



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 10.12.1997

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject : Case No IV/M.1029 - Merita/Nordbanken

Notification of 10 November 1997 pursuant to Article 4 of Council Regulation (EEC) No 4064/89

1. On 10 November 1997, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 by which Merita Ltd ("Merita") and Nordbanken Ab ("Nordbanken") merge their present activities through the formation of a new group, MeritaNordbanken Abp ("MeritaNordbanken").
2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of the Council Regulation (EEC) No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES' ACTIVITIES AND THE OPERATION

3. The business activities of the undertakings concerned are:
 - Merita: as a universal bank it provides a wide range of banking and financial services to households, companies and institutions, primarily in Finland. The other companies of the Merita group provide services which consist of the sale and letting of residential and corporate premises and the sale of life and pension insurance.
 - Nordbanken: a wide range of banking and financial services to households, small- and medium-sized companies, the public sector and a selection of major Swedish companies. Nordbanken has also minor insurance activities and is essentially active in Sweden.

4. By the transaction all the activities of both groups, i.e. Merita and Nordbanken, will be brought under the group holding company, MeritaNordbanken. The group holding company will operate as one single group under one single management. The decision making body will be composed of an equal number of members respectively appointed by Merita and Nordbanken. However, the current operations of Merita will continue to operate under the name Merita and the current operations of Nordbanken will continue to operate under the name Nordbanken.

II. CONCENTRATION

5. The merger between two previously independent undertakings, Merita and Nordbanken, will constitute a concentration within the meaning of Article 3(1)(a) of the Merger Regulation.

III. COMMUNITY DIMENSION

6. The notifying parties have a combined aggregate worldwide turnover in excess of ECU 5,000 million (Merita, ECU 5,067 million; and Nordbanken, ECU 4,635 million). Each of them has a Community-wide turnover in excess of ECU 250 million (Merita, ECU 4,630 million; and Nordbanken, ECU 4,577 million), but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State. The notified operation therefore has a Community dimension.

IV. COMPATIBILITY WITH THE COMMON MARKET

A. Relevant product markets

7. The Commission has consistently held that the services typically supplied by a universal bank may be divided into the following areas: retail banking, corporate banking and financial market services.¹ In particular, the distinction between retail and corporate banking is relevant for the purposes of assessing market conditions.² With regard to Finland and Sweden, the investigation confirmed this view.
8. By retail banking is meant banking services to households which consist, for example, of deposits, lending, credit cards and mutual funds and other forms of asset management. By corporate banking is meant banking services to corporate clients which consists, for example, of deposits, lending, international payments, letters of credit and advice concerning mergers and acquisitions. With respect to financial markets the following activities may constitute distinct service markets: trading in equities, bonds, and derivatives, foreign exchange and money markets (i.e. treasury bills and commercial paper from banks and companies).
9. For the purpose of the present case it is, however, not necessary to define conclusively the relevant product markets because, even on the narrowest market definition, the concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

¹ See, for example, Case IV/M.342 - Fortis/CGER and Case IV/M.873 - Bank Austria/Creditanstalt.

² Case IV/M.873 - Bank Austria/Creditanstalt.

B. Relevant geographic markets

10. The notifying parties state that the relevant geographic markets are either national or international in scope depending on the specific banking sector. Retail banking and corporate banking are in most cases considered to be national in scope. The situation may, however, change in the future as a result of single currency and of new technologies. Investment banking and the financial markets have normally an international dimension.
11. The Commission has stated in previous cases³ that with regard to retail banking the relevant geographic market is to be considered national in scope due to the competitive conditions which in individual Member States are still different despite the increasing trend towards internationalisation, and due also to the importance of a network of branches. As far as the situation in Finland and in Sweden is concerned, the results of the investigation have confirmed this view. There are, however, indications that the present situation may change in the longer term with the introduction of the single currency and new technologies, e.g. internet and telephone banking.
12. With regard to corporate banking the Commission has generally taken the view that certain product segments will continue to be required and supplied at national level.⁴ However, some sectors of corporate banking seem to have a more international dimension. The results of the investigation in Finland and in Sweden confirm this view. The results also indicate that the relevant geographic market appears to be national for small and medium-sized corporate clients and international for large corporate clients. Furthermore, for the financial market the relevant geographic market appears to be international in scope.
13. However, whether the markets are considered to be national or international need not be finally decided in the present case because, on the basis of the assessment set out below, even on the narrowest market definition, the concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

