

**COMMERCE ACT 1986: BUSINESS ACQUISITION  
SECTION 66: NOTICE SEEKING CLEARANCE**

Date: 24 May 2004

The Registrar  
Business Acquisitions and Authorisations  
Commerce Commission  
P O Box 2351  
**WELLINGTON**

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

**PART I: TRANSACTION DETAILS**

**1. The business acquisition for which clearance is sought:**

1.1 The business acquisition for which clearance is sought is the acquisition by IAG New Zealand Limited ("**IAG NZ**"), or a related company nominated by IAG New Zealand Limited, of 100% of the shares in Mike Henry Travel Insurance Limited ("**MHTI**") from Mike Henry (NZ) Limited ("**MHNZ**").

1.2 IAG NZ and MHNZ are negotiating an agreement for the sale and purchase of the shares ("**Agreement**"), which will be conditional on a Commerce Commission clearance being granted (unless this condition is waived by IAG NZ). The Agreement has not been finalised.

1.3 It is intended that the shares will be sold in two tranches. 50.1% of the shares will be transferred five business days after the condition precedents in the Agreement are satisfied or waived. The remaining 49.9% of the shares will be transferred at a later date, yet to be agreed, but expected to be shortly after the completion of MHTI's 2006 financial year.

1.4 [

]IAG NZ invites the Commission to consider this as part of the factual.

**Summary of application**

*Affected markets and aggregation of business activities*

1.5 IAG NZ considers that there are two markets in which the proposed acquisition may result in an aggregation of business activities. These are:

- (a) a market encompassing transactions involving the underwriting of travel insurance throughout New Zealand ("**underwriting market**"); and

- (b) a market encompassing transactions involving the distribution of travel insurance to the end customer throughout New Zealand ("**distribution market**").

1.6 The proposed acquisition is likely to result in

- (a) [ ]; and
- (b) a (minor) degree of aggregation within the distribution market.

1.7 The proposed acquisition will also result in a degree of vertical integration. Neither IAG NZ nor MHTI currently has market-power in either affected market. IAG NZ does not, therefore, consider that the vertical integration will lead to any competitive concerns.

*No substantial lessening of competition*

1.8 IAG NZ does not consider that the proposed acquisition will substantially lessen competition in either relevant market for the following reasons:

- (a) In the travel insurance underwriting market:
  - (i) significant constraint is provided by current competitors (the number of which is not affected by this acquisition). IAG NZ's best assessment based on the incomplete information available to it is that the acquisition falls within the Commission's safe-harbours;
  - (ii) constraint is provided by off-shore competitors who can, and do, sell to New Zealand based customers;
  - (iii) barriers to expansion are non-existent. The ability of underwriters to increase supply is limited only by demand;
  - (iv) barriers to entry are low. With the exception of (minimal) legislative/regulatory barriers, there is nothing to prevent a company from setting up underwriting operations;
  - (v) significant countervailing power is exercised by the acquirers of underwriting, in particular distributors (such as banks), and brokers; and
  - (vi) the features of the market are not conducive to collusion.
- (b) In the travel insurance distribution market:
  - (i) significant constraint is provided by other distributors. End-consumers can purchase their travel insurance through a range of alternative channels. These include directly from the underwriter, through the underwriters' distributors, through insurance brokers, from intermediaries such as MHTI, or from travel agents;
  - (ii) constraint is provided by off-shore competitors who distribute travel insurance within New Zealand (either directly, or indirectly (through distribution partners));
  - (iii) barriers to both expansion and entry are non-existent;

- (iv) significant constraint is provided by the "suppliers" of travel insurance, who can sell directly to end-customers themselves; and
- (v) the features of the market are not conducive to collusion.

1.9 In relation to both the underwriting and distribution markets, travel agents (who are the main customers of the target, MHTI) will remain free to move if the margin or commission being offered by the acquirer (IAG NZ) is not competitive.

## **2. Who is the person giving this notice?**

2.1 This notice is given by IAG New Zealand Limited:

Level 15  
IAG House  
151 Queen Street  
**AUCKLAND**

Telephone: 09 969 3814  
Facsimile: 09 309 7097  
Attention: Greg Main

2.2 All correspondence and notice in respect of the application should be directed in the first instance to:

Russell McVeagh  
Mobil on the Park  
157 Lambton Quay  
PO Box 10-214  
**WELLINGTON**

Telephone: 04 495 7535  
Facsimile: 04 499 9556  
Attention: Derek Johnston

## **CONFIDENTIALITY**

### **3. Do you wish to request a Confidentiality Order for:**

#### **The fact of the proposed acquisition?**

3.1 Yes. IAG NZ requests that the Commission maintains confidentiality in respect of the fact of the acquisition until 1 June 2004. The vendor's representatives will be overseas until that date.

### Specific information contained in or attached to the notice?

- 3.2 Yes, confidentiality is sought in respect of all items deleted from the public copy of this notice (including any attachments omitted) ("**confidential information**"). These items are indicated in the non-public version in square brackets.
- 3.3 Confidentiality is sought indefinitely or until IAG NZ sooner advises the Commission that it can make public disclosure of those details.
- 3.4 In respect of the confidential information, a confidentiality order is sought under section 100 of the Commerce Act 1986 ("**Act**") and confidentiality is also claimed under section 9(2)(b)(ii) of the Official Information Act 1982 on the grounds that:
- (a) the information is commercially sensitive and valuable information which is confidential to the participants; and
  - (b) disclosure of it is likely to give unfair advantage to competitors of the participants and/or to unreasonably prejudice the commercial position of the persons involved.
- 3.5 IAG NZ requests that it be notified of any request made to the Commission under the Official Information Act for the confidential information, and that the Commission seeks IAG NZ's views as to whether the information remains confidential and commercially sensitive, at the time responses to such requests are being considered.

### DETAILS OF THE PARTICIPANTS

#### 4. Who are the participants (ie the parties involved)?

##### Acquirer

- 4.1 IAG NZ (or a related company nominated by IAG NZ)

Level 15  
IAG House  
151 Queen Street  
**AUCKLAND**

Telephone: 09 969 3814  
Facsimile: 09 309 7097  
Attention: Greg Main

##### Target

- 4.2 Mike Henry Travel Insurance  
Oracle Building  
56 Wakefield Street  
**AUCKLAND**

Telephone: 09 921 2418  
Facsimile: 09 377 4763  
Attention: Steve Nichols

- 4.3 All correspondence and notice in respect of the application should be directed in the first instance to:

Russell McVeagh  
 Mobil on the Park  
 157 Lambton Quay  
 PO Box 10-214  
**WELLINGTON**

Telephone: 04 495 7535  
 Facsimile: 04 499 9556  
 Attention: Derek Johnston

**5. Who is interconnected to or associated with each participant?**

**Acquirer**

*IAG NZ*

- 5.1 IAG NZ is a company incorporated in New Zealand under the Companies Act 1993. It is wholly owned by IAG (NZ) Holdings Limited, which in turn is (ultimately) owned by Insurance Australia Group Limited ("**IAG**"). Prior to a name change on 9 September 2002, IAG NZ was named NRMA Insurance NZ Limited.

*IAG (NZ) Holdings Limited*

- 5.2 In addition to IAG NZ, IAG (NZ) Holdings Limited is the parent company of Belves Investments Limited.

*IAG*

- 5.3 IAG is incorporated in Australia, and is the holding company of the IAG group of companies ("**IAG Group**"). IAG has various insurance company and motoring association interests in Australia, New Zealand and China, including its ownership of IAG NZ and its related companies. Prior to a name change on 15 January 2002 IAG was known as NRMA Insurance Group.
- 5.4 Relevant companies in the IAG Group are set out in the chart in SCHEDULE A to this application.

