Commerce Act 1986: Business Acquisition

Section 66: Notice Seeking Clearance for proposed acquisition of Lumley General Insurance (N.Z.) Limited by IAG (NZ) Holdings Limited

Date: 19 December 2013

To: The Registrar
Market Structure Team
Commerce Commission
PO Box 2351
Wellington

By email: registrar@comcom.govt.nz

Pursuant to section 66(1) of the Commerce Act 1986 notice is hereby given seeking clearance of a proposed business acquisition.

PUBLIC VERSION

All confidential information included in **[**square brackets**]**.

Contents

Summary

This is a notice seeking clearance for a proposed acquisition that will result in the personal and commercial insurance businesses IAG New Zealand Limited, AMI Insurance Limited (together, **IAG**) and Lumley General Insurance (N.Z.) Limited (**Lumley**) coming under common ownership of IAG (NZ) Holdings Limited (the **Applicant**).

At its broadest, this is a transaction in one aspect of the financial services industry and, like many aspects of that industry, a number of large, often global, competitors are involved to a greater or lesser extent and at many levels.

The insurance business is fundamentally the same across all participants: it is about underwriting risk. The expertise involved in underwriting risk in one segment is essentially no different from that involved in another segment. That expertise is transferable between segments, if a pricing incentive arises, and any particular knowledge required for any particular segment can easily be obtained. Supply-side substitutability is very real.

Equally, from the demand-side switching costs for consumers are negligible and the level of churn among consumers within segments is competitively significant.

The Applicant is of the view that the proposed acquisition will not result in a substantial lessening of competition in any market. In support of this view, the Applicant notes the following:

- **The merged entity will be constrained by existing competitors**: The relevant markets are competitive and will remain so after the acquisition. There are credible, well-established competitors in the general insurance markets with Vero, Tower, QBE, FMG, Allianz, Zurich, AIG, ACE and MAS. Lumley is a fully intermediated business and the small increment to the Applicant's intermediated personal lines business and the addition to its commercial lines share arising from the transaction will not lessen the competitive dynamic. Further, overseas competitors collectively make up the third largest market participant post-acquisition. This is a significant constraining force on the merged entity.

- **There are no significant barriers to entry or expansion**: Barriers to entry and (particularly) expansion in insurance markets are insignificant, as the Commission has found in previous decisions. There are a large number of local, regional and global insurers with an existing New Zealand market presence that could readily expand.

- **There is demand-side countervailing power:** In personal insurance markets, banks exercise strong countervailing power due to their ability to cross-sell insurance products into their large customer base. After the acquisition banks will still have strong incentives to cross-sell insurance products alongside their financial products and ensure that they are of the right price and quality accordingly. In commercial insurance markets, brokers exercise significant countervailing power due to their expertise, independence, importance as a distribution channel and ability to influence customer purchasing decisions. It is noteworthy that the vendor is retaining one of the largest brokers (Crombie Lockwood), indicating comfort with the ongoing competitiveness of the markets on which that business relies, and an economic interest in the maintenance of that.

There will be no change to levels of competitiveness in the related markets of windscreen glass and collision repairs.

The analysis underpinning this view is consistent with the Commerce Commission's analysis in the IAG/AMI Clearance last year,[1] which primarily addressed personal insurance markets. It is also consistent with previously adopted approaches of both the Commission and the Australian Competition and Consumer Commission (**ACCC**) in respect of personal and commercial insurance markets.[2]

1 *Re IAG (NZ) Holdings Limited and AMI Insurance (Operations) Limited* [2012] NZCC 6 [the IAG/AMI Clearance].

2 For example *CGU Plc and Norwich Union Plc* Commerce Commission Decision No 391 (9 May 2000) [the CGU/Norwich Clearance]; ACCC *Public Competition Assessment: Suncorp Metway Limited - proposed acquisition of Promina Group Limited* (12 January 2007) [the Suncorp/Promina ACCC Public Competition Assessment].

Part 1 Transaction Details

1 Person giving notice

This notice is given by Martin Hunter, General Counsel and Head of Risk and Strategy, on behalf of the Applicant.

IAG (NZ) Holdings Limited
NZI Centre
1 Fanshawe Street
Auckland 1010
Telephone: 09 969 6000
www.iag.co.nz

The Applicant requests that all correspondence is directed in the first instance to:

Webb Henderson
Level 3, 110 Customs Street West
PO Box 105-426
Auckland 1143

Attention: Mark Toner, Partner
Telephone: 09 970 4108
Email: mark.toner@webbhenderson.com

2 Target and Vendor

The target business is Lumley.

Lumley General Insurance (N.Z.) Limited
Lumley Centre
88 Shortland Street
Auckland 1010
Telephone: 09 308 1100
www.lumley.co.nz

The vendor is Wesfarmers Limited.

11th Floor, Wesfarmers House
40 The Esplanade
Perth 6000
Western Australia
Telephone: +61 8 9327 4211
www.wesfarmers.com.au

The vendor requests that all correspondence in respect of this application be addressed in the first instance to:

Russell McVeagh
48 Shortland Street
PO Box 8
Auckland 1140

Attention: Sarah Keene, Partner
Telephone: 09 367 8133
Email: sarah.keene@russellmcveagh.com

3 Organisational structure and associated parties

3.1 Acquirer

The proposed **acquirer** is IAG (NZ) Holdings Limited (the Applicant).

The Applicant is the sole owner of IAG, which trades in New Zealand under a number of brands. Through these brands, IAG supplies a range of personal and commercial insurance products. IAG also distributes insurance products via intermediaries such as brokers, financial institutions, travel agents and motor vehicle dealers.

IAG's three major brands include:

- **AMI**, a fire and general insurance company (www.ami.co.nz). AMI was founded in Christchurch in 1926 as the South Island Motor Union.
- **State**, which offers personal and commercial insurance products directly to retail customers**.** Customers can access State via a 24 hour, 7 day a week sales and claims telephone service, via 29 sales centres located throughout the country or via www.state.co.nz. State also offers Roadside Rescue, a 24 hour, 7 day a week vehicle breakdown service.
- **NZI**, which offers a broad range of personal, rural and commercial insurance products through brokers. Customers can search for brokers and access product and general company information at www.nzi.co.nz.

IAG also trades under a number of smaller brands, including DriveRight, Lantern, Swann, Mike Henry Travel Insurance and NAC.

The Applicant is a wholly-owned subsidiary of Insurance Australia Group Limited, which is listed on the Australian Securities Exchange (**ASX**).

A diagram detailing IAG's corporate structure is attached as **Annexure 1**.

3.2 Target

As described further below, the **target** is Lumley General Insurance (N.Z.) Limited.

Lumley supplies general insurance products (www.lumley.co.nz). It offers a diverse range of commercial and personal insurance products through independent brokers and other intermediaries including commercial motor, property, marine, construction and engineering and personal lines (private house/contents/motor insurance). Lumley offers an intermediated service only; it does not distribute directly to consumers.

The Lumley organisation includes:

- **Lumley Broker**, which works closely with independent brokers and intermediaries to offer a diverse range of commercial and personal insurance.
- **Lumley Business Solutions**, which is Lumley's dedicated intermediary channel focused on the manufacture and distribution of personal lines products and the distribution of SME insurance products.
- **Lumley Finance (N.Z.) Limited**, a leading premium funding company that specialises in short-term premium finance for clients of insurance brokers and selected professional services providers. Lumley Finance (N.Z.) Limited is not being transferred as part of the acquisition.

Lumley's ultimate parent company is Wesfarmers Limited, which is listed on the ASX.

A diagram detailing Lumley's corporate structure is attached as **Annexure 2**.

3.3 Vendor

As described further below, the proposed **vendor** is Wesfarmers Limited.

Wesfarmers is one of Australia's largest listed companies. Its diverse business operations cover supermarkets, department stores, home improvement, office supplies, coal mining, insurance, chemicals, energy and fertilisers, and industrial and safety products.

Wesfarmers also owns Crombie Lockwood (NZ) Limited, an insurance broking firm. That broking business will remain with the Wesfarmers group post acquisition.

4 Details of the transaction

Clearance is sought for IAG (NZ) Holdings Limited to acquire 100% of the shares in Lumley General Insurance (N.Z.) Limited.

5 Commercial rationale for the transaction

The Applicant views Lumley as a highly complementary business with a strong strategic fit that can enhance IAG's product and service offerings. Lumley has very complementary strengths to IAG, notably its expertise and success in the commercial motor vehicle segment, which IAG will look to build upon.

The proposed acquisition is part of an international merger. It is proposed that the Applicant's parent, Insurance Australia Group Limited, will also acquire the Australian insurance underwriting business of Lumley's parent, Wesfarmers Limited.

6 Transaction documents

The following transaction documents are attached to this notice:

- Sale and Purchase Agreement, attached to this notice as **Annexure 3**.
- the current draft of the Mutual Transitional Services Agreement proposed to be entered into between Wesfarmers Limited, Wesfarmers Insurance Pty Ltd and Lumley following the terms of that agreement being finalised by the parties, attached to this notice as **Annexure 4**.

7 Other jurisdictions

The proposed acquisition is part of a larger disposal of Wesfarmers Limited's Australasian insurance interests. As a result, the proposed acquisition also involves the supply of insurance products in markets in Australia, and the proposed acquisition is conditional upon ACCC approval and will be notified to the ACCC.

Part 2 The Industry

8 Goods or services supplied

Both IAG and Lumley supply a range of general and specialist personal and commercial insurance products.

8.1 IAG

As noted above, IAG supplies the majority of its products under the State, AMI and NZI brands. State and AMI offer insurance cover for predominantly personal assets such as home and vehicle with policies sold directly to consumers. State also offers a range of business insurance policies for business owners. NZI specialises in providing business and personal insurance through intermediaries.

8.2 Lumley

By contrast, as a fully intermediated business Lumley supplies its commercial and personal insurance products through a network of brokers and other intermediaries.

Lumley supplies insurance in the following categories:

- house and contents insurance;
- private motor vehicle insurance;
- pleasure craft insurance;
- commercial motor vehicle insurance;
- commercial property insurance;
- liability insurance (including general, professional risks, statutory, D&O and employers);
- commercial hull insurance;
- marine cargo insurance; and
- other commercial insurance (including construction and engineering).

8.3 Overlap

There is overlap between the insurance products currently supplied by IAG and each of the product categories supplied by Lumley.

9 Industries affected

The proposed acquisition primarily affects the insurance industry.

10 Current industry trends

The Applicant considers that the following trends and developments are relevant for the purposes of this notice:

- responses to the Canterbury earthquakes;
- the changing role of intermediaries;
- greater consumer sensitivity to price;
- greater use of Internet distribution;
- better access to information for consumers;
- the increasing sophistication of broking services; and
- the increasingly sophisticated use of technology solutions.

10.1 Canterbury earthquakes

The series of earthquakes in the Canterbury region since 4 September 2010 have had a material impact on New Zealand insurance markets. Public estimates put the cost of the earthquakes at over $30 billion.[3] All providers of insurance in New Zealand have been affected by the scale of the disaster.

The cost of reinsurance has increased across the entire market in the last 2 years as insurers renew their reinsurance programs after the Canterbury earthquakes. While there has been a period of instability in the New Zealand insurance market with some insurance providers reassessing their commitment to New Zealand, the Applicant's view is that the insurance market is now largely operating as it was prior to these disaster events. The requirements of reinsurers have now been factored in by all underwriters and insurers are active in the market and on the whole have continued to write new policies. In commercial lines, the view of the market is that there are signs of increasing competition driven by an increase in capacity in the market.[4] This is a return to business-as-usual competitive trading conditions in New Zealand insurance markets.

Reflecting increased risk in property insurance, most insurers in New Zealand have made changes to policy conditions, moving to capped sum insurance from the previous total replacement value standard. This change has been driven by reinsurers who provide natural disaster cover to New Zealand insurers to provide greater certainty on policy obligations in the event of a similar disaster. This change has also had an effect on premiums in the last 18 months in certain product categories, affecting all insurers.

3 See <http://www.nbr.co.nz/article/christchurch-quake-cost-rises-10b-40b-bd-139278 >.

4 Aon *Aon's Commercial Insurance Market Update Q1:2013* (2013) at 17. Capacity refers to the maximum exposure an insurer is willing to be exposed to. Capacity is largely driven by the availability of reinsurance.

10.2 Changing role of intermediaries

There is a trend internationally towards the use of a variety of distribution channels in order to bring insurance products to market, particularly with respect to personal insurance lines. As large consumer retail businesses seek to increase product and revenue per customer to offset slower growth trends in their traditional businesses, we are likely to see the role of non-traditional insurance intermediaries continue to evolve in line with overseas trends.

Two features of this trend are particularly evident in the Australian personal insurance market:

- Banks have moved into underwriting insurance themselves. In Australia, Westpac and Commonwealth Bank of Australia (the parent of ASB) have established businesses underwriting house and contents insurance, and have recently built on this success to offer private motor vehicle insurance products that they underwrite themselves.
- Non-financial institutions have developed into an important distribution channel in their own right. Woolworths in Australia has recently entered into a wholesale underwriting arrangement with Swiss Re and Hollard in order to retail personal insurance products.

While neither of these developments are features in the New Zealand general insurance market at present (Westpac and ASB each have their own life insurance subsidiaries in New Zealand), the Applicant considers that they are likely to develop over time. Large retailers such as The Warehouse already offer complementary insurance products such as life insurance, travel insurance and pet insurance. It would only be a modest step to begin retail provision of other personal lines insurance.

In terms of underwriting, the Applicant considers that self-underwriting by major banks of personal lines products could occur if the retail banks perceive there to be an opportunity to vertically integrate and enter the market upstream. Major banks often have trusted brands, well-established branch networks, established customer relationships and direct customer contact when insurance is needed (such as a loan for a house or car purchase). From a customer's perspective, there is the convenience that comes with having both their banking and insurance needs fulfilled at the same time. There are no regulatory obstacles to prevent banks vertically integrating in this way.

10.3 Greater consumer sensitivity to price

Consumers are increasingly price sensitive in purchasing insurance. Accenture has found, following a survey of 3,500 consumers, that:[5]

5 Accenture *Standing Tall: How Australian Insurers Can Achieve Profitable Growth in a Challenging Market* (2013), available at <http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/Standing_tall_How_Aus_Insurers_Can_Achieve_Growth.pdf>.

> *... price is the number one factor driving consumer behaviour in the Australian insurance market. More than 45 percent of consumers choose to seek quotes based on which ones they believe will be the cheapest - not which once they believe have the best brands or reputations, or the most comprehensive product offerings. In this highly price conscious environment, where a "better price" is the most commonly cited reason for switching insurers, sales and discounts are becoming the rule rather than the exception.*

In Australia this has led to the emergence over the last few years of "challenger" insurers, such as Youi and BudgetDirect, that are steadily increasing their market share:[6]

> *These challengers are using low prices and other unique value propositions to build brand awareness and increase market share - often more successfully than established insurance companies. It remains to be seen which challenger brands will reach significant scale, but their collective impact on the market is undeniable.*

This increasing consumer sensitivity to price is also similarly occurring in New Zealand.

10.4 Internet distribution

In recent years, the importance of direct sales to customers via telephone and the Internet has changed the dynamics of the personal insurance market. In particular, direct sales have lower distribution costs for insurers and have reduced search costs (and therefore increased the ease of price comparison between insurers, encouraging switching towards insurers offering lower premiums or more attractive product offerings) for retail customers.

