Submission to the Independent Consumer and Competition Commission

Proposed sale of Westpac's 89.91% stake in Westpac Bank PNG Limited to Kina Securities Limited

19 March 2021
Material highlighted [REDACTED] is confidential to Westpac Banking Corporation
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1 Introduction

This submission is provided to the Independent Consumer and Competition Commission (ICCC) by Westpac Banking Corporation (Westpac) as a party to the proposed sale of Westpac’s 89.91% stake in Westpac Bank PNG Limited (Westpac PNG) to Kina Securities Limited (Kina) (the Proposed Transaction).

For the reasons set out in this submission, Westpac considers that the Proposed Transaction will not substantially lessen competition in Papua New Guinea (PNG).

In addition, Westpac considers that the Proposed Transaction will produce a number of important public benefits for the people of PNG.

Since the Proposed Transaction was announced, there have been some reports discussing the nature and perceived implications of the Proposed Transaction that Westpac considers to be inaccurate and misinformed.

Westpac hopes that the ICCC finds the information in this submission useful to its review of Kina’s application for clearance and authorisation.

While Westpac is aware that Kina is submitting its own applications for clearance and authorisation to the ICCC, and Westpac agrees with these, Westpac considers that the information in this submission will supplement and support Kina’s own submissions and will further demonstrate the grounds that should lead the ICCC to conclude that Kina’s applications for clearance or authorisation should be granted.

Westpac has a long history of presence and involvement in PNG, having been the very first bank established in PNG. As a consequence, Westpac has developed a deep and strong understanding of the banking industry and the economic environment of PNG.

It is in this spirit that Westpac makes this submission to the ICCC, and with the objective of providing to the ICCC information which Westpac considers material and relevant to the ICCC’s consideration of the Proposed Transaction.

This submission is structured as follows:

• In section 2 we provide a brief overview of Westpac’s history in PNG;

• In section 3 we summarise the Proposed Transaction, Westpac’s rationale for the Proposed Transaction and the sale process Westpac adopted to select Kina to explain that in Westpac’s view, the Proposed Transaction will deliver the best results in terms of competition and public benefits in PNG;

• In section 4 we explain how the Proposed Transaction will improve competition in the supply of banking products and services in PNG. Set against the backdrop of a difficult economic environment, and in the face of the dominance of the Bank of South Pacific (BSP), the increased scale that the Proposed Transaction will provide Kina will mean Kina can better compete with BSP resulting in more competitive pricing and increased service levels for customers. We also explain how Kina and Westpac PNG are not close competitors, compared to the proposed new Kina Bank model; and

• In section 5 we outline the main public benefits we consider the Proposed Transaction will deliver to PNG, namely, improved access to foreign currency, greater financial inclusion, a commitment to driving innovation, a wider range of and improved financial products and services, and employment opportunities. It will be clear from this analysis that the acquisition by Kina will mean customers will benefit from Kina’s ongoing commitment to innovate and serve PNG.
2 History of Westpac in PNG

With a proud history spanning over 100 years, Westpac opened its first branch in PNG in 1910, becoming the first bank in the country. At present, in the Pacific, Westpac runs commercial banks in both Fiji and PNG (together, the Pacific Businesses), manufacturing and distributing a broad suite of financial products (deposits, lending, payments, cards and foreign exchange) and financial services to retail, business and institutional customers. In this submission, Westpac draws on its history in PNG to outline the strong competition and public benefit arguments in support of this Proposed Transaction. Figure 1 below is a photo of Westpac’s (formerly Bank of New South Wales) first branch in PNG.

Figure 1 - A photo of Westpac’s (formerly Bank of New South Wales) first branch in PNG

3 About the Proposed Transaction and Westpac’s rationale

3.1 About the Proposed Transaction

The sales of the Pacific Businesses are interdependent, and the completion of both transactions is intended to occur simultaneously.

Completion of the Proposed Transaction will result in:

• Kina acquiring 89.91% of the shares in Westpac PNG;
• Kina acquiring Westpac PNG’s retail, commercial, institutional, corporate and SME customer base;
• all of Westpac PNG’s employees continuing their employment with Westpac PNG on terms that are no less favourable than their current employment terms with Westpac PNG, with no job losses to PNG national staff; and
• Westpac PNG’s retail branch network transferring to Kina. Kina proposes to retain the Westpac PNG banking licence and operate the acquired business under a different brand and licence.
3.2 Strategic rationale and difficulties operating in PNG

In Westpac’s FY20 half year results, Westpac announced it was establishing a Specialist
Businesses Division to undertake a strategic review of several businesses where it did not have
sufficient scale or where the returns are insufficient for the risk. The review included Westpac’s
Pacific Businesses. The outcome of the strategic review was that Westpac determined it was
unlikely to be the long-term owner of these businesses.

In Westpac’s FY20 annual report, Westpac announced its strategic focus and priority to ‘fix,
simplify, perform’. The Proposed Transaction meets Westpac’s stated strategic objectives,
particularly in the context of simplifying, de-risking and refocusing Westpac’s business on its core
Australia and New Zealand banking business. The Proposed Transaction constitutes the practical
implementation of this strategy.

