

Submission

By

**Bus and Coach Association (Inc.) and the Rental Vehicle
Association (Inc.)**

To

Commerce Commission New Zealand

**APPLICATION FROM IAG (NZ) HOLDINGS LTD SEEKING
CLEARANCE TO ACQUIRE SHARES IN LUMLEY
GENERAL INSURANCE (NZ) LIMITED**

28 February 2014

**Bus and Coach Association
Rental Vehicle Association**
L4 Tourism & Travel House
79 Boulcott Street
P O Box 9336
WELLINGTON 6035
Telephone: 0-4-499 7334
Facsimile: 0-4-499 7353

INTRODUCTION

1. The Bus and Coach Association of New Zealand (**BCA**) is a voluntary industry organisation that represents all areas of the bus and coach sector. This sector includes: urban buses, school charter services, long distance coach services and charter operations, tourism, and other businesses associated with the industry such as vehicle, equipment, and service suppliers. The BCA is the only body representative of the interests of the bus and coach sector specifically. Our membership includes the majority of bus operators, ranging from the largest bus company in New Zealand with over 1000 buses, to many single vehicle operators.
2. The Rental Vehicle Association (New Zealand) Incorporated (**RVA**) is a voluntary membership organization representing the interests of New Zealand's Rental Vehicle industry, and is the only body representative of the interests of the Rental Vehicle sector specifically. The RVA's membership includes the majority of the rental vehicle fleet in New Zealand, and accounts for a fleet of just over 20,000 vehicles.
3. The BCA and RVA appreciate the opportunity to make a joint submission on the application from IAG (NZ) Holdings Limited (**IAG**), seeking clearance to acquire 100% of the shares in Lumley General Insurance (NZ) Limited (**Lumley**).
4. Our submission largely relates to the effects of the proposed acquisition on the national market for commercial vehicle insurance.

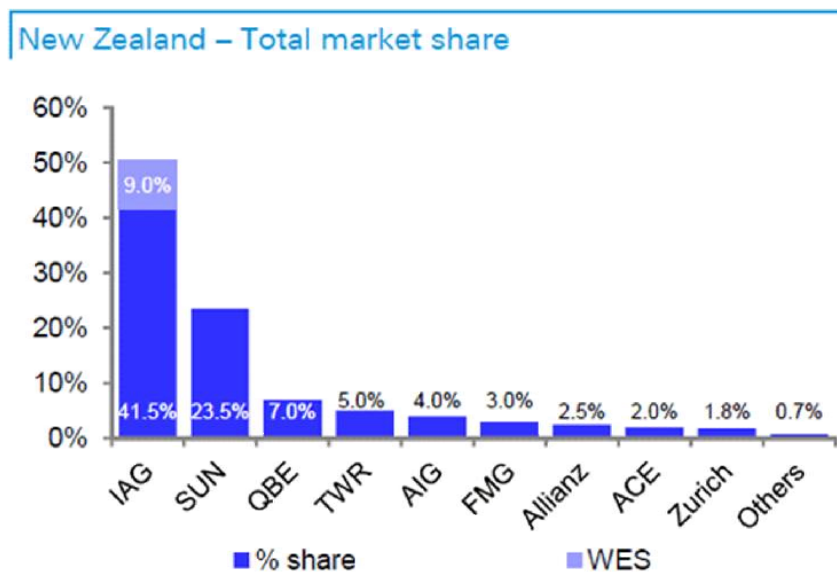
INCREASED PREMIUMS FOR THE COMMERCIAL VEHICLE INDUSTRY DUE TO SUBSTANTIAL LESSENING OF COMPETITION IN THE MARKET

5. As representatives of a large proportion of the commercial vehicle fleet, we are concerned that the proposed acquisition will lead to a substantial lessening of competition in the market, which will likely result in increased premiums in the national market for commercial vehicle insurance.