**Target**

*MHTI*

- 5.5 MHTI is wholly owned by MHNZ. MHTI has previously been named Mike Henry Travel Limited and VIP Healthcare Limited. MHTI has no subsidiaries.

*MHNZ*

- 5.6 MHNZ is the parent company of MHTI. It has a number of interests, insurance and otherwise, in New Zealand.
- 5.7 The shareholders of MHNZ are as listed in the following table:

Shareholder	Percentage of shareholding
Henry Calder (International) Limited	60.7%
Steven Nichols	12.5%
Steven Nichols, Tracy Nichols, Philip Judge	7.5%
Maureen Henry	5.7%
Murray Calder, Raelene Calder, Philip Judge	4.9%
Henry Corporate Trustee Limited	4.7%
Raelene Calder	1.9%
Michael Henry	1%
Murray Calder	1%

5.8 The shareholders of Henry Calder (International) Limited are listed in the following table:

Shareholder	Percentage of shareholding
Michael Henry	37.1%
Henry Corporate Trustee Limited	32.9%
Maureen Henry	10%
Murray Calder	9.4%
Murray Calder, Raelene Calder, Philip Judge	5.6%
Raelene Calder	5.0%

5.9 Henry Corporate Trustee Limited is wholly owned by Michael Henry.

5.10 Relevant companies in the Mike Henry Group of Companies ("MH Group") are set out in SCHEDULE B to this application.

**6. Does any participant, or any interconnected body corporate thereof, already have a beneficial interest in, or is it beneficially entitled to, any shares or other pecuniary interest in another participant?**

6.1 Neither IAG NZ nor any of its interconnected bodies corporates, nor MHTI or any of its interconnected bodies, has a beneficial interest in, or is beneficially entitled to any shares or other pecuniary interest in another participant.

**7. Identify any links, formal or informal, between any participant/s including interconnected bodies corporate and other persons identified at paragraph 5 and its/their existing competitors in each market. For example beneficial interests other than shares; common directorships; formal or informal contracts, arrangements or understandings relating, for example, to prices, terms and conditions of sale; territorial allocations; product or service distribution/production; use of technology.**

7.1 IAG NZ has a 50% shareholding in First Rescue and Emergency (NZ) Limited ("FRENZ"). Various members of the MH Group own 32% of FRENZ.

7.2 FRENZ provides IAG NZ with roadside rescue services, travel assistance, medical assistance, and after hours claims and sales services. [

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7.3 IAG NZ has, since the fourth quarter of 2001, underwritten mechanical breakdown insurance policies for DriveRight, a subsidiary of MHNZ. [

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7.4 IAG NZ also has a broker agency agreement with Mike Henry Insurance Brokers. This agreement is on standard commercial terms, and is one of many such brokering agreements entered into by IAG NZ.

7.5 IAG NZ is not aware of any other links between any of the participants (including their interconnected body corporates).

**8. Do any directors of the "acquirer" also hold directorships in any other companies which are involved in the markets in which the "target company/business" operates? please provide details of:**

- directors' names;
- the other companies;
- the markets involved.

8.1 No.

**9. What are the business activities of each participant?**

**Please include a summary of all the business activities of each participant including all interconnected bodies corporate thereof and any other business identified in question 5. (Note the comments on relevancy in paragraph 5 above. It is sufficient to refer in general terms to activities in which there will be no aggregation.)**

*IAG NZ*

- 9.1 IAG NZ underwrites and distributes a range of general insurance products, under the State and NZI brands. IAG NZ also underwrites insurance for other distributors (such as banks), under the IAG NZ brand (although those distributors sell these products under their own brands).<sup>1</sup>
- 9.2 IAG NZ has three distinct trading channels – State, NZI and distributors:
- (a) State is New Zealand's market leader in general insurance, offering competitively priced, value for money products backed by efficient and friendly service. It focuses on personal and commercial insurance and provides a full range of cover, as well as discount packages. State's business focus is on domestic lines of general insurance. The principal activity of State is the provision of short-tail general insurance products through direct channels.
  - (b) NZI is one of New Zealand's largest and longest-serving insurance brands, providing a broad range of personal, rural and business insurance products to protect customers' assets from the unexpected. NZI is predominantly broker focused.
  - (c) IAG NZ also sells insurance products through its distributors, such as ASB Bank and Bank of New Zealand. In such cases the banks sell the insurance products badged with their own brands, although IAG NZ underwrites the policies. From the perspective of the ultimate customers, there is no direct contact with the underwriter at the point of sale. The customers deal with IAG NZ only at the time they make a claim (and then only as agent of the distributor).
- 9.3 IAG NZ also distributes (but does not underwrite) life insurance products.
- 9.4 IAG NZ underwrites travel insurance for a variety of customers. IAG NZ also distributes travel insurance through a variety of brokers, intermediaries and distributors, as well as to end-customers directly (through the internet, telephone call centres, and retail sales sites).

*IAG*

- 9.5 IAG is an ASX listed company and is the holding company of the IAG Group. It has various insurance company interests in Australia and New Zealand, including its ownership of IAG NZ and its related companies.
- 9.6 The IAG Group serves more than 3.8 million customers Australia-wide and more than 700,000 customers in New Zealand. IAG provides domestic, compulsory third party and

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<sup>1</sup> For further information on IAG NZ's brands, please see: [www.iag.co.nz](http://www.iag.co.nz).



commercial insurances. It does so under brands including: NRMA Insurance in New South Wales, the Australian Capital Territory, Northern Territory, Queensland and Tasmania; SGIO in Western Australia; SGIC in South Australia; State and NZI in New Zealand; and RACV in Victoria (through a strategic alliance).

### **Target**

#### *MHTI*

- 9.7 MHTI is engaged in the distribution of travel insurance within New Zealand. The majority of MHTI's customers are travel agents (who in turn on-sell to their customers), although MHTI does sell direct when approached by end customers.

#### *MHNZ*

- 9.8 MHNZ operates a number of companies that deal primarily in the distribution of travel, fire, general, motor vehicle warranty and international health insurance.

<p><b>10. What are the reasons for the proposal and the intentions in respect of the acquired or merged business?</b></p>
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- 10.1 IAG NZ is presently underrepresented in the travel insurance sector. IAG NZ sees the acquisition as an opportunity to increase its involvement in travel insurance, [

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- 10.2 IAG NZ considers that the acquisition will lead to the following commercial benefits:

- (a) increased specialisation and expertise in the travel insurance markets, leading in turn to higher quality underwriting;
- (b) product line diversification for IAG NZ, thereby spreading insurance risk;
- (c) long-term efficiency benefits, leading to improved service standards.

## PART II: IDENTIFICATION OF MARKETS AFFECTED

### HORIZONTAL AGGREGATION

11. Are there any markets in which there would be an aggregation of business activities as a result of the proposed acquisition?

- Are there any markets in which the "acquirer" (and/or any interconnected or associated company as identified in question 5); and
- The business to which the assets relate; or
- The "target company" (and/or any interconnected or associated company identified in question 5)

are both engaged?

- Please identify for each market:
  - product(s), functional level, geographic area, and (where relevant) timeframe;
  - the specific parties involved;
  - the relationship of those parties to the acquirer or target company as the case may be.

#### Market definition

##### *Product dimension*

11.1 In Decision 391 (*CGU/Norwich Union Plc*) the Commission defined the following markets, in relation to the insurance industry:

- (a) a domestic house and contents market;
- (b) a domestic motor vehicle market;
- (c) a commercial motor vehicle market;
- (d) a commercial property market; and
- (e) a commercial liability market.