As discussed further below and in section 4.1, there are a number of challenges to doing
business in PNG for an Australian bank. While Westpac has noticed considerable improvements
recently in the market conditions in PNG’s banking industry that would suggest that the banking
industry is overcoming these challenges, some persist.

Having decided that it was not to be the long-term owner of the Pacific Businesses, it was
critically important for Westpac in choosing a purchaser to ensure a high standard of banking
services was maintained for its customers, continuing employment for its employees was secured
and that a competitive banking industry was maintained. In this regard, Westpac is confident that
Kina, a respected brand in the region with deep local knowledge and a range of digital and
innovation programs, is in a very strong position to ensure a sustainable future for Westpac’s
Pacific Businesses.

Importantly, the qualitative factors that Westpac considers arise from a sale to Kina include:

(a) Customer outcomes: Westpac understands Kina proposes to grow Westpac’s existing
product and customer offering across both Fiji and PNG. Customers will benefit from
Kina’s local knowledge and existing presence in PNG which is anticipated to help
facilitate a smooth transition and minimise disruption.

Kina is more
committed to banking in PNG and has the appropriate risk appetite to grow the combined
businesses.

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4 For instance, in its January 2021 rating of PNG’s credit profile, Moody’s Investors Services recognised a number of constraints on
liquidity in PNG, including exchange rate risk due to increasing external debt, political risks and governance weaknesses which
challenge policy implementation and effectiveness. See, Moody’s Investors Service, Credit Opinion – Government of Papua New
(b) **Employee outcomes:** Kina is committed to providing ongoing employment for all local employees as part of the Proposed Transaction; and

In summary, continued operation in PNG does not fit with Westpac’s strategy to simplify its operations and focus on Australia and New Zealand.

### 3.3 Sale process

In 2020, Westpac undertook a comprehensive sale process for its Pacific Businesses.

Ultimately, Kina was selected as the preferred bidder for the Pacific Businesses on the basis that its bid would enable Westpac to achieve, among other things, the following objectives:

(a) minimise employee and customer disruption; and

(b) a smooth exit. In particular, Kina, as a commercial bank with existing banking operations in PNG would not require a transitional services agreement with Westpac to complete the Proposed Transaction.⁶

Kina’s existing presence and commercial banking operations meant that it was a very attractive bidder. While this also meant that Kina’s operations gave rise to competitive overlaps with Westpac PNG’s operations, Kina compellingly outlined the pro-competitive nature of its acquisition of Westpac PNG and the public benefits its acquisition would deliver. This was highly relevant to Westpac’s decision to award the bid to Kina. The pro-competitive nature and public benefits of the Proposed Transaction are outlined in further detail in sections 4 and 5 below.

Westpac ultimately decided a sale to Kina was the best option, with positive outcomes for customers, employees and communities across Papua New Guinea.

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Westpac's view remains that the Proposed Transaction is the best option for improving competition in the commercial banking sector in PNG and delivering public benefits to PNG.

3.4 About Kina

As the ICC will be aware generally and as Kina's own applications detail, Kina was established in PNG in 1985 as a diversified financial services company. Kina is listed on the Australian Stock Exchange (ASX:KSL) and the Port Moresby Stock Exchange (PNGX:KSL).

Kina’s vision is to be 'the most dynamic, progressive and accessible financial services company in Papua New Guinea.' Kina is committed to investing in digital innovation which it considers will fuel future growth. Kina’s commitment to building a bank focused on financial inclusion which is facilitated by its support from Australian Development Bank and International Finance Corporation, and is reflected in Kina’s strategic partnership with MiBank, a microfinance institution that offers digital and inclusive products to empower women and grassroots people to access products and services. Kina’s stated aim of this partnership is to 'help significantly expand financial inclusion services in PNG, assisting unbanked Papua New Guineans enter the formal financial services sector.'

4 Competition assessment

Key points

Westpac considers that the Proposed Transaction will improve competition in the supply of a range of banking products and services in PNG. Specifically, the Proposed Transaction will give Kina the necessary scale to deliver a wider range of products and services, invest in greater levels of innovation, and compete more effectively with the dominant player in PNG, BSP. In this section we outline the following:

- the industry context which indicates scale is pivotal to have sufficient reach, absorb risk and price competitively (section 4.1);
- the scope of the relevant markets which the ICCC could adopt to consider the competitive effects of the Proposed Transaction (section 4.2);
- the position of BSP as the dominant market player in PNG (section 4.3);
- why Kina and Westpac are not close competitors (section 4.5);
- how the Proposed Transaction will deliver Kina the scale it needs to compete against BSP (section 4.6);
- how the Proposed Transaction will give Kina a broader customer base through which it can distribute its innovative and expanded range of products and services (section 4.7); and
- how combining the Kina and Westpac PNG businesses will improve the competitiveness of pricing (section 4.8).

Each of these points is considered further below.

