



Jersey Competition Regulatory Authority (“JCRA”)

PUBLIC VERSION

Decision M713/11

Proposed Acquisition

of

Reed Insurance Associates Limited

by

M.J. Touzel(Insurance Brokers) Limited

The Notified Transaction

1. On 19 May 2011, the JCRA received an application (the “**Application**”) for approval under Articles 20 and 21 of the Competition (Jersey) Law 2005 (the “**Law**”) concerning the proposed acquisition of Reed Insurance Associates Limited (“**Reeds**”) by M.J. Touzel (Insurance Brokers) Limited, trading as Islands Insurance (“**Islands**”).
2. The JCRA published a notice of its receipt of the Application in the Jersey Gazette and on its website on 26 May 2011, inviting comments on the acquisition by 9 June 2011. No comments were received. In addition to a public consultation, the JCRA conducted its own market enquiries concerning the acquisition.
3. The Jersey Financial Services Commission (“**JFSC**”) has been notified of the proposed acquisition and consent is required in connection with the transaction from the Population Office in relation to the change of control issues pursuant to the Regulation of Undertakings and Development (Jersey) Law 1973. No other regulatory bodies have been notified.

The Parties

(a) Islands Insurance

4. Islands is an intermediary regulated by the JFSC to transact general insurance mediation and investment business in Jersey. It is a private company and the financial statements and turnover details are not in the public domain. For the year ended 31 December 2010, Islands total income was [REDACTED], with gross general insurance premium debited with insurers of [REDACTED].
5. Islands ultimate parent entity is the National Farmers Union Mutual Insurance Society Limited (“**NFU Mutual**”) incorporated in England.

(b) Reed Insurance Associates

6. Reeds is a general insurance mediation business in Jersey regulated by the JFSC to transact general insurance mediation business in Jersey. The total income of the business was [REDACTED] for the year ended 30 April 2010. Reeds is not part of a larger corporate group.

The Requirement for JCRA Approval

7. According to Article 20(1) of the Law, a person must not execute certain mergers or acquisitions except with and in accordance with the approval of the JCRA. The type of mergers and acquisitions subject to this requirement is set out in the Competition (Mergers and Acquisitions) (Jersey) Order 2010 (the “**Order**”).
8. The applicants are seeking JCRA approval under Article 1 (1) (a) and (b) of the Competition (Mergers and Acquisitions) (Jersey) Order 2005 on the basis that the proposed acquisition will create an undertaking with a 25% or more share, or enhance an existing 25% or more share, in certain sub-sections of the supply of general insurance in Jersey.

Assessment

9. Under Article 22(4) of the Law, the JCRA must determine if the acquisition would substantially lessen competition in Jersey or any part thereof, pursuant to the procedures set forth in the JCRA Merger Guideline.¹

Defining the affected relevant market(s)

- (i) The Relevant Product Market(s)
10. *“A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products’ characteristics, their prices and their intended use”*²

¹ JCRA Guideline 6, *Mergers and Acquisitions*.

11. The JCRA's analysis notes the established broad distinction between life insurance, general/non-life insurance and reinsurance, in considerations by other competition authorities of mergers and acquisitions in the insurance sector³. A key factor taken into consideration informing these assessments is the lack of substitutability for the consumer between these different types of insured risk.
12. Sub-divisions based on insurance cover for different kinds of risks within these three broader product categories may also be appropriate. The JCRA has sought information and views from competitors and other stakeholders of Islands and Reeds on the potential implications for competition if the transaction were to proceed. It is not apparent from those responses that further distinctions in product market definition, than those set out in the application, are required for the JCRA to assess this transaction.
13. Islands and Reeds provide the same category of products in the general insurance sector and according to their joint application there is an overlap in all of the insurance categories detailed below. The applicants submit these are distinct and the products in each category are not substitutable. These are:
 - A) Motor vehicle insurance
 - B) Home and Personal property insurance
 - C) Travel insurance
 - D) Marine insurance
 - E) Commercial/Business insurance
 - F) Private Medical insurance

² *European Commission Notice on the definition of the relevant product market for the purposes of Community competition law*, O.J. C 372 at 2 (09/12/97).

