

Anticipated acquisition by Western Union of Travelex Global
Business Payments

ME/5143/11

The OFT's decision on reference under section 33(1) given on 24 October 2011.
Full text of decision published 31 October 2011.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. **The Western Union Company ('Western Union')** is a US company that provides global money movement and payment services to individual consumers and businesses. In 2010, Western Union's revenues were around £3.36 billion worldwide and around £[] million in the UK.
2. **Travelex Global Business Payments ('TGBP')** is a division of Travelex Holdings Limited that provides foreign payment services to businesses and individual consumers and is headquartered in the UK. In 2010, TGBP's revenues were around £[] million worldwide and around £[] million in the UK.

TRANSACTION

3. On 5 July 2011 Western Union agreed to buy a combination of shares and assets representing the TGBP business from Travelex Holdings Limited. The main consumer business of Travelex Holdings Limited is not included in the transaction.

JURISDICTION

4. As a result of this transaction Western Union and TGBP will cease to be distinct. The parties both supply foreign payment services to businesses as specialist, non-bank suppliers. Although the parties submitted, and third parties confirmed, that foreign payment services for businesses supplied by

non-banks are similar to those supplied by banks (see further at paragraphs 14 and 15 below), the OFT considers that there are sufficient differences – in particular banks' branch networks and wider range of services – to conclude that foreign payment services for businesses supplied by non-banks constitute a reasonable description of a service for the purposes of the share of supply test in section 23 of the Enterprise Act 2002 (the 'Act').

5. As the parties estimated that they have a combined share of around [25-30] per cent (increment [0-10] per cent) in the supply of foreign payment services to businesses by non-banks, the share of supply test is met. Therefore, the OFT believes that it is or may be the case that arrangements are in progress or contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
6. The OFT's administrative deadline for a decision is 24 October 2011. The parties have also notified the transaction in Malta, Cyprus, Australia and the United States.

MARKET DEFINITION

7. The parties overlap in the supply of foreign payment services to businesses and, to a much smaller extent, individual consumers. Western Union derives around [] per cent of its UK revenues from its consumer-to-consumer money transfer services and only around [] per cent from its business foreign payment services, which consists for around [] of business-to-business services and for around [] of consumer-to-business services. Western Union provides its business foreign payment services largely under its Western Union Business Solutions brand, which is the new name of the Custom House business it acquired in 2009. TGBP derives only around [] per cent of its UK revenues from foreign payment services for consumers (often individuals linked to TGBP's business clients) and the remaining [] per cent from business-to-business foreign payment services.
8. Most of the parties' business customers make foreign payments at spot rates, but the parties also offer their business customers 'risk management products' in the form of forward contracts, that is, agreements to make payments of a given foreign currency amount at a given rate on a given date in the future. However, the parties do not offer forward contracts for speculation purposes, nor do they provide advice on risk management strategies. They also do not charge separate fees for forward contracts.

The parties suggested that the OFT should therefore not assess separately the provision of risk management products and the provision of business-to-business foreign payment services.

9. As maintaining a distinction between these two types of product does not impact on the OFT's conclusions, the OFT has not needed to consider the supply of risk management products separately from the supply of foreign payment services.

Product market

10. In past cases, UK and European competition authorities have often assessed banking services for consumers and businesses separately, and within business customers have further distinguished small and medium-sized enterprises ('SMEs').¹ The European Commission has also suggested that foreign payment services may constitute a distinct relevant product market, without however reaching a conclusion.² The OFT has also considered these distinctions in this case.

Customer groups

11. The OFT may define relevant markets for separate customer groups if the effects of the merger on competition to supply a targeted group of customers may differ from its effects on other groups of customers, and require a separate analysis.³
12. The parties submitted that a distinction between consumer and business customers may be appropriate. This was supported by third parties, with reference to differences in suppliers and the greater importance of a network of retail outlets (branches or agents) for consumers.
13. The parties further submitted that there is no need to distinguish between SMEs and large businesses, as they are provided with the same services. However, some third parties noted that SMEs and large firms may to some

¹ See, for example, the Competition Commission report in *Lloyds TSB Group plc/Abbey National plc* (12 June 2001, paragraphs 2.17-21), the OFT's report to the Secretary of State for Business, Enterprise and Regulatory Reform in *Lloyds TSB plc/HBOS plc* (24 October 2008, for example paragraphs 143 and 259), and the European Commission's decision in *Fortis/ABN AMRO assets* (3 October 2007, for example paragraph 16) and *Banco Santander/Rainbow* (15 October 2010, paragraphs 9-11).

² *Fortis/ABN AMRO assets* (paragraph 26) and *Banco Santander/Rainbow* (paragraph 11) (see footnote 1).