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4.1 Industry context

The banking industry in PNG is characterised by some very unique features, including a dominant competitor in BSP, which mean scale is needed to succeed. These are:

- **Higher average costs to serve customers**: PNG has a middle class and business / corporate sector which is still growing. While this rate of growth is high, and PNG has made significant strides in this regard, it is nonetheless reflected in a greater volume of smaller deposits and loans, which can be contrasted against economies such as Australia. By way of illustration, in PNG the average amount of borrowing is small, at around 405 kina per loan. The effect of this is that the average cost to serve customers in PNG is much higher than in countries such as Australia. Accordingly, scale is needed to serve greater numbers of customers.

- **Very dispersed and rural population**: PNG has a highly dispersed and remote population with 87% of Papua New Guineans living in rural areas. This means that reaching and serving customers in remote parts of the country requires scale, which is more efficiently done – or may only be possible – with a bank which has the scope, size and a larger balance sheet to sustain losses necessary to reach and serve remote communities. As a World Bank commissioned report noted, '[i]mportant remote branches are likely to remain cost centres, offering primarily savings and transfer services with few opportunities to build earning assets. This requires finding ways to reduce the costs of serving these markets and reduce the need for cash management.' The Asian Development Bank has also cited PNG's geographic and remoteness as a challenge for the development of PNG's finance sector.

- **Greater levels of informality in the economy create some uncertainties, costs and challenges managing global AML/CTF standards**: Given the unique nature and characteristics of the PNG economy, such as high levels of informal work, the cash based nature of the economy, and difficulties tracing and verifying land ownership in PNG, it can be difficult to implement and follow 'Know Your Customer' requirements according to Australian and global standards. The Asian Development Bank noted that 'Compliance with regulations related to customer registration and monitoring... has led to increasing documentary requirements that have increased compliance costs.' For example, the lack of formal identification documentation increases the necessity of 'Low ID' customer accounts.

- **The costs of doing business in PNG are generally high but reduce with scale**: As Professor Paul Barker highlighted in a 2019 article, there are challenges in doing business in PNG, including high costs of transport and communications, utilities and services, as well as corporate taxes.

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14 Ibid. Approximately 87% of PNG's people derive their livelihoods from the informal economy, which is largely characterised by subsistence agriculture. Only approximately 10% of the country's working age population is able to access formal job opportunities in the private sector. Implementing risk management tools is also more difficult and more expensive in PNG.
15 Ibid.
Banking sector risk: Ratings agencies like S&P and Moody's have rated PNG B- and B2 respectively, based on a number of factors, including economic strength, institutions and governance strength and fiscal strength.\textsuperscript{17}

Finally, in many ways, aspects of the PNG financial system are still developing. This means that Westpac is required to have significantly different practices in PNG to those in other economies, which increases cost and reduces synergies.

All of these market realities point to scale being important to operate and compete effectively in the banking industry in PNG.

4.2 Relevant market

Westpac considers that, irrespective of the market definition ultimately adopted by the ICCC, the Proposed Transaction will not have the effect of substantially lessening competition in any market in PNG in accordance with section 81(3) of the \textit{Independent Consumer and Competition Commission Act} 2002 (PNG). However, for the purpose of this submission, Westpac considers that it would be appropriate for the ICCC to consider the effects of the Proposed Transaction on the following possible markets:

(a) the national supply of retail banking services (consisting of transaction accounts; savings accounts; home loans and personal loans); and

(b) the national supply of commercial and SME banking services (including foreign exchange),

together, the \textit{Relevant Markets}.

4.3 BSP is currently the dominant player in PNG

The Asian Development Bank has characterised BSP as dominating \textit{domestic and regional banking as the largest bank with the widest network of branches and the broadest customer base.}\textsuperscript{18} This is supported by the data. As can be seen from \textbf{Figure 2} below, banking in PNG is dominated by BSP, which has a market share of approximately two-thirds based on total assets. Post-transaction, the PNG banking sector will remain dominated by BSP which will continue to constrain the other market participants including Kina. We note that ANZ will continue to remain in the commercial sector as well (although this is not reflected in the market share figures below).


A particularly significant feature of the banking industry in PNG is the dominance of BSP, which compares starkly against the other competitors which are much smaller and each hold roughly similar shares. The structure of the industry is more akin to a monopoly, and this gives rise to concerns that BSP could deter entry or prevent effective competition from existing rivals by keeping them inefficiently small, i.e., by preventing them from gaining market share to build sufficient scale to compete effectively against BSP.

Set against the industry context for banking in PNG (as outlined in section 4.1 above), and in the face of the dominance of BSP, the Proposed Transaction offers Kina the opportunity to grow its balance sheet, increase its liquidity, and expand its physical presence and customer base which will help give it the scale necessary to compete effectively in all dimensions of the Relevant Markets.