³ Case No IV/M. 759-Sun Alliance/Royal Insurance, Case No COMP/M.6053-CVC/Apollo/Brit Insurance, Case No COMP/M.4701-Generali/PPF Insurance Business, Case No COMP/M.4059-Swiss RE/GE Insurance Solutions, Case No COMP/M.1816-Churchill Insurance Group/NIG Holdings

Motor Vehicle Insurance

14. The Application states that the core insurance product covers the liability arising from using the insured vehicle, both in Great Britain and Europe, damage to the vehicle and medical expenses arising from accidents. Legal expenses cover is often included automatically and motor breakdown cover may also be included.
15. The core motor insurance cover issued to customers has to comply with the minimum requirement set in statute by the Motor Traffic (Third Party Insurance) (Jersey) Law 1948. Such insurance can only be supplied by an insurance company granted permission to trade by the JFSC. Some of those companies listed on the JFSC's website only supply insurance products via intermediaries, others supply direct to the public and via intermediaries, while others supply only direct to the public. Motor vehicle insurance is typically an annual policy with a new contract coming into force from each renewal date.

Home and Personal Property Insurance

16. The application sets out that this form of risk cover generally includes damage to personal property arising from a range of insured causes under three standard sections, namely building, contents and personal possessions. Extension of the policy is possible to cover other assets while elements of the cover, such as level of excess, may be varied. These are usually annual policies.

Travel Insurance

17. According to the Application, travel insurance typically has core sections, covering medical expenses, cancellations/curtailment & travel disruptions, money/baggage & personal liability arising from travel. Extensions for cover of additional risks, hazardous sports etcetera may also be included.
18. Particular types of current or credit accounts include core annual travel insurance as a feature of the account, provided by several major clearing banks and card issuing companies. Whether such services should properly form part of the same

product market would require more detailed information than is available to the JCRA at present. Given this, the JCRA is of the view this type of insurance product is more appropriately taken into account within the competitive assessment of the merger analysis to the extent that information might be available.

19. Motor vehicle breakdown insurance may be offered additionally, or included within a motor insurance policy. These are normally annual policies.

Marine Insurance

20. The Application sets out that the core sections of marine policies cover damage to the hull, machinery and contents of the vessel along with public liability of the policyholder in the event of a collision or damage or injury to a third party.
21. These are typically annual policies with a new contract coming into force from each renewal date.

Commercial/Business Insurance

22. The commercial insurance policy is described as offering cover to organisations ranging from sole traders to the voluntary sector, partnerships and companies if major assets suffer loss, or damage, by one of a list of insured causes. Business protection against liabilities or other more tailored cover is also available under this form of cover.
23. Charities, voluntary organisations, residents' associations, sports clubs and other organisations are examples of the type of organisations that would also arrange such insurance to protect assets against liability. While institutions such as the States of Jersey will arrange similar cover for public bodies, given the nature of such a customer, policies held in what may generally be seen as the private sector, appears the more relevant market to consider for the purposes of this transaction.
24. Cover is typically for a year with a new contract coming into force from each renewal date, although three to five years of cover is offered by some insurers.

Private Medical Insurance

25. Private medical insurance typically covers the costs of in-patient and day-patient treatment, providing choice to the customer to enable treatment to be received privately at a time convenient to them, rather than accessing the public health service, which may involve a waiting period.
 26. These are typically annual policies coming into effect at each renewal date.
- (ii) The Relevant Geographic Market
27. The parties maintain that in each of the above markets, the product supplied to a Jersey customer provides the same core cover as that supplied to a United Kingdom (“UK”) or Guernsey based customer with typically the same policy documents issued to both sets of customers. The view of the parties is therefore that the geographic market is the Channel Islands and the United Kingdom. The parties also state that while Jersey based suppliers tend to focus only on the local market, UK based suppliers often regard the Channel Islands as simply another part of the UK. Some have, however, sought registration with the JFSC to allow active promotion to Jersey residents despite the company having no physical presence in the Island.
 28. A review by the JCRA of merger assessments within the insurance sector made in other jurisdictions, found that non-life insurance is seen to take place primarily at a national level due to a variety of factors such as differences in the nature of distribution channels and fiscal constraints. Differences in the laws and legal systems of jurisdictions as well as consumer protection mechanisms are also relevant factors.
 29. While there are obvious links with the UK, a separate legal system exists in Jersey and the jurisdiction sets its own laws through its own elected assembly. Generally the legal jurisdiction for insurance policies is the jurisdiction in which the insured party resides, though this can vary. Also, the JCRA understands from the JFSC that while insurers based outside of Jersey may provide insurance services to

Jersey customers, the ability to directly market to Jersey customers is only available to those insurers licensed by the JFSC. Those insurers not registered with the JFSC may therefore only offer business on an unsolicited basis. It is also the case that Islands and Reeds top five competitors, as listed by the applicants, are all based in Jersey or have offices in the jurisdiction.

30. Given the information above, the JCRA has taken a conservative view of the relevant geographic market as being limited to the Bailiwick of Jersey

Effect on Competition

31. The JCRA may refuse to approve an acquisition if it is satisfied that the merger or acquisition would substantially lessen competition in Jersey or any part of Jersey.

