
Anticipated acquisition by Lex Vehicle Leasing Limited of the fleet car hire business of HSBC Bank plc

The OFT's decision on reference under section 33 (1) given on 25 October 2005. Full text of decision published 10 November 2005.

Please note that square brackets indicate information excised, or exact figures replaced by a range, at the parties' request.

1. **Lex Vehicle Leasing Ltd** is a leasing and vehicle finance company which supplies vehicle finance, leasing and support services to commercial customers and (through those customers) their employees. Lex is a 50/50 joint venture owned by Aviva plc and Halifax plc which is itself a subsidiary of HBOS (Halifax Bank of Scotland).¹ HBOS also owns Bank of Scotland Vehicle Management (BoSVM) and has a 50/50 joint venture with RCI Banque (Renault Financial Services (RFS)), which leases Renault vehicles.
2. **HSBC Bank plc** is an international banking group offering a wide range of products to commercial and personal customers. HSBC has particular products for the financing of vehicle purchases, including (for commercial customers) fleet car hire (FCH). HSBC currently operates in the UK a FCH business for large-scale commercial customers needing cars or vans for use by their employees in their operations. This involves sourcing out the appropriate vehicles, supplying them to a customer on an operating lease and arranging for its disposal at the conclusion of the lease. HSBC also provides various maintenance services for the vehicles leased. The UK turnover of HSBC's FCH business in the year ended 31 December 2004 was [over £70 million].

TRANSACTION

3. Under the merger agreement, HSBC's vehicle leasing and fleet management operations will transfer to Lex. This includes the vehicle fleet, existing customer agreements and about 200 employees. Lex will provide the service infrastructure for the operations, in particular the vehicle management. HSBC will continue to

¹ On 11 October 2005 Aviva announced that HBOS has exercised an option under which it may acquire Aviva's stake in Lex.

conduct the sales and marketing functions of the HSBC FCH business and will continue to enter into FCH contracts with HSBC customers, [].

4. This is a pre-notified merger with a statutory deadline of 31 October 2005.

JURISDICTION

5. As a result of this transaction Lex and the FCH business of HSBC will cease to be distinct. The UK turnover of the FCH business of HSBC exceeds £70 million, so the turnover test in section 23(1)(b) of the Enterprise Act 2002 (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.

RELEVANT MARKET

Product Market

6. The parties overlap in the supply of FCH services - i.e. the business of leasing vehicles, supplying vehicle finance and providing support services to commercial customers. The vehicles leased are primarily passenger vehicles for use by employees, but some vans are also leased.
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 to leasing to individuals and 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 contracts which increases the risk to which lessors are exposed compared with commercial customers.
9. The OFT also considered whether separate product segments exist for the funding, maintenance and servicing of leased cars. Most customers who responded to our questionnaire 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.

10. 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. Moreover, the vehicle profile of Lex and HSBC's fleet generally reflects that of the sector as a whole.
11. Given the above, the OFT has considered the product scope as being limited to the supply of FCH services.

Geographic market

12. The parties consider that the relevant geographic market is at least Europe wide and customers confirm that no geographical restrictions exist in vehicle leasing in the UK. For the purpose of this assessment the appropriate geographic focus is considered to be the UK.

HORIZONTAL ISSUES

13. Table one sets out the parties' share of supply in vehicle leasing for all vehicles, i.e. cars and vans.

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

Supplier	UK fleet size	Share of supply (%)
Lex	124700	6.4
BoSVM (including Godfrey Davies)	78204	4.0
RFS	20,000	1.0
FCH business HSBC	87000 ²	4.5
Combined	309904	16
Total UK market	1,940,000	100

Source: OFT estimates based on Fleet News (FN) 50 fleet size data (August 1 2004), BVRLA and Lex data

14. Although the parties will be the largest suppliers of FCH in the UK, the FN data shows a number of competitors of some scale remaining such as Lloyds, TSB, Leaseplan, Lombard, Interleasing, Arval and GE Capital. These are companies with

² The parties state that only 45,000 vehicles will be transferred from HSBC to Lex as a result of the transaction.

strong brands and substantial capital reserves. Furthermore our third party enquiries show that there is no shortage of companies tendering for business in this sector.

VERTICAL ISSUES

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

THIRD PARTY VIEWS

16. A wide range of small, medium and large customers and a number of competitors were contacted during the investigation. The vast majority of respondents had no concerns, but two did comment on the competitive strength of the combined operation. As shown above however the combined market share in this sector is limited and the increment from this merger is low.

ASSESSMENT

17. The parties overlap in the supply of FCH services in the UK. The limited increment and low combined share of supply does not raise any competition concerns in a sector where sufficient competitors will remain post-merger.
18. 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

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