Critically, market concentration alone should not inform a competition regulator’s review of a transaction, but should be taken together with other factors such as the characteristics of the market, the market context, customer behaviour, etc. This is discussed in further detail in the following sections of this submission.
4.5 Kina and Westpac are not close competitors

Importantly, Kina and Westpac are not each other's closest competitor, for the following reasons:

- **Different segment focuses:** Westpac PNG is predominately a corporate/commercial bank, with large business customers representing approximately 90% of Westpac PNG's business. Kina, on the other hand, is a relatively small supplier of corporate and commercial banking in PNG, with a larger focus on retail and SME customers. For instance, as at December 2020, 31.4% of Kina's loans were for personal banking. Accordingly, Kina is not a close competitor of Westpac PNG, compared to BSP and ANZ which each have a strong commercial banking presence.

- **Different positions in retail banking:** In relation to retail banking, the combined share of Westpac and Kina post-transaction is nominal. Westpac submits that the consolidation of Kina's and Westpac's banking businesses will not lessen competition as Kina is not a significant constraint on the other market participants in the commercial banking sector, and Kina's share in the retail banking market will only increase by a moderate percentage.

- **Kina and Westpac are complementary:** The Proposed Transaction involves combining two businesses with a considerable degree of complementarity rather than significant

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21 Kina FY20 Preliminary FY20 Annual Report, Gross Loans figure is for the Kina Group as at December 2020, page 11

<https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02346127-2A12629717/access_token=83ff96335c25f45a064df02a205e36ff4>
overlap. Furthermore, the Proposed Transaction will combine under common ownership Kina's and Westpac's current separate businesses (albeit Westpac understands that Kina will retain two separate brands to continue to provide choice to PNG customers), capable of competing more vigorously against BSP in the Relevant Markets, where BSP continues to enjoy incumbency advantages.

4.6 Kina will have the scale it needs to compete against BSP

As outlined above, currently BSP is the dominant player in the Relevant Markets in PNG. A significant reason explaining its dominant position is its sheer scale, as evidenced in the size of its balance sheet and other financial metrics reflected in Figure 6 and Figure 7 below. The Proposed Transaction will increase Kina's asset position, and also improve other financial metrics, which will help to give Kina the scale it needs to compete more effectively against BSP and better service its customers (including pursuing rural expansion).

Figure 6 - Financial metrics

<table>
<thead>
<tr>
<th>Financial metric</th>
<th>Standalone</th>
<th>Combined Kina Group + Westpac PNG</th>
<th>Combined Standalone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westpac PNG23</td>
<td>1.53</td>
<td>1.65</td>
<td>3.23</td>
</tr>
<tr>
<td>Kina Group24</td>
<td>2.75</td>
<td></td>
<td>5.16</td>
</tr>
<tr>
<td>Gross Loans (PGK Bn)</td>
<td></td>
<td></td>
<td>6.8</td>
</tr>
<tr>
<td>Deposits (PGK Bn)</td>
<td>3.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets (PGK Bn)</td>
<td>3.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NPAT (Km)</td>
<td>64 (Jun 20)</td>
<td>76 (Dec 20)</td>
<td>140</td>
</tr>
</tbody>
</table>

23 As at September 2020.
24 Kina FY20 Results and Investor Presentation, Gross Loans figure is for the Kina Group as at December 2020, <https://cdn-api.markitdigital.com/apimon-gateway/ASX/axx-research/1.0/file/2924-02346129-2A128297?access_token=87f3b353c2d45ea094df02a206a30f44> and Kina FY20 Preliminary FY20 Annual Report, Gross Loans figure is for the Kina Group as at December 2020, page 15 <https://cdn-api.markitdigital.com/apimon-gateway/ASX/axx-research/1.0/file/2924-02346129-2A128297?access_token=87f3b353c2d45ea094df02a206a30f44>.
26 BSP FY20 Shareholder Presentation, as at December 2020, see slides 7 and 12 <https://www.bsp.com.pg/media/yglp/20210223_investor-pres-q4-2020.pdf>. We understand this is the figure for BSP Group but that approximately 75% of BSP's Group is accounted for by its operations in PNG.
27 BSP FY20 Shareholder Presentation, as at December 2020, see slides 7 and 12 <https://www.bsp.com.pg/media/yglp/20210223_investor-pres-q4-2020.pdf>. We understand this is the figure for BSP Group but that approximately 75% of BSP's Group is accounted for by its operations in PNG.
29 As at September 2020.
30 BSP FY20 Investor Presentation, NPAT figure is for PNG Bank only and as at 31 December 2020, slide 6 <https://www.bsp.com.pg/media/yglp/20210223_investor-pres-q4-2020.pdf>.
## Figure 7 - Presence metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Standalone</th>
<th>Kina Group&lt;sup&gt;31&lt;/sup&gt;</th>
<th>Combined</th>
<th>Standalone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westpac PNG</td>
<td>367,255</td>
<td>165,000</td>
<td>~500,000</td>
<td>3.1 million (BSP Group)</td>
</tr>
<tr>
<td>Kina + Westpac PNG</td>
<td>32</td>
<td>145</td>
<td>5,900</td>
<td>6,879</td>
</tr>
<tr>
<td>Branches</td>
<td>15</td>
<td>17</td>
<td>46&lt;sup&gt;33&lt;/sup&gt;</td>
<td>46&lt;sup&gt;33&lt;/sup&gt;</td>
</tr>
<tr>
<td>ATMs</td>
<td>65</td>
<td>80</td>
<td>319</td>
<td>319</td>
</tr>
<tr>
<td>EFTPOS terminals</td>
<td>3,400</td>
<td>2,500</td>
<td>6,879</td>
<td>6,879</td>
</tr>
</tbody>
</table>

As can be seen in Figure 6 and Figure 7 above, post-transaction, the combined Kina and Westpac PNG business is still significantly smaller than BSP when various financial and physical metrics are compared.

