

***Case No IV/M.1280 -
KKR / WILLIS
CORROON***

Only the English text is available and authentic.

**REGULATION (EEC) No 4064/89
MERGER PROCEDURE**

Article 6(1)(b) NON-OPPOSITION
Date: 24/08/1998

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.08.1998
D(98)

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

**Subject: Case No. IV/M. 1280 – KKR/Willis Corroon
Notification of 22, July 1998 pursuant to Article 4 of Commission
Regulation No. 4064/89**

1. On 22 July 1998 the Commission received a notification of a proposed concentration by which the undertaking KKR Associates II takes over the Willis Corroon Group by acquisition of the entire issued and to be issued share capital in the target company. The operation constitutes a concentration in the meaning of Article 3 (1) b of the Regulation, leading to sole control of the whole of the target company.

I. THE PARTIES INVOLVED AND THE OPERATION

2. KKR Associates is a US company member of the KKR Group which invests capital in management buy-outs on behalf of itself and its investors.
3. The Willis Corroon Group is an international insurance broker and risk management consultant headquartered in the UK. It provides a range of risk management and broking services to clients worldwide.
4. The KKR Group via the recently formed Trinity Group has announced a recommended cash offer for all of the shares of Willis Corroon Group plc. The ultimate holding company of Trinity Group, TA I, is currently wholly owned by the KKR Fund, a private equity fund managed by KKR Associates. On the offer being declared unconditional five

US and UK insurance Carriers will each subscribe for no more than 5% of the share capital in TA I. As a result the voting shares will approximately be held as to 81% by the KKR Fund and as to 19% by the Insurance Carriers. It is therefore clear that on the successful completion of the offer, KKR Associates will have sole control over Willis Corroon. The operation is subject to the condition that all the necessary regulatory clearances will have been obtained.

II. COMMUNITY DIMENSION

5. KKR and Willis Corroon have a combined aggregate world-wide turnover, calculated in accordance with Article 5 (3) (b) of the Regulation in excess of ECU 5,000 million (KKR: ECU [...] ¹ million; Willis Corroon: ECU [...] ² million). Each of them has a Community-wide turnover of more than ECU 250 million (KKR: ECU [...] ³ million; Willis Corroon: ECU [...] ⁴ million), but they do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same member State. The notified operation therefore has a Community dimension.

III. COMPATIBILITY WITH THE COMMON MARKET

A. *Relevant product market*

Insurance Brokerage

6. Referring to the approach the Commission took concerning the insurance underwriting industry, the parties suggest to draw a distinction between brokerage in respect of life insurance, non-life insurance and re-insurance. The parties also suggest that within the non-life brokerage sector, a distinction can be made between personal and commercial lines.
7. It should be noted, however, that the activities of brokers are different from those of (re)insurers and subject to a different regulatory framework. The latter offer their own services to their clients, whereas brokers act as intermediaries between the supply-side (insurance companies) and the demand side (clients seeking insurance). From a demand side perspective, clients requiring different kinds of insurance policies could well turn to one and the same broker, provided that a broker is able to procure insurance coverage for different kinds of risks. The parties claim that there is a high degree of supply-side substitutability in brokerage activities because of a common set of skills required which applies to all sorts of insurance products. While brokers in principle are free to offer a wide range of insurance products, it cannot be ignored, however, that at least for certain product lines or sectors, a considerable degree of knowledge and specialisation is required in order to compete effectively. This is true, for example, for credit insurance and reinsurance products.

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8. In the present case, however, there are no overlapping activities between the parties and the creation or strengthening of a dominant position can be excluded with any alternative product market definition. Therefore, the product market definition can be left open.

Reinsurance

9. Reinsurance constitutes a separate market because of its purpose of spreading risks between insurers, the need to pool risks and the less stringent regulatory framework. Reinsurance can be divided in the life and non-life sector.

B. Relevant geographical market

Insurance brokerage

10. Although the Commission has recognised that insurance markets, in particular as far as commercial clients are concerned, are becoming more open to intra-Community competition, life and non-life insurance are so far regarded as mainly national. However, it can be observed that the international or cross-border activities of independent brokers have contributed to the increasing internationalisation in the insurance industry because in order to seek out the best offers for their clients brokers as a rule turn to insurers world-wide.
11. In the present case, however, the geographical market definition can be left open, given the fact that the parties are not engaged in the same business and the concentration with any alternative geographical market definition will not impede effective competition in the Common market or a substantial part of it.

Reinsurance

12. The relevant market for reinsurance is global because of the international dimension of transactions and the less extensive control of national authorities (see M. 862-Axa/UAP; M. 1043-BAT/Zürich).

IV. ASSESSMENT

A. Insurance brokerage market

13. None of the parties are engaged in business activities in the same product market. KKR is an investment firm, which makes equity investments in management buyouts on behalf of investors, primarily US banks and pension funds. None of the companies controlled by KKR is active in the markets of Willis Corroon.
14. The take over by KKR may enhance the competitiveness of Willis Corroon on the insurance brokerage market, enabling it to improve efficiency and to initiate necessary innovations. KKR, however, does not intend to start brokerage activities on its own. Its interest is confined to a financial investment in Willis Corroon on behalf of its customers. Looking at the present market situation in the insurance brokerage market, the operation does not lead to the creation or strengthening of a dominant position of the parties in any relevant geographic market. At present Willis Corroon is ranked 4th among the world's 10 largest insurance brokers. The global brokerage market is a very fragmented one: There are two main players, market leader

Marsh&McLennan (gross revenues of 4,297 MECU) and the Aon Group (gross revenues of 3,056 MECU), then comes Sedgwick Group and Willis Corroon (with revenues of 1,180 and 891 MECU respectively) and finally, there is a vast number of individual small and medium sized brokers with similar market shares. Both on an international as well as on a national level, the brokerage market appears to be an increasingly competitive one, due to the activities of direct insurers using their own modern distribution channels and the competitive pressure exercised by banks acting as intermediaries. This fact is also true for the UK market where Willis Corroon exercises the majority of its activities.

B. Reinsurance

15. KKR exercises decisive influence over two insurance companies, the Bristol West Insurance Group and the Rhine Re. Both companies are active on neighbouring markets of Willis Corroon. Bristol, a US based car insurer, does not carry out business in Europe. Rhine Re offers all sorts of life and non-life reinsurance products and services. Rhine Re is only ranked 66th as global reinsurer, the company achieves global market shares of below 1% by gross written premiums not exceeding [...] ⁵ in any country in which it carries out business. Transactions with Willis Corroon represent only [...] ⁶ % of the Rhine Re's brokered business. Considering the above mentioned circumstances, the fact that one of KKR's companies is active in a neighbouring market of the target company is not expected to produce any perceivable effects with regard to effective competition in the reinsurance market.
16. It follows from the foregoing that the concentration will not create or strengthen a dominant position of the parties in the Common Market or any substantial part of it.

V. CONCLUSION

17. For the above reasons, the Commission decided not to oppose the notified operation and to declare it compatible with the Common market. This decision is adopted in application of Article 6 (1) (b) of Council Regulation (EEC) No 4064/89.

For the Commission

⁵ deleted for publication ; between 3 and 7

⁶ deleted for publication ; between 3 and 7