	12,755	100%

20. On the parties' estimates, the combined market share of the merged entity would be **3.6%** post-merger. These figures incorporate personal loans as well as retail

[11] PEP is rapidly expanding and will presumably open up branches in other provinces.

[12] A non-profit institution approved by the Minister of Trade and Industry to ensure compliance with the exemption to the Usury Act dated 1 June 1999 (Exemption allows registered lenders to charge more than the prescribed maxima of the Act).

credit. Accordingly Credcor's market position is probably overstated since its retail credit division accounts for some 85% of its business. PEP, on the other hand, does not provide retail credit at all. The parties also maintained that these figures would be inflated since they did not account for other competitors in the industry, such as the big four banks and other micro lenders.

21. The MFRC figures allow one to isolate the parties' respective shares of the personal loan market in the lower income market. This yields the following results:[13]

Firm	Gross Advances (RM)	% of Total
Abil	518	14.8%
Unifer	2,161	61.6%
Saambou	568	16.2%
Credcor	65	**1.9%**
Thuthukani	162	4.6%
PEP Bank	31	**0.9%**
TOTAL	3,506	100%

22. Accordingly, this would leave the parties with a **2.8%** post-merger market share nationally. Unfortunately, the MFRC did not provide a breakdown of these figures across the various regions, including the Western Cape. However, the Tribunal finds it unnecessary to establish these market share figures with any certainty since the market shares for personal lending institutions in respect of the entire country are de minimis anyway. The Tribunal also took cognizance of the fact that personal lending is not Credcor's core business, and in fact comprises only 15% of its overall business activities.

Impact on competition

23. The parties alluded to the abundance of competitors present in the emerging lending market, both in the form of smaller financial institutions and retail groups (including Peoples Bank, PSG, JD Group, Ellerines, Moneywise) and more especially the four larger, traditional banks who are active in the emerging market (Standard, ABSA, Nedcor and FNB[14]). Unfortunately, there was a paucity of accurate market data which would assess the degree of inroads into the relevant market by these banks and other emerging players (albeit they are largely fragmented and insignificant in terms of market power). However, the Tribunal accepts the parties' argument that such players could in all likelihood erode the parties' overall market shares even further.

[13] These calculations are based on figures provided by the Micro Finance Regulatory Council (MFRC).
[14] The parties here draw reference from the Nedcor/Stanbic report.

24. The parties also stated at the hearing that precisely this competitive nature of the industry could well encourage BoE management to pass on capital savings to consumers in the form of lower interest rates.

25. In conclusion, in view of the de minimus combined market share of the merged entity in the Western Cape, as well as the highly competitive nature of the industry, this transaction does not raise any competition concerns.[15]

26. The Tribunal therefore endorses the Commission's view that this merger will not result in the substantial lessening or prevention of competition in any market.

Public Interest Considerations

27. The merger raises no competitiveness concerns and there are no public interest considerations which would alter this conclusion.

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N. Manoim	**Date**

Concurring: D.H. Lewis, P. Maponya

[15] The parties asserted that this is a high growth industry with many banks currently entering the emerging market