11.2 In that decision the Commission left open the question as to whether either a general insurance market existed, or whether separate markets existed for the sale of commercial insurance and domestic insurance, on the basis that if there were no competition concerns arising out of the narrower markets, there were unlikely to be competition concerns arising out of the wider markets.<sup>2</sup>

11.3 IAG NZ considers that a similar approach should be taken in this application. IAG NZ does not, at this stage, have a view as to whether either a general insurance market exists, or whether separate markets exist for the sale of commercial insurance and domestic insurance. Rather, IAG NZ considers that because the acquisition will not lead

<sup>2</sup> Decision 391, paragraph 42.

to any substantial lessening of competition within a narrow product market (travel insurance), the competitive effects of the acquisition can be fully assessed within the framework of a narrower travel insurance product market.

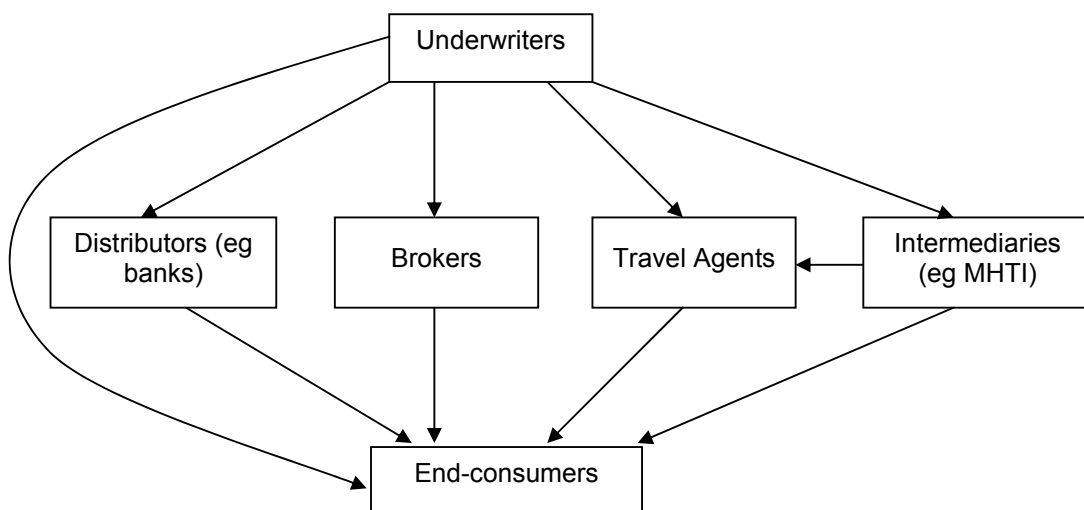
- 11.4 IAG NZ does not consider that the product market is any narrower than all forms of travel insurance. Although different cover is provided in different travel insurance contracts, IAG NZ considers that these all fall within the travel insurance product market.
- 11.5 In this respect, travel insurance has certain core features to which additional benefits can be added (at extra cost) depending on the requirements of the individual customer (see also paragraph 13.2). These additional benefits may be promoted to a customer depending on:
- (a) who the customer is (leisure customers vs business customers);
  - (b) where the customer is travelling to (long-haul vs short-haul); and
  - (c) the age of the customer (under-70 vs over-70).
- 11.6 Travel to the United States, for example, attracts a higher premium due to the higher costs associated with medical care in that country.
- 11.7 IAG NZ notes that supply side substitutability between the different types of travel insurance packages offered is effectively infinite. The only difference in the differentiated products is additional, or different cover, which is reflected in a different premium.
- 11.8 IAG NZ considers that an appropriate analogy is the existence of additional features available to, for example, the purchaser of a car. The Commission does not usually consider that such optional extras justify the existence of a separate product market.
- 11.9 IAG NZ, therefore, submits that for the purposes of this application only, the most appropriate product market is that of travel insurance.

*Functional dimension*

- 11.10 IAG NZ is not previously aware of the Commission defining functional levels in relation to insurance markets.
- 11.11 IAG NZ considers, however, that the following functional dimensions exist in respect of the travel insurance product market:
- (a) an underwriting dimension, encompassing transactions involving the underwriting of travel insurance, entered into between underwriters of travel insurance and their customers; and
  - (b) a distribution dimension, encompassing transactions involving the sale of travel insurance either directly to end-customers, or through various intermediaries..
- 11.12 IAG NZ considers that MHTI operates at the same functional level as other distributors. Primarily, this is because end-customers can source travel insurance from a large range of different sources. Different ways that travel insurance is distributed (and that end-customers can acquire travel insurance) include:
- (a) through travel agents (who can purchase the policies from intermediaries, such as MHTI or direct from underwriters); or

- (b) through insurance brokers (who may handle all of a client's insurance requirements); or
- (c) through underwriters' distribution partners (such as banks, credit-card companies, airlines, and supermarkets, and other retail stores);
- (d) directly from an underwriter itself (through either the internet or call centres); or
- (e) through an intermediary, such as MHTI.

11.13 A diagram representing the various ways in which travel insurance is distributed to end consumers is provided below:



11.14 There is also potential interplay between various participants within the distribution market. Brokers or distributors could, for example, purchase travel insurance from other intermediaries, such as MHTI.

11.15 In addition, there is considerable fluidity between the underwriting and distributional functional levels. Almost all underwriters are also involved in the distribution market through either direct sales to end-customers, or sales through distribution partners.

11.16 IAG NZ notes that changes in technology have changed the ways in which travel insurance is distributed, over the past three to five years. While travel insurance has traditionally been sold through distinct functional levels (ie from underwriter to wholesaler to retailer to end-customer), it is now sold through a variety of channels.

11.17 One of these new channels is through distributors (such as banks and airlines, as well as other companies, such as The Warehouse and Fly-Buys). One of the key features of the relationship between an underwriter and its distributor is that the distributor effectively owns the customer relationship. If the relationship between the distributor and the underwriter ceases (which might occur if, for example, the distributor considered it was not being offered a competitive arrangement, see paragraph 41.2), the customers go with the distributor. In such circumstances, the underwriter usually has no rights to use the customer databases or information to approach the customers directly.

11.18 The other key feature of the relationship with the distributor is that the only interaction between the underwriter and the end-customer is if a claim is made (although, in such

circumstances, the underwriter is effectively acting as an agent for the distributor). The distributor is responsible for all other aspects of the customer relationship.

- 11.19 IAG NZ considers that the end-customers' choice as to where they purchase their travel insurance from (ie through which distribution channel) is often influenced by their choice as to where they purchase their travel and/or accommodation from.
- 11.20 As such, IAG NZ expects that [ ] in relation to short-haul travel, an increasing amount being sold direct through the internet.
- 11.21 IAG NZ considers, therefore, that the structure of the distribution market is such that it is now artificial to draw distinct functional boundaries within the distribution dimension of the market.

#### *Geographical dimension*

- 11.22 In Decision 391<sup>3</sup>, the Commission proceeded on the basis of a national geographical dimension for the various product markets.
- 11.23 IAG NZ considers that the geographical dimension of both functional levels of the travel insurance market is also nationwide (although, as discussed in paragraph 16.23 significant competition exists from international competitors).

#### *Customer dimension*

- 11.24 IAG NZ considers that, for the reasons given in paragraphs 11.5 to 11.9, the correct customer dimension of the market is all customers and accordingly, further refinement of the market by customer category is unnecessary.

#### **Market definition conclusion**

- 11.25 IAG NZ considers, therefore, that the appropriate markets for analysing the competition effects of this acquisition are:
- (a) the market encompassing transactions involving the underwriting of travel insurance, throughout New Zealand (the "**underwriting market**"); and
  - (b) the market encompassing transactions involving the distribution of travel insurance, throughout New Zealand (the "**distribution market**").

#### **Horizontal aggregation**

##### *Underwriting market*

- 11.26 MHTI's business activities are restricted to the sale of travel insurance. This is predominantly through travel agents although in some cases, occurs directly to end-customers. MHTI does not underwrite travel insurance.
- 11.27 The acquisition will not, therefore, lead to any direct aggregation in the underwriting market.
- 11.28 As explained in paragraph 1.4, however, [

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<sup>3</sup> CGU/Norwich Union Plc.

