

**COMPETITION TRIBUNAL OF SOUTH AFRICA**

**Case No: 10/LM/Jan08**

In the matter between:

**Alternative Channel Limited**

Acquiring Firm

And

**m Cubed Life Limited**

Target Firm

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Panel : D Lewis (Presiding Member), N Manoim (Tribunal Member),  
and T Orleyn (Tribunal Member)  
Heard on : 26 March 2008  
Order Issued : 2 April 2008  
Reasons Issued: 22 April 2008

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**Reasons for Decision**

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**Approval**

[1] On 2 April 2008, the Tribunal unconditionally approved the merger between Alternative Channel Limited and m Cubed Life Limited. The reasons for approving the transaction follow.

**The parties**

[2] The primary acquiring firm is Alternative Channel Limited (“Alternative Channel”), a company registered in terms of the company laws of the Republic of South Africa. Alternative Channel is a subsidiary of the PSG Group Limited (“PSG Group”). Alternative Channel does not control any firm.

[3] The primary target firm is m Cubed Life Limited (“m Cubed Life”), a company incorporated under the company laws of South Africa. m Cubed Life does not control any other firm. m Cubed Life is controlled by m Cubed Holdings (“m Cubed”). m Cubed does not control any other firm.

## **Description of the transaction**

[4] In terms of this transaction, Alternative Channel will acquire the long term insurance business of m Cubed Life, reinsured by Alternative Channel.<sup>1</sup> In addition, Alternative Channel will acquire m Cubed Life's Inflation Pension Plan ("IHPP") business.<sup>2</sup> On completion of the proposed merger, Alternative Channel will own and control the business of m Cubed Life and the IHPP business of m Cubed Life.

## **Rationale for the transaction**

[5] PSG Group is focused on high net worth individuals and institutional investors. With PSG's prior acquisition of Alternative Channel, it expanded its product offering to its clients. PSG Group submitted that it has the skills and management know-how to manage and turn around the business of m Cubed Life and increase value for the benefit of shareholders. In addition, this acquisition will further provide PSG Group with a critical mass in the industry.

[6] The parties submitted that, with effect from 19 January 2007, the Financial Services Board ("FSB") has prohibited m Cubed Life from entering into any new business insurance and writing of any new policies due to the fact that m Cubed Life has been experiencing administrative problems. They further submitted that the reinsurance transaction was essential to ensure that m Cubed Life's shareholders' interests were best maintained and regulatory requirements are met.<sup>3</sup>

## **The parties' activities**

### Primary acquiring Group

[7] Alternative is a registered long term insurance company and does business in issuing and selling long term insurance policies. It also provides reinsurance to

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<sup>1</sup> This transaction is preceded by the reinsurance agreement pursuant to which the business in question is fully reinsured by Alternative Channel.

<sup>2</sup> The IHPP is described as a portfolio of annuity (pension) products which guarantees an income provision to annuitants into retirements and also provides for payment of a further discretionary Christmas bonus or thirteenth annuity in December. This product does not guarantee that the increase will equal or exceed inflation. See Commission's further recommendations page 1 and the addendum 6 to the reinsurance agreement.

<sup>3</sup> The reinsurance transaction has the further impact of improving the solvency position of m Cubed Life and ensuring that financial neutrality, in respect of net asset value, is maintained for m Cubed shareholders, such that the shareholders are not prejudiced in terms of the reinsurance transaction. See Record page 26.

other long term insurers. Furthermore, it is the holder of a linked life insurance license and provides investments policies to high net worth individuals and institutional investors. In particular it sells linked life policies which are not life insurance but in fact investments.

[8] PSG Group is a financial services and investment company, offering a range of products, including corporate finance, retail banking, asset management, stock broking, local and offshore investment, life insurance, short and long term investment and private equity.

#### The primary target firm

[9] m Cubed Life is a registered long term insurance company and does business in issuing and selling long term insurance policies, which are not life insurance but investments.

#### **Relevant Market**

[10] The Commission and the parties stated that the relevant product market is the market for the selling of linked life policies.<sup>4</sup> Further, they submitted that the merging parties offer their linked life policies throughout the country and, as a result, the geographic market for this transaction is national.

[11] In its further recommendations to the Tribunal, the Commission submitted that there is no overlap in the activities of the merging parties with regards to IHPP business, as Alternative Channel does not currently have an IHPP business. As a result, competition in the IHPP market will not be analysed in greater detail.

#### **Competition analysis**

[12] The merging parties' activities overlap in the selling of linked life policies.

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<sup>4</sup> The Long Term Insurance Act defines a linked life policy as “a long-term policy of which the amount of the policy benefits is not guaranteed by the long-term insurer and is to be determined solely by reference to the value of particular assets or categories of assets which are specified in the policy and actually held by or on behalf of the insurer specifically for the purpose of the policy”. See *Channel Life Limited and m Cubed Investment Life Limited Case 16/LM/Mar05*, and *PSG Financial Services Limited and Alternative Channel Limited Case 107/LM/Sep07*.

**Table 1: Market share figures for the selling of linked life policies based on net premiums and net benefits paid**

<b>Name of company</b>	<b>Market share (net premiums received and outstanding) (%)</b>	<b>Market share (net benefits paid) (%)</b>
Momentum Group	22.9	16.7
Investment Solutions	18.8	17.2
Old Mutual	12.9	11
Investec	12.7	12.3
<b>Alternative Channel</b>	<b>5.9</b>	<b>13.8</b>
Coronation	4.9	0.3
Allan Gray Life	4.6	2.9
Sanlam	4.6	5
<b>m Cubed</b>	<b>0.8</b>	<b>1.5</b>
Others	16.5	19.4
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Financial Services Board

[13] The above table shows that the merging parties would have 6.7% combined post-merger market share for linked life policies based on premiums and 15.3% based on net profits paid. These market shares are low and do not raise competition concerns. In addition, the merged entity will face competition from market players such as Momentum Group, Investment Solutions, Old Mutual, and Investec, among others. As a result, the proposed transaction is unlikely to prevent or lessen competition in the market for linked life products.

#### Vertical relationship

[14] The vertical relationships between the merging parties are unlikely to result in any foreclosure as the parties' post merger market share in the affected market is low. There is therefore no need to describe these vertical relationships in detail.

#### **Public Interest**

[15] There are no public interest issues.

**Conclusion**

[16] The merger is approved unconditionally.

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D Lewis  
Tribunal Member

**22 April 2008**

**DATE**

N Manoim and T Orleyn concur in the judgment of D Lewis

Tribunal Researcher : R Kariga

For the merging parties: Jan S De Villiers Attorneys

For the Commission : M Mohlala and T Lehaja (Mergers and Acquisitions)