COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No.: 90/LM/Sep05

In the large merger between:

Standard Bank of South Africa Ltd

and

RCS Investment Holdings (Pty) Ltd

Reasons

Introduction

1. The Competition Tribunal approved the merger between Standard Bank of South Africa Ltd ("SBSA") and RCS Investment Holdings (Pty) Ltd ("RCS") on 17 November 2005. The reasons are set out below.

The transaction

2. The proposed transaction concerns the acquisition by the SBSA of a 45% shareholding in RCS. In terms of the share acquisition agreement entered into by the parties, SBSA will only obtain minority protection rights at this stage. SBSA will acquire an initial 25% shareholding in RCS and will have two call options to acquire further tranches of 10% each of the shares in RCS.

3. Post the transaction SBSA and Foschini would become joint controllers in RCS. Foschini would retain a majority 55% stake whilst SBSA would hold 45%.

Rationale for the transaction

4. The parties submitted that SBSA has identified the retail and personal financial services sector in South Africa as having ongoing growth potential. SBSA also identified RCS as a profitable business that has the required infrastructure and the know-how to compete in the sector hence the parties considered the proposed deal as an opportunity to enter the sector. The parties further submitted that the proposed merger is in line with international trends of banks entering into the sector through joint ventures and alliances with retailers.[1]

[1] See page 296 of the record.

5. RCS asserted that the proposed deal brings to it a number of benefits including, amongst others, access to enhanced funding from SBSA, and to the banking and associated facilities of SBSA.

Relevant Market

6. The parties to the proposed transaction operate nationally and service customers within South Africa.

7. **SBSA**, a subsidiary of the Standard Bank Group ("SBG"), is a registered bank conducting a wide variety of personal and business banking and related services as well as corporate and investment banking services. SBSA also provides banking accounts (i.e., cheque and savings accounts), credit cards (e.g., MasterCard), debit cards (i.e., Maestro Debit Card and the MasterCard ChequeCard), overdraft facilities and loans, vehicle and asset finance, investment products, offshore and foreign exchange services and insurance, and many more.

8. SBSA also informed us of its existing (unincorporated) joint venture with African Bank Limited ("African Bank"). The JV provides micro loans to low income households or persons, and requires that SBSA promote and originate certain African Bank micro loan products in certain SBSA centres or branches. The JV is limited to customers who approach SBSA for such loans at these SBSA centres and branches. For reasons advanced by the merging parties we do not see any point considering this any further as no competition concerns arise therefrom.

9. **RCS**, an ultimate subsidiary of Foschini Limited ("Foschini"), owns two operating subsidiaries, viz., RCS Cards and RCS Personal Finance. RCS provides retail credit and personal financial services to a number of retailers and individuals in South Africa.

10. **RCS Cards** has until recently offered separate store cards such as RCS Auto, RCS Health, RCS leisure, etc. The merging parties advised that these separate specific store cards are in the process of being phased out and will be replaced by a single RCS card so-called "private label" card which will allow cardholders to finance the purchase of goods bought from any one of the 5 000 merchants that accept the card.

11. **RCS Personal Finance** provides loans on an unsecured basis ranging between R3 000 and R10 000.

12. In light of the above, the Commission identified two potential markets, viz., the provision of retail credit facilities through cards and personal finance facilities. The Commission's view is that credit facilities provided by RCS through its cards could be seen as competing with the credit provided by banks such as Standard

Bank. The Commission also considered the personal finance provided by RCS Personal Finance as competing with the banking services of Standard Bank or its subsidiaries. The merging parties contended that RCS card is distinguishable from traditional or labelled credit cards in that RCS cards do not offer a revolving credit facility and an interest free period. The merging parties thus view their card as *sui generis* - it is neither a traditional credit card, a la Visa or MasterCard, nor is it a store card as it is available for use by a large number of merchants.

13. We consider it unnecessary to consider these markets any further as it is clear from the evidence before us that the proposed merger is unlikely to give rise to anticompetitive concerns irrespective of any market definition adopted.

Effect on competition

14. The proposed merger does not envisage any significant changes within the product markets identified. There seems to exist a large number of vigorous competitors in addition to the merging parties. These include companies such as JD Group, Ellerines, Edcon, Truworths and Woolworths in the area where RCS Cards operate as well as ABSA, African Bank, Real People, Capitec and Peoples Bank in the area where RCS Personal Finance operates. In addition, the merging parties estimates of the market share figures in the market for the provision of retail credit facilities revealed that RCS is the smallest player with only 2%.[2]

15. With respect to the market for the provision of personal finance facilities, the Commission's market share figures revealed that African Bank has the largest market shares of 31% as opposed to RCS which has 5% - thus resulting in a combined post-merger market shares of 36%.[3] The merging parties contend that it is incorrect to attribute the entire share of African Bank to SBSA with regard to the provision of personal finance facilities as the Commission did. They further contend that the JV between SBSA and African Bank has a share of about 6% of the area where RCS Personal Finance is active, and accordingly a combined share of 36% cannot be a consequence of the merger. They submitted that even if the entire debtors/receivables of the JV was attributed or allocated to SBSA, the highest combined share would be 11%. It seems apparent that customers of the merging parties can switch to alternative suppliers given the number of players in the respective markets. The number of new players that entered the market in recent years also suggests low entry barriers into the respective markets.[4] Given the evidence currently before us, we consider it unnecessary to consider this any further as this seems unlikely to alter our conclusion.

[2] Others are Edcon (17%), the JD Group (17%), Ellerines (13%), Woolworths (10%), and Truworths (9%),

[3] The market share figures of other players are as follows: ABSA (9%), Real People (6%), Peoples Bank (4%), Capitec (1%), and Others (46%).

[4] See page 233 of the Merging Parties' Competitiveness Report as well as the Micro Finance Regulatory Council's 4th Annual Report – 31 December 2003, page 9.

Conclusion

16. No public interest issues arise from the transaction and we accordingly endorse the Commission's Recommendations that the proposed merger be unconditionally approved.

______________ **29 November 2005**

N Manoim **Date**

Concurring: Y Carrim, M Holden