

**COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA**

Case no.: 16/LM/Mar05

In the large merger between:

Channel Life Ltd

and

mCubed Investment Life Ltd

Reasons

Introduction

1. On 13 April 2005 the Competition Tribunal approved the merger between Channel Life Ltd and M Cubed Investment Life Ltd. The reasons are set out below.

The transaction

2. Channel Life Ltd ("Channel Life") will acquire 100% of the issued share capital of mCubed Investment Life Ltd ("mCubed Investment Life").
3. Channel Life is controlled by Channel Life Holdings whose shareholders are PSG Group Ltd and Arch Equity Life Holding. Although Arch Equity Life Holdings only holds 26% of the shares in Channel Life Holdings, it is entitled to exercise 51% of the votes at shareholder level. PSG Group holds 74% of the shares in Channel Life Holdings but is only entitled to exercise 49% of the votes on shareholder level.
4. mCubed Investment Life's holding company is mCubed Holdings Ltd which has in excess of fifteen subsidiaries.¹

¹ mCubed Holdings is restrained from marketing a similar product than mCubed Investment Life for a period of 36 months after the acquisition.

Rationale for the transaction

5. mCubed Holdings' is selling mCubed Investment Life because the company has not attracted any new clients since mCubed Holdings had sold ESP and AM, two sister subsidiaries from whom mCubed Investment Life had previously sourced all its clients.² The business has thus effectively become dormant.
6. Channel Life wishes to grow its market share in respect of investment business sold to the retail and institutional markets. Instead of using its existing life insurance licence to sell this product, it has decided to operate it as a separate business and to house it within an entity, which holds an investment only linked life licence. This will reduce its institutional clients' credit risk exposure. To achieve this Channel Life would have had to apply for a linked life licence, which costs R10 million. It decided to rather acquire mCubed Investment Life since it already owned such a licence.

Effect on competition

7. The Channel life group markets and sells long-term life insurance products to individuals and groups by way of a single or recurring premium.³ The products are mainly sold to corporate clients which act as brokers and which on-sell these products. Channel life does not have a linked life licence and accordingly only sells market-related products.
8. mCubed Investment Life sells investment type insurance products to groups, described as linked products with single premiums. These products have no life insurance component.
9. According to the merging parties their product markets overlap in one instance, the single premium long-term (group) insurance products market. Even though mCubed Investment Life sells single premium linked products and Channel life market-related products these can be regarded as interchangeable single premium products, according to the parties.
10. The Competition Commission defined the market broadly as the national market for long-term insurance. However, it is not clear to the Tribunal that this is indeed the product market. It seems to us that clients who buy this product wish to acquire an investment product rather than life insurance

² See Tribunal Case No: 85/LM/Oct04

³ Individual products include life and disability insurance options, local and offshore investment plans, retirement savings plans, preservation schemes and annuities. Group products include retirement funds and risk benefits offered to employers and retirement funds. Policyholders will only be able to purchase single premium policies if they have a substantial amount of money to invest, whilst policyholders who do not have a lump sum to invest, will choose recurring premium policies.

product. Channel life, itself, formulates its objectives for the new entity as follows:

“To be recognised as the most innovative developer and underwriter of investment products in South Africa, operating within a niche market in the institutional and retail segments....”

11. In spite of this the parties maintain that although it is not a genuine life insurance product, it is an investment through a life licence and therefore is seen as a class of insurance product.
12. We are not convinced that the relevant product market is defined correctly, however, the fact remains that this is a merger between two firms that have very low market shares, less than 2% each, in this product market. They compete with all the main life insurance companies such as Old Mutual, Investec, Sanlam, Momentum and Liberty Group.
13. In light of the above we find that the merger would not substantially prevent or lessen competition, whichever way the relevant market is defined.

Public interest issues

14. The transaction does not raise any public interest issues.

N Manoim

14 June 2005
Date

Concurring: Y Carrim and M Mokuena