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11.29 The extent of this aggregation is discussed in section 16.

*Distribution market*

11.30 Both MHTI and IAG NZ distribute travel insurance . The acquisition will, therefore, lead to a (limited) degree of horizontal aggregation within the distribution market.

11.31 The extent of this aggregation is discussed in section 16.

**DIFFERENTIATED PRODUCTS MARKET**

**12. Please indicate whether the products in each market identified in question 11 are standardised (buyers make their purchases largely on the basis of price) or differentiated (buyers make their purchases largely on the basis of product characteristics as well as price).**

12.1 Travel insurance is, in general, sold as a standardised product. There is some product differentiation on the margins of the market, which is outlined in section 13.

12.2 Buyers generally place less emphasis on price and more on the convenience associated with acquiring travel insurance from the same source as their travel and accommodation purchases - see paragraph 11.19.

**13. For differentiated products markets:**

- Please indicate the principal characteristics of products that cause them to be differentiated one from another.
- To what extent does product differentiation lead firms to tailor and market their products to particular buyer groups or market niches?
- Of the various products in the market, which are close substitutes for the products of the proposed combined entity? - which are more distant substitutes?
- Given the level of product differentiation, to what extent do you consider that the merged entity would be constrained in its actions by the presence of other suppliers in the market(s) affected?

**The Commission would be assisted in its analysis of the effects of the proposed transaction in a differentiated product market by evidence on product substitutability derived from marketing or consumer surveys, comparative product analyses and evidence of the effect of relative price changes on the demand for different product**

- 13.1 Travel insurance is predominately sold as a standardised product. As discussed in paragraphs 11.5 to 11.9, however, differentiation does occur when additional benefits are offered to cover certain activities.
- 13.2 As discussed in those paragraphs, IAG NZ considers that this differentiation enables travel insurance packages to be tailored to individual customers needs. It also enables a premium to be allocated which reflects the risk being assumed by the underwriter (medical costs, for example, are more expensive in the United States than in Australia).
- 13.3 Almost all travel insurance (in excess of 80%) underwritten in New Zealand contains cover for:
- (a) medical and evacuation expenses;
  - (b) cancellation/changes to journey (including loss of deposit and interruption);
  - (c) travel delay/missed connection;
  - (d) baggage and personal items;
  - (e) money and travel documents;
  - (f) death, permanent loss or disability; and
  - (g) personal liability.
- 13.4 Additional cover, which is not generally included in a travel insurance contract, but which could be used to differentiate the policies, includes:

<b>Benefit</b>	<b>Percentage of travel insurance underwritten that contains this benefit<sup>4</sup></b>
Loss of income (due to injury during the covered period);	30%
Legal costs;	42%
Hijacking/strikes;	43%
Kidnap and ransom;	12%

## **VERTICAL INTEGRATION**

### **14. Will the proposal result in vertical integration between firms involved at different functional levels?**

- **Are the "acquirer" (or any interconnected or associated company as identified in section 5) and:**
  - **the business to which the assets relate; or**
  - **the "target company" (or any interconnected or associated company as identified in section 5)**

**engaged at different functional levels of the same product market(s)?**

- **Please identify for each market:**
  - **product(s), functional level(s), geographic area(s);**
  - **the specific parties involved;**
  - **the relationship of those persons to the "acquirer" or "the target company" as the case may be.**
- **If so, in all subsequent questions about markets affected by the proposal, please give details of both (or all) the downstream/upstream markets concerned; and details of existing vertical links between the participants (and/or interconnected or associated companies) in each of these markets eg supply agreements, long-term supply contracts.**

14.1 IAG NZ is involved in the underwriting market as well as the distribution market. MHTI is involved in the distribution market. The acquisition is, therefore, likely to lead to a degree of vertical integration of the travel insurance underwriting and distribution markets.

14.2 IAG NZ considers that neither it, nor MHTI, have market power within either market (see section 16). As such, the vertical integration that will occur as a result of the acquisition should not give rise to any competition concerns.

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<sup>4</sup> IAG NZ estimate.



- 15. In respect of each market identified in question 11 and/or 14, identify briefly:**
- **all proposed acquisitions of assets of a business or shares involving either participant (or any interconnected body corporate thereof) notified to the Commission in the last 3 years and, in each case:**
    - **the outcome of the notification (e.g. cleared, authorised, declined, withdrawn);**
    - **whether the proposed acquisition has occurred.**
  - **any other acquisition of assets of a business or shares which either participant (or any interconnected body corporate) has undertaken in the last 3 years.**

- 15.1 Neither IAG NZ nor MHTI (nor any of their interconnected body corporates) have made any formal clearance applications to the Commission in the last three years.
- 15.2 In January 2003, IAG NZ acquired from Aviva the commercial and personal insurance lines of NZI, in New Zealand, having consulted with the Commission prior to concluding that acquisition. IAG NZ has made no other business acquisitions over the last three years.
- 15.3 MHTI (including its interconnected body corporates) has not made any business acquisitions over the last three years that have been notified to the Commission.

### PART III: CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION

#### EXISTING COMPETITORS

16. In the market, who are the suppliers of competing products - including imports?
- Please identify their owners (including ultimate owner/s)
  - What are their estimated shares of productive capacity and of the market?
    - give the total size of the domestic market;
    - identify at least the four leading suppliers;
    - include participants to the proposal;
    - identify imports clearly (including the country of origin and the importers);
    - identify source(s) of estimates; and
    - note that competing goods may not be confined to identical or branded goods.

**Identify source(s) of estimates.**

#### *Underwriting market*

- 16.1 The Insurance Council of New Zealand ("ICNZ") collects data on the activities of underwriters. IAG NZ considers that the ICNZ data gives an incomplete picture of the market, in that it is not always clear how the figures are calculated. In particular, it is not clear whether the Gross Written Premium ("GWP") quoted is inclusive or net of any commission or margin added to the premium by the travel insurance distributor.<sup>5</sup>
- 16.2 IAG NZ also considers that the ICNZ figures significantly overstate the participants' involvement in the market, as a significant portion of travel insurance underwriting activity is not reported to ICNZ. Firms who underwrite travel insurance, but do not report to ICNZ, include:
- (a) ICNZ members who, although they write travel policies, do not disclose travel premium separately in returns to council;
  - (b) New Zealand based participants, such as Southern Cross and QBE. IAG estimates that the GWP that Southern Cross and QBE underwrite is approximately \$[ ] and \$[ ], respectively; and
  - (c) overseas based participants, whose products are being sold into the New Zealand market (see paragraph 16.23).
- 16.3 IAG NZ notes that overseas based underwriters, in particular, are a significant source of competition for IAG NZ (they also provide significant competition in the distribution market, see paragraph 16.21).
- 16.4 For these reasons, IAG NZ is unable to accurately estimate market share figures in the underwriting market. It considers, however, that post-acquisition, its market share of the

<sup>5</sup> A similar problem appears to exist in Australia. The Insurance Council of Australia has, for example, made submissions to the APRA, to the extent that the APRA should use its powers to require that all entities that provide insurance participate in a national uniform comprehensive data collection arrangement.

total underwriting market (ie including the firms who do not report to ICNZ) will fall within the Commission's safe-harbours.

- 16.5 In order to assist the Commission in identifying some of the participants in the market, IAG NZ sets out below indicative data in relation to the travel insurance underwriting market, which reflects IAG NZ's best assessment of the market, based on available information. Although market share percentages have been estimated, IAG NZ notes that these do not reflect the percentage of travel insurance underwritten in the entire travel insurance market, given the unknown volume of travel insurance written by overseas insurers in New Zealand.