### 4.7 Broader customer base

As detailed in section 5.3 below, Kina has demonstrated a recent history of innovative product and service development. It has also indicated a future commitment to pursue a digital led strategy underpinned by innovation. Post-Transaction, Westpac considers that Kina will be able to distribute these products across the combined and expanded customer base, including in relation to the retail (especially financial inclusion) and SME sectors and which are a priority for Bank of PNG. In addition, Kina’s increased scale (as explained in section 4.6 above) will give it the funds and scope to commit to further investments in developing innovative new products and services.

### 4.8 Improved pricing competitiveness

In addition to the fact that Kina will have improved scale to compete with BSP, post-transaction Kina will have the ability to improve its pricing competitiveness.

An oft cited argument is that the fewer competitors in a market, the less incentive to compete on prices, products, and innovation, resulting in higher costs to customers and poorer quality products and services. In the context of the Proposed Transaction, this perceived risk could be argued by opponents to the Proposed Transaction. Currently, however, BSP’s dominant

<sup>31</sup> Kina FY20 Preliminary FY20 Annual Report, Gross Loans figure is for the Kina Group as at December 2020, page 7 <https://cdn-api.markdigital.com/apimark-gateway/ASX/asx-research/1.0/file/2924-02346127-2A12829717/access_token=83ff96335c2d45a094df02ca206a99f4>.


<sup>33</sup> Excluding 36 sub branches.
presence in all Relevant Markets makes it difficult for other market participants to effectively compete.

The Proposed Transaction will help Kina grow into a leading regional bank of scale. Westpac expects that Kina will be in a position to leverage anticipated synergies and economies of scale such as lower overheads per customer and cheaper access to capital, to compete more effectively against BSP, which would not be possible absent the Proposed Transaction. Westpac submits that it is crucial for the ICCC to consider the quality of competition, not just the number of competitors, when considering the competitive effects of the Proposed Transaction.
Foreign Exchange

Access to foreign exchange in PNG is a serious impediment for foreign businesses conducting business in PNG. Since 2014, Business Advantage PNG has listed foreign exchange as one of the key impediments for businesses in PNG.\(^{43}\) Although forex liquidity improved between 2016 to 2019, it was identified to be the most significant constraint for 2020. A recent article published by the PNG National Research Institute suggests that Government policies are required to address the PNG foreign currency

crisis. As an economy predominately driven by mineral and energy extraction, PNG is experiencing problems associated with the lack of flow on of LNG export sales into the economy.

As a result of its size, BSP receives significant support from BPNG intervention in the foreign currency market, as reflected in Figure 11 and Figure 12 below which indicates that BSP receives on average 50% of foreign currency contributions from Bank of PNG per month.

**Figure 11 - Foreign currency contributions from BPNG**

<table>
<thead>
<tr>
<th>BPNG - Foreign currency contributions as a percentage (rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 2020&lt;sup&gt;46&lt;/sup&gt;</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>BSP</td>
</tr>
<tr>
<td>ANZ</td>
</tr>
<tr>
<td>Westpac</td>
</tr>
<tr>
<td>Kina</td>
</tr>
<tr>
<td>Others</td>
</tr>
</tbody>
</table>

**Figure 12 - Line graph of BPNG foreign currency contributions for commercial banks (Nov 20 – Feb 21)**

In foreign exchange, BSP is estimated to hold a 43.5% share in FY19.<sup>51</sup>

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<sup>44</sup> Dr Francis Odhuno, Dr David Ayres, Dr Osborne Samida, Dr Charles Yala. PNG National Research Institute, *Why the Foreign Currency Crisis in PNG is Almost Entirely up to the Government to Sort Out*, vol 9, issue 1, https://pngri.org/images/Publications/SL9-1---201504---Odhuno---Forex-Crisis.pdf.

<sup>45</sup> Westpac’s internal calculations.

<sup>46</sup> Westpac’s internal calculations.

<sup>47</sup> Westpac’s internal calculations.

<sup>48</sup> Westpac’s internal calculations.

<sup>49</sup> Westpac’s internal calculations.

<sup>50</sup> Westpac’s internal calculations.


