



**COMPETITION TRIBUNAL OF SOUTH AFRICA**

**Case No: 016774**

In the matter between:

**Volkswagen Financial Services South Africa (Pty) Ltd**

**Acquiring Firm**

and

**Volkswagen Financial Services South Africa**

**Target firm**

**a division of Wesbank, a division of FirstRand Bank**

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Panel: N Manoim (Presiding Member)  
T Madima (Tribunal Member)  
A Roskam (Tribunal Member)

Heard on: 26 June 2013

Order issued on: 26 June 2013

Reasons and Order issued on: 23 July 2013

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**Reasons for Decision and Order- Non confidential**

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**Unconditional Approval**

1. On 26 June 2013 the Competition Tribunal approved a transaction between Volkswagen Financial Services South Africa (Pty) Ltd and FirstRand Investment Holdings (Pty) Ltd which involves the establishment of a joint venture Volkswagen Financial Services (Pty) Ltd ("Newco").
2. The Reasons for approving the transaction are set out below.

### **The Transaction**

3. The transaction involves the establishment of Newco as a joint venture between Volkswagen Financial Services AG and FirstRand Bank Investment Holdings (Pty) Ltd.
4. The primary acquiring firm is Newco, a firm which is to be incorporated in accordance with the laws of the Republic of South Africa. Volkswagen Financial Services AG ("VWFS AG"), which is owned by Volkswagen AG in Germany will hold a shareholding of 51% in Newco.
5. Wesbank, which is selling its Volkswagen Financial Services South Africa division to Newco, is a division of FirstRand Bank Ltd. FirstRand Investment Holdings (Pty) Ltd a wholly owned subsidiary of First Rand Ltd will hold a shareholding of 49% in Newco.
6. Post the transaction Newco will conduct the business of Volkswagen Financial Services SA and such additional business provided for in its business plan.

### **Rationale for the transaction**

7. Wesbank has prior to this transaction acted as a preferred supplier of vehicle financing to customers of Volkswagen SA (Pty) Ltd ("VW SA") in accordance with the Finance Alliance Agreement concluded between VW SA and Wesbank. Post the transaction Newco will be considered the preferred provider of vehicle financing services to VW Group customers and its dealer customers.
8. According to Volkswagen Group it has extensive experience in financing services in a number of jurisdictions other than South Africa. Through its participation in Newco it will be in a position to introduce and provide innovative and competitive financing in order to promote the sale of vehicles in South Africa.
9. FirstRand, as the current supplier of VW financing services, says that it will contribute its employees, know-how, intellectual property and funding to the joint venture and believes that coupled with Volkswagen Financial Services' AG

experience will increase the value proposition and levels of service to its VW customers. The transaction, according to FirstRand, will also allow for increased product innovation and development.

### **Competition Assessment**

10. The parties' activities overlap in the provision of vehicle financing services, comprising vehicle finance and short-term vehicle insurance brokerage services to customers in South Africa.
11. We analyse the transaction from a horizontal as well as vertical perspective.

#### Horizontal assessment

12. Wesbank is the largest supplier of vehicle financing in South Africa. Its current pre-merger market share is 32%. Post the transaction Newco will have a market below 10% while Wesbank's market share will decrease accordingly because the activities previously conducted by its VW division will cease and taken over by Newco. There is therefore no change in concentration post the transaction. Wesbank's main competitors are Nedbank Motor Finance Corporation (24% market share), ABSA (18%) and Standard Bank (18%).
13. With respect to short-term vehicle insurance services Wesbank sells an insignificant amount of insurance policies in its capacity as an insurance broker, only below 10% of the transactions involving vehicle finance provided by Volkswagen Financial Services SA. Large players such as OUTsurance, Dial Direct, Sanlam, Clientele and Mutual and Federal are active in this market.
14. In light of the above we are therefore of the view that, from a horizontal perspective, the transaction is unlikely to substantially prevent or lessen competition.

#### Vertical assessment

15. In the upstream market VW SA is the second largest supplier of vehicles in South Africa with a market share of 17%. Toyota has a market share of 21%. Volkswagen submits that [confidential] of its sales occur through dealerships and the remainder are direct sales to customers such as the government and through rental sales.
16. In the downstream market for vehicle financing Wesbank estimates that approximately [confidential] of all VW SA motor vehicles sold through dealerships are financed through its Volkswagen Financial Services division.
17. The Commission in its investigation, and after obtaining the views of independent dealers, found that VW SA was unlikely to foreclose other players offering vehicle financing to VW customers and that VW did not have the power to influence customers to finance their VW vehicles through Newco. However, the Tribunal was concerned that the relationship between Newco, as the preferred supplier, and independent VW dealers will post the transaction change to such an extent that other financing institutions would find it impossible to compete for VW customers.
18. The merging parties said that although there would be an incentive to try and get customers to finance their deals through VW Financial Services the customer would still choose the best financial option offered. They explained the process and said that dealers normally submit a customer's application form electronically to various financial institutions via vendor software providers. The banks respond to these applications within seconds using their own financial scoring models which the dealer then presents to the customer. Customers who choose not to accept any of the offers can contact their bank of choice to negotiate a lower rate. The final decision always lies with the customer. Thus, as far as the dealer is concerned the new structure does not change its relationship with VW SA and Newco as its main focus remains the same, i.e. to increase sales volumes.
19. In light of the above the Tribunal is of the view that foreclosure is unlikely. We therefore find that the transaction, from a vertical perspective, is unlikely to

substantially prevent or lessen competition given that customers of VW dealers have countervailing power with regard to their choice of vehicle financing.

#### **Public Interest**

20. The transaction will not result in any job losses.
21. There are no other public interest issues arising from this transaction.

#### **Conclusion and Order**

22. Having regard to the above, we find that the transaction is unlikely to substantially lessen or prevent competition in the relevant market. The merger is accordingly approved without conditions.

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**N Manoim**

23 July 2013

**Date**

**Concurring: T Madima and A Roskam**

Tribunal Researcher: Rietsie Badenhorst

For the Commission: Portia Belege

For the merging parties: Edward Nathan Sonnenbergs Inc for VW Financial Services SA  
and Cliffe Dekker Hofmeyr for FirstRand Bank

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