



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 018077

In the matter between:

AUTO & GENERAL INSURANCE COMPANY LTD

Primary Acquiring Firm

And

COMPASS INSURANCE COMPANY LTD

Transferring Firm

COMPASS SHORT TERM INSURANCE BOOK

managed by MUA INSURANCE ACCEPTANCES (PTY) LTD Primary Target Asset

Panel	: Norman Manoim (Presiding Member)
	: Andiswa Ndoni (Tribunal Member)
	: Medi Mokuena (Tribunal Member)
Heard on	: 18 December 2013
Order Issued on	: 18 December 2013
Reasons Issued on	: 16 January 2014

Reasons for Decision

Approval

[1] On 18 December 2013, the Competition Tribunal ("Tribunal") unconditionally approved the acquisition by Auto & General Insurance Company Limited of the short term insurance book owned by Compass Insurance Company Limited and managed by MUA Insurance Acceptances (Pty) Limited in terms of section 16(2)(a) of the Act.

[2] The reasons for approving the proposed transaction follow.

Parties to transaction

Primary Acquiring Firms

[3] The primary acquiring firm is Auto and General Insurance Company (Pty) Ltd ("**Auto & General**"). Auto & General is a wholly-owned subsidiary of Telesure Investment Holdings (Pty) Ltd ("**TIH**"). TIH is in turn a wholly-owned subsidiary of Budget Holdings Limited ("**Budget Holdings**"), a private company incorporated under the laws of Guernsey and having its principal place of business in the Channel Islands.

The Transferring Firm

[4] The transferring firm is Compass Insurance Company Limited ("**Compass**"). Compass is a wholly-owned subsidiary of Hannover Reinsurance Africa Limited ("**Hannover Re**"). Hannover Re is in turn a wholly-owned subsidiary of Hannover Reinsurance Group Africa (Pty) Ltd ("**HRG Africa**"). HRG is in turn a wholly-owned subsidiary of Hannover Ruckersicherung SE (Germany) ("**Hannover SE**").

The Target Asset

[5] The primary target asset is the Short Term Insurance Book of Compass which is managed by MUA Insurance Acceptances (Pty) Ltd ("**MUA**"). MUA is a subsidiary of Lireas Holdings (Pty) Ltd ("**Lireas**") which forms part of the Hannover Group. There are two shareholders of MUA, namely Lireas and Christelle Fourie.

Proposed Transaction and Rationale

[6] The proposed transaction involves the acquisition of sole control by Auto & General of the Short Term Insurance Book which is currently owned by Compass and managed by MUA. The transaction involves the termination of the existing policies in the Short Term Book of Compass and simultaneous commencement of the underwriting of the same policies by the new insurer, Auto & General. MUA will continue to manage the Short Term Insurance Book on behalf of Auto & General, following the change in underwriter.

[7] Auto & General's rationale for the merger is that it will gain access to a previously unexplored niche market segment, while MUA stands to benefit from Auto & General's highly advanced technological systems, economies of scale with regard to procurement and access to innovative underwriting techniques. MUA will further have access to substantial cost savings.

Relevant Market and Impact on Competition

- [8] It is not necessary for us to decide whether, for the purpose of this merger analysis, the relevant market comprises the general short term insurance market or some specialist segment of that market, such as property or motor insurance. On either approach, the post merger market share will be small. In the general short term insurance market the post merger share is 3.9% with an increase of 0.33% post merger. If the market comprises of specialist segments then post-merger the market share of the merged firm will be less than 3%, with the highest market share in any one type of short term insurance being 7.85%, which it holds in the motor category.¹
- [9] The merger results in a horizontal and a vertical overlap in the activities of the merging parties. Each of these overlaps will be discussed separately.

Horizontal assessment

- [10] The merger gives rise to a horizontal overlap in the activities of the merging parties in that both Auto & General and Compass are active in the market for the provision of short term insurance products. We found that the merged entity will hold less than 5% in the national market for the provision of short-term insurance products. The market for the provision of short-term insurance is fragmented with many players who also provide short-term insurance products. Furthermore, the merged entity would continue to face competition from other large and reputable competitors such as Outsurance, Sanlam, Old Mutual, Liberty, Discovery, Momentum and others.²

Vertical Assessment

- [11] There is a vertical relationship between the parties in that Hannover Re provides reinsurance to companies within the TIH Group, specifically 1Life Insurance Limited ("1Life") as well as actuarial and underwriting services. We found there to be no customer foreclosure concerns as 1Life competes with several viable alternative players such as ABSA, AIG, Centriq, Guardrisk, Hollard, Monarch, Rand Mutual and many more. Thus the merged entity will not have the ability to foreclose its upstream rivals in the market as there will be sufficient customers remaining in the downstream market.
- [12] We further found that the proposed merger will not lead to any input foreclosure concerns as there are upstream market participants such as African Reinsurance Corporation (SA) Limited, Munich reinsurance Company Limited, Scor African Limited, Aon South Africa (Pty) Ltd, Alexander Forbes Risk Services (Pty) Ltd, Santam Limited, CGM Insurance Brokers CC, First Equity Risk Management

¹ See Table 1 in the Commission's Report on page 12-13.

² See Commission's Report page 13.

Services, Deloitte, PWC and others, which also provide reinsurance, underwriting and actuarial services in the market who can serve as alternatives to the competitors of 1Life.³

Conclusion

[13] In light of the above the Tribunal finds that the transaction is unlikely to result in a substantial lessening or prevention of competition in the market for the provision of short-term insurance. In addition, no public interest issues arise from the proposed transaction. Accordingly we approve the proposed transactions unconditionally.



Norman Manoim

16 January 2014
DATE

Andiswa Ndoni and Medi Mokuena concurring

Tribunal Researcher: Derrick Bowles

For the merging parties: Daryl Dingley – Webber Wentzel

For the Commission: Zanele Hadebe and Nompucuko Nontombana

³ See Commission's Report page 14.