19.3.2021
From having operated in PNG for over 100 years, Westpac has observed that the PNG banking
industry is unique when compared with jurisdictions with larger banking industries in one key way:
having more competitors does not necessarily correspond with a higher level of practical
competition. As a result of this, many competition principles and theories do not necessarily apply
due to the practical difficulties and unique dynamics which characterise the PNG banking sector.

Westpac was not able to locate any PNG competition law cases to support its view that, in the
case of PNG's banking industry, giving scale to one smaller player will give it improved means to
compete and increase the competitiveness of the industry.

There are, however, some recent examples from Australia:

- **Bank of Queensland / ME Bank**: The Australian Competition and Consumer
  Commission (ACCC) recently cleared in 'pre-assessment' (i.e., without a public review) the
  acquisition by Bank of Queensland of ME Bank, a bank that has a digital presence only.52
  ACCC Chairman Rod Sims confirmed that the regulator had pre-assessed the acquisition
  and given it the green light.53 Mr Sims is reported to have considered that besides the
  larger four banks in Australia (CBA, NAB, Westpac and ANZ), other players, even those
  which are well-established such as Bank of Queensland, struggle to make inroads into
  the larger banks' share of the market. Mr Sims is reported to have commented that 'if the
  smaller ones can get together, that's helpful.'54 The Australian Financial Review noted that
  the merger would:
    - increase Bank of Queensland's loan book by 50%; and
    - help de-risk Bank of Queensland's portfolio by increasing its proportion of lower-
      risk owner-occupiers.

  The Australian Financial Review commented that:55

  'The tie-up will give the new entity a degree of scale in the fight against
the big four banks, which have further entrenched their position after the
coronavirus crisis, as borrowers take advantage of the lowest fixed rates on
record, backed by cheap money from the Reserve Bank.'

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52 Charlotte Grieve, ACCC cleared ME Bank, BoQ merger in January as challenge to Big Four, The Sydney Morning Herald, 19
challenge-to-big-four-20210219-p5743h.html>.
53 James Frost, ACCC clears Bank of Queensland deal with ME, Australian Financial Review, 22 February 2021,
54 Grieve, above n 56.
55 Frost, above n 57.
This case concerned the merger of Vodafone Hutchison Australia with TPG Telecom (the Merger Parties). After the proposed merger was opposed by the ACCC, the Merger Parties sought a declaration from the Federal Court that the merger was not likely to result in a substantial lessening of competition (SLC). Ultimately, the Federal Court declared that the merger would not have the effect of SLC in any market in Australia on the basis that the merged firm would have improved competition by having an improved balance sheet, with increased scale, higher network investment, spectral efficiencies and lower congestion. With an improved balance sheet, the options available to the merged firm included: (a) expediting the roll-out of 5G; (b) incurring additional capex to address Vodafone’s current and projected congestion issues; (c) enhancing the regional presence of the merged firm; and (d) competing on price to increase market share. The Court also held that the availability of net profit after tax to pay dividends or pay down debt illustrated that the merged firm would generate sufficient funds to take such steps. Furthermore, the Court held that there was no evidence that the merged firm would not use its improved financial position to compete more effectively in the retail mobile market. A pertinent observation to come from the judgment is that:

"It is not necessarily the number of competitors that are in the relevant market, but the quality of competition that must be assessed."

In reaching this conclusion, Middleton J found that the merged firm would have the opportunity to become a more effective competitive constraint on Telstra and Optus, the two largest players in the market.

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3 Vodafone Hutchison Australia Pty Ltd v Australian Competition and Consumer Commission [2020] FCA 117.
5 Public benefits

Key points
With improved scale, greater economic resources and a wider network of physical bank locations, post-acquisition Kina will have the ability to deliver a number of outcomes for the benefit of PNG more broadly. In this section we explain the substantial public benefits Westpac considers will follow from the Proposed Transaction, including:

- improved access to foreign currency (discussed in section 5.1 below);
- improved financial inclusion (discussed in section 5.2 below);
- improved products and services (discussed in section 5.3 below); and
- employment benefits for citizens of PNG (discussed in section 5.4 below).
Each of these points is considered further below.

5.1 Improving access to foreign currency

The Proposed Transaction will improve the PNG economy’s access to foreign currency, of which PNG has been experiencing limited supply since 2014 following the end of the construction phase of the PNG LNG project. As the Asian Development Bank has commented, ‘difficulties surrounding the availability and movement of foreign currency in recent years has also provided a challenge for some looking to invest in PNG.’ Foreign currency concerns are heavily influenced by PNG Government policies, such as the decision to exempt PNG LNG from the central Bank Act 2000, which exempted revenues from LNG sales abroad from a requirement to be brought on-shore. A World Bank Report states that a further factor that exacerbates this crisis is an outflow of dividend payments. The limited foreign currency supply in PNG affects any business that deals with offshore suppliers of goods or services.

Westpac PNG’s is 89.91% owned by entities within the Westpac Group, which are domiciled and headquartered in Australia. As such, Westpac PNG has both legal and regulatory obligations to remit certain funds (eg, management fees) to Australia.

