

*Case No IV/M.759 - Sun
Alliance / Royal
Insurance*

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

Article 6(1)(b) NON-OPPOSITION
Date: 18/06/1996

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 18.06.1996

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying parties:

Dear Sirs,

Subject : Case No IV/M.759 - Sun Alliance/Royal Insurance

Your notification of 10.05.1996 pursuant to Article 4 of Council Regulation No 4064/89

1. On 10.05.1996, the Commission received a notification of a proposed concentration pursuant to Article 4 of a Council Regulation (EEC) No. 4064/89 by which the UK undertakings Sun Alliance Group plc (Sun) and Royal Insurance Holdings plc (Royal) enter into a full merger within the meaning of Article 3(1)a of the Merger Regulation

I. The parties and the operation

2. Sun and Royal will merge their worldwide activities by means of an exchange of shares. Sun's principal activity is the transaction in the United Kingdom and overseas of all major classes of insurance business and the provision of related financial services. The life insurance side of the business involves products such as life insurance, pensions, annuities and permanent health insurance. Sun's non-life business, which covers products such as commercial property, household and motor insurance, comprises both UK and overseas operations. Although Sun's overseas activities are widely spread throughout the world, the USA, Australia and Denmark constitute the most important non-domestic territories of operation.

3. Royal is also a composite insurer which provides all major classes of insurance and related financial services. Overseas activities are widely spread, with substantial businesses in the USA and Canada and European activities concentrated in Portugal, Spain and Italy.

II. Concentration

4. The merger of Sun and Royal constitutes a concentration within the meaning of Article 3(1)a of the Merger Regulation.

III. Community Dimension

5. The aggregate worldwide turnover of Sun and Royal, calculated in accordance with Article 5(3)b of the Merger Regulation, exceeded, in 1995, 5 billion ECU. The aggregate Community-wide turnover of each of the two undertakings amounted the same year to more than 250 million ECU. The two companies did not achieve more than two thirds of their aggregate Community-wide turnover within one and the same Member state; although the activities of both undertakings are centred in the United Kingdom, Sun did not achieve two-thirds of its aggregate Community-wide turnover in this country in 1995.

Therefore the concentration has a Community dimension.

IV. Compatibility with the Common Market

a) Relevant product markets

6. Traditionally the Commission has distinguished between life insurance, general insurance and reinsurance. Reinsurance constitutes a separate market because of its purpose of spreading risk between insurers. It is more specialised and conducted between insurers and reinsurers on an international basis because of the need to pool risks. The regulatory framework is also less stringent. This gives rise to different conditions of competition compared to life and general insurance.
7. 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 risk insured. Nevertheless, even on the basis of the narrowest definition, the operation does not raise serious doubts as to its compatibility with the common market.

b) Geographical reference markets

8. Insurance markets are becoming more open to intra-community competition, particularly for industrial and commercial policies, as a result of current and future measures to facilitate cross-border selling. Nevertheless, as far as life and non-life insurance are concerned geographical reference markets seem at present to be mainly national in view of the established market structures, the need for adequate distribution channels, fiscal constraints in some cases and differing national systems of regulatory supervision. However, given the need to pool risks on an international basis and the conduct of reinsurance business on a worldwide basis, the geographical reference market for reinsurance is global.

c) Competitive assessment

9. Neither Sun nor Royal have significant activities in the reinsurance sector. In the life insurance sector, the activities of both Sun and Royal are concentrated almost exclusively in the U.K., where for most products combined market shares are less than 5 %, and do not for any product exceed 15%. The main impact of the concentration will be in the non-life insurance sector where significant overlaps in the parties business which lead to combined market shares of more than 15% are in the following sectors.

United Kingdom:

- i) Public Liability and Professional Indemnity;
- ii) Commercial Motor;
- iii) Commercial Property;
- i) Consequential Loss;
- v) Mortgage Indemnity;
- vi) Household;
- vii) Engineering; and
- viii) Plate Glass.

