

*Case No IV/M.1142 -
COMMERCIAL
UNION / GENERAL
ACCIDENT*

Only the English text is available and authentic.

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

Article 6(1)(b) NON-OPPOSITION
Date: 006/05/1998

*Also available in the CELEX database
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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 06.05.1998

PUBLIC VERSION

MERGER PROCEDURE
ARTICLE 6(1)(b) DECISION

To the notifying party

Dear Sirs,

Subject: Case No IV/M.1142 - Commercial Union / General Accident

Notification of 27.03.1998 pursuant to Article 4 of Council Regulation N° 4064/89

1. On 27 March 1998, the Commission received notification of a proposed concentration pursuant to Article 4 of Council Regulation (EEC) No 4064/89 between Commercial Union plc ("CU") and General Accident plc ("GA") within the meaning of Article 3(1)(b) of the Regulation.
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

3. CU and GA are companies based in the United Kingdom, the principal activities of which are the transaction of all classes of insurance and life-insurance, other than industrial life, in the United Kingdom, continental Europe, North America, Australia and other parts of the world. The undertakings also provide financial services related to their core business of insurance.

II. CONCENTRATION

4. Commercial Union will acquire, by means of a public bid, the entire issued ordinary share capital of General Accident. This operation constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation. Following the concentration, Commercial Union will be renamed CGU plc.

III. COMMUNITY DIMENSION

5. The combined aggregate world-wide gross premium income of the undertakings concerned exceeded 5,000 million ECU in 1997 (CU: 13,314 million ECU; GA: 9,721 million ECU). The aggregate Community-wide gross premium income of each the undertakings was more than 250 million ECU (CU: 9,642 million ECU; GA: 5,890 million ECU).
6. The undertakings concerned do not generate more than two-thirds of their aggregated Community-wide gross premium income within one and the same Member State. Hence, the concentration has a Community dimension.

IV. COMPATIBILITY WITH THE COMMON MARKET

a) Relevant product markets

7. In past decisions 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.
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). Nevertheless, even on the basis of the narrowest definition, the operation does not raise serious doubts as to its compatibility with the common market (see below).

b) Geographical reference markets

9. Insurance markets are becoming more open to intra-community competition, particularly for industrial and commercial policies, as a result of measures to facilitate cross-border selling. Nevertheless, as far as life and non-life insurance are concerned geographical reference markets are at present 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 (see case IV/M.759 - Sun Alliance / Royal Insurance). However, given the need to pool risks on an international basis and the conduct of reinsurance business on a world-wide basis, the geographical reference market for reinsurance is global (see case IV/M.862 - AXA/UAP).

c) Competitive assessment

10. There are no affected markets outside the UK. In the UK there are three affected markets, namely travel insurance, commercial property insurance, and fidelity

guarantee insurance, where the merged entity's shares will be [...], [...]² and [...]³ respectively.

11. In travel and commercial property insurance the merged entity will be marginally, UK market leader. However, there are strong competitors in these markets such as Royal Sun Alliance, Zurich / Eagle Star, Legal and General, Guardian, and so on. In the travel insurance market, where insurance is normally sold as a package (accident, luggage, cancellation, medical expenses, etc.), Home and Overseas Ltd and Bishopsgate Ltd. have [...]⁴ and [...]⁵ market shares respectively. A Commission survey of the parties' principal competitors and customers has revealed that the transaction does not give rise to serious competition concerns.
12. Moreover, there would seem to be some degree of supply-side substitutability in the 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.
13. 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.
14. Furthermore, distribution networks are undergoing a significant degree of change in the form of direct telephone selling by underwriters, and marketing by banks and even supermarkets.

In view of the above, the current operation will not create or strengthen a dominant position.

V. CONCLUSION

15. 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,

¹ Deleted for publication, between 15% and 30%
² Deleted for publication, between 15% and 30%
³ Deleted for publication, between 15% and 30%
⁴ Deleted for publication, between 15% and 25%
⁵ Deleted for publication, between 10% and 20%