The Commission noted in the CGU/Norwich Clearance that telephone and Internet distribution of insurance was likely to increase in importance.[7] This prediction has proven correct. Traditionally, insurance providers required a nation-wide physical presence in order to ensure a distribution network with effective customer reach. However, new entry can be observed in the market by participants who rely increasingly (or in some cases solely) on the Internet to answer initial inquiries, compare different insurance products, provide online quotes and finalise insurance cover.

This means that a new entrant could enter the New Zealand market with just a "virtual presence" in New Zealand without any physical presence other than obtaining a RBNZ licence (for example, with a call centre and risk assessors based in Australia or Asia).

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6 Accenture *Standing Tall: How Australian Insurers Can Achieve Profitable Growth in a Challenging Market* (2013), available at <http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/Standing_tall_How_Aus_Insurers_Can_Achieve_Growth.pdf>.

7 CGU/Norwich Clearance, at [21].

10.5 Better access to information for consumers

Another feature of international insurance markets, and one that is now established in New Zealand, is the emergence of price and product comparison websites (for example www.canstarblue.co.nz/services/home-contents-insurance/ or premium services such as www.consumer.org.nz/reports/car-insurance/products/testtable). The trend has been adopted in commercial insurance lines as well with the site www.myinsuranceguide.co.nz providing a range of resources that consumers may access (including free guides, articles, quote tools and company reviews). Such websites provide an online platform from which to compare insurance prices and products.

Price comparison websites for house, contents and vehicle insurance are increasingly sophisticated, and we expect this trend to continue. Australian price comparison websites can give a comparison of quotes from various providers tailored to users' specific circumstances.[8] These websites could easily expand into New Zealand.

The availability of price comparison websites enhances competition in the insurance sector.[9] Not only are consumers assessing insurance premiums online from their current insurance providers, but they are also comparing between various providers to determine the best available offer.

The shift in insurance trends toward Internet distribution is consistent with international developments. According to one study, 54 percent of American consumers now search for insurance rates online, a steady increase over the last five years.[10] PwC NZ has observed:[11]

> *Technology platforms such as Life Direct are making pricing comparisons quicker and easier for consumers to both choose and change their products. This is expected to lead to diminishing client loyalty. It is also expected that traditional marketing methods will be challenged by social media and consumers will be influenced by information available online.*

Trade Me could easily expand its Life Direct platform to facilitate price comparisons in respect of other non-life insurance products. Similarly, Australian and US research has found:

- In Australia, aggregator websites that allow consumers to compare products across providers are growing in number and popularity. Between July 2012 and

8 See, for example, <www.iselect.com.au>, <www.comparethemarket.com.au>, <www.captaincompare.com.au> and <http://www.choice.com.au/reviews-and-tests/money/insurance/house-and-car/home-and-contents-insurance-review-and-compare.aspx>.

9 Jeffrey R Brown and Austan Goolsbee "Does the Internet Make Markets More Competitive? Evidence from the Life Insurance Industry (2002) 110 *Journal of Political Economy* 481.

10 JD Power and Associates *US Insurance Shopping Study* (2011).

11 PricewaterhouseCoopers New Zealand *Insurance facts and figures: Asian Region 2013* (2013), available at <http://www.pwc.co.nz/KenticoFiles/99/99b8483e-d781-415b-95ca-5b925c704602.pdf>.

April 2013, site use rose 44 percent for motor insurance (from 18 percent to 26 percent) and 50 percent for home insurance (from 14 percent to 21 percent).[12]

- In 2011, 33 percent of those shopping for insurance online in the US compared multiple insurers.[13]

It is, therefore, relatively easy for consumers to compare insurance policies and prices.

These trends are likely to increasingly feature in New Zealand insurance markets, particularly for personal insurance lines that are more often distributed directly to the retail customer, placing increasing pressure on insurers to compete and innovate. Analysis of online search patterns, set out in **Annexure 5**, shows that New Zealand-specific consumer searches for insurance-related terms such as "insurance nz" and "house insurance" have increased two- or three-fold in the last few years, even accounting for the growth in overall Internet use in that time.

Global insurance players worldwide have developed mobile applications which allow consumers to get quotes, file claims and pay bills via mobile as well applications allowing adjusters to order replacement parts and request services for the consumer. The New Zealand market is gradually moving in a similar direction.

10.6 Increasing sophistication of broking services

Insurance brokers continue to play an important role in the insurance industry as a key intermediary in commercial insurance lines. A recent study estimates that the global market for commercial non-life insurance broking will accelerate in the years leading up to 2016.[14] Prior to the Internet, a broker's key service offering was their access to information with regards to insurance solutions available in the market. The Internet has made this information widely accessible to consumers and, as a result, brokers have had to shift their focus towards becoming experts in niche markets where information is not readily available through mainstream channels, or where the consumers' requirements are such that their experience, insight and advice may be critical to a consumer's decision making process. Brokers now market themselves as value-added intermediaries providing other services such as risk management, claims management, loss control and due diligence audits.

10.7 Increasingly sophisticated use of technology solutions

For intermediated insurance, technology solutions are increasingly used to support distribution to market across multiple channels. Technology platforms including cloud-based services facilitate the engagement with intermediaries, and allow the insurer's product to be sold as seamlessly as possible. Investment in technology solutions, either to improve back-end capability or to communicate between the insurer's platform

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12 Accenture *Standing Tall: How Australian Insurers Can Achieve Profitable Growth in a Challenging Market* (2013), available at <http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/Standing_tall_How_Aus_Insurers_Can_Achieve_Growth.pdf>.

13 JD Power and Associates US Insurance Shopping Study (2011).

14 Available at <http://www.nationmultimedia.com/business/Commercial-non-life-insurance-takes-hold-globally-30209072.html>.

and the intermediary's platform, is likely to be a continuing feature of the supply of intermediated insurance.

A growing trend overseas recognises that excellent results can be achieved by **[ ]** the Applicant anticipates all competitors will look to achieve a similar model in the next 3 years.

11 Previous acquisitions

In 2011, AMP Limited acquired the Australian and New Zealand operations of AXA Asia Pacific Holdings Limited,[15] that related to the national markets for the provision of wealth protection and life insurance products.

In 2012, IAG acquired certain of AMI Insurance New Zealand Limited's insurance businesses,[16] that related to the national markets for the provision of house, contents and personal motor vehicle insurance.

There do not appear to have been any mergers affecting general commercial insurance markets in the relevant time period.

15 The Commission gave clearance to this acquisition in *AMP Limited and AXA Asia Pacific Holdings Limited* Commerce Commission Decision No 694 (18 June 2010) [the AMP/AXA Clearance].

16 The Commission gave clearance to this acquisition in the IAG/AMI Clearance.

Part 3 Market Definition

12 Market dimensions

The following insurance markets are relevant to the acquisition:

- Among personal insurance lines:
  - The national market for house and contents insurance.
  - The national market for private motor vehicle insurance.
  - The national market for pleasure craft insurance.
- Among commercial insurance lines:
  - The national market for commercial motor vehicle insurance.
  - The national market for liability insurance.
  - The national market for commercial property insurance (including fire and full perils, earthquake, business interruption).
  - The national market for commercial hull insurance.
  - The national market for marine cargo insurance (including air cargo).
  - The national market for other commercial insurance (which includes contract works insurance, livestock insurance and engineering insurance).

In addition, as previously considered by the Commission in the IAG/AMI Clearance, we consider below the following related markets:

- The national market for the provision of autoglass repair and replacement services.
- The national market for the provision of collision repair services.

12.1 Product market

From a supply-side perspective, there is a high level of substitutability between insurance products. The conditions for insurance of different types of risk can be very similar from an underwriter's perspective. For that reason different types of general insurance are often considered to be part of the same product market, despite differentiating features. High supply-side substitutability means that an insurer offering general insurance is likely to compete in a full range of product categories. For this reason, the Commission has observed that a competitor in one personal line/commercial line is likely to be a ready entrant into another personal line/commercial line.[17]

17 CGU/Norwich Clearance at [41] and [42].

Nevertheless, the Commission's previous approach has been to define the product market with reference to the high-level product categories. In the CGU/Norwich Clearance, the Commission defined the following markets in respect of the insurance industry:

- The national market for house and contents insurance.
- The national market for private motor vehicle insurance.
- The national market for commercial motor vehicle insurance.
- The national market for commercial property insurance.
- The national market for commercial liability insurance.

In the IAG/AMI Clearance, the Commission adopted a similar approach.[18] It defined the following markets as relevant to its decision:

- The national market for house and contents insurance (combining the house and home contents markets given the natural overlap between them).
- The national market for personal motor vehicle insurance.

This approach is consistent with the Suncorp/Promina ACCC Public Competition Assessment where the ACCC defined markets for the manufacture/supply of motor vehicle insurance, and the manufacture/supply of house insurance and other types of personal insurance.[19]

If the Commission were to continue to adopt a narrow market definition based on individual product lines for the purposes of competition analysis, the Commission is likely to wish to consider:

- The national market for house and contents insurance.
- The national market for personal motor vehicle insurance.
- The national market for pleasure craft insurance.
- The national market for commercial motor vehicle insurance.
- The national market for commercial property insurance.
- The national market for liability insurance.
- The national market for commercial hull insurance.
- The national market for marine cargo insurance.
- The national market for other commercial insurance products.

18 IAG/AMI Clearance, at [32].

19 Suncorp/Promina ACCC Public Competition Assessment, at [26] and [46].

As discussed above, there is a high-degree of supply-side substitutability in insurance markets. Among both personal and commercial product lines insurers can readily move into underwriting complementary products. The European Commission has observed that "insurance companies with expertise in one or more product lines are able normally to reapply those skills to enter other product areas".[20] The European Commission has found that this ability is underpinned by the fact that insurance products require a common set of skills in terms of, among other things, risk assessment, administration (including IT systems) and claims management.

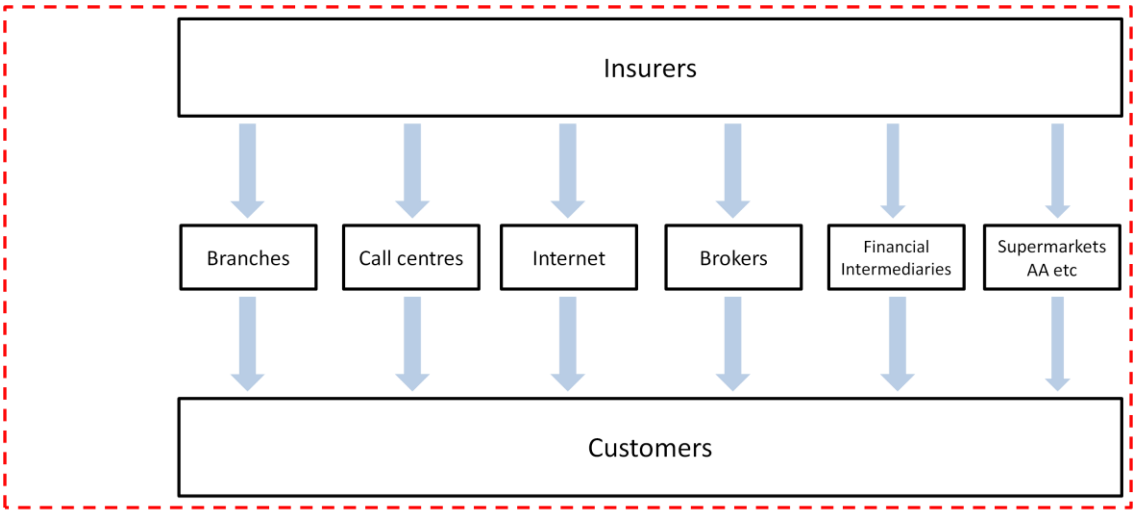
Accordingly, it is important to keep in mind the high level of supply-side substitutability between different product lines. All insurance companies are in the business of underwriting risk, and the same inputs are used to produce the different insurance products. Individuals with expertise in any particular segment are mobile, and there are examples of insurers employing that expertise from rivals when expanding into new segments.

This supply-side dynamic is illustrated by the market shares included with this application, which demonstrate, for example, that IAG, Lumley, Vero, Tower, FMG and MAS all operate across most of the personal insurance markets defined above.

12.2 Functional market

In the IAG/AMI Clearance, the Commission considered whether underwriting and distribution may be separate functional markets. However, its market analysis suggested that the result was unlikely to be different regardless of the approach taken.[21] This approach is consistent with the approach applied previously by the ACCC,[22] which in effect simply recognises that direct and intermediated businesses compete against each other to sell insurance to consumers.

Figure 1 – Underwriting and distribution components of insurance market



20 (Commercial Union / General Accident (Case IV/M 1142) 1998).

21 IAG/AMI Clearance, at [39]-[41].

22 The ACCC considered underwriting and retail distribution markets together in the Suncorp/Promina ACCC Public Competition Assessment.

As **Figure 1** illustrates, insurers have a number of possible distribution channels to reach the retail consumer.

In this case, there is no overlap in direct business to consumers. Lumley is a fully intermediated insurer:

- In respect of commercial lines, the insurance that Lumley underwrites is distributed on its behalf by independent brokers.
- In respect of personal insurance lines, the insurance that Lumley provides is distributed primarily through its relationship with retail banks.

A focus on the underwriting market as a whole therefore remains appropriate.

12.3 Geographic market and import competition

The Commission has consistently assessed insurance markets for competition purposes on a national basis, most recently in the IAG/AMI Clearance.[23] The Applicant considers that this remains the correct approach, and it should be applied in respect of the proposed acquisition.

In particular, there remains considerable uniformity of insurance products available in all relevant regions throughout the country. Insurers and their intermediaries both tend to have a physical presence in the major metropolitan and regional centres, and all competitors are accessible nationally by telephone and the Internet, through intermediaries, or indirectly through broking firms.

In addition, for many significant commercial insurance customers there is the option of seeking offshore insurers. As a result, there is a significant degree of import competition for larger commercial insurance contracts. International insurers can be approached directly, or New Zealand-based brokers can intermediate for offshore insurers.[24] These overseas insurers that serve New Zealand customers are also potential entrants into the New Zealand market.

12.4 Merger Guidelines' concentration indicators

Of the 9 identified product markets, 3 are within the Commission's concentration indicators.[25] These 3 markets are:

- The national market for liability insurance **[** **]**.
- The national market for commercial property insurance **[** **]**.

23 IAG/AMI Clearance, at [34].

24 OMPL, run by Crombie Lockwood, is an example.

25 Market shares are addressed in more detail in section 17.

- The national market for other commercial liability insurance [

  ].

Accordingly, the Applicant does not deal with these markets further in the remainder of this application.

12.5 Related acquisition markets

In the IAG/AMI Clearance, the Commission also examined two related markets:

- the national market for the provision of autoglass and windscreen repair services; and
- the national market for the provision of collision repair services.

These markets are also considered further below.

13 Product differentiation

Insurance products are differentiated in a number of ways. The key differentiating factors on which insurance providers compete are:

- price;
- coverage;
- service and claims handling;
- reputation;
- broker recommendations; and
- additional features.

13.1 Price

Given the similarity of personal insurance products in particular, competitive pricing is the primary differentiating factor for many consumers. In the Australian insurance market price has been cited as the "number one factor driving consumer behaviour".[26] Price competition may occur in respect of the headline price, but insurers also compete on price through discounting, such as:

- bundled discounts, where two or more insurance policies are held by the customer from the same insurance supplier (such as Tower, which offers up to a 20% discount for customers who have three or more insurance policies with Tower);

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26 Accenture *Standing Tall: How Australian Insurers Can Achieve Profitable Growth in a Challenging Market* (2013), available at <http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/Standing_tall_How_Aus_Insurers_Can_Achieve_Growth.pdf>.

