competition commission south africa

MEDIA RELEASE

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COMPETITION COMMISSION RECOMMENDS PROHIBITION OF A MERGER IN INSURANCE INDUSTRY

The Competition Commission (Commission) has recommended to the Competition Tribunal (Tribunal) a prohibition of a large merger involving firms that offer short-term and long-term insurance policies and insurance and non-insurance value-added products (VAPs). The Commission found that the proposed transaction is likely to substantially prevent or lessen competition in the markets for credit life and shortfall cover and that the transaction also raises public interest concerns.

The proposed transaction involves two steps. The first step entails the acquisition by Hollard Holdings (Pty) Ltd (Hollard) of Regent Insurance Company Limited (Regent Insurance) and Regent Life Assurance Company Limited (Regent Life Assurance) from Imperial Holdings Limited (Imperial). Hollard provides short-term and long-term insurance policies to a broad range of customers. Its offerings include motor insurance, transportation and property insurance and individual life policies. The Regent Group offers short-term and long-term insurance policies and insurance and non-insurance value-added products.

The second step of the proposed transaction entails the acquisition by MotoVantage Holdings (Pty) Ltd (MotoVantage) of SA Warranties (Pty) Ltd (SAW), Motor Compliance Solutions (Pty) Ltd (MCS), Paintech Maintenance (Pty) Ltd (Paintech), and Anvil Premium Finance (Pty) Ltd (Anvil) from Imperial. MotoVantage markets, distributes and administers insurance policies underwritten by licensed insurers. SAW, MSC and Paintech fall within the Regent Group.

The Commission found that the proposed transaction is likely to have a negative impact on competition in various markets where the merging parties compete. In this regard, the Commission found that the proposed transaction will result in increased levels of concentration in the affected markets which are characterised by high barriers to entry. In particular, the merging parties will hold the largest market share in the market for the provision of short-term motor insurance credit life cover and the market for short-fall cover if the merger is allowed.

The Commission also found that the merging parties are likely to have the ability to increase prices (i.e. premiums) on new policies that will be underwritten post-merger. This is likely to harm consumer welfare.

In addition, the Commission found that the post-merger control structure of the merged entity may present a platform for the exchange of competitively sensitive non-public information. Value-added products currently underwritten by Hollard and Regent will be administered under the common ownership of Hollard Holdings and FirstRand, the ultimate controlling firms of MotoVantage. This will enable firms controlled by Hollard and FirstRand, including Wesbank, to have access to each other's competitively sensitive information, including information of external firms that compete with Wesbank in the market for vehicle finance and the finance of VAPs. It is thus likely that there could be incentives for information exchange by virtue of the platform created by the MotoVantage and the integration of the target firms.

With regards to public interest concerns, the Commission found that the proposed merger is likely to lead to substantial job losses within Hollard, Regent Insurance and Regent Life Assurance.

The Commission considered potential remedies that would address the harm arising from the proposed transaction and did not find workable remedies. It is for this reason that the Commission has recommended to the Tribunal that the proposed merger be prohibited.

“The insurance industry offers products that are important to South African consumers. The Commission is concerned that the proposed transaction is likely to substantially lessen competition in short-term insurance for credit life and short fall cover thereby leading to high prices to the detriment of consumers. The Commission is also concerned that the complex structure of the transaction may lead to the exchange of competitively sensitive information between firms controlled by the merging parties and their competitors. The proposed transaction will also lead to substantial job losses”, said acting Deputy Commissioner, Hardin Ratshisusu.

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