

***Case No COMP/M.7478 -  
AVIVA/ FRIENDS  
LIFE/ TENET***

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004  
MERGER PROCEDURE**

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Article 6(1)(b) NON-OPPOSITION  
Date: 13/03/2015

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In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 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 Where possible the information omitted has been replaced by ranges of figures or a general description.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

**To the notifying party:**

Dear Sir/Madam,

**Subject: Case M.7478 - AVIVA/ FRIENDS LIFE/ TENET  
Commission decision pursuant to Article 6(1)(b) of Council Regulation  
No 139/2004<sup>1</sup> and Article 57 of the Agreement on the European Economic  
Area<sup>2</sup>**

(1) On 6 February 2015, the European Commission received notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which Aviva plc (Aviva, UK) will acquire sole control over Friends Life Ltd (Friends Life, UK) and Tenet Group Ltd (Tenet, UK) within the meaning of Article 3(1)(b) of the Merger regulation. Aviva, Friends Life and Tenet are collectively referred to as "the Parties".

**1. THE PARTIES AND THE OPERATION**

(2) **Aviva** provides a broad range of insurance, savings and investment products in 17 countries, principally in the UK, France and Canada and elsewhere in Europe and Asia. Aviva also provides reinsurance and asset management services.

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<sup>1</sup> OJ L 24, 29.1.2004, p. 1 ('the Merger Regulation'). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ('TFEU') has introduced certain changes, such as the replacement of 'Community' by 'Union' and 'common market' by 'internal market'. The terminology of the TFEU will be used throughout this decision.

<sup>2</sup> OJ L 1, 3.1.1994, p.3 ("the EEA Agreement").

- (3) **Friends Life** provides pension, investment and insurance products and services. Friends Life operates from the UK, Germany, the United Arab Emirates, Singapore, Hong Kong and the Isle of Man.
- (4) **Tenet** distributes investment products, protection products, non-life insurance and mortgages. Tenet also provides adviser support services in the investment, non-investment and mortgage market. Tenet is active in the UK. Tenet is currently not controlled by any of its shareholders.
- (5) The proposed transaction consists of the acquisition of the entire issued and to be issued ordinary share capital of Friends Life by Aviva. The transaction will also lead to Aviva acquiring [20-30]% shares in Tenet, currently owned by Friends Life, which will add to Aviva's [20-30]% stake. As a result, Aviva will hold (directly and indirectly through Friends Life) [40-50]% of shares in Tenet. Two other shareholders hold less than 25% of Tenet's shares each, while under the shareholders agreement, adopting strategic commercial decisions requires a 60% majority. Consequently, post-transaction, Aviva with the shareholding of [40-50]% will be able to veto strategic commercial decisions regarding Tenet. Therefore, Aviva will acquire negative sole control over Tenet.
- (6) Consequently, the proposed transaction constitutes an acquisition of sole control by Aviva over Friends Life and Tenet, and therefore a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

## **2. EU DIMENSION**

- (7) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million<sup>3</sup> (Aviva: EUR 28,163 million, Friends Life EUR 6,999 million, Tenet: EUR 138 million). At least two of them have an EU-wide turnover in excess of EUR 250 million (Aviva: EUR [...] million, Friends Life EUR [...] million), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State.
- (8) Therefore, the proposed transaction has an EU dimension within the meaning of Article 1(2) of the Merger Regulation.

## **3. RELEVANT MARKETS**

### **3.1. Introduction**

- (9) The proposed transaction gives rise to horizontal overlaps in relation to the supply of insurance in France, Ireland, Italy, Lithuania, Poland, Spain and the UK and in insurance distribution in the UK. However, only the UK life insurance market, namely the overall market for the supply of protection products and its two sub-segments (for individual and for group customers) constitute affected markets within the meaning of the Merger Regulation.
- (10) The transaction also leads to the following vertical links, none of which leads to a vertically affected market:

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<sup>3</sup> Turnover calculated in accordance with Article 5 of the Merger Regulation and the Commission Consolidated Jurisdictional Notice (OJ C95, 16.04.2008, p1).

- between the downstream insurance activities of Aviva and Friends Life and the upstream asset management and reinsurance services offered by Aviva, and
  - between the upstream insurance activities of Aviva and Friends Life and the downstream insurance distribution offered by Friends Life and Tenet.
- (11) For the sake of completeness, it should be noted that Parties' activities do not overlap in any non-life insurance or reinsurance market.

