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Case No COMP/M.1886 - CGU / NORWICH UNION

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REGULATION (EEC) No 4064/89
MERGER PROCEDURE

Article 6(1)(b) NON-OPPOSITION
Date: 13/04/2000

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.04.2000
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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EEC) No 4064/89 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus […]. Where possible the information omitted has been replaced by ranges of figures or a general description.

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No COMP. 1886- CGU/NORWICH UNION
Notification of 15.03.2000 pursuant to Article 4 of Council Regulation No 4064/89

1. On 15 March 2000, the Commission received a notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89[1] by which CGU plc. and Norwich Union plc. agree the terms of a merger of the two businesses to create a new group to be called CGNU.

2. After examination of the notification, the Commission has concluded that the notified operation falls within the scope of Council Regulation (EEC) No 4064/89 and does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

I. THE PARTIES AND THE OPERATION

3. CGU provides all classes of insurance and life assurance, in the UK, Continental Europe, North America, Asia, Australia and other countries throughout the world. CGU also provides other related financial services. The main activities of Norwich Union are the provision of general insurance, life insurance, pensions and investment products. Norwich Union also provides a number of related financial

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[1] OJ L 395, 30.12.89 p. 1; corrected version OJ L 257 of 21.9.1990, p. 13; as last amended by Regulation (EC) No 1310/97, OJ L 180, 9.7.1997, p. 1, corrigendum in OJ L 40, 13.2.1998, p. 17.

services; it has activities in the UK, Ireland, continental Europe, Canada, Australia and New Zealand.

4. On 21 February 2000 the boards of Norwich Union and CGU announced that they had agreed the terms of a merger of the two businesses. Norwich Union's presently issued share capital will be cancelled and re-issued to CGU, which will be re-named CGNU. Norwich Union will be therefore become a subsidiary of CGNU. In return, CGNU will issue new CGNU ordinary shares to Norwich Union shareholders. CGU shareholders will retain their shares.

II. CONCENTRATION

5. The transaction constitutes an acquisition of sole control by CGU of Norwich Union within the meaning of Article 3 of the Merger Regulation.

III. COMMUNITY DIMENSION

6. The combined aggregate world-wide turnover of the undertakings concerned exceeded 5,000 million EURO in the last financial year (CGU: 28,800 million EURO; Norwich Union: 8,400 million EURO). Each of them has a Community-wide turnover in excess of ECU 250 million (CGU, EURO […]; and Norwich Union, EURO […]), 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. It does not constitute a co-operation case under the EEA Agreement, pursuant to Article 57 of that Agreement.

IV. COMPATIBILITY WITH THE COMMON MARKET

A. Relevant product markets

7. Following the practice of the Commission assessing cases in the insurance sector [2], there are three major market segments: general insurance, life insurance and reinsurance. According to the parties, within the general insurance segment, arguably there is a distinct product market for each separate category of risk. The parties submit that within the general insurance sector the main risk categories should be grouped under two main headings, personal and commercial. Life insurance should be subdivided into three categories: life assurance policies, investment policies and pensions. Other insurance markets would include marine, aviation and goods in transit insurance. Reinsurance includes treaty reinsurance, which involves reinsurance of a portfolio of business, covering a number of risks and facultative reinsurance, which involves reinsurance on an individual policy basis.

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2 M.1719- Delta Lloyd Verzekeringsgroep/Nuts Ohra, M.1499 - Swiss Life/Lloyd Continental, M.1498 – Aegon/TransAmerica, M.1453 AXA/GRE and others

8. On the demand side, life and non-life insurance can be divided into as many product markets as there are insurances covering different kinds of risk. Their characteristics, premiums and purposes are distinct and there is typically no substitutability for the consumer between the different risks insured (see for example case IV/M.862 - AXA/UAP). The Commission admits[3], also, a certain degree of supply side substitutability in the insurance sector since certain insurance products require a common set of skills and resources including risk management, administration I.T. systems and claims management.

9. However, in the present case it is not necessary to conclusively define the relevant product markets because, even on the narrowest market definition, the concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

B. Relevant geographic markets

10. The notifying party states that the relevant geographic markets are national (general and life insurance), and global (re-insurance, marine, aviation and goods in transit insurance). In previous decisions, the Commission has also recognised that the market for asset management is a global market[4].

11. However, in the present case it is not necessary to conclusively define the relevant geographic markets because, even on the narrowest market definition, the concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

C. Competitive assessment

12. The merged entity's share will not exceed [5-10]% in any product line in France, [5-10]% in Spain and [0-5]% in Italy and Belgium. The only Member States in which either party has any significant market presence and where there is any significant overlap between the parties' activities are the United Kingdom and Ireland.

(i) United Kingdom

13. The combined entity will be the largest UK-based composite insurance group, based on gross premium and retail investment sales. The new entity will have a market share of the UK life insurance sector as a whole of [8-10]%. The transaction will create the largest insurer on the UK general insurance sector, with a combined market share of [<20]%. By segment of activity the new entity will hold strong market shares (above 15%) in the following segments: commercial motor ([…]%), commercial liability ([…]%), general liability ([…]%), consequential loss ([…]%), fidelity guarantee ([…]%), domestic mortgage indemnity ([…]%) and creditor/loan guarantee ([…]%). However, the combined entity will face strong competition across all lines from a significant number of competitors well stablished and with

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[3] see Case No. IV/M.1142 – Commercial Union/General Accident

[4] see No. IV/M.1453 - AXA/GRE and No. IV/M1.043 - BAT/Zurich

comparable financial strength such as Royal & Sun Alliance (11.9%), AXA (8.3%), Zurich (6.6%) and Allianz Cornhill (4.8%). Furthermore, there are strong distribution channels in the UK, creating competitive pressures for insurers.

(ii) Ireland

14. The combined entity will also be the biggest insurer in Ireland. The new entity will have a market share of the Irish life insurance sector as a whole of 10.8%. CGNU will be the largest insurer on the Irish general insurance market, with a combined market share of 23.9%. It will be particularly strong in the following segments of activity: commercial motor ([28-35]%), commercial property ([28-35]%), employer’s liability ([<25]%), public/general liability ([15-20]%), fidelity guarantee ([>45]%), creditor/loan guarantee (<20]%), personal motor ([<20]%) and personal property ([25-30]%)

15. Fidelity guarantee, that is insurance against loss through behaviour of employees such dishonesty, constitutes a sub-segment of pecuniary loss insurance, a small and somewhat unusual niche market in Ireland. The parties estimate total gross premiums written on this market per annum at around EUR 14 m. [number of premiums from which income derives]. Hibernian is the main affiliated company of the new group in Ireland. Any market player could offer this service and the proposed merger will not materially alter the existing position.

16. There are strong competitors present in all segments of the Irish general insurance business including Allianz, AXA, Royal & Sun [Alliance] and Eagle Star (Allied Zurich). There are also a number of strong companies, in particular brokers and financial institutions, active in the distribution channels on the Irish market.

17. Consequently, the proposed concentration does not create or strengthen a dominant position as a result of which effective competition would be significantly impeded in the EEA or any substantial part of that area.

VI. CONCLUSION

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

For the Commission,

Mario MONTI,
Member of the Commission