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***Case No IV/M.600 -  
EMPLOYERS  
REINSURANCE  
CORPORATION /  
FRANKONA  
RÜCKVERSICHERUN  
GS AG***

Only the English text is available and authentic.

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

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Article 6(1)(b) NON-OPPOSITION

Date: 30/06/1995

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.06.1995

PUBLIC VERSION

MERGER PROCEDURE  
ARTICLE 6(1)(b) DECISION

To the notifying parties

Dear Sirs,

Subject: Case No.IV/M.600 - EMPLOYERS REINSURANCE CORPORATION/FRANKONA  
RÜCKVERSICHERUNGS AG  
Notification of 24 May 1995 pursuant to Council Regulation (EC) No. 4064/89

- 1 On 24 May 1995 Employers Reinsurance Corporation (Employers Reinsurance) notified to the Commission its intended acquisition of Frankona Rückversicherungs AG (Frankona Rück).
- 2 After examination of the notification, the Commission has concluded that the notified operation falls within the scope of application of Council Regulation 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 Employers Reinsurance is incorporated in the United States of America. Its ultimate parent is the General Electric Company, the head of a large and diversified industrial group. Its principal activity is the transaction of reinsurance business. Other companies in the General Electric group also supply reinsurance.

- 4 Frankona Rück, incorporated in Germany, is ultimately controlled by Gerling-Konzern Versicherungs-Beteiligungs AG (Gerling-Konzern), the head of the Gerling insurance group. Its principal activity is the transaction of reinsurance business.

## **II THE OPERATION**

- 5 Employers Reinsurance will acquire the 76 per cent shareholding in Frankona Rück at present held by the Gerling insurance group and other shareholders. It will thus acquire sole control of Frankona Rück. Employers Reinsurance intends if possible to obtain further shares in Frankona Rück.
- 6 The operation accordingly constitutes a concentration within the meaning of Article 3(1)b of the Regulation.

## **III CONCENTRATION OF COMMUNITY DIMENSION**

- 7 General Electric Company has a Community-wide turnover<sup>(1)</sup> in excess of [...] <sup>(1)</sup>. Frankona Rück has a Community-wide turnover of [...] <sup>(2)</sup>. Accordingly their combined aggregate worldwide turnover exceeds ECU 5000m and each of them has a Community-wide turnover in excess of ECU 250m. They do not achieve more than two-thirds of their aggregate Community-wide turnover within one and the same Member State.
- 8 The operation therefore has a Community dimension within the meaning of Article 1(2) of the Regulation.

## **IV COMPATIBILITY WITH THE COMMON MARKET**

### **a) Introduction**

- 9 Simultaneously with its notification of this operation Employers Reinsurance notified to the Commission its proposed acquisition of the non-group reinsurance business of Aachener Rückversicherungs-Gesellschaft AG (Aachener Rück). <sup>(1)</sup> The assessment made in this decision takes into account the effect of that proposed acquisition.

### **b) Relevant product market**

- 10 Reinsurance is a particular form of insurance. Its purpose is to spread risks between insurers. The reinsurer accepts either the whole or part of the direct risk insured by another insurer and thereby provides the primary insurer with the ability to increase the amount of insurance which he underwrites and to diversify his risk over time and geographic area. Reinsurance is traded between industry specialists, it is written only with other insurance companies, no premium income is derived from reinsurance sales to the public and no channels for retail

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<sup>(1)</sup> Turnover in paragraph 7 is calculated according to Article 5(3)(b) of the Regulation.

<sup>(2)</sup> Deleted; business secret.

<sup>(3)</sup> IV/M.601 - Employers Reinsurance Corporation/Aachener Rückversicherungs-Gesellschaft AG

distribution are required. For these reasons the Commission has concluded in earlier decisions<sup>(1)</sup> that it is necessary to distinguish between reinsurance and direct insurance.

- 11 Reinsurance can be divided into two sectors - life and non-life. The non-life sector can be further sub-divided into the following principal categories - liability, motor, accident/sickness, fire, marine, aviation and other. Although some reinsurers specialise in particular types of cover, there is no reason apart from expertise why a reinsurer should not readily enter the market in any sector; there is thus a high level of supply-side substitutability. Since even on the narrowest market definition no competition difficulties arise the question whether the reinsurance market should be sub-divided can be left open.

**c) Relevant geographic market**

- 12 Since reinsurance products are traded between industry specialists and not sold to the general public, controls by national authorities over the conduct of pure reinsurance tend to be much less extensive than those over direct insurance. This, together with the fact that reinsurance business can be conducted without the necessity of maintaining a large distribution force, tends to indicate that the market has a global character. The existence of a world market is also evidenced by the presence of international broking firms which mediate reinsurance on a worldwide scale. Within the European Union freedom of establishment to provide reinsurance services was enacted by Directive EEC 225/64. The Commission has in earlier decisions<sup>(1)</sup> considered the reinsurance market to be international or global.

**d) Competitive assessment**

- 13 In 1994 the three largest reinsurers in the world were Munich Re ([...]<sup>(1)</sup> of the market), Swiss Re ([...]<sup>(6)</sup>) and General Re ([...]<sup>(1)(1)</sup>). General Electric occupied the fourth position ([...]<sup>(7)</sup>), Frankona Rück the seventh position ([...]<sup>(7)</sup>) and the business acquired by Employers Reinsurance from Aachener Rück the eighteenth position ([...]<sup>(7)</sup>). The effect of this operation and of the acquisition by Employers Reinsurance of Aachener Rück is that General Electric displaces General Re from the third position ([...]<sup>(7)</sup>). The remainder of the market is highly fragmented, only five suppliers having a share above [...]<sup>(7)</sup>. As this indicates, barriers to entry are low.
- 14 In 1994 the world market shares of the parties to the two operations for life (including health and disability) reinsurance were - General Electric [...]<sup>(7)</sup>, Frankona Rück [...]<sup>(7)</sup> and the business acquired by Employers Reinsurance from Aachener Rück [...]<sup>(7)</sup>. Their shares for non-life reinsurance were - General Electric [...]<sup>(7)</sup>, Frankona Rück [...]<sup>(7)</sup> and the business acquired by Employers Reinsurance from Aachener Rück [...]<sup>(7)</sup>. In none of the categories liability, motor, accident/sickness, fire and other did their combined market shares exceed

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<sup>(4)</sup> IV/M.433 - ERC/NRG Victory; IV/M.491 General Re/Kölnische Re

<sup>(5)</sup> IV/M.433 - ERC/NRG Victory; IV/M.491 General Re/Kölnische Re

<sup>(6)</sup> Deleted; business secret: 5-10 per cent.

<sup>(7)</sup> Deleted; business secret: 0-5 per cent.

<sup>(8)</sup> Including Kölnische Rück, which General Re acquired in 1994 (case IV/M.491 - General Re/Kölnische Rück).

[...]<sup>(1)</sup>. Frankona has established a strong reputation as a supplier of aviation [insurance]<sup>(1)</sup>. However in both marine and aviation a comparison of the premiums received by the parties to the two operations in 1994 indicates that the increase in market shares resulting from the operation is not significant.

- 15 Accordingly the operation, even when it is considered together with the acquisition by Employers Reinsurance of Aachener Rück, does not create or enhance a dominant position.

## VI CONCLUSION

- 16 For the foregoing reasons, the proposed concentration does not raise serious doubts as to its compatibility with the common market and with the functioning of the EEA Agreement.

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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.a

For the Commission,

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<sup>(9)</sup> Deleted; business secret: 10-15 per cent.

<sup>(10)</sup> Correction: read reinsurance