Unlike Westpac Banking Corporation, Kina is domiciled in PNG. This takes away much of the need to repatriate funds overseas because Kina’s head office and business will be headquartered in PNG. This means more foreign currency will be retained within PNG.

For example, Westpac PNG currently remits to the Westpac Group in Australia an estimated value of $300 million annually. This comprises salaries, management fees, and charges for other services. Additionally, Westpac PNG paid Westpac Group a dividend of $20 million in 2020.

However, post-transaction, more profits within remain within, and fewer costs will be spent outside of PNG, which will benefit the PNG economy.

5.2 Financial inclusion

As outlined above, PNG is a highly dispersed country with approximately 87% of the population living in rural areas. It is estimated that approximately 75% of the population in PNG does not use banking products or services.

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58 Ibid.
a demonstrated track record of making meaningful investment in product development (as discussed in section 5.3) and its partnerships with microfinance institutions (as discussed in section 3.4), illustrates Kina’s commitment to financial inclusion.

Currently, Westpac PNG operates a network of 15 branches and 65 ATMs across the country to support the needs of its customers. This can be compared against BSP which has over 40 branches. Westpac understands that Kina’s strategy will involve retaining Westpac’s current branch network and Westpac’s in-store Network which is becoming an increasingly useful place for customers to transact. Post-transaction, the combined number of branches between Westpac and Kina will still be less than the number of BSP branches throughout PNG. Figure 13 below depicts current branch locations of Westpac PNG and Kina, while Figure 14 below depicts current branch locations of BSP. A comparison of Figure 13 and Figure 14 demonstrates that even post-transaction, BSP will have a larger and more dispersed physical presence than Westpac PNG and Kina combined.

Figure 13 – Location of Westpac (red) and Kina (yellow) branches across PNG
As reflected in Figure 15 below, there will still be several Westpac, Kina and BSP branches in regions across PNG post-transaction, with several regions that will still only have the limited option of a BSP branch. As discussed in section 4.6, Westpac expects the Proposed Transaction will give Kina the scale that it needs to expand into these regions, which will ultimately improve the number of options available to Papua New Guineans in those regions.
5.3 Improved financial products and services

A problem associated with financial inclusion and access to banking in PNG is the common practice of charging customers fees for basic banking services, which opponents of the Proposed Transaction argue will likely be exacerbated by the Proposed Transaction. This argument centres on the assumption that the Proposed Transaction will reduce competition. However, as discussed above in section 4.6, Westpac believes that the Proposed Transaction will improve Kina's ability to effectively compete on price, product and service offering, and future innovation. Furthermore, Westpac understands Kina has plans to introduce fee-free banking on transaction accounts for customers across both brands.61

Kina has continually improved its financial products and services in the PNG banking market. Some of Kina's key innovations that Westpac PNG has observed over the years include:

- Introducing a flagship and unique new customer offering called Prime, that includes fee free Visa cards, the lowest fixed rate home loan in PNG history, and associated advisory service. Figure 16 below is a screenshot of Kina's advertisement for their Prime Visa Debit Card, which offers no fees for three years.

**Figure 16 - Kina's Prime advertisement**

- Becoming the first commercial bank in the Pacific to implement VISA transaction controls online.62 Transaction controls let cardholders place their own rules on a payment card’s use and when to be notified of different financial events. The solution allows Kina to (as depicted in Figure 17 below):63
  - engage cardholders with digital innovations that improve their financial well-being;
  - tailor security and visibility to cardholders’ needs;
  - help reduce risk and fraud; and
  - lead to operational savings by lowering call centre volumes and card costs, as well as chargeback volume and processing costs.

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63 For more information see the Visa website: https://developer.visa.com/capabilities/vctc.
Figure 17 - Kina’s VISA transaction controls

1. Merchant submits an authorization request (A20).
2. Visa sends an account participant in VTS (A20)并于 Visa for a decision. If the transaction meets the VTS criteria, it will be declined in STP. NOV21TSE rules are applied after all rules. If rules and processing rules are applied.
3. Visa sends a decline response back to the merchant, and
4. Visa sends an A30-00 (102) to the issuer, with new STP and VTS code ‘10207’ identifying the transaction as declined due to VTS settings. The server processes the request and updates the authorization platform to accept the transaction in the existing file.
5. Kina Bank’s VTS settings and analysis should be reviewed. Then VTS code sends notification information to the request notification service for final delivery in the file.
6. The notification service will use the VTS information to identify the request and to send the transaction notification based on the customer communication preference (email, mobile, or push notification).

- Launching a market leading internet payment gateway that facilitates digital payments through multiple online channels for scheme and becoming the first Bank to accept non-scheme cards. In its announcement of the launch, Kina Bank’s Chief Transformation Officer Ivan Vidovich commented on the payment platform saying:

  'Kina Bank is committed to building PNG’s digital bank of the future and having e-commerce offerings such as the internet payment gateway for our customers is a step in building that digital future.'

