
Anticipated acquisition by HBOS plc of the remaining 50 per cent shareholding in Lex Vehicle Leasing (Holdings) Limited

The OFT's decision on reference under section 33(1) given on 5 January 2006. Full text of decision published 13 January 2006.

PARTIES

1. **Lex Vehicle Leasing (Holdings) Limited (Lex)** is a leasing and vehicle finance company which supplies vehicle finance, leasing and support services to commercial customers and (through those customers) their employees (hereafter termed Fleet Contract Hire (FCH) services). It also supplies finance to private individuals purchasing vehicles. Lex is currently a 50 / 50 joint venture owned by RAC plc (a subsidiary of Aviva plc) and Halifax plc which is itself a subsidiary of Halifax Bank of Scotland plc (HBOS). The UK turnover of Lex for the year ended 31 December 2004 was £495m.
2. **HBOS** is a large banking and finance group, offering a range of financial services. In the leasing and vehicle finance sector HBOS owns, in addition to its 50 per cent shareholding in Lex, Bank of Scotland Vehicle Management (BoSVM) and also has a 50 / 50 joint venture with RCI Banque (Renault Financial Services (RFS)) which leases Renault vehicles.

TRANSACTION

3. HBOS is to acquire the 50 per cent interest in Lex held indirectly by Aviva. HBOS has exercised its right under the shareholders' agreement relating to Lex to serve a termination notice on RAC following Aviva's recent acquisition of RAC. Essentially, as a result of this transaction HBOS will move from material influence to full legal control of Lex. This is a pre-notified merger with an unextended statutory deadline of 5 January 2006.

JURISDICTION

4. As a result of this transaction Lex and HBOS will come under 'common control' for the purposes of section 26(4)(b) of the Enterprise Act 2002 (the Act). The UK turnover of Lex exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

BACKGROUND

5. On 25 October 2005 the OFT cleared the acquisition by Lex of the FCH business of HSBC Bank plc. In making this decision the OFT noted the limited increment and the fact that the combined share of supply of the merged group (including all HBOS subsidiaries) was low.

RELEVANT MARKET

Product market

6. The parties overlap in the provision of FCH services (covering the business of supplying vehicle finance, leasing vehicles and providing support services to commercial customers).¹ The vehicles leased are primarily passenger vehicles for use by employees but some vans are included in FCH services.
7. The parties maintain that supply to commercial customers constitutes a separate market to private contract hire. On the demand side, commercial leasing is designed to provide advantages to companies in terms of their balance sheets, which is not a consideration for private individuals. Commercial customers generally take a large number of vehicles which significantly reduces transaction costs per vehicle and lowers prices by economies of scale.
8. The primary difference to supplying private and commercial customers is the distribution channel. The parties also argue that leasing to commercial customers differs significantly from leasing to individuals and the leasing contracts are quite different - with commercial customers there is often a master hire agreement, while private customer agreements are single agreements covered by consumer credit legislation. Furthermore, agreements with individuals involve personal hire

¹ The parties also overlap in the provision of personal contract purchase (PCP) vehicle financing to consumers in the UK. PCP involves the payment of a deposit by the consumer and set monthly payments. At the end of the contract the consumer has various options ranging from purchase of the vehicle outright to returning the car to the finance company. As the parties combined share of supply in this sector is minimal (at less than 2 per cent), and no third party raised concerns, this sector is not considered further in this assessment.

contracts which increases the risk to which lessors are exposed compared with commercial customers.

9. The OFT's previous decision (see para 5 above) considered whether separate product segments exist for the funding, maintenance and servicing of leased cars. Most customers who responded to that enquiry confirmed that the contract they purchase is generally inclusive of these aspects and as such the FCH product is a bundle of the car, funding, maintenance and servicing. No evidence has been received in this enquiry to suggest that the OFT should move away from this position. Further consideration was given to the possibility of segmenting supply on the basis of type of vehicle. The parties confirmed that shares of supply provided would not be greatly affected if vans for example were excluded.
10. Given the above, the OFT has considered the product scope as being the supply of FCH services for commercial customers.

Geographic market

11. The parties consider that the relevant geographic market for FCH services is at least Europe wide but provide data on a UK basis such that the assessment can be conducted at the narrowest level. Due to the lack of competition concerns even at this narrow level it is not necessary to conclude on this issue.

HORIZONTAL ISSUES

Market shares

12. Table one sets out the parties' and their main competitors share of supply in vehicle leasing for all vehicles, ie cars and vans.

Table 1: Shares of supply in FCH in the UK for 2004 (volume)

Supplier	UK fleet size	Share of supply (%)
Lex	169,000	8.7
BoSVM (including Godfrey Davies)	82,000	4.2
RFS	20,000	1.0
Combined	271,000	13.9
Lloyds TSB	137,000	7.0
Leaseplan	127,300	6.6
Lombard	109,000	5.6
Masterlease (Interleasing)	106,000	5.5
Arval PHH	77,000	4.0
GE Capital	54,000	2.8
ALD	43,000	2.2
Other companies with less than 2% share of supply	1,015,700	52.4
Total UK market	1,940,000	100.0

Source: The parties, based on 2004 BVRLA and Fleet News 50 data.

The combined share of supply is only 13.9 per cent. Although HBOS will be the largest supplier of FCH in the UK, this is not considered to be a concentrated industry. As noted in the OFT's previous decision a number of competitors of some scale are present such as Lloyds TSB, Leaseplan, Lombard, Masterlease, Arval and GE Capital. These are companies with strong brands and substantial capital reserves. The previous decision also noted that third parties enquiries showed no shortage of companies tendering for business in this sector. No concerns have been raised by third parties in respect of the current proposed acquisition.

VERTICAL ISSUES

13. No vertical competition concerns arise as a result of the merger.

THIRD PARTY VIEWS

14. A wide range of small, medium and large customers and a number of competitors were contacted for their views on this transaction. No concerns were raised.

ASSESSMENT

15. HBOS is acquiring the remaining 50 per cent of Lex that it does not already own, thus moving from a position of being able materially to influence policy to that of a

controlling interest. The combined share of supply is low and sufficient competitors will remain post-merger.

16. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

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