Company	Owner	GWP (000's)	Indicative Market Share	Source
AIG*	American Intl. Group (US)	[ ]	[ ]	Management estimate
Tower*	Tower Limited (listed on NZX and ASX)	[ ]	[ ]	Management estimate
IAG NZ*	IAG (Aust)	[ ]	[ ]	Actual
Vero*	Promina	[ ]	[ ]	Management estimate
Southern Cross	Mutual	[ ]	[ ]	Per annual accounts
QBE	QBE	[ ]	[ ]	Management estimate
<b>Total</b>		[ ]	<b>100%</b>	

\* these companies are included in ICNZ data which shows GWP of \$55.5 million for the year ended December 2003

16.6 [

16.7

]

- 16.8 In order to retain this portion of the underwriting market, IAG NZ must, however, continue to price competitively. If, for example, MHTI's prices were not competitive, MHTI's customers would move elsewhere, [

]

16.9 [

]In addition, the acquisition will not reduce the number of participants in the underwriting market.

- 16.10 IAG NZ considers that even if it underwrites all of MHTI's new business, it will (in addition to constraints from the risk of new entry and the countervailing power of acquirers) still face significant competition from not only New Zealand based competition

(which, in addition to the participants who submit returns to ICNZ, includes Southern Cross and QBE, see paragraph 16.2(b)), and also from overseas based competitors.

- 16.11 Finally, it should be noted that most of IAG NZ's competitors in the underwriting market are large international companies, with significant resources and the ability to easily expand their involvement in the travel insurance underwriting market.

**Distribution market**

- 16.12 As discussed in paragraphs 11.12 to 11.14, there are a variety of ways in which travel insurance can be distributed to end-customers.
- 16.13 IAG NZ currently distributes travel insurance through most available channels. In particular, IAG NZ distributes through brokers, travel agents, banks, airline companies, and other distributors. IAG NZ also sells direct to end customers (through telephone call-centres, the internet, and retail sales sites).
- 16.14 MHTI is also involved in the distribution market. MHTI distributes predominately through travel agents, but also distributes direct to end customers.
- 16.15 The acquisition will, therefore, lead to a degree of aggregation of business activities, within the travel insurance distribution market. IAG NZ considers that the acquisition will, effectively, allow it to distribute through an additional channel (intermediaries), which it does not currently distribute through.
- 16.16 IAG NZ will remain significantly constrained by current competition within this market, for the reasons set out in the remainder of this application. In particular IAG NZ notes that it will (post-acquisition) face significant constraint from the other participants within the distribution market (outlined in paragraphs 11.12 to 11.14), any of who can, and do, distribute travel insurance to end-customers.

## OTHER CONSIDERATIONS

With respect to question 16 above:

- Please identify any firms that are not currently producing the product in the market, but could enter the market quickly (using essentially their existing productive capacity) in response to an attempt by suppliers to raise prices or reduce output or quality ('near entrants').
- Estimate the productive capacity that such near entrants potentially could bring to the market.
- Please indicate the extent to which imports provide a constraint on domestic suppliers. What costs are incurred by importers that are not incurred by domestic suppliers? How sensitive is the domestic price of imports to changes in the New Zealand dollar exchange rate?
- To what extent is the product exported?
- Please indicate whether the 'target company' could be described as a vigorous and effective competitor, taking into account its pricing behaviour, its record of innovation, its growth rate relative to the market, and its history of independent behaviour.

### Firms not currently supplying the market but who could enter quickly

- 16.17 A participant's ability to expand in the travel insurance market is not (as it is, for example, in the manufacturing sector) restricted by capacity. The main constraint on expansion would be an underwriter's ability to acquire further customers.

#### *Underwriting market*

- 16.18 IAG NZ considers that the most likely near entrant in the underwriting market would be an international insurance underwriter expanding operations into New Zealand.
- 16.19 IAG NZ also considers that any underwriter who underwrites other insurance products, but not travel insurance could be considered a near entrant. There is a high degree of supply-side substitutability in relation to underwriting of different insurance products. Travel insurance products are relatively simple in nature, and the short-term duration of the contracts means that pricing can be altered quickly in response to financial outcomes or changes in risk profiles.
- 16.20 The only significant cost for an existing general insurer moving into travel insurance is the cost of familiarisation in relation to aspects of general pricing, risk and claims handling which differ between travel insurance and other types of insurance. This information is, however, readily available if a participant was to hire the appropriate staff.

#### *Distribution market*

- 16.21 IAG NZ considers that the most likely near entrant in the distribution market would be an underwriter moving into direct sales. As discussed in paragraphs 16.18 and 16.19 above, this could be either a New Zealand based underwriter or an overseas based underwriter. The underwriter's entry into the distribution market could be either on a direct basis, or indirectly through distribution partners (such as brokers or a bank).

### Imports

- 16.22 Travel insurance is not "imported" in the traditional sense.

- 16.23 IAG NZ notes, however, that considerable competition (and constraint) is provided by overseas travel insurance providers, who operate through the internet, or supply to distributors. Examples of such providers include Columbus Direct (underwritten by Lloyd's of London), World Nomads (underwritten by Allianz Australia), and Travelonline.com (underwritten by AIG's Australian branch).

#### **Exports**

- 16.24 IAG NZ does not "export" any travel insurance. IAG NZ is not aware if any other New Zealand based travel insurance underwriter exports travel insurance.

#### **Vigorous and effective competitor**

- 16.25 MHTI could be considered a vigorous and effective competitor, IAG NZ considers that MHTI's focus on service, technology and developing customer relations has led to an enviable record of growth. [

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### **CONDITIONS OF EXPANSION**

17. **The following categories cover different types of market conditions that may affect the ability of firms to expand:**

- **Frontier entry conditions.** For example, tariffs, import licensing, quarantine requirements.
- **Legislative/regulatory conditions.** For example, meat licensing, Resource Management Act requirements, health and safety standards.
- **Industrial/business.** For example, access to raw materials, critical inputs; economies of scale; access to technical knowledge requirements; capital requirements (and capital market's perception of the risk and return); sunk costs i.e. irrecoverable or exit costs (e.g. because of plant specificity); influence of branding; technical specifications.
- **Other.**

**Which, if any, of the entry conditions identified above do you consider could be likely to act as a "barrier" to expansion by existing competitors, where they have the incentive to do so in response to a sustained effort by the combined entity to raise price, or to lower service or product quality?**

- 17.1 IAG NZ does not consider that any of the entry conditions identified in the above question would be likely to act as a barrier to expansion in either the underwriting market or the distribution market. There are no frontier entry conditions, and no significant industry/business conditions in relation to either market.

### *Underwriting*

- 17.2 IAG NZ does not consider that there are any barriers preventing an existing underwriter from expanding operations. An existing underwriter will have already satisfied the legislative requirements relating to insurance products (as described in section 27.2). Regulatory barriers for expansion for an existing underwriter are, similarly, minimal.
- 17.3 Aside from customer demand, there is nothing to prevent an existing underwriter from expanding. An existing insurer is not required to meet any registration requirements, make significant capital investment or create new relationships with re-insurers or distributors in order to expand the range of travel insurance products it offers.
- 17.4 IAG NZ does not consider that existing relationships between underwriters and distributors amount to a strategic barrier to entry. Contracts between underwriters and distributors are, in general, able to be terminated within a short time period. MHTI's current underwriting agreement with AIG, for example, can be terminated on [ ] notice. Similarly, contracts between underwriters and corporate partners can be terminated on [ ] notice.
- 17.5 [ ]
- 17.6 In relation to general insurance, IAG NZ considers that Vero's recent expansion of operations to include providing cover for "hard to place" insurance business is evidence of both the lack of barriers to expansion in the underwriting market and the competitively dynamic nature of the underwriting market.<sup>6</sup>

### *Distribution*

- 17.7 IAG NZ does not consider that there are any barriers that would prevent a current distributor from expanding operations.
- 17.8 In particular, distributors, brokers, travel agents, intermediaries, and underwriters (selling direct) do not face barriers to expansion due to access to raw materials, critical inputs, economies of scale, access to technical knowledge requirements, capital requirements, sunk costs, influence of branding, or technical specifications.
- 17.9 In IAG NZ's experience, [ ]  
[ ]. Accordingly, existing relationships between intermediaries and travel agents do not amount to a strategic barrier to entry.
- 17.10 Finally, IAG NZ notes that there are unlikely to be significant barriers to expansion when the barriers to entry are low (as is the case in the travel insurance market - see section 27).