- for commercial lines, price incentives such as discounts may be attached to renewals of policies;
- no claims bonuses, providing a discount where the customer has not previously made an insurance claim (such as AA Insurance's "No Claim Bonus" which offers a discount of up to 60% on car insurance premiums where a customer has not made a claim for a certain period of time); and
- decreases in the amount of excess payable before a claim can be made.

13.2 Coverage

The basic coverage of personal insurance products is relatively similar, a small percentage of customers are willing to pay a premium for extended coverage. These customers, such as those targeted by products like Aon's Private Clients services, are likely to be high net worth individuals (who are therefore relatively insensitive to price) and sophisticated buyers of insurance. Nevertheless, this is simply a premium/cover trade-off from the consumer's perspective and there is a continuous chain of substitution between lower premiums/lower cover policies to higher premiums/higher coverage policies.

Coverage can vary more widely in respect of commercial lines, as the extent of coverage will often depend on willingness to pay and the risk appetite of the insurer and insured. Extended coverage can usually be obtained for a higher premium. Brokers play an important role in managing coverage to meet the customer's expectations as they can divide coverage (and therefore risk) between two or more insurers. In this sense, a customer may be largely indifferent to the coverage offered by a particular insurer as long as the market provides adequate coverage overall.

13.3 Service and claims handling

Many customers place a premium on convenience and a "hassle free" experience when dealing with their insurer, especially at claims time. Customer service and claims handling excellence is therefore another key competitive differentiator, which both customers (in direct relationships) and brokers (who often act as an advocate on behalf of intermediated customers in the claims process) will take into account in selecting an underwriter.

13.4 Reputation

End-customers sometimes differentiate between insurers (and therefore the insurance products they supply) on the basis of reputation (although, as noted above, increasingly this is being eclipsed by price). AA Insurance, for example, competes vigorously on the basis of the well-known and well-trusted reputation of AA. Reputation is also a potential differentiator for intermediated commercial insurance products, many commercial insurers (Allianz and QBE, for example) also operate successfully with minimal brand recognition where trusted intermediaries recommend their products. External validation of reliability through the mandatory publication of financial strength ratings also minimises the emphasis on an established or familiar reputation.

13.5 Broker recommendations

For intermediated insurance offerings, broker recommendations are particularly important. IAG's research suggests that **[ ]** of clients adopt the recommendation of their broker, regardless of other factors such as price and brand recognition. Unlike other intermediaries that may have exclusive or preferential arrangements with insurers, brokers are seen to be independent and buyers of commercial insurance place a great deal of stock in the broker's advice. This is significant because **[ ]** of IAG's commercial insurance lines, for example, is placed by brokers and we expect similar proportions apply among our key competitors. In these circumstances brokers discharge an important role as an independent and trusted advisor to their clients. As observed by the European Commission:[27]

> *Brokers usually have a profound knowledge of their markets and contribute to effective competition in the UK by helping customers to exercise and consolidate their buying power.*

13.6 Additional features

Suppliers of personal insurance may bundle participation in loyalty programmes (such as Fly Buys), roadside assistance (such as Tower's RoadWise service) or other non-core additional features as part of the supply of insurance in order to differentiate personal insurance products.

14 Vertical integration

The proposed acquisition will not result in the creation or strengthening of any vertical integration.

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27 Case No IV/M.1082 ALLIANZ / AGF (8/5/1998).

Part 4 Counterfactual

15 Counterfactual

Consistent with the Commission's Mergers & Acquisitions Guidelines, the Applicant considers the relevant counterfactual to be the status quo. The Applicant does not know who else participated in the bid process for the purchase of Lumley and it is not apparent to the Applicant that the acquisition of Lumley by any other participant would result in a state of competition that is materially different to the status quo.[28]

28 See footnote 45 at para 2.40 of the Commission's Mergers and Acquisitions Guidelines.

Part 5 Competition Analysis

5.1 Existing Competition

16 Existing competitors

PwC NZ's recent analysis of the New Zealand insurance industry noted that:[29]

> *The insurance market in New Zealand is considered to be competitive to highly competitive. Insurance in New Zealand is provided by around 100 companies which vary in the types of products they provide as well as in their size and ownership. A significant number are branches of overseas-based companies. There are also several smaller insurers, which highlights the existence of profitable niches.*

These competitive dynamics will remain unchanged if the proposed acquisition proceeds.

In both personal and commercial insurance lines, the merged entity will continue to face meaningful competitive constraint from existing competitors. In personal insurance markets:

- The merged entity will continue to face strong competition from large, established competitors. Tower and Vero (AA) have established brands and credible reputations as insurers, and will continue to exert competitive pressure on the merged entity.

- There are smaller market participants that have built on specialist offerings to the market to challenge larger incumbents across the board. FMG and MAS, for example, have historically targeted particular segments of consumers highly successfully. These competitors are now taking steps to win market share by differentiating themselves from the rest of the market in compelling ways. Both FMG and MAS, for example, have retained replacement value policies for house and contents insurance while the rest of the market has moved to capped sum policies. Size and scale does not insulate larger general insurers from the competitive disciplines these smaller players impose as they move outside of their traditional specialisations.

- Allianz also has retained capacity in personal motor vehicle insurance, which it offers through an agency relationship with Protecta Insurance (which in turn has agency relationships with a number of motor vehicle dealerships throughout New Zealand).[30]

- There is the prospect of ready expansion from New Zealand-based commercial insurers that have experience in personal insurance lines overseas competing

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29 Accenture *Standing Tall: How Australian Insurers Can Achieve Profitable Growth in a Challenging Market* (2013), available at <http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/Standing_tall_How_Aus_Insurers_Can_Achieve_Growth.pdf>.

30 See <www.protecta.co.nz>.

directly in the personal insurance market. The Applicant understands, for example, that QBE is actively looking to grow its presence in personal lines in New Zealand.

- The incremental aggregation in personal insurance markets is relatively small **[ ]**, and not significant enough to alter the competitive dynamic the Commission has previously determined is a feature of personal insurance markets.
- Retail banks, which act as a distribution channel in personal insurance markets by reselling standard products under their own banner, are large, knowledgeable, experienced and sophisticated entities that understand insurance products. As resellers, they are able to switch from one underwriter to another. Retail banks can also foster new supply by providing new or expanding insurers with a ready-made distribution channel and retail brand, or a strategic move into self-underwriting.

In commercial insurance markets:

- Vero, with a total GWP of over **[ ]**, and QBE will continue to be seen as large, credible, close competitors to the merged entity. Both Vero and QBE have strong market reputations, diverse product offerings and established relationships with brokers that mean that they are well placed to continue to challenge the merged entity for market share.
- There is a cluster of strong but smaller competitors, such as AIG and Zurich, that also exerts meaningful and growing influence over competitive dynamics in the market, including:
  - established competitors (8 with annual revenues in excess of **[ ]**) already compete aggressively, especially for high-value risks; and
  - competitors with a small New Zealand presence but deep access to international capital through global insurer parent companies, and therefore the ability easily to scale up rapidly or target profitable product lines in response to particular market conditions.
- This cluster of smaller commercial insurers has a history of successfully identifying opportunities for growth and competing vigorously for market share. These smaller players exert a disproportional constraint on the market due to the following features of the markets in which they operate:
  - many commercial insurance lines are not commoditised and there is scope for innovation in the manufacture of specific commercial products;
  - there is high supply-side substitutability, which means smaller successful commercial insurers are not confined to particular niches but can compete with larger general insurers across the board;

- taken together, the lack of commoditisation and high supply-side substitutability means that scale is not an impediment to expansion or challenging vigorously for market share; and
- many of these smaller firms are backed by very large overseas insurance businesses, which can expand further into the New Zealand market with relative ease if an appropriate opportunity presents itself.[31]

▪ A number of international reinsurers underwrite directly into the New Zealand market, using their lower cost base to cherry-pick high value business. These market dynamics force all insurers in the market to continue to price risk competitively.

Key competitors are identified below.

16.1 Competitors in personal insurance

(a) Vero Insurance New Zealand Limited / AA Insurance Limited

Vero is a member of the Suncorp Group. Prior to 2003, Vero was known as Royal & SunAlliance. In 2003, Royal & SunAlliance New Zealand and Royal & SunAlliance Australia formed parent company Promina Group which was listed on both the Australian and New Zealand stock exchanges. Promina Group was acquired by the Australian-based Suncorp Group in 2007 making Vero part of one of the largest financial and insurance operations in Australasia. As at August 2013, Suncorp's market capitalisation is A$16.0 billion.[32]

Vero offers a comprehensive range of personal insurance products, including home insurance, contents insurance, private car insurance and boat insurance. In addition, Vero is a majority shareholder in AA Insurance Limited, a joint venture agreement with the New Zealand Automobile Association Limited. AA Insurance is a major provider of home, contents and car insurance in New Zealand.

Vero's outlook has been positive for the year ending 2013.[33]

(b) Tower Limited

Tower provides general insurance products including travel insurance, car insurance, house insurance, contents insurance, and boat insurance. Tower was originally formed as the Government Life Insurance Office. It was renamed Tower Corporation in 1987, and demutualised and listed on the Australian and New Zealand stock exchanges in 1999. In 2006, Tower's New Zealand and Australian businesses separated. The Australian business, Tower Australia Group Limited, is now owned by Dai-ichi, a listed Japanese insurer. The New Zealand business, Tower Limited, remains listed on both the NZX and ASX. Tower sold its health insurance business in 2012 to nib Holdings Limited, one of Australia's fastest-growing health funds. In a recent presentation, Tower has reported a full year

31 See Suncorp/Promina ACCC Public Competition Assessment, at [34].

32 Suncorp Group Limited, "An Introduction" (August 2013) available at <www.suncorpgroup.com.au/announcements-pdf/438885>.

33 P Graham, "ASX-Listed Suncorp more than triples annual profit in New Zealand post-quake" (August 2013) The National Business Review, available at <http://www.nbr.co.nz/article/asx-listed-suncorp-more-triples-annual-profit-new-zealand-post-quake-bd>.

profit of $34.4 million, illustrating strong underlying financial performance and indicated that its Gross Written Premium is at $279.3 million for the year ended 30 September 2013.[34]

Tower's Chief Executive, David Hancock, has recently expressed confidence that its insurance business is in a good position to grow. The divestment of various business units has left Tower "well capitalised" to concentrate its focus on general insurance.[35]

(c) FMG Insurance Limited

FMG is a fully New Zealand owned, mutual general insurance company. FMG sells a wide range of general insurance such as home, contents and vehicle insurance as well as life insurance and lifestyle block insurance for those living in rural areas, with over 55,000 clients across New Zealand. FMG also provides investment advisory services through an alliance with Craigs Investment Partners.

FMG's profit in the annual year 2012/2013 was stated as the best in its 108 year history, recording a $41.3 million profit before tax and $31.3 million after tax. FMG's reserves at the year-end were $108 million, which was up $31 million on the year before. This indicates that it is on track to achieve its target of $200 million in premium income and $200 million in reserves by 2015. FMG has grown its Gross Written Premium from $112 million in June 2008 to $175 million in June 2013.[36]

(d) Medical Assurance Society New Zealand Limited

MAS is a membership-based insurer for professionals. It was originally set up as a mutual for health professionals. Health professions and their families still make up the majority of MAS's membership but over time it has extended its services to a wider range of professionals. It now has over 24,000 members. MAS provides a range of general personal insurance products such as home and contents, boat, income security, life insurance, recovery insurance and contract works insurance (which covers the process of renovating or building a new home).

MAS reported a net profit of $12.7 million in the year ending 2013, which was an increase from its $10.8 million achieved in 2012.[37] The Applicant estimates MAS has annual revenues of over **[ ]**.

34 Tower, "A customer focused general insurer" (26 November 2013) available at <https://www.nzx.com/files/attachments/185834.pdf>.

35 C Harris, "Insurers put focus on future growth" (2013) *Manawatu Standard* <http://www.stuff.co.nz/business/9463890/Insurers-put-focus-on-future-growth> accessed on 4 December 2013.

36 FMG, "Annual Report and Financial Statements 2012/2013" available at <http://www.fmg.co.nz/cms_show_download.php?id=403>.

37 MAS, "Medical Assurance Society Retirement Savings Plan and KiwiSaver Plan 2013 Annual Report" available at <https://www.mas.co.nz/includes/fetch.aspx?id=2294> .

(e) Allianz Australia Insurance Limited (New Zealand branch)

As discussed further below, Allianz is primarily a commercial insurer in New Zealand, but provides pleasure craft insurance in personal lines. Allianz also competes in private motor vehicle insurance through Protecta Insurance.

16.2 Competitors in commercial insurance

(a) Vero Insurance New Zealand Limited

Vero covers a comprehensive range of corporate and commercial insurance and risk management products, including commercial motor insurance, general business insurance, rural insurance, liability insurance and construction and engineering. Its outlook has been positive for the year ending 2013.[38]

(b) Tower Limited

Tower is a provider of general business insurance and tailored rural insurance for farmers. Tower is active in commercial insurance markets, although its presence is smaller than in personal insurance lines

(c) FMG Insurance Limited

FMG is a fully New Zealand-owned, mutual general insurance company. FMG specialises in providing insurance for farmers, including livestock and equine insurance but they also a range of commercial insurance products including commercial motor vehicle.

(d) Allianz Australia Insurance Limited (New Zealand branch)

Allianz New Zealand provides a range of commercial and corporate insurance products through selected broker and agent business partners. Its products and services include crop insurance, property, business interruption, marine, commercial motor and fleet, public and products liability and construction and machinery. It has a particular focus on commercial motor vehicle and marine insurance lines, having established specialist business units to focus on these categories.[39] Allianz New Zealand is a wholly-owned subsidiary of Allianz Australia Limited and operates throughout New Zealand as part of Allianz Group, one of the world's most renowned insurers and financial services providers. Allianz Group is among the top 30 of the world's largest corporations based on revenues and among the largest insurers based on market capitalisation. At the end of 2012 Allianz Group reported revenues of €106.4billion and on September 2013, it reported market capitalisation of €53.0 billion.[40]

In recent years, Allianz has been referred to by the market as a sleeping giant that has woken up. It currently has an estimated annual revenue of **[ ]** and has taken initial

38 P Graham, "ASX-Listed Suncorp more than triples annual profit in New Zealand post-quake" (August 2013) The National Business Review, available at <http://www.nbr.co.nz/article/asx-listed-suncorp-more-triples-annual-profit-new-zealand-post-quake-bd>.

39 Named Motor and General Underwriting Agency and Allianz Marine and Transit respectively.

40 Allianz Group "Annual Report 2012" (2012), available at <https://www.allianz.com/v_1363330305000/media/investor_relations/en/results_reports/annual_report/ar2012/ar2012_group_final.pdf>.

steps to grow its presence in the New Zealand market. In April 2013, its travel insurance business Allianz Global Assistance acquired travel insurance specialist Comprehensive Travel Insurance 2004 Limited from Vero Insurance New Zealand Limited and United Travel Holdings.

(e) QBE Insurance (International) Limited

QBE Insurance is Australasia's largest insurance and reinsurance group. QBE in New Zealand provides a range of products including accident & health, commercial motor, contract works & engineering, liability, marine, property, trade credit and travel. QBE has a strong presence in Australia, providing localised services from more than 50 offices spanning each state and territory. QBE Insurance group operate offices in 52 countries. For the year ended 30 June, QBE Insurance Group announced a net profit (after income tax) of US$477 million.