### **3.2. Product markets**

- (12) In previous decisions relating to the insurance sector, the Commission distinguished between three large categories of insurance: life insurance, non-life insurance and reinsurance.<sup>4</sup>
- (13) As regards the life insurance market, the Commission considered segmenting the market according to the risk covered/service provided into (i) pure protection products, (ii) savings and investment products and (iii) pension products.<sup>5</sup> Additionally, the Commission segmented the market according to the category of customers to which the products are addressed, namely between life insurance offered to individuals and to group customers.<sup>6</sup> The Commission has so far left the exact market definition open.
- (14) The Notifying Party does not contest the previous assessment of the Commission. In any event the exact product market segmentation for life insurance market can be left open in this case as the transaction does not raise competition concerns under any plausible market definition.

#### *i. Subdivision according to the risk covered/service provided*

- (15) Generally, the market investigation in this case supports the above distinction between the three categories of life insurance products into pure protection products, savings and investment products and pension products. Majority of life insurance providers have different dedicated teams of staff for each of the three categories and almost all of them recognise that these different products serve different categories of customers. The respondents widely confirm that different regulatory and/or tax treatment apply to different life insurance products, as described above.
- (16) Furthermore, the market investigation revealed that some life insurance providers tend to specialise in a given category of products, for example pension products or

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<sup>4</sup> See Case No COMP/M.2400 Dexia/Artesia; Case No. COMP/M.2225, Fortis/ASR; Case No. COMP/M.1989, Winterthur/Colonial; Case No COMP/M.1886, CGU/Norwich Union; Case No COMP/M.1910, Meritanordbanken/Unidanmark; Case No COMP/M.1816, Churchill Insurance Group/Hig Holdings; Case No COMP/M.1777, CGU/Hibernian, COMP/M.6883 Canada Life/Irish Life.

<sup>5</sup> Case No. COMP/M.4701 Generali/PPF Insurance business. Case No. COMP/M.6521 – Talanx International Meiji Yasuda Life insurance/Warta.

<sup>6</sup> Case No. COMP/M.5075 Vienna Insurance Group/EBV para 22; Case No COMP/M.4701 Generali/PPF Insurance Bbusiness, para 20.

protection products. This is also to a certain extent evidenced by the diverse market shares of the main players in these three broad segments, for example important market share of Unum in group protection products and much lower in other products, or Aviva's low market share in savings and investment products, as compared protection products.

*Pure protection products*

- (17) The Commission previously considered that the pure protection insurance products are products, where in return for a regular premium the insurer agrees to pay a lump sum on a certain specified event such as death or serious illness. These type of policies may include mortgage protection policies; term life insurance (i.e. protection for a defined period, where the policyholder chooses the cash sum required covering their families in the event of death or the expiration of the policy); whole life policies (which pay on death of the insured); and critical illness cover.<sup>7</sup>
- (18) Although several products exist in within the category of pure protection products which are not substitutable from demand side, the market investigation provided indications that there is no need to further sub-segment pure protection products as there is a high degree of supply-side substitutability in a sense that an insurer offering one pure protection product can easily start offering any other type of pure protection products.

*Pension products*

- (19) The Commission previously considered that life insurance products which allow the accumulation of funds for the purposes of the provision of retirement income as well as products which provide such retirement income to the beneficiaries should be together referred to as pension products.<sup>8</sup> The products in the first category tend to be called 'accumulation' products while the products in the second category are called 'decumulation' products.
- (20) Within life insurance pension products both Aviva and Friends Life offer both the accumulation and the decumulation products for individuals and for group customers.
- (21) The results of the market investigation indicate that generally in the UK pension products encompass accumulation products (where one can distinguish defined benefit and defined contribution pension types) and the decumulation products (mainly annuities and income drawdown). The respondents explained that annuities in general mean drawing a guaranteed income for the rest of life of person insured while income drawdown offers drawing an income, but retaining the money invested with a view to further growth.
- (22) Based on the market investigation there is no need to further sub-segment pension products since vast majority of insurance providers offer both accumulation and decumulation products, and those who offer only one of these two categories,

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<sup>7</sup> Case COMP/M.6883 Canada Life/Irish Life, para 12.

<sup>8</sup> Case COMP/M.6883 Canada Life/Irish Life, para 12.

indicated that this is based on their commercial choice, which confirms high supply side substitutability.