- Partnering with local PNG Fintech company to deliver e-commerce services to the public. In its announcement of the partnership, Kina’s Executive General Manager Advisory Services and Wealth Management commented on the partnership and said:

  'We’re pleased to be at the forefront of innovation at Kina Bank, introducing new products and services for customers to make banking simple and easily accessible and this is another reflection of that.'

- Launching Xero bank API – another first for the Pacific. This enables business customers to integrate their banking transaction data directly with the Xero platform, and opens up additional commercial partnership opportunities.
- Doubling the number of EFTPOS terminals with market leading performance and integrated functionality.
- Becoming the first commercial bank in PNG to design and test an eKYC solution for digital account opening, with full biometric and digital document ID, demonstrating a commitment to building sound AML/CTF systems. Kina’s advances in e-commerce were

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56 Ibid.
57 Ibid.
also covered by the press, as shown in the BusinessAdvantagePNG article excerpted in Figure 18 below:66

Figure 18 - BusinessAdvantagePNG article on Kina’s ecommerce plans

Pandemic push: Kina Bank’s ambitious ecommerce plans for Papua New Guinea

18 Nov 2020 by David James 4 Comments

With COVID-19 pushing more businesses online, Kina Bank is introducing some ambitious enhancements to its digital services. Chief Executive Officer Greg Pawson outlines his plans to Business Advantage PNG.

Business Advantage PNG (BAPNG): Kina has been working on an Internet Payment Gateway (IPG) service that will allow the use of ATM cards for online payments. How far has that progressed?

Greg Pawson (GP): We have launched it. Our platform can now accept non-EMV chip cards: the local ATM cards that we produce here with the black strip on the back. It is more cost-effective, the charges on those kind of cards are much lower. And it widens the audience — all of our customers can now pay for goods and services online. We want everyone to benefit, not just Visa or MasterCard holders. Customers with Kina Bank local cards can enjoy the benefits of shopping online using our Internet Payment Gateway (IPG) for the first time. It’s a significant step forward in our strategy and a first for PNG as Kina Bank powers the digital revolution across the nation.

On Kina’s partnership with Everest,67 the global cloud-based banking platform, Kina’s CEO Greg Pawson said the following:70

...allows customers to transfer money overseas and trade in foreign currency. We already have the leading online foreign exchange platform but, at the end of the day, to use that platform you have to be a customer and go through the laborious process of setting up an account. This platform will be available to everyone, including those who don’t already bank with Kina Bank.'

67 Everest is "the world’s only globally accessible device-free cloud banking platform, solving the problems of seamlessly and compliantly transforming value around the world. Able to create regulatory compliant accounts in a few minutes for anyone in the world, combined with programmable money to issue and process payments in any country. Everest is positioned to deliver digital financial services to anyone, anywhere.” See ‘Kina Bank scaling new heights with Everest Network’, in Post Courier, 17 November 2020, available at: <https://medium.com/about-everest-updates-and-news/kina-bank-everest-network-ccc5722636b6>.
Mr Pawson further commented that:

'We want to make banking simple and easy for all customers, no matter who they bank with. It’s one of many digital and mobile banking services we provide. An added bonus is that we are working with the Bank of PNG on regulatory requirements to provide customers with their own digital identity, ushering in a more digital future for everyone. It will be another first for PNG and shows how Kina Bank is at the forefront of digital innovation.'

These new financial products and services demonstrate that Kina is at the forefront of advancing e-commerce in PNG and improving financial access for all Papua New Guineans. It is another reason why, in Westpac’s view, the Proposed Transaction will ultimately lead to improved technological products, services and innovation, as Kina’s commitment to innovation will be brought to bear across an enlarged business.

5.4 Employment

As part of Proposed Transaction, Westpac’s objective was to minimise potential employee and customer disruption. Safeguarding the welfare of Westpac PNG’s almost 500 employees and their families was and continues to be of significant importance to Westpac. This is particularly important as PNG families, from a cultural perspective, are not simply a nuclear structure, but often encompass a broader group of family members who rely on those who have gainful employment. This highlights the uniqueness of PNG which made the issue of selecting a suitable acquirer important to Westpac.

Selecting Kina as the successful bidder provided the least disruption, including because Kina committed to providing ongoing employment for all Westpac PNG employees in PNG. This means that Westpac PNG staff will transition to Kina on the same or better employment terms as they are currently offered by Westpac PNG.

6 Conclusion

For the reasons set out in this submission, Westpac considers that the Proposed Transaction will not substantially lessen competition in any of the Relevant Markets.

In addition, Westpac considers that the Proposed Transaction will produce a number of important public benefits for the people of PNG.

Since the Proposed Transaction was announced, there have been some reports discussing the nature and perceived implications of the Proposed Transaction that Westpac considers to be inaccurate and misinformed. We welcome any engagement with the ICCC to address any questions or concerns the ICCC may have in light of these public reports.

Westpac hopes that the ICCC finds the information in this submission useful to its review of Kina’s application for clearance and authorisation. If the ICCC has further questions or considers that Westpac could provide further assistance, Westpac remains ready and willing to assist and welcomes the opportunity to discuss the contents of this submission further.