(f) ACE Insurance Limited

ACE Insurance Limited in New Zealand offers broker-based corporate property and casualty business, group personal accident and corporate travel products. The ACE Group is one of the world's largest multiline property and casualty insurers with operations in 53 countries, reporting an after-tax operating income of US$2.6 billion for the year ending 2012, up 13% from 2011.[41] The Applicant estimates ACE has annual revenues of over **[ ]**.

(g) AIG Insurance NZ

AIG is a major international insurance company with a large market share in segments of the commercial insurance market in New Zealand. AIG has 60,000 employees, serving more than 88 million clients around the world. The Applicant estimates AIG has annual revenues in New Zealand of over **[ ]**, and has recently signalled a strong intention to grow market share in New Zealand through a major sponsorship initiative with the All Blacks.

(h) Zurich Australian Insurance Limited (trading as Zurich New Zealand)

Zurich provides a range of commercial insurance products in New Zealand including auto insurance, marine insurance, casualty insurance, professional lines insurance and property insurance. Zurich's products are underwritten by Zurich Australian Insurance Limited, incorporated in Australia. Zurich New Zealand is part of Zurich Insurance Group, one of the world's largest financial services and insurance companies, reporting a business operating profit of US$1.3 billion for the third quarter of 2013 and US$3.6 billion for the first nine months of 2013. The Applicant estimates Zurich has annual revenues of over **[ ]**.

(i) DUAL New Zealand

DUAL New Zealand, established in March 2011, is a specialty lines underwriting agency with a focus on providing a range of commercial insurance solutions to businesses in the

41 ACE Insured, "Annual Report 2012", available at <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTc5NDcyfENoaWxkSUQ9LTF8VHlwZT0z&t=1>.

corporate sector. Its products include Directors & Officers insurance, management liability for private companies, tailored policies for financial institutions, businesses in the Information Technology sectors and not for profit industries, statutory liability, employer liability, employment practices liability and a general liability policy. DUAL New Zealand is part of the DUAL global network, the largest global underwriting agency in the world and Lloyd's largest international cover holder.

(j) Lloyd's of London

Lloyd's is the world's largest specialist insurance market. The Lloyd's market is home to 57 managing agents and 87 syndicates, which offer a unique concentration of specialist underwriting expertise and talent. Lloyd's members actively underwrite in the New Zealand market, competing with New Zealand-based underwriters for GWP of over US$264 million.

17 Market shares

The Applicant's estimate of post-acquisition market shares are set out in **Annexure 6**. These estimates are based on the latest ICNZ market data available to IAG, information provided to the Applicant as part of the bid process, and internal analysis by IAG staff.

Market share is provided as a measure of gross written premiums and percentage market share. For personal insurance markets, market share estimates are given for both underwriting and retail distribution components of the market.

The Applicant notes that not all insurers provide data to ICNZ. As a result of this "non-reported" GWP, the estimated market shares tend to overstate the actual underlying position.

The Applicant also notes that in respect of commercial insurance, many major customers can source insurance offshore (for example, the Applicant understands that **[ ]**). The Applicant estimates that for commercial property insurance alone over **[ ]** in premiums is underwritten direct from Lloyd's. As a result, this again means that the ICNZ data tends to overstate market shares. Based on a recent report by Lloyd's, the estimates allow for US$264 million being underwritten by Lloyd's in New Zealand.[42] No attempt has been made to allow for insurance that has been directly written by offshore entities (for example, Swiss RE).

18 Extent of constraint from existing competitors

IAG currently faces strong competition from a number of well-resourced existing competitors. The small increment to its intermediated personal lines business and the

42 Available at <http://www.lloyds.com/~/media/Files/The%20Market/Tools%20and%20resources/New%20Market%20Intelligence/Country%20Profiles/Asia%20Pacific/nz_mi_2013_12_10_Country%20Profile.pdf>.

addition to its commercial lines share arising from the transaction will make no difference to that competitive dynamic.

18.1 Relevant markets are competitive

As noted above, the relevant markets are currently competitive, and will continue to be so post acquisition:

- Tower and Vero (AA) will continue to provide competitive constraints as large, credible competitors in personal insurance markets.
- Smaller competitors including FMG and MAS continue to compete for market share to offer additional competitive discipline on the market.
- ACE, AIG, Allianz, QBE, Vero and Zurich all represent large, credible and competitive supply alternatives in intermediated commercial insurance markets.

In the CGU/Norwich Clearance, the Commission stated:[43]

> *Industry sources also advised that the merged entity would be unlikely to be able to increase premiums, and still maintain market share. That is, it was considered that the competitive response of these other insurers is likely to be significant, and is likely to constrain the combined entity.*

The Commission observed in the IAG/AMI Clearance that there are a number of significant, well-resourced and established insurance companies with trusted and respected brands.[44]

The Applicant considers that this observation remains accurate in today's market and that competition amongst insurance providers is strong and would remain so post-acquisition. This view is confirmed by independent broking firm Aon's recent analysis of insurance markets in Australasia:[45]

> *[T]here are clear signs of increasing competition [in New Zealand] which is being fuelled by an increase in underwriting capacity from a number of key markets, resulting in generally more competitive rates.*

In addition:

- both personal and commercial insurance markets are characterised by significant countervailing power in the form of intermediaries; and
- commercial insurance markets present ready alternatives to end-customers in terms of self-supply either through brokers or going directly to offshore markets.

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43 CGU/Norwich Clearance, at [71].

44 IAG/AMI Clearance, at [66].

45 Aon *Commercial Insurance Market Update Q3: 2013*, available at <http://www.aon.co.nz/australia/thought-leadership/files/aon-communical-insurance-market-update/aon-commercial-insurance-market-update-q3-2013.pdf>, at 17.

18.2 Consumer search and choice

Personal insurance customers have a significant amount of choice in terms of provider, product, price and service. Price comparison websites such as www.consumer.org.nz can be used to shop around for the best deal and would reveal any attempts by the merged entity to raise prices to supra competitive levels or reduce service quality. By way of example, the www.consumer.org.nz annual house and contents insurance survey finds consumers the best deals in both price and cover. The survey includes quotes from 13 insurance companies for four consumer profiles at various locations, assessing their house and contents insurance policies and over 300 quotes.[46]

For commercial insurance, brokers perform the role of distilling the range of choices to provide suitable options to the end-customer. Independent brokers have access to all insurance providers and knowledge of the depth and breadth of insurance markets, meaning any attempts to reduce coverage or raise prices outside of competitive levels would almost certainly cede ground to competitors.

18.3 Ability of customers to switch insurance providers

In the IAG/AMI Clearance, the Commission stated:[47]

> *The Commission also considers that consumers are able to switch insurance providers readily and at little or no cost. Industry participants informed the Commission that the percentage of customers who renew their insurance policies at renewal date is generally between 80% – 90%. This means that in any given year up to 20% of policy holders switch providers. The Commission considers that this switching behaviour is likely to continue in the factual.*

The Applicant notes that this conclusion continues to hold. Insurance policies generally fall for renewal annually, and in the case of personal insurance lines can often be terminated early without penalty. This creates an ongoing potential for competitors to target customer switching. Further, recent public estimates are that about 1 in 8 home and contents insurance customers switch insurers when renewing their policies.[48] This reflects the fact that personal insurance customers have a significant amount of choice in terms of provider, product, price and service.

These figures suggest that customers can and do switch insurance providers. The Applicant considers that customers differentiate insurance products primarily on the basis of price, and would be likely to respond to any material increase in prices above market levels by switching insurance providers. As the Commission noted in the CGU/Norwich Clearance, there are no "switching" costs in personal insurance products that prevent customers from readily changing insurance company. Policies are generally renewed annually, but in any case can usually be terminated on notice without penalty. Further,

46 Refer to section 10.5 above.

47 IAG/AMI Clearance, at [66].

48 See <http://www.stuff.co.nz/southland-times/business/9411433/Shop-around-for-home-insurance>.

the "loyalty" features of insurance products such as no claims bonuses are readily transferrable between insurance companies.[49]

This is consistent with the conclusions of Accenture's 2013 report on the Australian insurance industry:[50]

> *A combination of heightened price sensitivity, competition and increased advertising spend among insurers means consumers are more likely to shop around for quotes before making decisions. Since the switching costs associated with personal lines products are low, there are very few barriers to increased churn.*

Accordingly, IAG expects customers, both direct and intermediated, personal and commercial, to continue to exercise their right to switch in response to alternative competitive offerings in the market. Further, in commercial lines, nearly all customers have an ongoing relationship with their broker rather than a particular insurance company, and so can and do switch readily between alternative insurers.

18.4 Self supply

The possibility of self supply will also act as a competitive constraint on the merged entity in respect of commercial lines. Significant purchasers of commercial insurance already go directly to international markets, effectively bypassing the national commercial insurance market in New Zealand. There a few barriers to self-sourcing insurance in this way, with brokers having ready access to Lloyd's and other international insurance markets. For example, Crombie Lockwood (which the vendor here is retaining) has a Lloyd's facility called Offshore Market Placement Limited.

In addition, New Zealand entities with similar risks can pool those risks together in order to create the scale that is attractive to international insurers and reinsurers. Civic Assurance is a successful example of this approach.[51] Civic Assurance is a local government-owned insurance company dedicated to serving the needs of local councils and council-controlled organisations. It allows local government entities to pool their risks and seek insurance directly offshore. As a result, some of New Zealand's most important infrastructure is underwritten by international insurers rather than the personal market.

18.5 Presence of global competitors

The New Zealand insurance market is characterised by the presence of a number of global insurers, as well as large domestic firms. These global competitors have a competitive impact disproportionate to their respective market shares due to their brand value, access to capital and deep experience in a variety of market conditions around the world. These competitors represent a sustainable competitive threat that even large domestic insurers

49 CGU/Norwich Clearance, at [70].

50 Accenture *Standing Tall: How Australian Insurers Can Achieve Profitable Growth in a Challenging Market* (2013), available at <http://nstore.accenture.com/IM/FinancialServices/AccentureLibrary/data/pdf/Standing_tall_How_Aus_Insurers_Can_Achieve_Growth.pdf>.

51 See <http://www.civicassurance.co.nz/>.

must take seriously. Collectively, import competitors make up the third largest market participant post-acquisition. This is a significant constraining force on the merged entity

18.6 Analysis of particular insurance market categories

(a) House and contents insurance and private motor vehicle insurance

The Commission recently examined the national market for house and contents insurance and the national market for private motor vehicle insurance in the IAG/AMI Clearance. The Commission concluded on the basis of its competition assessment that there was sufficient existing competition to constrain the merged entity in that case.[52] In particular, the Commission noted the following features:

- There are credible competitors, including well-established, reputable insurance businesses.[53]
- There was evidence of a strong degree of consumer switching, which implied an even greater number of consumers actively shop around when renewing their insurance.[54]
- There are no barriers to consumer-switching, with policies being able to be terminated at any time and retention inducements (such as no claims bonuses) being readily transferable between insurers. Consumers can and do switch insurers regularly.[55]

These features are characteristic of the current state of personal insurance markets, and would continue post acquisition. A sizable number of competitors will remain, including the major brands represented by Tower and Vero (AA). Lumley has a smaller market share than both these key competitors, and represents a small increment only to IAG's existing share (**[**

]).

In addition, FMG and MAS represent credible (though smaller) competitors in the house and contents and personal motor vehicle markets (and Allianz retains personal motor vehicle capacity, offered through Protecta). Scale is not a meaningful barrier to these competitors, and their foothold in the market means they are well placed to respond if the merged entity were to raise prices. Each of these competitors will continue to compete vigorously imposing a strong competitive constraint on the larger personal insurers generally and the merged entity in particular.

(b) Pleasure craft insurance

Vero, Tower and Allianz (through its brand www.clubmarine.co.nz) remain large, credible competitors in this market, ensuring a high degree of competitive discipline. FMG and

52 IAG/AMI Clearance, at [69].

53 IAG/AMI Clearance, at [66].

54 IAG/AMI Clearance, at [65]-[66].

55 IAG/AMI Clearance, at [70].

MAS are also smaller competitors in this space. Further, there are very few barriers to entry preventing new competitors from entering the market if an appropriate opportunity presented itself, particularly at the lower end of the market. For vessels under $250,000, risks are relatively well understood and competitors can compete vigorously without specialist knowledge of the market. For vessels over $250,000, an individual risk assessment is usually required and so insurance is placed through a broker.

In addition, a number of potential demand-side responses offer significant competitive pressure on the merged entity post acquisition. Boat clubs and marinas club together, using their scale to negotiate more favourable terms or incentivise new entry. By partnering with a broker, groups of boat owners do source competitive offers relatively quickly, or even seek to place insurance with an overseas provider.

(c) Commercial motor vehicle insurance

There are a number of vigorous competitors in this market, including Vero Allianz, QBE, and Zurich. These competitors have seen real benefits in targeting commercial motor vehicles as a category, and the smaller competitors **[** **].** The growth in Zurich's market share since its entry into commercial motor in 2007, now at **[** **]**, demonstrates the ability of smaller competitors to grow through this market.

The Applicant estimates that 40% of the commercial motor vehicle market relates to fleets. Competition for fleet customers is a key driver of competition in the commercial motor vehicle market, as fleet customers represent an opportunity to increase GWP quickly and easily. As a result, market share can change comparatively quickly because competition is vigorous.

The commercial motor vehicle insurance market has capacity available to take on additional risks. AIG has indicated its potential to enter the market.

(d) Commercial hull insurance

The commercial hull insurance market is likely to remain competitive post acquisition due to the presence of significant competitors.

In particular:

- Vero, QBE and Zurich are general commercial insurers that are (and will remain) strong competitors in this market.
- Sunderland Marine is a niche commercial hull insurer.

Any of these three key competitors has the ability to take market share from the merged entity if it were to raise prices above competitive market levels. It can therefore be anticipated that strong competition will continue to discipline this market post acquisition.

(e) Marine cargo insurance

Marine cargo includes air cargo, and includes purely domestic freight insurance (although domestic freight is also written as extensions of other policies in some cases). **[**

]. In addition, as would be expected, the market share of New Zealand-based insurers understates the number and identity of the actual market participants. The market for marine cargo insurance is, in effect, a global market, meaning that all New Zealand-based suppliers of insurance face significant competitive constraint from international insurers of marine cargo insurance.

New Zealand importers and exporters can access the global marine cargo insurance market relatively easily in one of two ways:

- For significant volumes, insurance can be placed with an international insurer or Lloyd's directly through a New Zealand-based broker.
- For all imported and exported goods, purchasers choose to buy "free on board", or alternatively vendors can choose to sell subject to "cost, insurance and freight". This means in effect that the cost and responsibility of obtaining insurance rests with the foreign party (from the perspective of a New Zealand-based importer or exporter) opening up the availability of international insurers.

In either case, a New Zealand-based importer or exporter can bypass local markets to secure a more competitive price relatively easily. This represents an important competitive constraint on the merged entity post acquisition that will continue to be keenly felt.

5.2 Potential Competition

19 Requirements for new entry

The requirements for new entry are similar for personal and commercial lines. They are:

- access to distribution channels;
- knowledge in pricing, risk and claim handling;
- reinsurance;
- marketing, advertising and claims handling reputation; and
- regulatory and prudential requirements.

19.1 Access to distribution channels

The costs of obtaining a distribution channel are far less significant for both commercial lines and personal lines than in the past:

- Commercial insurance is largely intermediated, meaning it is provided by independent brokers or other agents rather than directly to the end-customer. Taking advantage of the distribution channels developed by brokers and other intermediaries can reduce the costs for new entrant providers to some extent. Trends towards multiple distribution channels for personal insurance lines have not diminished the importance of brokers in the commercial insurance context. There is nothing stopping an entrant gaining access to brokers.