*Savings and investment products*

- (23) Products in this category provide a wealth accumulation service to consumers usually offering tax advantages. They may include tracker funds (where the investment return over a specified period is based on the performance of one or more stock market indexes), guaranteed funds (providing a guaranteed return over a specified period), managed funds (pooled funds investing in a mix of assets such as equities, securities and properties), personal investment plans, personal equity plans, etc. In general, the products within this category are insurance product with an investment element and they differ according to the mechanism used to generate returns.<sup>9</sup> As explained by some respondents to the market investigation, in the UK one can also distinguish the on-shore investment bonds and the off-shore bonds, the latter investing into funds outside the UK.
- (24) The replies to the market investigation indicate that savings and investment life insurance products encompass insurance products which enable the accumulation of wealth in a tax efficient manner. At the same time the market investigation provided indications that there is no need to further sub-segment savings and investment products, since most insurance providers are able to offer wide range of savings and investment products as a result of which there is a high degree of supply-side substitutability.

*ii. Subdivision according to the nature of the customer: individual vs. group*

- (25) The Commission also considered a distinction of life insurance products based on customer type, segmenting between individuals and groups (group typically refers to the provision of insurance products by corporations to their employees).<sup>10</sup> Consequently, the Commission considered that each of the life insurance markets i.e. pure protection products, pension products as well as investment-based life insurance products can be offered on both individual and group basis.
- (26) The results of the market investigation in this case support this distinction between individual and group customers. Almost all of the life insurance providers, who offer both individual and group life insurance products, apply for them different strategies, different marketing teams and offer different products. The fact that some life insurance providers (for example Unum) and some life insurance distributors choose to target mainly one category of customers (either individual or group) also supports the distinction between individual and group life insurance products.

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<sup>9</sup> Case COMP/M.6883 Canada Life/Irish Life, para 16.

<sup>10</sup> Case COMP/M.6846 Aegon/Santander/Santander Vida/ Santander Generales, para 21.

### *iii. Conclusion*

- (27) The market investigation overall confirmed that the life insurance products can be segmented based on the service provided into i) pure protection products, ii) savings and investment products and iii) pension products and based on the customer base into i) products for individuals and ii) products for group customers. In any event, in this case, the question of whether the life insurance market ought to be segmented taking into account the different risks covered and/or the nature of the customer (or possibly even further) can be left open since the transaction does not give rise to serious doubts as to its compatibility with the internal market in any plausible market segment.

### **3.3. Geographic market**

- (28) The Commission in its previous decisions considered the geographic market for life insurance to be national in scope due to the following elements: (i) existence of national distribution channels, (ii) national regulatory framework and fiscal regimes, (iii) national established brands. However, the exact product market definition has been left open.<sup>11</sup>
- (29) The activities of the Parties are concentrated in the UK. The Notifying Party does not contest the previous assessment of the Commission as regards the geographic market definition of the life insurance market.
- (30) The market investigation in this case did not provide any indications that the geographic market should be wider or narrower than national. In any event, the geographic market definition can be left open for the purpose of this decision, since the transaction does not give rise to serious doubts as to its compatibility with the internal market irrespective of the exact geographic market definition.

## **4. COMPETITIVE ASSESSMENT**

- (31) The transaction would give rise to affected markets in relation to: i) the overall provision of pure protection products in the UK, ii) the provision of group pure protection products in the UK and iii) the provision of individual pure protection products in the UK.

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<sup>11</sup> Case COMP/M.6883 Canada Life/Irish Life, para 19.

**Table 1. Summary of Market Share Information, 2013 – the UK:**

Category	Pure protection products overall	Pure protection products	
		Individual	Group
<b>Aviva</b>	[10-20]%	[10-20]%	[10-20]%
<b>Friends Life</b>	[5-10]%	[5-10]%	[5-10]%
<b>Combined</b>	<b>[20-30]%</b>	<b>[20-30]%</b>	<b>[20-30]%</b>
<b>Legal &amp; General</b>	[20-30]%	[20-30]%	[10-20]%
<b>Unum</b>	[10-20]%	Na	[20-30]%
<b>Zurich</b>	[5-10]%	[5-10]%	[5-10]%
<b>Scottish Widows</b>	[5-10]%	[5-10]%	Na
<b>Royal London Group</b>	[0-5]%	[5-10]%	Na
<b>Prudential</b>	[0-5]%	[5-10]%	Na
<b>Canada Life</b>	[0-5]%	Na	[20-30]%
<b>Ageas</b>	[0-5]%	[0-5]%	Na
<b>Liverpool Victoria</b>	[0-5]%	[0-5]%	Na
<b>Aegon</b>	Na	[0-5]%	Na

Source: Form CO.