6. As IAG owns NZI, AMI and State Insurance, the proposed acquisition would increase its share of the insurance market to approximately 50.5% from 41.5%; while in the vehicle insurance market, IAG's share is predicted to increase from 60% to 66%.¹ We submit that such a large market share would substantially lessen competition in the insurance market and as a result increase premium levels for the insurance of commercial vehicles. This will affect our industry in an adverse way.

7. Statistics from the Insurance Council of New Zealand (ICNZ) have shown that there has been a healthy growth volume for insurers, with gross written premiums reaching approximately \$4.5 billion for the year to September 30 2012.² This is an increase of about \$1.2 billion from just under \$3.3 billion in 2008.

8. The following chart, taken from Deutsche Bank's research report demonstrates IAG's large market share in New Zealand.³



As demonstrated, IAG's total market share is substantial; 18% higher in comparison to its closest competitor, Suncorp Group, who owns Vero and 68% of AA Insurance. This is of significant concern to us.

¹ "Why the Commerce Commission Should Block IAG's Planned Takeover of Rival Lumley," Gareth Vaughan, 30 January 2014 [<https://www.interest.co.nz/opinion>]

² Insurance Council of New Zealand [<http://icnz.org.nz/statistics-data/general-insurance/>]

³ "Lumley Acquisition Would Give IAG 66% of NZ Home and Contents and Vehicle Insurance Market," Gareth Vaughan, 20 December 2013, [<http://www.interest.co.nz/business>]

BUYERS HAVE LIMITED POWER

9. The proposed acquisition will limit options for our industry as there are only a handful of underwriters that have specialist knowledge in insuring the commercial vehicle fleet. Setting aside IAG, the industry's options are now narrowed to Vero (member of Suncorp Group), FMG Insurance Limited, Zurich New Zealand, Allianz Australia Insurance Limited, QBE Insurance (International) Limited, AIG Insurance NZ and DUAL New Zealand (Lloyd's international cover holder).

10. These limited options are not conducive to competition in the market, and substantially lessens the choices available to our industry.

INCREASED POTENTIAL FOR COORDINATED BEHAVIOUR

11. We submit that the proposed acquisition will increase the potential for coordinated behavior due to lesser competition in the market. The proposed acquisition will enlarge IAG's market share by a further 9%, which is already a larger market share than IAG's third largest competitor after Suncorp Group: QBE, at 7%. We are concerned that this will lead to an increased potential for coordinated behavior in regulating market price.

BARRIER TO ENTRY – INSURANCE (PRUDENTIAL SUPERVISION) ACT 2010

12. We submit that with the implementation of the Insurance (Prudential Supervision) Act 2010, significant requirements have been imposed on companies in the business of providing insurance. This is likely to prevent new entrants to the industry, particularly smaller market participants who do not have the capacity to provide a large range of insurance products to justify the administrative and financial costs involved in ensuring compliance. This has the result of deterring a healthy level of competition in the market.

13. The requirements for licensing and ongoing supervisory requirements have an effect of reducing the levels of new entrants to the market as compliance requirements are significant. An applicant must hold a current financial strength rating given by an approved rating agency. The applicant must also demonstrate the ability to carry on its business or proposed business in a prudent manner. In addition, the applicant must comply with applicable solvency standards and must maintain a minimum amount of capital that is specified in an applicable solvency standard. Further requirements include demonstrating that the applicant complies with the fit and proper policy and that the applicant has a risk management program that is satisfactory.⁴
14. We submit that the further need to comply with prudential requirements act as a barrier to entry for new entrants, and will as a result, lessen competition in the market.

CONCLUSION

15. In light of the abovementioned factors; namely the substantial lessening of competition in the market through the proposed acquisition by a dominant player in the insurance market, the limiting of buying power for consumers in our industry, the increased potential for coordinated behavior and the barrier to entry through the implementation of the Insurance (Prudential Supervision) Act 2010,

Barry Kidd
Chief Executive Officer
04 496 4880
021 250 9324

⁴ Insurance (Prudential Supervision) Act 2010.