- Personal insurance has changed significantly with the development of a number of alternative distribution channels. The move towards Internet-based provision of insurance as well as the use of online price comparison sites and partnering with retail stores (as Sovereign has done with The Warehouse in the life insurance market) or retail banks (such as Tower with Kiwibank) make access to distribution channels much easier.[56]

19.2 Knowledge in pricing, risk and claim handling

New entry into insurance markets will require knowledge of pricing, risk and claim handling specific to that market (although in the case of expansion the more closely related the complementary markets, the less steep the learning curve). The Commission has previously determined that acquiring this knowledge could occur comfortably within the relevant assessment timeframes (up to 24 months), even for a narrowly defined, specialist market such as travel insurance.[57] This can readily occur by one insurer "poaching" a key employee of another. For example, Zurich established its commercial motor insurance division in December 2007 after employing the Managing Director of Vero's commercial motor insurance JV company, Axiom, to head its new "Zurich Auto" division (Zurich's commercial motor insurance market share now exceeds **[ ]**).[58] In addition, the ACCC observed in the Suncorp/Promina ACCC Public Competition Assessment that it is not difficult for a new or existing insurer to “reverse-engineer” a competitor’s pricing book by obtaining numerous quotes via call centres and the internet.[59]

This significantly reduces the necessity to have an extensive claims database to satisfactorily assess risks and claims costs, which may previously have provided incumbents with a significant competitive advantage, relative to new entrants. Intermediated insurance lines represent an additional advantage for new entrant insurers in this respect, as sophisticated, independent feedback from brokers as to the nature of current market conditions and offerings will often be available.

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56 The Warehouse also offers pet insurance, which is underwritten by Allianz, and has offered a travel insurance product underwritten by IAG for almost a decade.

57 *IAG NZ Limited and Mike Henry Travel Insurance* Commerce Commission Decision No 526 (24 June 2004), at [163].

58 See Zurich NZ revs up commercial motor, *Insurance News*, available at <www.insurancenews.com.au/corporate/zurich-nz-revs-up-commercial-motor>.

59 Suncorp/Promina ACCC Public Competition Assessment, at [37].

19.3 Reinsurance

All existing and potential insurance providers will need to consider the costs of their reinsurance arrangements when contemplating new entry or expansion. As discussed above, while there is no shortage of capacity in the reinsurance market, the costs of securing reinsurance have risen for all market participants, and are likely to increase further in the short term, a situation that both new entrants and existing competitors will face irrespective of the proposed acquisition.

Reinsurance costs are not necessarily higher for new or expanding insurers. Reinsurance costs are heavily influenced by an insurer's ability to establish and understand its risks through high-quality data. Smaller and expanding insurers can take a number of measures to improve the quality of their data (for example, through geo-coding) that do not rely on scale. Further, small insurers that are owned by large international parents (as most of the current and potential competitors are) can, and do, leverage their global scale when purchasing reinsurance

19.4 Marketing and advertising

To support a new insurance product or venture an entrant would need to invest in a level of sales support in order to make the product known to potential customers. These costs are likely to be similar for all market participants. However, some commercial insurers who operate through brokers and other intermediaries are unlikely to need to invest as heavily in marketing their brand to consumers.

Building market reputation can be achieved in a number of ways, including investing in marketing, obtaining a strong credit rating or partnering with another well-known brand such as a bank, or a retailer (for example, Countdown, The Warehouse or PGG Wrightson).

Reputation is also a potential differentiator for intermediated commercial insurance products, although many commercial insurers also operate successfully with minimal brand recognition among consumers. Intermediaries rely on (and protect) their own brands in the market, meaning that commercial insurers without strong brand recognition can still compete effectively via these intermediated distribution channels.

19.5 Regulatory and prudential requirements

All insurers operating in New Zealand are subject to a prudential supervision regime administered by the Reserve Bank. Previously, the prudential requirements for insurers were relatively modest and the industry was effectively self-regulated. However, the Insurance (Prudential Supervision) Act 2010 introduced new standards, which include:

- a "fit and proper" person policy in relation to an insurer's board and certain senior management;
- a requirement to have a comprehensive "risk management programme" in accordance with guidelines published by the Reserve Bank (please see

http://www.rbnz.govt.nz/regulation_and_supervision/insurers/licensing/4266093.pdf); and

- satisfying ongoing solvency standards, which will vary depending on the profile of the particular firm (for example, it will depend on the type of risk insured, the financial rating of the insurer and the level of reinsurance cover) but in all cases requires at least $3 million of capital, again in accordance with Reserve Bank guidance (please see http://www.rbnz.govt.nz/regulation_and_supervision/insurers/regulation/4551596.pdf).

In particular, the solvency standards reflect a move from the current requirement to have capital available to meet a 1:250 year insured event to a 1:1,000 year insured event for reporting periods starting on or after 8 September 2016. This increase in capital requirements will raise costs for some insurers, so prudential capital requirements may require a higher investment than was previously the case. These additional costs are not insignificant but they are unlikely to deter credible entry, as evidenced by the number of registered non-life insurers who currently meet the Reserve Bank's solvency standard.[60]

Further, as the Commission noted in the IAG/AMI Clearance, there "are considerable similarities between the new regulatory environment and those operating overseas. The Commission understands that if a party is in compliance with the regulatory requirements in either Australia or the United Kingdom, they are deemed to be in compliance with the new requirements".[61] In addition, all current participants in New Zealand, whatever their size, meet the requirements so this would not be any barrier to expansion by them.

Some minor changes to the current regulatory regime have been proposed in the Insurance (Prudential Supervision) Amendment Bill, which was introduced in the House of Representatives in 2012 and is now awaiting its third reading. If enacted, the Bill will provide for amendments to a number of technical issues, including:

- requiring the Reserve Bank to keep a register of licensed insurers;
- empowering the Reserve Bank to give a notice to an insurer that allows the insurer to prepare interim financial information in accordance with requirements other than NZ GAAP; and
- extending the term of provisional licences of insurers that enter into an insolvency procedure before 7 September 2013.

These proposed amendments are unlikely to significantly alter the compliance requirements of incumbent providers or new entrants.

60 See <http://www.rbnz.govt.nz/regulation_and_supervision/insurers/register/>.

61 At [85].

20 Factors influencing entry and expansion

The Commission has previously acknowledged that the above requirements do not amount to meaningful barriers to entry in the insurance sector. In the IAG/AMI Clearance, the Commission described barriers to entry as "not significant".[62]

This application concerns commercial insurance markets as well as the personal insurance markets considered in the IAG/AMI Clearance. However, the Applicant considers that the factors influencing entry and, in particular, expansion are similar in each case. In particular, there do not appear to be any barriers that are sufficient to deter a credible participant from market entry or expansion.

Consistent with this view, the Suncorp/Promina ACCC Public Competition Assessment noted that:[63]

> *"...barriers to entry and expansion, such as the financial costs of entry, brand name recognition and brand loyalty, differ depending on the mode of entry. For completely new entrants to the insurance sector, these barriers are generally likely to be very high, based on up front establishment costs, and the ongoing costs of marketing and brand development.* ***However, in cases of overseas insurers (or firms backed by overseas insurers), major banks, or large firms in other industries with a strong brand they can carry into the insurance sector, barriers to entry are less significant.****" (our emphasis)*

The Applicant considers that, consistent with this analysis, there are no significant barriers to new entry and expansion in the relevant markets. Further, there are few if any barriers restricting the ability of large buyers of commercial insurance seeking more competitive offerings offshore. Accordingly, the combined entity would be effectively constrained by the threat of potential entry.

The Applicant considers that there are two main credible sources of potential competition:

- The expansion by insurance companies into new market segments, either in the form of:
  - new entry in the New Zealand market from an international insurance company, which in the case of personal insurance may be undertaken in conjunction with an existing retailer (such as a supermarket) to give access to an effective distribution channel; or
  - (more likely) expansion from an existing New Zealand insurer into a complementary market (such as expansion from commercial insurance markets into personal insurance markets or vice versa).

62 IAG/AMI Clearance, at [82].

63 Suncorp/Promina ACCC Public Competition Assessment, at [34].

- New entry from one or more of the major banks, with the bank moving from being an intermediary into supplying its own personal insurance products.

Each form of potential entry is discussed below.

20.1 Insurers

The Applicant considers that there is real potential for expansion into New Zealand insurance markets from insurers not currently supplying those markets. Such expansion is likely to come in the form of an established international insurance company. In addition, it is also possible that large commercial insurance companies already operating in New Zealand may look to expand into complementary markets. This is especially likely where a well-funded international insurer has a presence in only a small number of personal or commercial insurance markets.

That said, completely new entry is also a possibility. Zurich's entry and expansion into the general commercial insurance market provides a good example. Zurich entered the commercial insurance market in the third quarter of 2007, and then grew quickly over 24 months to reach an **[ ]**. Similarly, Dual entered a number of commercial lines in 2011 including Directors & Officers policy, management liability for private companies, tailored policies for financial institutions, and general liability. Dual now has an established presence in the market with an estimated **[ ]**.

Entry of a similar scale could realistically occur in the personal insurance market, if appropriate incentives arise. For example,

Youi, a "challenger" insurance brand in the Australian market, has established a call centre in Auckland and met with the Reserve Bank to understand what a New Zealand insurance license application would entail. In relation to New Zealand, Youi's CEO has said:[64]

> *I think dipping the toe in the water is a good description. We are obviously keeping an eye on the market, in terms of geographical expansion. At this point in time we have not approved plans to enter the market but I wouldn't put it off entirely.*

In Australia, Youi entered the market in 2008 and has quickly became a well-known insurance brand underwriting its own car, home and business liability insurance products. It is a wholly-owned subsidiary of OUTsurance Holdings Limited, which is part of the Rand Merchant Insurance Holdings Group, a large international insurance services provider (one of South Africa's largest direct insurers). Youi has shown good growth since its entry at the end of 2008 and during FY2013 had a 23% increased in GWP and now has 1.3 million policy holders.[65] Youi, particularly given expansion into New Zealand is on its radar, is a credible potential entrant should market opportunities arise.

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64 National Business Review "Australian insurer dips toe in New Zealand Waters" (25 October 2013), available at <http://www.nbr.co.nz/article/australian-insurer-dips-toe-new-zealand-waters-147615>.

65 See <https://www.outsurance.co.za/adx/aspx/adxGetMedia.aspx?DN=d8cb5de4-8fa6-4714-ab2d-f1071b0767d6>.

The Applicant considers that none of the requirements for entry identified above represent meaningful barriers to entry for an insurer seeking to expand its New Zealand market presence.

- **Access to distribution channels**. A New Zealand-based insurer expanding into complementary insurance markets will have established distribution channels, whether that is a physical network of branches, an online presence or an existing relationship with intermediaries. Access to distribution channels does not represent a barrier to entry in this case.
- **Knowledge in pricing, risk and claim handling reputation**. New and existing participants in New Zealand insurance markets are both likely to have the requisite knowledge and experience to build up an understanding of the pricing, risk and claim handling involved with supplying general personal insurance quickly, since they will already be engaged in analogous processes for markets in which they currently operate. Any lack of familiarity with particular New Zealand markets is unlikely to seriously inhibit entry or expansion. In the case of providers of life insurance entering general insurance markets, for example, insurers are likely to already have significant profile information in respect of their existing customer base.
- **Reinsurance**. Insurers are likely to be familiar with reinsurance markets and while the cost of securing reinsurance has increased across the board recently, these costs have stabilised (or in some cases decreasing) and are unlikely to deter an international entrant with scale or a local insurer seeking to develop new markets incrementally.
- **Marketing and advertising**. For existing insurers seeking to expand into new markets, marketing and advertising costs are likely to be incremental only. Completely new entry is likely only from an international insurer, in which case the cost of marketing to New Zealand intermediaries and end-customers is unlikely to be prohibitive.
- **Regulatory and prudential requirements**. An insurer already participating in related personal insurance markets is already likely to be affected by the changes in prudential requirements by virtue of its existing business (although the requirements are different for life and non-life insurers). Similarly, an international insurer seeking to enter the New Zealand market is likely to be familiar with comparable prudential requirements in other jurisdictions, and is very unlikely to have difficulty maintaining the necessary solvency requirements. In neither case are the mandatory prudential requirements likely to present a meaningful barrier to entry.

20.2 Major banks

Major banks are sophisticated institutions that already distribute about **[ ]** of personal insurance product lines in New Zealand and are actively seeking to increase their level of cross-sell into their customer base. There is potential for major banks to begin underwriting their own general insurance products, and to compete directly with incumbent insurance companies.

Insurance services are a natural complement to the financial services currently provided by banks. In Australia, Commonwealth Bank of Australia (the parent of ASB) and Westpac both have established underwriting businesses in respect of house and contents insurance lines. More recently, both these Australian banks have moved into underwriting private motor vehicle insurance lines as well.   Bancassurance has become increasingly important in the Asia-Pacific region as banks leverage their infrastructure to pursue cross-selling opportunities.[66]

The Applicant considers that major New Zealand banks could equally make a strategic move into underwriting (especially where their Australian parents have done the same). In particular, the Applicant considers that none of the requirements for entry represent significant barriers for major banks seeking to enter insurance markets directly.

- **Access to distribution channels**. The major banks already distribute insurance products through their extensive physical network and a sophisticated online presence for their retail banking products.
- **Knowledge in pricing, risk and claim handling reputation**. Major banks would be required to develop knowledge and expertise in pricing, risk and claim handling. However, this is unlikely to be difficult or expensive. As noted above, a bank could readily establish a credible team by "poaching" employees from other underwriters. Further, in the Suncorp/Promina ACCC Public Competition Assessment, the ACCC considered that it was “possible for a new or existing insurer to ‘reverse-engineer’ a competitor’s pricing book by obtaining numerous quotes via call centres and the internet”.[67]
- **Reinsurance**. The costs of securing reinsurance are unlikely to deter a major bank committed to participating in personal insurance markets.
- **Marketing and advertising**. Banks already distribute insurance products and have a significant market presence in print media, on television and online. The incremental costs of advertising new insurance products are likely to be small.
- **Regulatory and prudential requirements**. The prudential requirements for entry in the personal insurance market are unlikely to deter a major bank with significant existing capital reserves.

Banks also have a number of generic capabilities that are readily transferable from banking into insurance including governance, compliance and risk management, and sales and service.

66 Ernst & Young “2013 Asia-Pacific Insurance Outlook: Where to from Here?” (2013), at 11.

67 Suncorp/Promina ACCC Public Competition Assessment, at [37].

20.3 Conclusion on potential entry

New entry will necessarily incur some start up costs, but these costs do not constitute a significant barrier to entry. Barriers to expansion are even lower, and it would be relatively straight forward (for example) for an existing insurance provider to expand into new insurance markets. The merged entity is therefore very likely to be constrained by potential entry after the proposed acquisition.

21 Likely new entrants

If the merged entity attempted to raise prices to supra-competitive levels or reduce service quality, major New Zealand banks, overseas insurance companies or domestic insurance companies could readily enter the market. The major New Zealand banks could also make a strategic play to enter the market if opportunities arose.

The applicant considers that the following organisations represent a credible threat of entry.

21.1 Expansion by insurers into complementary markets

The Applicant considers it is also likely that large commercial insurance companies already operating in New Zealand may look to expand into complementary markets. This is especially likely where a well-funded international insurer has a presence in only a number of, but not all, personal or commercial insurance markets. For example, AIG, Zurich, QBE and Allianz can all readily leverage their existing market presence to expand into additional lines.