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<sup>6</sup> [www.scoop.w.nz/mason/stones/BU0405/500192.htm](http://www.scoop.w.nz/mason/stones/BU0405/500192.htm)

**18. Please name any businesses which already supply the market - including overseas firms - which you consider could increase supply of the product/service concerned in the geographic market identified by:**

- **diverting production;**
- **increasing utilisation of existing capacity;**
- **expansion of existing capacity.**

*Underwriting market*

18.1 As discussed above, IAG NZ does not consider that there are any barriers to expansion for current travel insurance underwriters. In particular, underwriters are not restricted by capacity restraints. IAG NZ considers that any of its current competitors could increase their "supply" of underwriting. The main constraint on expansion would be their ability to acquire further customers.

18.2 Insurance companies underwriting travel insurance from offshore (see paragraph 16.23) are in a particularly good position to increase their underwriting activities. As discussed in paragraph 11.20, IAG NZ anticipates that the structure of the market will change [ ] travel insurance being either provided direct from underwriters (through, for example, the internet), or through other distribution channels, such as airlines or banks. Offshore underwriters are in a good position to capitalise on this.

18.3 Alternatively, most participants in the underwriting market are international companies with the resources to easily expand operations (see paragraph 16.23). Vero, in particular, is actively involved in general insurance underwriting and could easily expand its participation in the travel insurance underwriting market.

*Distribution market*

18.4 As discussed above, IAG NZ does not consider that there are any barriers to expansion for participants currently operating in the distribution level of the market. IAG NZ likewise considers that any firm that is currently distributing travel insurance would be in a strong position to increase its "supply" of travel insurance.

18.5 As discussed in paragraph 16.21, IAG NZ considers that the most likely source of expansion in the distribution market will be through underwriters increasing their direct sales to end-customers.

18.6 IAG NZ also expects that distributors (such as banks and airlines) will continue to develop their involvement in the travel insurance market. Distributors are well placed to directly retail their own travel insurance, with the ability to capitalise on and maximise the value of their existing client base, distribution networks, processing capabilities and funds under management.



**19. Of the conditions of expansion listed above which do you consider would influence the business decision to increase supply?**

- 19.1 Both the underwriting market and the distribution market are highly competitive. Any increase in price or decrease in the quality offered by one participant in any one market would encourage an existing competitor to immediately expand its "supply" in that market.

**20. How long would you expect it to take for supply to increase in each case?**

- 20.1 IAG NZ considers that expansion in both the underwriting market and the distribution market would occur extremely quickly. Under normal conditions a swift competitive response could be expected within a matter of months.

**21. In your opinion, to what extent would the possible competitive response of existing suppliers constrain the merged entity?**

- 21.1 IAG NZ is, and would remain significantly constrained by possible competitive responses of existing suppliers (see paragraphs 16.10 and 16.11).
- 21.2 IAG NZ considers that if it attempted to raise prices in either market, it would be likely to experience a rapid and significant loss of business to its competitors and further enhance the likelihood of new entry into that market.

**22. Looked at overall, and bearing in mind the increase in market concentration that would be brought about by the acquisition, to what extent do you consider that the merged entity would be constrained in its actions by the conduct of existing competitors in the markets affected?**

- 22.1 IAG NZ would be significantly constrained by existing competitors, offshore participants, and expansion of other underwriters, within the travel insurance underwriting and distribution markets.

## CO-ORDINATED MARKET POWER

**23. Identify the various characteristics of the market that, post-acquisition, you consider would either facilitate or impede co-ordination effects.**

23.1 In its Merger and Acquisition Guidelines, the Commission describes a number of factors, which it considers could increase the possibility of firms acting together in a co-ordinated manner. In both the underwriting market, and distribution market, however, the following features exist, which suggest that collusion is unlikely:

- (a) **Low seller concentration:** There are a reasonably large number of underwriters participating in the underwriting market (see the table at paragraph 16.5). There are also a number of alternative channels through which travel insurance can be distributed, and a number of firms distributing through each distribution channel .
- (b) **Low-barriers to entry:** As discussed in further detail below, there are low barriers to entry into both relevant markets, which suggests that entry in the relevant market could occur in a relatively short period of time, and at a reasonably low cost.
- (c) **Presence of fringe and niche competitors:** In the travel insurance underwriting market, there are a number of small but significant players. Many of these (such as, for example, Vero), have substantial non-travel insurance operations and, therefore, the resources to expand readily from being merely on the fringe to being large national players. In the distribution market, there are a large number of firms with a small market share. Many of these firms are considered capable of expanding operations if given sufficient commercial incentive (such as, for example, a price rise by IAG NZ or MHTI).

23.2 IAG NZ is not aware of any action taken against a participant in the travel insurance market for a breach of sections 27, 29 or 30 of the Commerce Act 1986.

**24. Identify the various characteristics of the market that, post-acquisition, you consider would facilitate or impede the monitoring and enforcement of coordinated behaviour by market participants.**

24.1 IAG NZ submits that because co-ordinated market behaviour is extremely unlikely (see section 23 above), monitoring and enforcement is unnecessary. Even if that is not the case, characteristics that make it difficult for market participants to detect deviations from collusive behaviour, hence making deviations from any fixed price or pricing formula more likely, include:

- (a) low seller concentration in the relevant markets; and
- (b) a lack of transparency for pricing at the intermediary level (ie. through banks/corporate partners, as well as through brokers).

**25. Indicate whether the markets identified in paragraph 9 above show any evidence of price coordination, price matching or price following by market participants.**

- 25.1 IAG NZ is not aware of any price co-ordination in either market, nor of any factors present in either market, which might suggest any price co-ordination, price matching or price following by market participants.
- 25.2 At an industry level, players tend to be very reluctant to share information (although certain information, such as pricing, is now relatively easily obtained via telephone enquiry and internet).

**26. Please state the reasons why, in your opinion, the transaction will not increase the risk of coordinated behaviour in the relevant market(s).**

- 26.1 IAG NZ does not believe that the proposed acquisition would facilitate co-ordinated behaviour in any market. The features currently present in the market, which make co-ordination unlikely (set out at paragraph 23.1 above), will not change as a result of the acquisition. Rather, they will continue to contribute to a highly competitive market.

## PART IV: CONDITIONS OF ENTRY

**27. The following categories cover different types of market conditions that may affect the ability of new firms to enter the market:**

- **Frontier entry conditions.** For example, tariffs, import licensing, quarantine requirements.
- **Legislative/regulatory conditions.** For example, meat licensing, Resource Management Act requirements, health and safety standards.
- **Industrial/business.** For example, access to raw materials, critical inputs; economies of scale; access to technical knowledge requirements; capital requirements (and capital market's perception of the risk and return); sunk costs i.e. irrecoverable or exit costs (e.g. because of plant specificity); influence of branding; technical specifications.
- **Other.**

**Which, if any, of the entry conditions identified above do you consider could be likely to act as a "barrier" to the entry of new competitors, where they have the incentive to do so in response to a sustained effort by the combined entity to raise price or to lower service or product quality?**

27.1 IAG NZ does not consider that any significant barriers of entry exist in relation to either the underwriting market or the distribution market.