³ *Merger Assessment Guidelines* (CC2 and OFT1254, September 2010), paragraph 5.2.28.

extent have different product preferences (for instance, some large firms demand a greater range of risk management products, such as derivatives), although third parties also indicated that large firms can obtain related products from different suppliers. The OFT notes that []. Ultimately this delineation did not impact on our analysis and we did not therefore need to conclude on this point.

Banks and non-banks

14. A further possible distinction is between foreign payment services for businesses provided by banks and by specialist, non-bank providers such as the parties. The parties submitted that this distinction was not appropriate, because the services provided by banks and non-banks are precisely the same, as are the regulatory requirements for opening accounts (for instance, the 'know-your-client' requirement).
15. Third parties broadly confirmed that there is substitutability for businesses between foreign payment services provided by banks and by non-banks, and indicated that they saw banks as close competitors to the parties. Some third parties also indicated some differences, such as the wider range of risk management products and the general 'one-stop-shop' service offered by banks as well as the more extensive regulation that banks are subject to. Another difference is in the branch network that many banks have. However, the importance of branches for foreign payment services is likely to be limited (especially for larger business customers), and third parties did not indicate that business customers would not consider using non-banks as specialist providers of foreign payment services besides their existing relationship with a bank for other services (indeed, [], as noted at paragraph 26 below).

Conclusion

16. On a cautious basis, the OFT has assessed the impact of the merger in the supply of both banking services and, more specifically, foreign payment services to both consumers and businesses, as well as separately the supply to SMEs and large firms. The OFT has also separately assessed the competitive effects of the transaction on the supply of foreign payment services to businesses by non-banks. As the merger does not raise competition concerns in any possible product market, it was not necessary for the OFT to reach a conclusion on the exact scope of the relevant product market.

Geographic market

17. The parties submitted that the appropriate geographic market is at least national. In past decisions, the UK competition authorities and the European Commission considered regional and local market segmentations in addition to national markets, in particular for consumers and SMEs,⁴ but as the parties' services are provided online and via telephone rather than via a branch network, the parties submitted that a regional or local assessment of competition is not needed in this case.
18. The OFT agrees and has accordingly assessed the impact of the merger at a national level. As the merger does not raise competition concerns on this basis, it was not necessary for the OFT to consider whether the market may be wider than national.

UNILATERAL EFFECTS

Shares of supply

19. The parties' shares of banking services in the UK for both consumers and businesses are minimal (combined shares [0-10] per cent). The OFT has therefore not further considered the widest possible market of the supply of all banking services.
20. There is some uncertainty about the parties' shares of foreign payment services in the UK. The parties' estimates of these shares are set out in Table 1 below.

Table 1: Shares of supply in foreign banking services (per cent)

Supplier	Consumers	Businesses		
		SMEs	large firms	all firms
Western Union	[15-25]	[0-10]	[0-10]	[0-10]
TGBP	[0-10]	[0-10]	[0-10]	[0-10]
Merged firm	[15-25]	[0-10]	[0-10]	[0-10]

Source: parties' estimates.⁵

⁴ See, for example, *Lloyds TSB Group plc/Abbey National plc* (paragraphs 2.20-21), *Lloyds TSB plc/HBOS plc* (for example, paragraphs 144-148 and 257), *Fortis/ABN Amro assets* (paragraph 80) and *Banco Santander/Rainbow* (paragraphs 10-11) (see footnote 1 above).

⁵ To calculate their shares of foreign payment services for businesses, the parties took the business foreign payments from the UK that they were responsible for as a percentage of the overall value of imports by businesses into the UK, on the basis that (i) this value equates to the

21. The parties' shares in Table 1 are for the supply of foreign payment services by banks and non-banks combined. An internal document provided by the parties gives a combined business-to-business market share of [five-15] per cent, based on the parties' revenues rather than the value of the transactions they processed.⁶ The parties' shares in the supply of foreign payment services to businesses by banks and non-banks as given in Table 1 and the internal document are therefore low, while their combined share in the supply to consumers is also relatively low and has a small increment.
22. However, the markets on which these shares are measured are not the narrowest plausible markets and the OFT could therefore not exclude competition concerns on this basis. The parties' shares are higher if the market is drawn more narrowly and a distinction is made between banks and non-banks. As indicated above (paragraph 5), the parties estimated that TGBP's and Western Union's shares of the supply of foreign payment services to businesses by non-banks are [20-30] and [0-10] per cent respectively, resulting in a combined share of [25-30] per cent. An internal document provided by the parties suggests that, measured by revenues, they are by some distance the largest non-bank providers of foreign payment services to businesses at a global level. Although the OFT did not obtain the parties' shares of supply by non-banks to SMEs, the OFT could not exclude the possibility that these shares are substantial because the parties are relatively strong in the SME segment, as shown by their shares in Table 1 and by internal documents that state that the provision of services to SMEs constitutes the largest overlap between the parties.
23. Most third parties commented that the parties' shares of supply were limited, although one competitor indicated that their combined share of supply of foreign payment services by non-banks to business customers is around 41 per cent, with an increment of around one per cent.