In respect of commercial insurance, any one of AIG, Zurich, QBE or Allianz could readily expand their presence from one commercial line into another.

In respect of personal insurance, in addition to the potential for Youi to expand from Australia, the Applicant considers the following examples to be particularly likely:

- An established life insurance provider such as Fidelity Life expanding into the general personal insurance market.
- Partnerships between an existing insurance underwriter present in the commercial lines and a retail provider (such as The Warehouse or the major supermarket chains) or other trusted brand (Vero's partnership with AA is a successful example) to bring an innovative offering to the market (the potential of which is currently evidenced in the Australian market).
- A major international insurer with a presence in the New Zealand commercial markets, such as AIG, Zurich, QBE or Allianz, expanding their own presence rapidly in personal markets if the appropriate market conditions presented themselves.

The Applicant considers that the following potential competitors who currently underwrite in international markets are the most likely to expand into relevant markets in New Zealand:

- New India, a leading global insurance group with a network of 1600 offices spread over 22 countries in 5 continents;
- Tokio Marine Nichido Fire Insurance Co, Japan's largest non-life insurance company which is placed in the top ranking of non-life insurance companies worldwide;
- Munich RE, one of the largest reinsurance companies in the world;
- QBE; and
- Swiss RE, the world's second largest reinsurer, and a leading provider of risk services internationally.

21.2 Entry by insurers not currently operating in New Zealand

There are a number of major insurance companies from Australia and internationally that do not currently operate in New Zealand that might also take the opportunity to enter the market:

- **Aegon**, an international provider of life insurance, pensions and asset management across the United States, Netherlands, the United Kingdom and emerging markets in Asia, Latin America and Central and Eastern Europe. In the third quarter of 2013, Aegon reported a 7-10% growth in underlying earnings before tax on average per annum between 2012 and 2015.
- **Crédit Agricole Assurances**, which combines a specialist focus on insurance (life, property/casualty and borrower insurance) with an integrated bancassurance model, involving two major banking networks that distribute products in France (the Crédit Agricole Regional Banks and LCL) along with several partner banks outside France. The bancassurance model is an integrated framework in which banks operate wholly-owned insurance subsidiaries. In 2013, Crédit Agricole Assurances is active in 15 countries.
- **Metlife**, a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 60 countries. It provides a range of personal insurance products which include auto and home insurance, life insurance, accident & health insurance, disability income insurance, and credit insurance. For businesses, Metlife provides tailored "benefits packages" to meet its employees' needs which include core insurance products such as life, disability, critical illness, hospitalisation and involuntary loss of employment. In the third quarter of 2013, MetLife reported operating earnings of US$1.5 billion.

21.3 Major banks

All of the major banks in New Zealand have the potential to move into underwriting personal insurance, if that is consistent with their strategic objectives and the opportunity arises in the market.

Each of the major banks currently resell personal insurance lines, have strong reputations in financial services and ready access to a potential consumer base. Each also has access to direct experience in underwriting insurance in relevant or related markets either directly (such as BNZ in the case of life insurance) or through their Australian parents or related companies. Westpac and ASB, for example, can draw on the experience of their Australian parents, each of which currently supplies insurance in personal insurance product categories affected by the proposed acquisition, if the same diversification is identified as an opportunity in New Zealand.

(a) ANZ

Vero underwrites the majority of ANZ's insurance offerings including home and buildings, asset protection (such as contents, motor vehicle boat) and travel insurance. ANZ's life insurance as well as personal loan and credit card repayment insurance is underwritten by One Path Insurance Services (NZ) Limited, which is also a subsidiary of ANZ. ANZ's commercial insurance products are arranged by Crombie Lockwood (NZ) Limited and underwritten by various third party insurers.

ANZ's Australian parent provides a range of insurance products such as home and contents, car insurance, income protection, life insurance and travel insurance and repayments insurance.

(b) ASB

ASB provides a range of personal insurance products such as home, contents, motor vehicle, life and loan protection and travel. ASB's travel insurance product is underwritten by Tower, while IAG New Zealand limited underwrites its home, contents and motor vehicle insurance. Sovereign Assurance Company Limited (a subsidiary of ASB's Australian parent, Commonwealth Bank) underwrites ASB's life, health and disability insurance policies. Commonwealth Bank provide a range of insurance products such as car insurance, home insurance, life insurance, income protection, loan insurance and credit card insurance.

In Australia, CommInsure, a wholly-owned subsidiary of Commonwealth Bank underwrites Commonwealth Bank's home insurance and car insurance. The Colonial Mutual Life Assurance Society, also a wholly-owned subsidiary of the Commonwealth Bank underwrites Commonwealth Bank's life insurance, credit card insurance, loan protection insurance and income protection insurance.

(c) BNZ

BNZ provides a range of general insurance products such as home, contents and vehicle, boat, travel insurance, life and health insurance and business insurance. IAG underwrites

BNZ's home, contents, vehicle, boat as well as business insurance. Cigna Life Insurance New Zealand underwrites BNZ's travel insurance for personal and business as well as credit care and loan insurance. BNZ's health insurance is underwritten by UniMed, a New Zealand not-for-profit mutual society and BNZ's life insurance is underwritten by BNZ Life Insurance Limited.

BNZ is a subsidiary of its Australian parent, NAB. NAB provides general insurance products such as home and contents, car insurance, insurance for landlords, as well as loan insurance, travel insurance, life insurance and business insurance.

MLC Limited, a subsidiary of NAB, underwrites the insurance policies for NAB's loan, life and business insurance products. Its home and contents, car insurance, insurance for landlords and travel insurance is underwritten by Allianz Australia Insurance Limited.

(d) Westpac

In New Zealand, Westpac currently underwrites life, income protection, credit card, home loan, personal loan, bill protection and business risk protection insurance through a related company, Westpac Life-NZ-Limited. Westpac New Zealand's home cover and private motor vehicle insurance is underwritten by Lumley, while its travel insurance is underwritten by IAG. Westpac New Zealand's commercial insurance is arranged through Aon and underwritten by various third party insurers.

Westpac's Australian parent, Westpac Banking Corporation, provides a range of personal insurance products such as home and contents, life insurance, car insurance, travel insurance, credit and loan repayment insurance, disability and living insurance and income protection and business. Westpac underwrites most of its insurance through several wholly-owned subsidiaries such as Westpac Insurance Services Limited (covering home and contents, landlord building and consents, credit card and loan repayment, disability and living, income protection and business), Westpac Life Insurance Services Limited (covering its life insurance, credit card and loan repayment) and Westpac Securities Administration Limited (covering term life and income protection).

(e) Kiwibank

Kiwibank is the largest New Zealand-owned bank, and New Zealand's fifth largest bank overall. Kiwibank has a reputation for innovation in the banking sector, and has grown its market share steadily since its foundation in 2002. Kiwibank currently provides life and home loan insurance underwritten by Kiwi Insurance (a related company of Kiwibank), and home, contents and vehicle insurance underwritten by Tower.

22 Sufficiency of entry

In addition to the strong competitive discipline imposed by existing competition, the Applicant considers that the threat of potential entry will be sufficient to constrain the merged entity in the relevant markets. The absence of any meaningful barriers to entry means that if the merged entity attempted to move price or service levels beyond competitive levels, entry from major banks or insurance businesses is a genuine possibility.

23 Timeliness of entry

The Applicant estimates that new entry would take 12 months.

5.3 Countervailing Power

24 Countervailing power of buyers

The Applicant considers that intermediaries in the personal and commercial insurance markets exercise meaningful countervailing power. This countervailing power further ensures a competitive dynamic will be maintained in relevant markets post merger.

24.1 Brokers

The presence of independent brokers represents an important competitive constraint in terms of their countervailing power as large and sophisticated advisors to buyers of insurance in commercial insurance lines. Brokers act for the purchaser of commercial insurance and the major broking firms in New Zealand such as Crombie Lockwood, Marsh and Aon all maintain their independence from commercial lines insurers. In addition, the vast majority of smaller broking firms are also independent.[68]

As sophisticated intermediaries that represent the customer interest, independent brokers can exercise their countervailing power in a number of ways:

- Brokers have the market knowledge and the means to direct their customers away from over-priced products and towards the products of competitors. This is the case with even modest increases in price, if those increases do not represent additional value for the customer.
- Given the complicated nature of some commercial insurance lines, brokers can provide the advice necessary to compare contrasting offerings from insurance providers that represent different trade-offs between price, coverage, service levels and other factors important to customers final decisions. Broker expertise leaves little room for constructing a commercial offer that potentially takes advantage of the information asymmetries between insurers and consumers.
- It is common practice for brokers to disaggregate the insurance needs of their clients to spread the placement of insurance among a number of providers. This allows the broker to select the best offering (in terms of price or coverage, for example) for each component of the insurance sought. This facilitates both a

68 While some exclusive agents refer to themselves as brokers, the vast majority of brokers are genuinely independent.

spread of insurance contracts among providers, and ensures that customers obtain the best possible prices.

- Brokers can seek to place insurance with a particular insurer on an exclusive or 'lead underwriter' basis. For example, **[**

  ]. This ability to place significant volumes of insurance places brokers in a strong position to exercise countervailing power against insurers.

These features of the way brokers operate place real constraint on the ability of insurers to raise prices to inefficient or anti-competitive levels. The presence of brokers in insurance markets, who place approximately **[ ]** of all commercial insurance, has the effect of introducing additional competitive constraint that maintains pricing at competitive levels. As previously observed by the EC:[69]

> *Brokers usually have a profound knowledge of their markets and contribute to effective competition in the UK by helping customers to exercise and consolidate their buying power. Any attempt by Hermes/Euler/TI to impose, together with NCM, unfair market conditions would be likely to provoke a loss of customers. As confirmed by clients and competitors a large number of brokers have in the past 8 years contributed to reducing consumer fidelity.*

The major participants in the broker market are set out below. We have also identified where brokers are a single corporate entity, and where smaller brokers have clustered together nationally to gain scale and representation in multiple regions.

(a) Advisernet (cluster)

Insurance Advisernet was established in 2006 as a joint venture between Insurance Advisernet Australia and New Zealand investors. Insurance Advisernet Australia took a majority shareholding in New Zealand, allowing Insurance Advisernet with membership of Austbrokers (a public listed company in Australia). The Austbrokers group, including Insurance Advisernet, has over A$2 billion of client premiums under management.

In New Zealand, Insurance Advisernet has access to over 70 insurers.

(b) Allied Insurance Group (cluster)

Allied Insurance Group is a co-operative of over 30 independently owned insurance brokers from throughout New Zealand. Members provide a range of personal and business insurance solutions throughout New Zealand.

(c) Aon (corporate)

Aon Corporation is the world's leading provider of risk management services, insurance and reinsurance brokerage and human capital consulting. In New Zealand, Aon is New

69 Case No IV/M.1082 ALLIANZ / AGF (8/5/1998).

Zealand's largest insurance broker with a network of more than 700 staff in 76 offices serving 195,000 clients. Aon is also the leading broker to the corporate, public, primary, manufacturing and transport sectors. For rural New Zealand, Aon offers insurance packages specifically tailored to the rural and agribusiness sector.

(d) Brokernet (cluster)

Brokernet is an association of independent, New Zealand-owned insurance brokers who provide a full range of general insurance, life insurance and medical insurance for commercial and personal markets. Brokernet was specifically formed to provide additional client benefits for distribution and use by members including the development of specially designed insurance products. All members belong to the Insurance Brokers Association of New Zealand.

(e) BrokerWeb (cluster)

BrokerWeb is a consortium of 38 respected New Zealand owned and operated independent insurance brokers, with members in 44 locations, managing in excess of $220 million of premium income. Brokerweb's members deliver a full suite of general insurance broking services both for personal and commercial insurance lines. All members belong to the Insurance Brokers Association of New Zealand. BrokerWeb is also a partner broker with the "Globex International Group", with the ability to insure local companies' overseas operations throughout the world.

(f) Crombie Lockwood (corporate)

Crombie Lockwood is a leading insurance broker in New Zealand, providing a solution to a range of personal insurance and business insurance needs such as fire and general insurance, life insurance and income protection, business risk management and premium funding. Crombie Lockwood is **[ ]**.

Through its group company Monument Insurance (NZ) Limited, Crombie Lockwood has an overseas subsidiary, Offshore Market Placements Limited (OMPL), specialising in placing insurance outside New Zealand, principally at Lloyd's of London.

Crombie Lockwood became part of Wesfarmers Insurance in 2006 (but does not form part of the proposed acquisition). Significantly, its retention by Wesfarmers indicates comfort by them as to ongoing competitiveness in insurance markets, and an ongoing incentive for that competitiveness to be maintained.

(g) JLT (corporate)

JLT is one of the world's largest providers of insurance and employee benefits related advice, brokerage and associated services. JLT New Zealand is part of JLT's International Network, which is JLT's global retail and distribution platform, comprised of fully owned, partly owned and partners operations. JLT selects its brokers for their specialist knowledge, local market reputation and quality of service. JLT's International Network has representation in 135 countries.

(h) Marsh (corporate)

Marsh is a global leader in insurance broking and risk management. It is a wholly-owned subsidiary of Marsh & McLennan Companies, a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital with over 54,000 employees worldwide and annual revenue exceeding $12 billion. Marsh has been operating in New Zealand since 1958 and has over 240 experienced staff in seven offices throughout New Zealand.

Marsh's product and service offerings include program design and placement, post-placement program support and administration, claims advocacy and a wide array of risk analysis and risk management consulting services.

(i) Rothbury (corporate)

Rothbury is one of New Zealand's leading insurance broking groups, which formed as a result of a merger between Rothbury Insurance Brokers and Commercial & General Insurance Brokers in 2005. Rothbury provides a complete portfolio of protection products including a range of commercial, personal, travel and life insurance products.

In 2013 Rothbury became the founding New Zealand partner of Australasian insurance broking network Steadfast, which is the largest network of insurance brokers in Australasia, comprising more than 280 insurance brokerages with more than 430 offices. The broker network generates about A$4.2 billion in sales and looks after the needs of more than one million Australian and New Zealand businesses.

(j) Willis (corporate)

Willis New Zealand is part of the Willis Group, one of the world's largest and most established professional firms specialising in insurance broking and claims management, risk consulting and risk management solutions and people risk services for employees.

In Australasia, Willis currently employs 400 people with nine offices throughout New Zealand and Australia. In New Zealand, Willis has operated in New Zealand since 1965 with more than 70 Associates across its offices in Auckland, Wellington and Christchurch. Willis offers a wide range of insurance and risk management solutions of a range of industry sectors.

24.2 Retail banks

Banks are resellers of personal insurance lines, as are other retailers and service providers.[70] Banks resell insurance products (with insurers providing underwriting, claims handling and service, collection of premiums and customer data management). Banks attach their brand to the insurer's product and engage with the customer at the point of sale on behalf of the insurer. The insurer sets the price and defines acceptable criteria by

70 See, for example, <http://www.bmw.co.nz/com/en/insights/bmwfinancialservices/Insurance/>, <http://www.tfs.co.nz/toyota-car-insurance/>.

way of risk factors which allow banks to sell the insurance. In return the insurer pays to the bank a commission on policies placed with its customers.