- (32) The combined market shares of the Parties just exceed [20-30]% in all affected markets.
- (33) As regards the individual protection products the combined entity will continue facing a number of strong competitors, in particular Legal & General (UK based business providing insurance services and one of the largest Europe’s asset managers), holding a market share of [20-30]% and two other strong players, namely Zurich (one of world’s largest insurance groups) and Scottish Widows (part of the Lloyds Banking Group), who have around [5-10]% markets share each. In addition a number of smaller competitors with markets shares between [0-5] and [5-10]% will remain present.
- (34) As regards the group protection products, post transaction the UK market will be characterized by the presence of four insurance providers with approximately [20-30]% market share each. Apart from the Parties with the market share of [20-30]%, life insurance group protection products will be offered by Canada Life, the market leader with [20-30]% market share, Unum with [20-30]% market share and Legal & General with [10-20]% market share.
- (35) In the overall protection products market the combined entity will face competition from a number of competitors, including Legal & General with the market share of [20-30]%, and Unum and Zurich with the market share of [10-20]% each.
- (36) Notifying Party argues that the activities of Aviva and Friends Life are largely complementary, since Aviva focuses on lower value, higher volume products such as mortgage life insurance and term life insurance, while Friends Life focuses on higher value, lower volume products, such as income protection. Therefore, according to the Notifying Party, Aviva and Friends Life would not be considered as each other’s closest competitors.



- (37) The market investigation broadly confirmed that Aviva tends to offer simpler less expensive products, while Friends Life targets more upmarket customers with better quality and more complex offerings. Furthermore, many of the replies suggested that Aviva and Friends Life are not the closest competitors in life insurance in the UK, to the contrary, the respondents highlighted different strengths of Aviva and Friends Life. In particular, Aviva is considered to have a strong brand, very good distribution network and large scale (while is supposed to be weak in specialisation), while Friends Life is considered to be competitive in offering product quality and range, mainly in some protection products and group pension products. The replies to the market investigation suggest that for example Legal & General is a closer competitor of Aviva than Friends Life.
- (38) In addition, the Notifying Party argues that in the UK there are no practical, financial, legal or other barriers to switching an insurance provider. Individual customers are typically not tied to long term contracts and they regularly switch insurance providers. Furthermore, the growth of online distributors and the presence of intermediaries such as Independent Financial Advisors who look across the market to offer individual customers the best rates have increased the ability and incentive for customer to switch providers in response to price considerations.
- (39) The market investigation broadly confirmed that switching for individual customers is easy, in particular as regards the pension products. As regards contracts for group protection, products are reviewed on a regular basis, mostly every two to three years. Moreover, there is typically no surrender value or redemption penalty when stopping a policy and changing to another provider. In many cases, third parties, such as brokers or Risk/Specialist Employment Benefit Consultants look across the market in order to present the best deals for their clients (typically corporations looking to provide group protection products for their employees).
- (40) Finally, the Notifying Party submits that the barriers to enter the insurance market in the UK are low. Set up cost for a protection provider in another Member State to enter the UK market or for an insurance provider to start offering protection products are low, in particular, a lot of services, such as reinsurance, technological infrastructure or administration services. Low barriers to entry are also demonstrated by the recent successful entries by Ageas (entry in 2010) and Beagle Street (2012, first online only provider of life insurance in the UK).
- (41) While the market investigation provided indications that for complete *de novo* entrants regulatory and capital requirements are considered as the main challenges, followed by the low profit margins combined with the lack of immediate returns and the necessity to build scale and market credibility, the market investigation confirmed the existence of supply-side substitutability between various life insurance products, so for companies present in one life insurance segment it would be relatively easy to penetrate other segments. In addition, the fact that relatively new players such as Zurich, MetLife and Ellipse were able to grow further indicates that the barriers to entry in this market are not insurmountable.
- (42) In general, the Notifying Party submits that the market for the provision of protection products in the UK is characterized by intense competition, and customers hold generally bargaining power, in particular larger group customers. This was confirmed by the results of the market investigation where market participants consider that the life insurance market is competitive in the UK. In

addition, the market investigation did not reveal any substantiated concerns about the impact of the transaction on the UK life insurance market.

- (43) Against this background, the Commission concludes that the transaction does not give rise to serious doubts as to its compatibility with the internal market.

## **5. CONCLUSION**

- (44) For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

*For the Commission  
(Signed)  
Violeta BULC  
Member of the Commission*