COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 81/LM/Aug05

In the large merger between:

Sanlam Limited

and

African Life Assurance Company Limited

Confidential Reasons for Decision

APPROVAL

On 21 October 2005 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Sanlam Limited and African Life Assurance Company Limited in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

The Parties

1. The acquiring firm is Sanlam Limited ("Sanlam"), or "a wholly owned subsidiary of Sanlam Limited", which will probably be Sanlam Life Insurance Limited ("Sanlam Life"). The acquiror is a public company listed on the life assurance sector of the JSE. Its ordinary share capital is held as to 8% by Ubuntu-Botho Investment Limited. An additional number of Sanlam's "A" deferred shares can be converted into a shareholding of approximately 2% in the issued capital of Sanlam.

2. On 1 January 2005, Sanlam acquired 55% of the issued share capital of Safrican Insurance Company Limited ("Safrican"). The activities of Safrican will be counted along with those of Sanlam for the purpose of this merger analysis.

3. The primary target firm is African Life Assurance Company Limited ("African Life"). This is also a listed company in the life assurance sector of the JSE.

The two principal shareholders of African Life are Sanlam Group, as to 20.5%, and Momentum, as to 33.4%.[1]

The Merger Transaction

4. In terms of this transaction, Momentum is selling its 33.4% stake in African Life to a new majority shareholder to be owned by African Life's management and Sanlam Limited. The new entity is buying the entire issued ordinary share capital of African Life (other than those ordinary shares already held by Sanlam Limited in its shareholders' funds, the African Life ordinary shares held by the African Life Employee Shareholders Scheme Trust and the African Life ordinary shares held as treasury shares by subsidiaries of African Life).

5. The transaction is being implemented in terms of section 311 of the Companies Act, No. 61 of 1973. Post-merger, African Life will de-list from the JSE and become a wholly-owned subsidiary of Sanlam Limited. The merging parties state that their initial intention is to retain the African Life brand and run this as a separate operation within the life insurance cluster, with a focus on the entry-level market.[2]

Rationale for the Transaction

6. Sanlam wishes to penetrate the entry-level or emerging market and is attracted by African Life's existing distribution channel into this market. The transaction will enable it to offer its products to a broader base of clients. This transaction further provides a diversification opportunity for Sanlam throughout Africa. Furthermore, Momentum seeks to exit its investment in African Life. African Life will in turn use Sanlam's financial resources to accelerate the growth of its business. The merging parties describe their activities as complementary to each other.

The relevant product and geographic markets

7. Sanlam's activities can be divided into four groupings or "clusters". The activity that concerns us in this merger is the life insurance cluster. Within this cluster, Sanlam provides long-term insurance.

8. Safrican's activities are described as being complementary to those of African Life. According to the merging parties, Safrican is a small player with a small proportion of annual premiums. It offers "compulsory" or group scheme cover, whereas African Life offers individual cover. The parties state that post-merger, Safrican will retain its separate identity.

---

[1] In a separately notified transaction, African Limited is selling its shares in African Health to Momentum Group Limited.

[2] See record page 432

9. Both parties offer individual and group life assurance products.[3] The parties therefore offer the following long-term insurance products and services which are provided on a national basis:

- Assistance policies
- Disability policies
- Fund policies
- Health policies
- Life policies
- Sinking fund policies
- Linked policies
- Endowments
- Annuities
- Combinations of any of the above

10. The merging parties state that insofar as they focus on distinct customer segments, they do not compete. African Life is a smaller insurer, offering cover to low-income consumers, whereas Sanlam offers this product to medium to high-income consumers. However, in their merger documents, the parties state that post-merger, Sanlam will cross-sell its products to the African Life client base.[4] It therefore appears that this differential according to income level is likely to be eroded to some extent.

11. The merging parties assert that the relevant market is that for the provision of individual policies on the one hand, and for the provision of group policies on the other.[5] As in previous mergers, the Commission has raised the argument of supply side substitution so as to justify a broader market for the provision of long-term insurance.[6] The Commission asserts that since the insurer is issued with a license to provide both group and/or individual cover, it can render either type of cover.

12. It is accepted by the Commission that the merging parties' products are offered throughout South Africa and hence that the relevant geographical market is national.

13. Previously, in similar mergers involving this industry, we have not made a definitive finding on the relevant market where it appears that no competition concerns are raised. This is also the approach we adopt here. [7]

---

[3] The parties describe individual products as insurance and investment products offered to individuals, including but not limited to linked policies, life, sinking fund and health policies. Group products include insurance and investment products offered to retirement funds and other groupings.
[4] Record page 437
[5] Record page 636
[6] See Liberty Group Limited and Capital Holdings Limited – 04/LM/Jan05

[7] See Liberty Group Limited and Capital Holdings Limited – 04/LM/Jan05

Effect on Competition

14. Using data received from the Financial Services Board, the Commission analysed the parties' combined post-merger shares in the long-term insurance market, for both individual and group business, based on net premiums received, value of assets and value of liabilities. The resultant market shares are set out below:

Basis of market share	Sanlam Life	Safrican	African Life	Total Combined
Net Premiums Received	12.09%	0.10%	0.99%	**13.08%**
Value of Assets	18.91%	0.01%	0.68%	**19.60%**
Value of Liabilities	18.40%	0%	0.56%	**18.96%**

Source: FSB 2003 Report

15. On each basis of calculation of market shares, the target firm is adding less than 2% to the merged entity's share. The accretion in market share is minimal.

16. Furthermore, there are a number of other competitors in this market. The major players are Old Mutual, Liberty Group, Momentum Group, Investment Solutions and Metropolitan. There is also a category entitled "other", accounting for between 17% and 30% of the market under each heading used above to indicate market share.

Conclusion

We conclude that the merger will not lead to a substantial lessening or prevention of competition. There are no public interest concerns which would alter this conclusion.

The Tribunal therefore approves the transaction unconditionally.

____

L. Reyburn

31 October 2005
Date

Concurring: M. Mokoena, T. Orleyn

For the merging parties:	Jowell, Glyn and Marais Attorneys
For the Commission:	O. Strydom, Mergers and Acquisitions