The insurance products offered through banks are sourced competitively (usually through a tender process), which banks manage carefully in order to present competitive offerings to consumers. In addition, banks as intermediaries represent an important distribution channel for personal insurance lines because of their advantages in terms of customer base and targeted selling. The importance to insurers as one of its key distribution channels places genuine competitive constraint on insurers who distribute through banks, with the benefits of this competitive constraint flowing through to consumers. The Commission accepted the countervailing power of banks in the IAG/AMI Clearance, finding that there is a level of constraint on incumbent suppliers due to the ability of banks to switch insurers.[71] The countervailing power of banks was also acknowledged by the Commission in the CGU/Norwich Clearance.[72]

The size of bank accounts, the ability of banks to switch providers and the extent of the loss of underwriting business that such a switch would entail, make bank contracts extremely important to insurance companies.

Retail banks:

- are often larger than or of a comparable size to insurance businesses;
- are sophisticated parties who understand insurance products and are well informed about alternative sources of supply;
- are able to switch from one supplier to another;
- have relationships with broking firms for referring commercial customers to brokers (with the banks receiving a commission for those referrals); and
- could foster new supply (including self-supply) if identified as a strategic opportunity.

71 IAG/AMI Clearance, at [78]-[79].

72 CGU/Norwich Clearance, at [83]-[84].

25 Major buyers

As Lumley offers intermediated insurance only, the major participants on the demand side of insurance markets are intermediaries, rather than purchasers. **[**

]

5.4 Coordination effects

26 Coordinated market power

The Applicant considers that the market does not currently display any signs of coordinated market power. This will not change as a result of the proposed acquisition. In particular, the relevant markets are characterised by a variety of asymmetries and heterogeneities that would make coordination very difficult. These include:

- The competing insurers have differing focuses on the various channels to market. For example, NZI is an intermediated business, whereas Tower largely supplies insurance directly to consumers.
- The governance arrangements of the competing insurers differ. For example, FMG and MAS are essentially cooperatives, and AA Insurance is a joint venture between Vero and the New Zealand Automobile Association Limited.
- Many lines of insurance have bespoke elements, such as explicit asset specifications under home contents policies, or capped sum versus replacement cost house policies. The bespoke nature of the products can make it difficult to agree on a focal point for pricing.
- The post-merger market shares would be quite asymmetric, and there are few impediments to expansion.
- There is some brand differentiation, particularly in the consumer markets.

27 Efficiencies

[

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28 Other relevant market features

In the IAG/AMI Clearance, the Commission examined procurement markets in addition to supply markets. In particular, the Commission examined:

- the national market for the provision of windscreen repair services; and
- the national market for the provision of collision repair services.

The Commission found that the acquisition of AMI was "*unlikely to strengthen the buying power of the merged entity in the windscreen/repair and collision repair markets sufficiently to enable it to exercise market power.*"[73]

The Applicant considers that the proposed acquisition is unlikely to strengthen the buying power of the combined entity in the windscreen/repair and collision repair markets sufficiently to enable it to exercise market power, for the reasons outlined below.

28.1 Windscreen repair/replacement market

The windscreen repair/replacement market is competitive and the proposed acquisition will not strengthen the buying power of the merged entity in a way or to an extent that would substantially lessen competition in that market.

IAG's estimates of market shares are set out in **Annexure 7**. IAG estimates that the combined entity would have a market share of approximately **[ ]** of purchases in the windscreen repair and replacement market (by value), compared to **[ ]** currently. This minor degree of aggregation will not affect the relevant competitive dynamic in any material way.

Smith & Smith Autoglass (**Smith & Smith**) and Novus Autoglass (**Novus**) continue to be the two largest suppliers in the national windscreen repair and replacement market. The Applicant estimates that, combined, these two suppliers hold **[ ]** of the national autoglass market and have strong countervailing power in their negotiations within insurers, and that will remain the case post acquisition. The estimated market share of the merged entity is unlikely to be sufficient to resist this countervailing power.

73 IAG/AMI Clearance, at [3].

In addition, there are other factors that suggest the merged entity would be subject to competitive constraint:

- Customers have the flexibility to request their favourite or traditional supplier, even if that supplier is not part of the Applicant's network. Approximately **[ ]** of IAG's spend is with alternative suppliers. IAG will first recommend a preferred supplier to a customer, but will not move a vehicle from a customer's preferred non-approved repairer other than for safety or quality issues. This retains the ability of non-approved repairers to compete for IAG work (in addition to the work they obtain from other insurers and individual, trade and fleet customers).
- Insurance-related work (of which IAG is only one purchaser) makes up only a portion of the total autoglass market. The Applicant estimates that **[ ]** of the total autoglass market is for non-insurance related work, such as from individuals, trade and fleet customers. This figure would be unaffected by the proposed acquisition, and autoglass suppliers would continue to compete vigorously for this substantial volume of work.

28.2 Collision repair market

The collision repair market is competitive and the proposed acquisition will not strengthen the buying power of the merged entity in a way or to an extent that would substantially lessen competition in that market.

IAG's estimates of market shares are set out in **Annexure 8**. IAG spends approximately **[ ]** annually on collision repairs, which it estimates constitutes approximately **[ ]** of the market. The proposed acquisition would increase this market share by approximately **[ ]** to an estimated **[ ]**.

While the combined entity would have the incentive to seek competitive pricing (as do all insurers, regardless of their market share), it is driven to continue to focus on quality over price in this market because quality of collision repairs is a key factor in an insurer's market reputation for claims handling. Accordingly, IAG is, and will remain, constrained by the strong competition in the downstream motor vehicle insurance markets. Ensuring that customers have a positive experience of a claim (which is typically their primary interaction with their insurance company) is a key competitive differentiator for all insurance companies. Customers that receive unsatisfactory repair service, or repairs in an unsafe or unclean premises, can and will shift to another insurer as there are minimal switching costs or barriers to them doing so. Accordingly, the combined entity would have no incentive to depress prices below competitive levels as that would compromise its ability to compete in the downstream markets. In fact, the combined entity would have a positive incentive to keep collision repair suppliers in business, and to ensure that their quality of service is not impaired, and so would find it in its interest to make certain that purchase contracts enable suppliers to recover their costs.

Other factors would restrict the actions of the merged entity, all of which were accepted in the IAG/AMI Clearance and remain valid,[74] including:

- competition from non-insurance work (approximately 20% of sales) and insurance work from other motor vehicle insurers;
- consumers would continue to have choice over their preferred repairer, which lessens any impact of a decision to accredit a particular repairer and allows the small number of Lumley-approved suppliers that are not already or subsequently on IAG's network to continue to perform work for the merged entity;
- the lifetime guarantee IAG provides for work conducted by approved repairers gives IAG (and the merged entity) strong incentives to ensure quality is maintained.

The Commission's findings in this regard have been proven correct following the AMI acquisition. The average cost of repair for AMI claims has increased noticeably since AMI was integrated in September 2012, from **[** **]**.

74 IAG/AMI Clearance, at [100]-[102].

Part 6 Further Information and Supporting Documentation

29 Contact details for relevant market participants

	Name of organisation	Contact details	Contact person
Competitors	AA Insurance	AA Insurance Level 16, AA Centre 99 Albert Street PO Box 992 Shortland Street Auckland 1140 Phone: 09 966 8000 Fax: 09 966 8896	Chris Curtin Chief Executive
	ACE	CU1-3, Shed 24 Princes Wharf Auckland 1010 Phone: 09 377 1459 Fax: 09 303 1909	Giles Ward Country President, Australia & New Zealand
	AIG	The AIG Building 41 Shortland Street PO Box 1745 Auckland 1140 Phone: 09 355 3100 Fax: 09 355 3135	Chris Knell Chief Executive
	Allianz	Allianz New Zealand Level 1, Grant Thornton House 152 Fanshawe Street PO Box 794 Auckland Phone: 09 354 2900 Fax: 09 302 1865	Bruce Watters Chief Executive
	Civic Assurance	Civic Assurance House Level 9 114-118 Lambton Quay Wellington 6011 Phone: 04 978 1250 Fax: 04 978 1260	Tim Sole Chief Executive
	DUAL New Zealand	Level 20 191 Queen Street Auckland 1010 Phone: 09 973 0190	Craig Anderson Managing Director
	FM Global	Melbourne Office FM Global Level 37 140 William Street Melbourne, Victoria 3000 Australia Phone: +61 (0) 3 9609 1300	Ian Berg Manager – Australian Operations of FM Global/ Vice President – Operations Manager

		Fax: +61 (0) 3 9602 5880	
	FMG	FMG Head Office Vodafone on the Quay Level 20, 157 Lambton Quay PO Box 521 Wellington 6011 Phone: 0800 366 466 Fax: 0800 366 455	Chris Black Chief Executive
	IUA	Level 9, 52 Swanson Street, Auckland P O Box 7238, Wellesley Street, Auckland 1141 Phone: 09 914 6440 Fax: 09 302 7694	Debbie Street Director – Operations and Marketing
	Lumley	Lumley Centre 88 Shortland Street PO Box 2426 Auckland 1140 Phone: 09 308 1100 Fax: 09 308 1114	John Lyon Chief Executive
	Medical Assurance Society (MAS)	19-21 Broderick Road, PO Box 13042 Johnsonville Wellington 6440 Phone: 04 478 8863 Fax: 04 477 0109	Martin Stokes Chief Executive Officer
	Munich Re	Level 15 188 Quay Street Auckland 1010 Phone: 09 303 4628 Fax: 09 379 5019	Martin Kreft Regional Manager
	New India	The New India Assurance Co Ltd 63 Albert Street P.O.Box: 91748 Victoria Street West Auckland - 1142 Phone: 09 306 4014 Fax: 09 306 4015	Gyan Arora Chief Operating Officer
	PGG Wrightson AON	AMP Centre (AON) 29 Customs Street West P O Box 1184 Auckland 1010 Phone: 09 362 9000 Fax: 09 309 2536	Geoff Blampied General Manager (AON)
	QBE	Level 6 AMP Centre 29 Customs Street West Auckland PO Box 44, Auckland 1140 Phone: 09 366 9920 Fax: 09 366 9930	Ross Chapman Chief Executive Officer – Australian & New Zealand Operations General Manager New Zealand

	Swiss Re	Level 29 363 George Street Parnell Auckland 1023 Phone: 09 377 3946	Mark Senkevics Managing Director Head of Australia & New Zealand Swiss Reinsurance Company
	Sunderland Marine	23 Shelbourne Street Nelson 7010 Phone: 03 546 8830 Fax: 03 546 8814	Chris Barrett Branch Manager – New Zealand
	Tower	Level 11 22 Fanshawe Street Auckland 1010 Phone: 0800 379 372 Fax: 0900 222 445	David Hancock Chief Executive and Executive Director
	Vero	Vero Centre 48 Shortland Street Private Bag 92120 Auckland Phone: 09 363 2222 Fax: 09 363 2350 Toll Free Phone: 0800 808 508	Gary Dransfield Chief Executive Officer
	Youi	600 Great South Road Ellerslie Auckland 1051 New Zealand	Peter Broome Head of Operations New Zealand
	Zurich	Level 16, Zurich House 21 Queen Street Auckland Central 1010 Phone: 09 928 8000 Fax: 09 928 8200	Daniel Fogarty Chief Executive, Australia & New Zealand
	ANZ/National Bank	ANZ Centre Ground Floor 23-20 Albert Street Auckland 1010 Phone: 09 252 6623 Mobile: 027 277 3139	David Hisco Chief Executive ANZ New Zealand (responsible for ANZ and National Bank) Pete Barnao Corporate Affairs
Intermediaries	AON	Aon CPF 16th Floor AMP Centre 29 Customs Street West PO Box 1184 Auckland 1010 Phone: 09 362 9000 Fax: 09 309 2536	Geoff Blampied General Manager
	Allied Insurance Group	Ground Floor, 222 State Highway 17 Albany Village Auckland	Bruce Oughton Chief Executive Officer

		Phone: 09 448 0507	
	ASB Bank	ASB North Wharf 12 Jellicoe Street Auckland 1010 Phone: 0800 803 804	Barbara Chapman Group Executive (Commonwealth Bank Australia) Chief Executive and Managing Director, ASB
	BNZ Bank	Bank of New Zealand 80 Queen Street Private Bag 92208 Victoria St West Auckland 1142 Phone: 09 375 1300	Andrew Thorburn Managing Director and Chief Executive
	Brokernet	Brokernet New Zealand Limited Phone: 09 533 5180 Mobile: 027 279 5774	Simon Moss
	The BrokerWeb Group	Building 2, Suite F, 3 Ceres Court, Rosedale, Auckland 0632 Phone: 09 835 2145 Fax: 09 835 2147	David Archer and Jim Harris Joint owners
	Cooperative Bank	The Co-operative Bank Level 12 PSIS House 20-26 Balance Street Wellington 6011 Telephone: 04 495 7700 Fax: 04 495 7701	Bruce McLachlan Chief Executive
	Crombie Lockwood	Crombie Lockwood Level 5 33 Enfield Street Mt Eden Auckland 1024 Phone: 09 623 9900 Fax: 09 623 9901	Carl O'Shea Chief Executive
	Insurance Advisernet	19 Great South Road Newmarket Auckland Phone: 09 524 7600 Fax: 09 524 2226	David Crawford Managing Director
	JLT	Tower Centre Level 5 45 Queen St Auckland 1010 Phone: 09 379 5376	Matthew Riddle Chief Executive Officer
	Marsh	Level 18 151 Queen Street Auckland 1010	Grant Milne Chief Executive

		Phone:09 928 3000	
	Kiwibank	Kiwibank Level 12 New Zealand Post House 7 Waterloo Quay Wellington 6011 Phone: 04 473 1133 Fax: 04 462 7996	Paul Brock Chief Executive
	Rothbury	Level 18 HSBC House 1 Queen Street, Auckland Central, Auckland 1010 Phone: 09 580 8455 Fax: 09 579 1294	Roger Abel Managing Director
	TSB Bank	TSB Bank TSB Centre 120 Devon Street East New Plymouth 4310 Telephone: 06 968 3797 Fax: 06 968 3724	Kevin Murphy Managing Director and Chief Executive Officer
	Westpac	Westpac New Zealand Level 12 16 Takutai Square Auckland 1010 Telephone: 09 367 3999 Fax: 09 367 3729	Peter Clare Chief Executive
	Willis	Auckland Level 8 21 Queen Street Auckland 1140 Phone: 09 358 3319 Fax: 09 358 3343	Peter Lowe Chief Executive
	Novus Auto Glass	66 Gasson Street Christchurch Phone: 0800 20 35 35	
Suppliers	Smith & Smith	1 Rockridge Avenue Penrose Auckland 0800 48 33 88	
	Insurance Council of New Zealand	Insurance Council of New Zealand Level 2 Asteron House 139 The Terrace P O Box 474 Wellington Phone: 04 472 5230 Fax: 04 473 3011	Chris Black Vice President
Trade Associations	Consumer New	Consumer NZ Level 1	Sue Chetwin Chief Executive

	Zealand	Defence Careers House 204 Thorndon Quay Pipitea Wellington 6011 Phone: 04 384 7963 Fax: 04 385 8752	
Other participants	Insurance and Savings Ombudsman	Office of the Insurance Ombudsman Level 11 Classic House 15-17 Murphy Street Wellington 6011 Phone: 04 499 7612 Fax: 04 499 7614	Paula Rebstock Chairperson
	Reserve Bank of New Zealand	Reserve Bank of New Zealand 2 The Terrace PO Box 2498 Wellington 6011 Telephone: 04 472 2029 Fax: 04 473 8554	Dr Graeme Wheeler Governor

30 Copies of annual reports

A copy of the Applicant's latest annual report is available at http://www.business.govt.nz/companies/app/ui/pages/companies/1113664/documents.