### *Underwriting market*

27.2 There are no significant legislative/regulatory barriers to entering the underwriting market. Companies must lodge a bond of \$500,000 with the Public Trustee as required by the Insurance Companies Deposits Act 1953. In addition, the companies must obtain and disclose a claims paying ability rating from an approved agency (either Standard and Poor's or A M Best) (see the Insurance Companies (Ratings and Inspections Act 1994)).<sup>7</sup> IAG NZ does not consider these regulatory requirements to be significant barriers in the context of the underwriting market. IAG NZ notes that, in any event, these regulatory requirements only apply to New Zealand registered companies, who, as discussed in paragraph 16.2, comprise only a portion of the underwriters that act as a competitive constraint on IAG NZ.

27.3 In particular, IAG NZ considers that there are no strategic barriers to entry in the underwriting market. A new underwriter would not, for example, need to have agreements in place with current distributors - they could, instead, easily distribute the insurance themselves.

27.4 If an underwriter entering the market did not wish to distribute the insurance directly, it could easily distribute through a distributor. As discussed in paragraph 41.2, distributors regularly tender their underwriting requirements out.

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<sup>7</sup> These requirements are the subject of the Insurance Ratings and Report Review ([www.med.govt.nz/busit/ins-sup/ratings-deposits/index.html](http://www.med.govt.nz/busit/ins-sup/ratings-deposits/index.html).) It was proposed that these requirements be amended. It is not, however, clear when (or even if) these proposals will take effect.

27.5 IAG NZ is aware that a decision to switch underwriters does entail a certain degree of switching cost. New brochures must be printed, and staff must be retrained. In IAG NZ's opinion, however, these costs are not significant, and are unlikely to be material in respect of a *ssnip* price rise.

27.6 IAG NZ considers that the recent entry of Hanover Group Limited into the (financial) insurance underwriting market demonstrates the lack of barriers to entry in this market.<sup>8</sup>

*Distribution market*

27.7 There are no frontier entry or legislative/regulatory barriers to entry in the distribution market for travel insurance.

27.8 As discussed at paragraph 17.9, contracts between intermediaries (such as MHTI) and travel agents are, in IAG NZ's experience, able to be terminated if [ ]. Such contracts do not, therefore, amount to a strategic barrier to entry.

27.9 An example of recent entry in the distribution market is credit card companies who, in many cases, offer 'free' insurance for Gold Card members (often subject to 50% of the travel being paid for by credit card).

**28. Please name any businesses - including overseas businesses - which do not currently supply the market but which you consider could supply the products/services concerned in the geographic markets identified by:**

- **investing in new production facilities to produce the product;**
- **overseas companies diverting production;**
- **domestic companies expanding, or changing utilisation of existing capacity.**

*Underwriting*

28.1 The most likely new entrants in the underwriting market are, in order:

- (a) an overseas based underwriter not currently operating in New Zealand;
- (b) a New Zealand based underwriter, which does not currently underwrite travel insurance (but does underwrite other insurance); or
- (c) a distributor vertically integrating to underwrite their own insurance.

28.2 IAG NZ considers that almost any overseas based underwriter (based in, for example, the United States or Europe) could move into the New Zealand market (either on a direct internet based distribution method, or through distribution partnerships).

28.3 New Zealand based underwriters not currently underwriting travel insurance who could move into the underwriting market, include, for example, AMI.

<sup>8</sup> See NBR, *Hanover Group sets up industry subsidiary* (23 April 2004) ([www.sharechat.co.nz/features/nbr/article.php/1e0384af](http://www.sharechat.co.nz/features/nbr/article.php/1e0384af)).

- 28.4 Distributors (particularly banks) could also vertically integrate and underwrite their travel insurance policies themselves. As discussed in paragraph 18.6, distributors would be able to leverage off their already existing distribution systems to enable more competitive entry.

*Distribution*

- 28.5 The most likely entrant into the distribution market would be either:
- (a) an underwriter (either from within New Zealand or overseas) who wishes to expand operations into the New Zealand travel insurance distribution market; or
  - (b) an airline company moving into the distribution of travel insurance.

**29. What conditions of entry do you consider would most influence the business decision to do so in each case?**

- 29.1 As discussed above, barriers to entry in both markets are low. The key factor in a decision to enter the underwriting market (and consequently the distribution market (see above at paragraph 28.5)), is likely to be either a strategic decision to expand operations by another insurance company (currently either operating in New Zealand or overseas) or entry in response to pricing at a non-competitive level.

**LIKELIHOOD, SUFFICIENCY AND TIMELINESS OF ENTRY**

**30. How long would you expect it to take for entry to occur, and for supply to increase in respect of each of the potential business entrants?**

- 30.1 IAG NZ estimates that, in relation to the travel insurance underwriting market, it would not take more than six to twelve months from the initial consideration of opportunities available in New Zealand to commencing operations.
- 30.2 IAG NZ considers a new distributor could move into the market within a very short period of time say, two to three months.

**31. Given the assessed entry conditions, and the costs that these might impose upon an entrant, is it likely that a potential entrant would consider entry profitable at pre-acquisition prices?**

- 31.1 The history of entry and expansion in the relevant markets illustrates that a potential entrant into any of these markets is likely to conclude that entry at pre-acquisition prices is profitable. Further, given the low barriers to entry, in the unlikely event that IAG NZ

(post-acquisition) attempted to raise prices in any of the relevant markets, it is almost certain that potential entrants would view market entry as possible.

**32. Would the threat of entry be at a level and spread of sales that it is likely to cause market participants to react in a significant manner?**

- 32.1 The travel insurance industry is highly competitive. Existing players, in both the underwriting market and the distribution market, are unlikely to be able to change their behaviour in response to entry by a new competitor.

**33. What conditions of entry do you consider would influence the business decision to enter the market by setting up from scratch, i.e. de novo entry?**

- 33.1 Because the barriers to entry, including for de novo entry, are considered to be low, none of the above would be likely to deter someone who was considering entering the travel insurance market.

**34. How long would you expect it to take for de novo entry to occur?**

*Underwriting*

- 34.1 The time that it would take a new participant to enter the market would depend on what their current business activities are.
- 34.2 A underwriter currently underwriting insurance in New Zealand (but not travel insurance) could, for example, enter the market in approximately six to twelve months (see paragraph 30.1). This lead time would be necessary for policy development and training.
- 34.3 An overseas based travel underwriter could enter the market within the same timeframe.

*Distribution*

- 34.4 IAG NZ considers that de novo entry in the distribution market could occur within two to three months.

**35. In your opinion, to what extent would the possibility of de novo entry constrain the merged entity?**

- 35.1 Given that entry is achievable within a relatively short period of time, the possibility of de novo entry would significantly constrain IAG NZ, in both the underwriting and distribution markets.



## PART V: OTHER POTENTIAL CONSTRAINTS

### CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF SUPPLIERS

**36. Who would be the suppliers of goods or services to the merged entity in each market identified in questions 11 and/or 14?**

**37. Who owns them?**

37.1 There are no suppliers to participants in the underwriting market who would act as a constraint on IAG NZ following the acquisition.

37.2 The suppliers to participants in the distribution market are the current underwriters.

**38. In your opinion, to what extent would the conduct of suppliers of goods or services to the merged entity constrain the merged entity in each affected market?**

*Underwriting*

38.1 N/A

*Distribution*

38.2 Underwriters impose a very large constraint on any ability distributors might otherwise have to price to a supra-normal level.

38.3 As discussed in paragraph 11.12, underwriters can sell directly to travel agents (Smart Travel, for example, is underwritten by QBE), and to end-customers.

38.4 IAG NZ considers that any ability distributors might otherwise have to raise prices is negated by the threat that customers (whether travel agents or end-customers) could purchase directly from underwriters, at a more competitive price.