C. Assessment

Banking

14. With regard to retail banking and financial markets Merita and Nordbanken are solely active in their domestic markets. Thus, their activities are primarily geographically complementary. The only minor overlaps are in sectors of corporate banking in Finland and in Sweden.
15. Merita is the most important and largest financial institution in Finland. In corporate banking its market share for lending is 19.2% and for deposits 50%. Nordbanken is the third largest bank in Sweden. In corporate banking its market share for lending is 14.4 % and for deposits 16.4%. The minor overlaps in the Finnish market exist in the markets for corporate lending where Nordbanken has a market share of 1% and in the markets for corporate deposits where Nordbanken has a market share below 0.1%. The minor overlaps in the Swedish market exist

³ For example, Case IV/M.873 - Bank Austria/Creditanstalt and Case IV/M.319 - BHF/CCF/Charterhouse.

⁴ See, for example, Case IV/M.873 - Bank Austria/Creditanstalt.

in the markets for corporate deposits where Merita has a market share below 1%. As shown, the overlaps are insignificant.

16. In Finland, there are two strong well established players - Okobank and Postipankki - who have the ability to compete effectively with MeritaNordbanken. In corporate banking Okobank's market share for lending is [...]⁵ and for deposits [...]⁶. Postipankki is Nordbanken's counterpart in Finland and provides banking services also through post offices. In corporate banking its market share for lending is [...]⁷ and for deposits [...]⁸. In Sweden, the three major players in the market where overlap exists, i.e. corporate deposits, are Handelsbanken with [...]⁹ market share, SE-banken with [...]¹⁰ market share and FöreningsSparbanken with [...]¹¹ market share. Each of these competitors offers a comparable product range to the combined entity. In addition, the Finnish and Swedish markets should be seen in the context of the ongoing restructuring of the financial market in the Nordic countries.
17. Legal and regulatory barriers to entry, in the form of government authorisations etc., have traditionally been important in the banking sector. However, the entry of Finland and Sweden to the European Union has resulted in the deregulation of financial activities. The highly innovative and evolving nature of the banking market combined with the recent increase of electronic banking tools may further contribute to easier access to the market.
18. The Commission's investigation has shown that market entry in Finland by foreign banks is considered to be possible and likely. Several major Nordic banks have already entered the Finnish market and future expansion plans cannot be excluded. The investigation also indicates that the possibility to enter the Finnish market will be further increased following EMU in 1999.
19. In principle Nordbanken might have been a potential entrant and thus the situation of an elimination of potential competitor would have occurred. The result of the investigation indicates that Nordbanken would probably not have entered the Finnish market, at least on its own. It should also be noted that Nordbanken withdrew from the Finnish market a few years ago. Even if Nordbanken would have been a possible entrant to the Finnish market, it would only have been one among several potential entrants.

Insurance

⁵ Deleted for publication: between 5-15 %.

⁶ Deleted for publication: between 25-35 %.

⁷ Deleted for publication: between 0-10 %.

⁸ Deleted for publication: between 15-25 %.

⁹ Deleted for publication: between 25-35 %.

¹⁰ Deleted for publication: between 15-25 %.

¹¹ Deleted for publication: between 10-20 %.

20. The parties' market positions concerning the insurance market are the following: Merita has a market share of 26% for life insurance in Finland and Nordbanken has 1.5% in Sweden. The Finnish banks - Okobank and Postipankki - have also established life insurance companies within their corporate groups. The market share for Okobank is [...] ¹² and for Postipankki [...] ¹³. Despite the entry of bank life insurance companies, the non-bank insurance companies still continue to account for the majority of the market. The results of the investigation show that the proposed merger does not have any significant effect on Merita's position in the insurance market.

Conclusion

21. Based on the above, Merita has a strong position in the Finnish market. However, the present merger does not reinforce its position, either in the banking sector or insurance sector, whereby effective competition would be significantly impeded. The financial power of Nordbanken will not significantly reinforce Merita's position either. The investigation confirmed these findings. On the contrary, EMU, further internationalisation and deregulation of financial activities could erode, in the future, the present position of Merita. Consequently, the proposed concentration does not strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

IV. CONCLUSION

22. For the above reasons, the Commission has decided not to oppose the notified operation and to declare it compatible with the common market and with the functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation (EEC) No 4064/89.

For the Commission,

¹² Deleted for publication: between 5-15 %.

¹³ Deleted for publication: between 0-10 %.