

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No.: 93/LM/SEP07

In the matter between:

CAPITAL ALLIANCE LIFE LIMITED

Primary Acquiring Firm

and

INVESTEC EMPLOYEES BENEFIT LIMITED

Primary Target Firm

Panel : DH Lewis (Presiding Member), N Manoim (Tribunal Member), and Y Carrim (Tribunal Member)

Heard on : 23 October 2007
Order issued on: 23 October 2007

Reasons issued on: 25 October 2007

REASONS FOR DECISION

APPROVAL

[1] The Competition Tribunal issued a Merger Clearance Certificate on 23 October 2007, approving without conditions the proposed merger between Capital Alliance Life Limited and Investec Employees Benefit Limited.

DESCRIPTION OF THE TRANSACTION

[2] The primary acquiring firms are Capital Alliance Life Limited ("CAL"), Liberty Group Limited ("Liberty") and Standard Bank Group Limited ("Standard Bank")¹, and

¹ CAL is a wholly owned subsidiary of Capital Alliance Holdings Limited ("CAHL") which is a wholly owned subsidiary of Liberty; Liberty which is controlled by Standard Bank

Investec Employee Benefits limited (“IEB”) is the primary target firm.²

[3] IEB is a very small insurer and is currently reinsured with CAL, a bigger insurer.³ In terms of the proposed transaction, CAL will acquire certain of the existing life insurance policies underwritten by IEB.⁴

[4] According to the merging parties the existing reinsurance arrangement is no longer optimal. The acquisition will reduce the administrative and financial burden of the existing arrangement by allowing CAL to obtain control and unfettered discretion to deal with the policies of IEB.

THE RELEVANT MARKET

[5] It is common cause between the merging parties and the Commission that the relevant product market is long term insurance, and the relevant geographic market is national.

[6] Long term insurance comprises of the underwriting of risks, administration of insurance policies and investment management of premiums received from policy holders. The merging parties in their competitive report indicate that this transaction does not affect the investment management function in respect of IEB because the investment asset underlying the policies implicated in this transaction had already been previously transferred to CAL as reinsurance premium.

COMPETITION EVALUATION

[7] Pre-merger CAL has a market share of 15% calculated on the basis of total policy liability, and 16% calculated on the basis of total net premium. IEB has less than 1% market share calculated on either basis. Post merger the merged entity will

² IEB is a wholly owned subsidiary of Investec Employee Holdings Limited (“IEHL”) which is controlled by Investec Limited (“Investec”)

³ Reinsurance occurs when a small insurer (usually facing risks themselves) undertake cover for the policies that they have issued to policyholders for the same risk with another large insurer, so as to pass on the risk to the bigger insurer

⁴ This entails the transfer of direct rights and obligations to policy holders in respect to existing policies already reinsured by CAL, and does not include any staff or assets for the underwriting of new business

have a market share of 16% based on policy liabilities and 17% based on the total net premiums in the relevant market. The market share accretion as a result of the merger is clearly very low. In addition, the merged entity will continue to face effective competition from large players such as Old Mutual, Sanlam and Momentum.

CONCLUSION

[8] Given the above, we are satisfied that the proposed transaction is unlikely to result in a substantial lessening or prevention of competition in the long term insurance industry, and no public interest issues arise. We accordingly approve the proposed transaction unconditionally.

Y Carrim

Tribunal Member

D Lewis and N Manoim **concur** in the judgment of Y Carrim

Tribunal Researcher: L Xaba

For the merging parties : Werksmans

For the Commission : L Khumalo
(Mergers and Acquisitions)