38.5 IAG NZ notes that significant constraints from acquirers exist even in relation to sales between intermediaries. If, for example, MHTI was (post-acquisition) to raise its prices, travel agents may well cancel their contracts with MHTI. They could then either purchase from MHTI's competitors, such as Comprehensive Travel Insurance, or direct from other competing underwriters.

38.6 [ ]

## CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF ACQUIRERS

39. **Who would be the acquirers of goods or services supplied by the merged entity in each market identified in questions 11 and/or 14?**

40. **Who owns them?**

40.1 The acquirers of travel insurance in both the underwriting and distribution markets, are the distributors (such as banks and airlines), the brokers, other intermediaries (such as MHTI), and the end-customers.

41. **In your opinion, to what extent would the conduct of acquirers of goods or services to the merged entity constrain the merged entity in each affected market? How would this happen?**

41.1 IAG NZ considers that the acquirers of travel insurance from both functional levels of the market will provide a major constraint on any ability the underwriters or distributors might otherwise have to exercise market power.

### *Underwriting market*

41.2 In relation to acquirers of underwriting services, constraint is provided as follows:

(a) **Distributors:** The arrangements between insurance companies and distributors (such as airlines or banks) are often able to be terminated on relatively short notice, and as a result this aspect of the market is highly contestable. Distributors regularly evaluate their purchasing requirements and are prepared to switch underwriters, should a more competitive and attractive proposition be offered. Air New Zealand has, for example, recently issued an RFP for its underwriting requirements in relation to travel insurance. IAG NZ has encountered several significant examples of switching (albeit in relation to non-travel insurance) in recent years:

- (i) the ASB contract moved from CGU NZ to Norwich NZ in 1997;
- (ii) the Trustbank contract moved from CGU NZ to Lumley in 1997;
- (iii) the National Bank/Countrywide contract moved from CGU NZ to Tower in 1999.

Distributors effectively provide customers with a choice of insurer (by competing with IAG and other insurers for sales to end-customer) at the time when customers are poised to purchase. Distributors are also able to access insurance products that offer better cover to customers as they negotiate wider policy wordings for their customers - something that a single customer cannot achieve.

- (b) **Brokers:** Brokers similarly provide significant countervailing constraint, particularly because brokers are not tied to specific insurers. While brokers may have a preferred insurer, which they will approach in the first instance, they generally have no special loyalty to particular insurers and are prepared to "shop around" to obtain the best deal for their customers.
- (c) **End-customers:** see below, paragraph 41.4

*Distribution Market*

- 41.3 End customers provide significant constraint in the distribution market.
- 41.4 This is primarily due to the ability end-customers have to purchase travel insurance from alternative sources. As outlined in paragraph **Error! Reference source not found.**, the purchase of travel insurance from travel agents is only one way that customers can source travel insurance. Significant constraints exist from other methods of distribution, including direct sales, sales via corporate partners, or via insurance brokers. In addition, end-customers can source travel insurance from underwriters based overseas as described in paragraph 16.23 above.

**THIS NOTICE** is given by IAG New Zealand Limited ("**IAG NZ**").

I, Greg Main, am authorised to make this application on IAG NZ's behalf.

I hereby confirm that:

- (a) All information specified by the Commission has been supplied;
- (b) All information known to the applicant which is relevant to the consideration of this application has been supplied;
- (c) All information supplied is correct as at the date of this application.

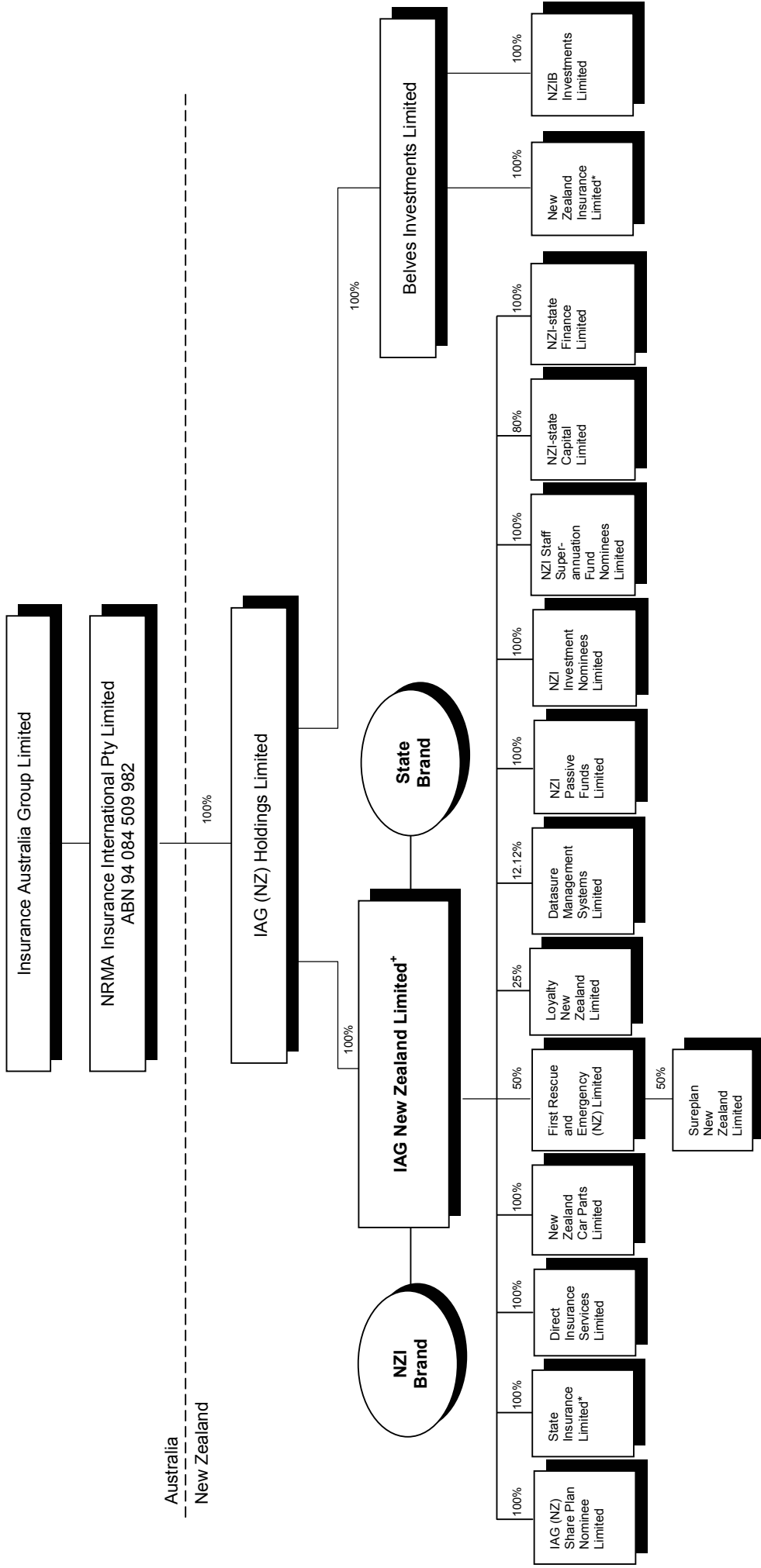
I undertake to advise the Commission immediately of any material change in circumstances to the application.

Dated 24 May 2004

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**Greg Main**  
**Head of Strategy and Business Development**  
**IAG New Zealand Limited**

**SCHEDULE A  
IAG Group Structure**



+ IAG New Zealand Limited is now the only insurer within the IAG NZ group. It trades under the State and NZI brands.  
 \* State Insurance Limited and New Zealand Insurance Limited are now shell companies and have been retained for name protection purposes only.

**SCHEDULE B**  
**Mike Henry Group Structure**