A copy of Lumley's latest annual report is available at http://www.business.govt.nz/companies/app/ui/pages/companies/108043/documents.

Part 7 Confidentiality

31 Confidentiality requested

Confidentiality is sought in respect of the information in this application that is contained in square brackets and highlighted. In addition, confidentiality is sought in respect of:

- **Annexure 3 – Sale and Purchase Agreement**;
- **Annexure 4 – Mutual Transitional Services Agreement**;
- **Annexure 6 – Market share estimates**;
- **Annexure 7 – Autoglass market shares**;
- **Annexure 8 – Collision repair market shares**.

Confidentiality is sought for the purposes of section 9(2)(b) of the Official Information Act 1982 on the grounds that:

- the information is commercially sensitive and contains valuable information which is confidential to the Applicant and/or the Vendor; and
- disclosure would be likely to unreasonably prejudice the commercial position of the Applicant and/or the Vendor, as the parties providing the information.

The Applicant also requests it is notified of any request made to the Commission (including under the Official Information Act 1982) for the confidential information, and that the Commission seeks the Applicant's views as to whether the information remains confidential, and commercially sensitive at the time those request are being considered.

The foregoing applies equally in respect of any information provided to the Commission that is expressed to be confidential.

32 Schedule of confidential information

All confidential information included in the body of this application is set out in a separate schedule in **Annexure 9**.

THIS NOTICE is given by IAG (NZ) Holdings Limited.

I, Martin Hunter, am an officer of IAG (NZ) Holdings Limited and am authorised to make this application.

I hereby confirm that:

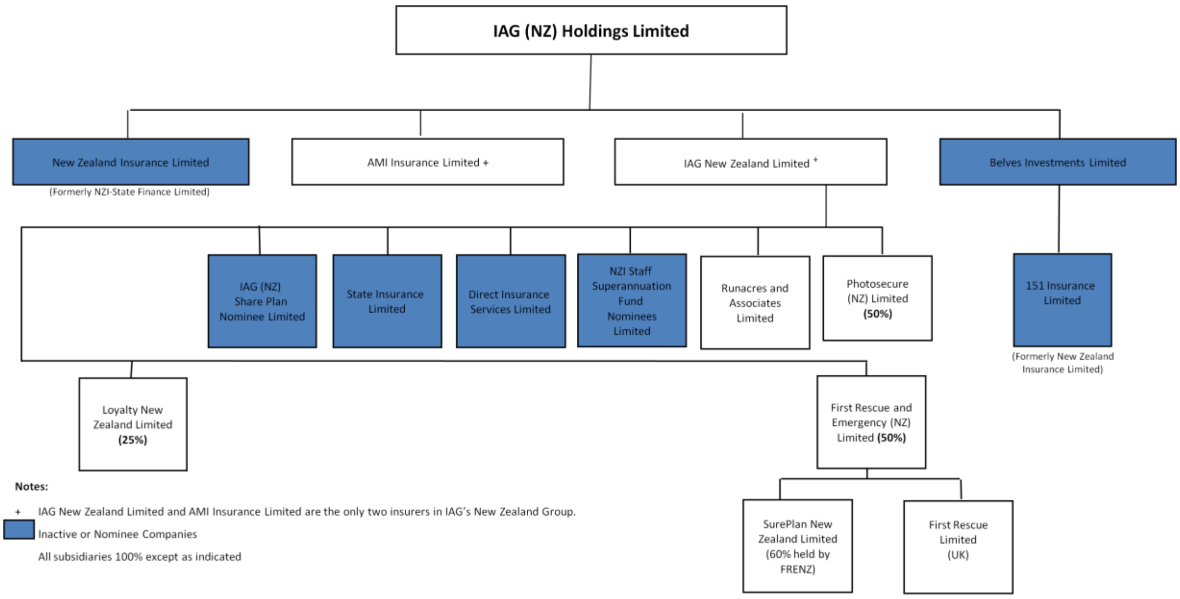
- all information specified by the Commission has been supplied;
- if information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to the applicant(s) which is relevant to the consideration of this application/notice has been supplied; and
- all information is correct as at the date of this application/notice.

I undertake to advise the Commission immediately of any material change in circumstances relating to the application.

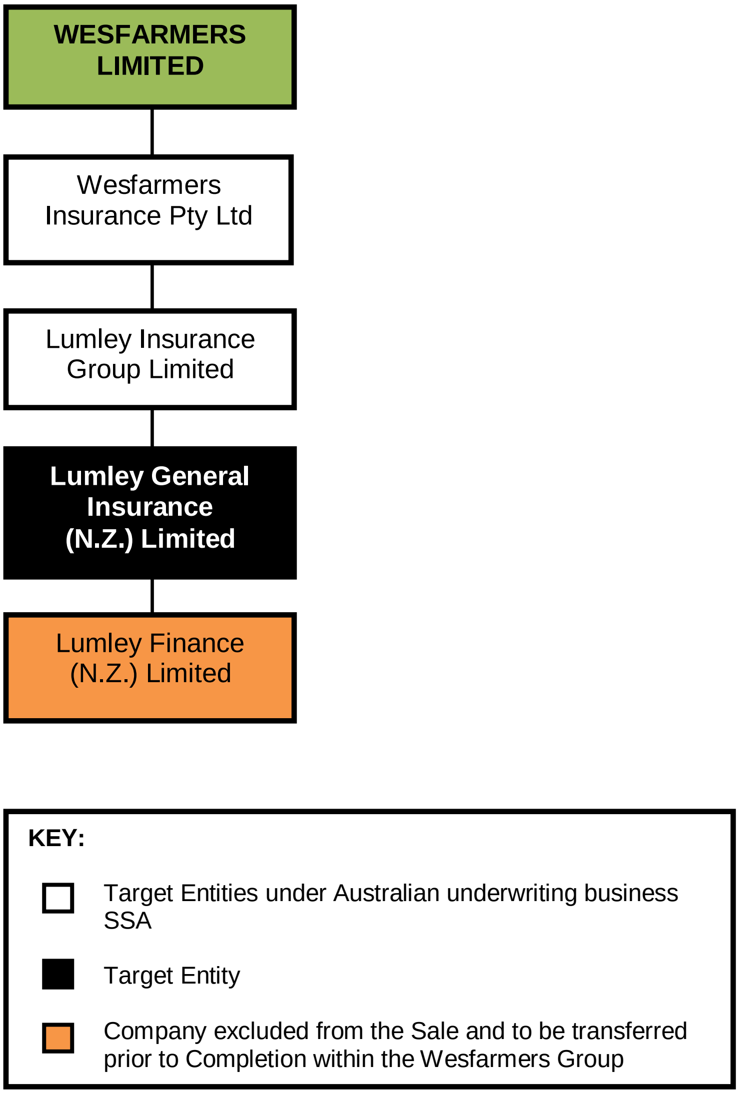
Dated this 19th day of December 2013.

Martin Hunter
General Counsel and Head of Risk and Strategy
IAG (NZ) Holdings Limited

Annexure 1 – IAG structure chart



Annexure 2 – Lumley structure chart

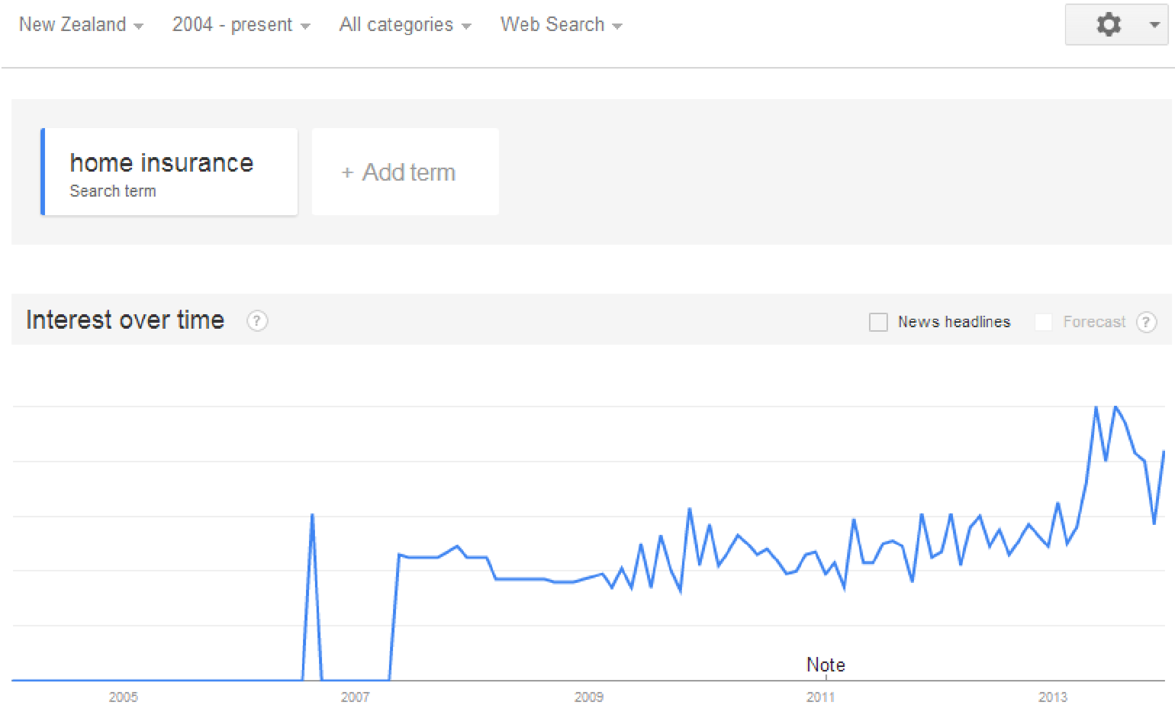


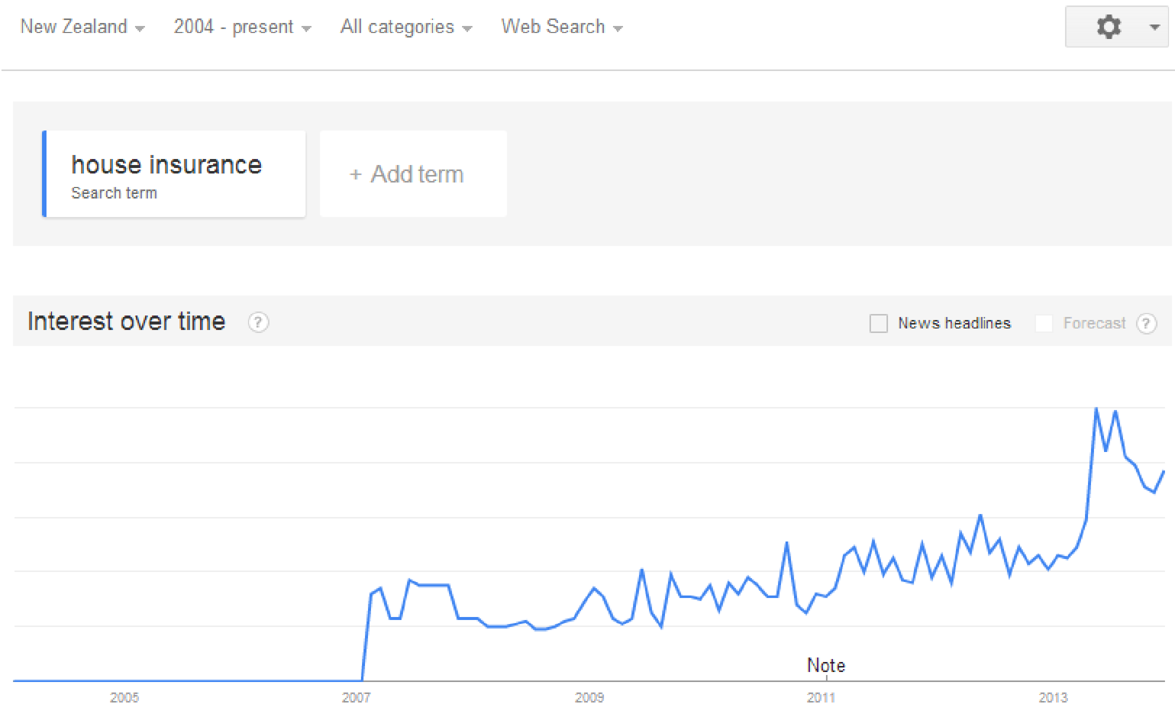
Annexure 3 – Sale and Purchase Agreement [Confidential Annexure]

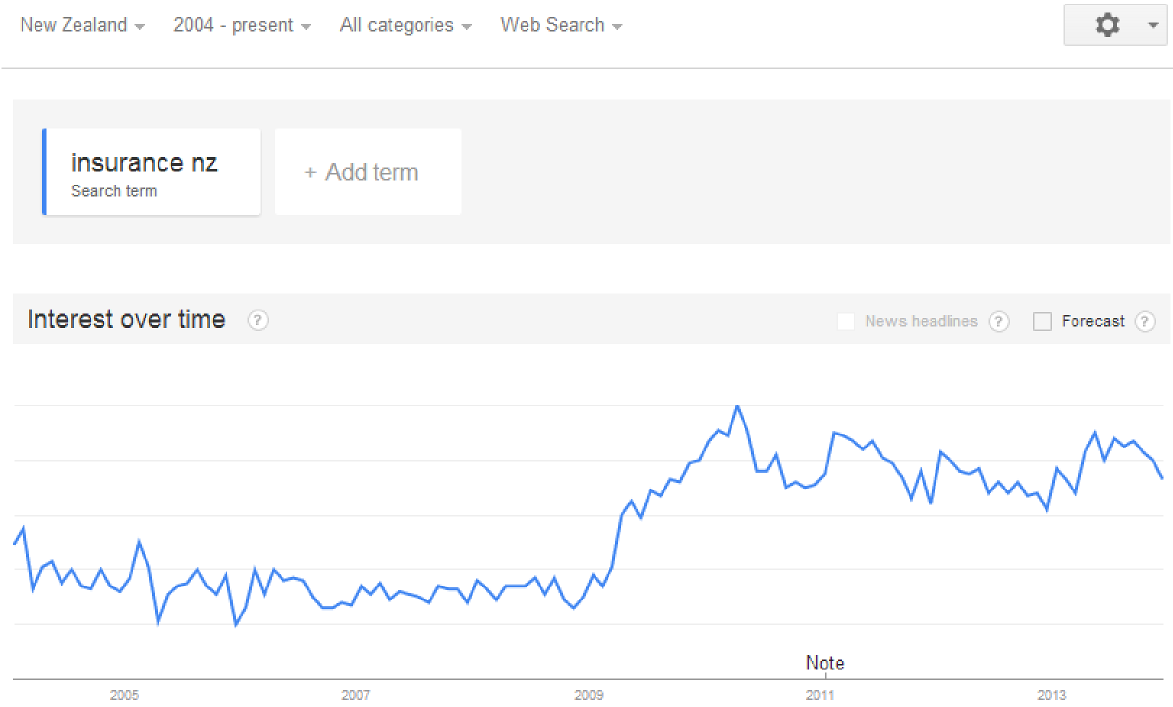
Annexure 4 – Mutual Transitional Services Agreement

[Confidential Annexure]

Annexure 5 – Google search trends



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All categories
Web Search
insurance nz
Search term
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Interest over time
News headlines
Forecast
Note
2005
2007
2009
2011
2013

Annexure 6 – Market share estimates [Confidential Annexure]

Annexure 7 – Autoglass market shares [Confidential Annexure]

Annexure 8 – Collision repair market shares [Confidential Annexure]

Annexure 9 – Schedule of confidential information [Confidential Annexure]