value of business foreign payments from the UK and (ii) the revenues from UK business customers receiving money from abroad represent only a small portion of the parties' revenues and are subject to the same dynamics of competition. The OFT considered whether the parties' estimates formed an accurate reflection of their position in the market, since their approach does not capture the part of their revenues that is not related to the value of the transaction but is instead derived from fixed fees, nor take into account that imports measure services that may not necessarily be paid for by money transfer (for instance, money spent abroad by UK tourists). However, as these factors are likely to be small (for instance, fixed fees represent less than [] per cent of the parties' turnover), the OFT concluded that the parties' estimates are unlikely to significantly underestimate the parties' shares of supply.

⁶ Western Union document entitled '2011 W1 Strategic Plan By Business. Business Solutions', prepared for Operating Committee meeting of 23-24 August 2011, page 64.

24. In the narrowest candidate market in which the parties overlap – the supply of foreign payment services to businesses, and in particular SMEs, by non-banks – the OFT could therefore not rule out concerns over unilateral effects based on a potentially substantial share of the parties. However, as set out below, there are a number of factors to allay any significant competition concerns.

Competing suppliers

25. Although the OFT was not provided with shares of supply of competing providers of foreign payment services, both the parties and third parties (including SMEs) stated that there are many non-bank providers of these services to businesses, such as American Express, Corporate FX, Currencies Direct, First Rate FX, HiFX, TTT Moneycorp and World First. In addition, banks form an important competitive constraint on non-banks in the supply of these services (see paragraphs 14 and 15 above), which limits any competition concerns based on the parties' non-bank shares of supply.

Ease of switching

26. The parties submitted that it is easy for business customers to switch, given in particular the number of competing suppliers and the lack of long-term exclusive contracts between the parties and their customers. An internal document provided by the parties stated that a survey of TGBP's customers showed that []. Also, []. Most of the UK customers involved in this survey were SMEs.
27. All third parties confirmed that switching is easy, with few obstacles (mainly the paperwork that is needed for setting up an account with a new provider). Some third parties also stated that there was significant price transparency in the market, for instance in the form of exchange rate websites.

Closeness of competition

28. Internal documents provided by the parties suggest that []. Third-party comments in this respect were mixed, but some third parties indicated that TGBP and Western Union are not closer to each other than other non-bank and bank providers are to either of the parties.

Conclusion

29. Although the OFT could not rule out competition concerns on the basis of the parties' shares of supply in the narrowest candidate market in which they overlap (the supply of foreign payment services to businesses, and in particular SMEs, by specialist, non-bank providers), there are several factors to allay any competition concerns. There is significant competition from numerous non-bank providers of these services. Additional factors are the ease of switching and the fact that the parties do not appear to be close competitors. Also, if the market is extended to include the supply of foreign payment services to businesses by banks, which may be appropriate given the similarity of services provided by banks and non-banks, the parties' shares of supply are very low.

BARRIERS TO ENTRY

30. The parties submitted that barriers to entry into foreign payment services are low and that there have been a number of new entrants in recent years. This was broadly confirmed by third parties. However, as the merger does not give rise to concerns over unilateral effects, there is no need for the OFT to reach a conclusion regarding barriers to entry.

THIRD-PARTY VIEWS

31. Third-party views have been discussed above where relevant. One customer raised a concern that the merged firm may raise margins based on the increase in Western Union's margins after its acquisition of Custom House in 2009, but this third party also identified several competing suppliers that it could fairly easily switch to.

ASSESSMENT

32. The parties overlap in the provision of foreign payment services to business customers and to a lesser extent to consumers.
33. The parties' shares in the supply of banking services are minimal. Their shares in the supply of foreign payment services also do not give rise to concern, except potentially when the supply of these services to businesses, in particular SMEs, by specialist, non-bank providers is considered separately.

34. However, there are several factors that allay any competition concerns. The parties face competition from numerous non-bank providers of foreign payment services to businesses. They also face competition from banks, as the services provided by banks and non-banks are similar if not the same. It is easy for customers to switch between providers, and many customers use more than one provider at the same time. The parties also do not appear to be close competitors.
35. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

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