Republic of Ireland:

Property

10. In most of these sectors, the merged entity will be leader in terms of market share. However, combined market shares, with the exception of mortgage indemnity insurance and engineering insurance (see below), will not exceed the 25% level. Moreover, there are strong competitors present in all these sectors, such as Commercial Union, General Accident, Eagle Star, Legal and General, Guardian, and so on.
11. In general, there would seem to be some degree of supply-side substitutability in the non-life insurance sector. Insurance companies with expertise in one or more product lines are able normally to reapply those skills to enter other product areas. This ability is underpinned by the fact that insurance products require a common set of skills in terms of, inter alia, risk assessment, administration (including IT systems) and claims management.
12. Again, the Non-Life Directive, which came into force on 1 July 1994, completed the legislative structure for the dismantling of the prudential and regulatory barriers to cross-border trade in the Non-Life sector. There is increasing evidence of greater cross-border trade both by acquisition and direct representation. Within the Community as a whole, the UK may be regarded as a more open market, not least because of the existence of broker channels of distribution which remove some of the cost and difficulty of establishing independent channels of distribution.
13. Mortgage indemnity insurance protects a lender, such as a bank or building society, which provides loan finance for the purchase of a house or building, against the eventuality of having to repossess the building when the latter's market value may have fallen below the amount of the loan still repayable. A borrower (eg. an individual housebuyer) in the U.K. must pay the premium for such a policy as a condition for obtaining a loan which represents more than a certain percentage of the purchase price

of the building. The combined market share of Sun and Royal in the U.K. mortgage indemnity sector in 1994 and 1995 would have been about 44% and 36% respectively, calculated on the basis of the total value of this type of insurance provided by all composite insurers. However, other composite insurers such as General Accident, Legal and General, Eagle Star and so on provide strong competition, as do some non-European insurers such as Gemico of the U.S.A. Moreover, although it is the individual borrower who pays the premium for a mortgage indemnity insurance policy, the banks and building societies, which can exercise significant bargaining power vis-à-vis the terms, conditions and premiums upon which mortgage indemnity policies are arranged, effectively wield such power on behalf of the individuals who purchase such policies.

14. The parties' activities in the engineering insurance sector are carried out by subsidiaries (National Vulcan in the case of Sun and British Engine Insurance in the case of Royal). Statutory Health and Safety regulations in the UK require regular inspections of equipment used in the workplace, such as lifts and industrial pressure vessels and boilers. In addition, such equipment is insured against damage or consequential loss. The sector has developed in such a way that the insurance companies not only carry out statutory inspections under the Health and Safety legislation but also offer insurance against damage and consequential loss. The total size of this market in the U.K. is difficult to determine, since estimates supplied by major insurance companies and professional associations vary considerably. If median or average estimates of total market size are used as a basis for calculation the combined market share of Sun and Royal would fall in the range 25-35%. However, other composite insurers such as Norwich, Eagle Star, Commercial Union and so on provide strong competition, and some non-European insurers have entered the market. Moreover, purchasers of engineering insurance are often large companies (in the power and construction sectors, for example), who exert significant purchasing power, especially through the brokers who act as their negotiating agents.
15. In view of the above, the current operation will not create or strengthen a dominant position.

V. Article 21(3) of the Merger Regulation

16. Alongside the Commission's competition assessment of the proposed merger, the UK authorities will be considering the change of control in accordance with the requirements of insurance legislation. In doing so, they will be exercising their right under Article 21(3) to protect the UK's legitimate interests in relation to prudential rules.
17. The relevant national legislation is the Insurance Companies Act 1982 as amended (which inter alia implements the relevant requirements of the EC Insurance Directives). As required by those Directives, the Act provides for the authorization and ongoing supervision of insurance companies operating in the United Kingdom, with the prime object of protecting policyholders' interests. These supervisory functions are carried out by the Department of Trade and Industry on behalf of the Secretary of State. In cases where a change in control of a supervised insurance company is envisaged, the Department must consider, among other things, whether the prospective new controller is a fit and proper person, and whether criteria of sound and prudent management are met. The UK authorities will therefore be examining the above transaction against these tests. In this respect they will maintain a liaison with the Commission.

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 functioning of the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of Council Regulation No 4064/89.

For the Commission,