Motor Vehicle Insurance

32. The number of vehicles registered in Jersey offers an initial basis for assessing the market shares of the applicants. The figure for 2010 is given as 115,198⁴. Reed's market share has remained below [REDACTED] % over the three year period to 2010, while Islands share has consistently been less than [REDACTED] %.
33. Change in market share of this order and at this level would not appear to suggest competitive concerns and no competitors have raised concerns about the proposed transaction. A view from a competitor is that motor vehicle premiums are highly competitive and added that premiums are currently at unsustainable levels. This competitive environment is driven by the local broker market, according to competitors in this market, rather than competition from providers based outside Jersey. The view is that the UK "aggregator" model and other "direct" underwriters do not seem to have increased in influence in Jersey, which may be due to service issues and specifically the local legal requirement for windscreen insurance discs.

⁴ Statistics Office. Jersey in Figures 2010. April 2011.

34. A competitor to Islands and Reeds argues that while UK premiums have increased by around 40% in the last year or so, driven by increased claims costs, the existing level of local competition has prevented such increases reaching Jersey.
35. Given the above evidence it appears unlikely that the transaction would raise competition concerns in the motor vehicle insurance market.
36. There were initial concerns that this transaction might raise potential competition issues in a sub-category of motor vehicle insurance, namely motorcycle insurance, where Islands is considered particularly strong. Statistics on the total number of motorcycles or other information, that might provide an initial proxy for the total size of the market in the provision of motorcycle insurance cover in Jersey, is not available. However, the number of policies held by Reeds in this area is negligible. The JCRA has also acquired information from at least one of Islands' competitors in this category of insurance. Given the number of policies held by that competitor, it is apparent Islands is not the only substantive provider in the market.

Home and Personal Property Insurance

37. In estimating the total size of the 'home and personal property insurance' market in Jersey, the number of private households offers a means of approximation. The number of private households recorded in the 2001 Census was 35,562, updated in 2008 to 38,300 households.
38. However, separate policies might be taken out to cover different elements of risk for the same household, for example in the rented sector where the relevant parties are different. 'Jersey in Figures, 2010'⁵ states that 35% of households are in the rented sector. On balance, it would appear that the number of households provides a proxy for total market size in Jersey but is likely to offer a fairly conservative estimate for the number of policies taken out in any given year.

⁵ Ibid.

39. Reeds supplies [REDACTED] policies under this category giving an estimated market share of [REDACTED]% and Islands supplies [REDACTED] policies (REDACTED) %. A combined share would therefore amount to [REDACTED]%. Given there are a minimum of six other competitors registered in Jersey, providing cover against risk in this category, the transaction would not appear to raise any obvious concerns and no further assessment is made here.

Marine Insurance

40. The total number of boats registered in Jersey, including motor, sail, jet skis and tenders over 8 foot is [REDACTED]. The number of marine insurance policies supplied by Reeds is [REDACTED], and by Islands [REDACTED], giving an increase in market share from less than [REDACTED]9% to [REDACTED]%. An increase in market share of this order would not appear to present risks to competition in Jersey and no further assessment is therefore made here.

Travel Insurance

41. The number of separate travel insurance and motor breakdown policies supplied by Reeds is [REDACTED], with Islands supplying [REDACTED]. The applicants have provided their best estimate of the total market size as 15,000 policies based on UK statistics on number of current account holders with travel insurance.
42. The nature of this service and the range of distribution channels make it difficult to estimate the potential size of the market. In terms of scale, relative to other insurance products indications are that the size of the market in revenue terms is small. Information on household expenditure published in Jersey's Household Expenditure survey shows this as one of the lowest expenditure items per household. Also, the existence of such a wide range of distribution channels for this cover is an indicator of the extent to which the service at issue, namely the provision of an intermediary service to provide such risk cover, has many substitutes.

43. On this basis, there is no evidence to suggest concerns arise in relation to this transaction in the provision of travel insurance.

Commercial/Business Insurance

44. The number of private businesses in Jersey as at 31st December 2010 was 6,370⁶. Private businesses generally take out several insurance policies to cover against several types of risk such as damage to assets as well as liabilities and indemnity for senior officers etcetera. It is also the case that the same insurer will not necessarily supply all the policies taken out by a private business. The total size of the market is therefore likely to be larger than the number of private businesses in Jersey, although the extent of the market has not been quantified. A conservative estimate of the size of the market in terms of policies based on the number of private businesses would give Islands a market share of [REDACTED]% and Reeds a share of [REDACTED]%. A [REDACTED]% market share is generally considered high and a further assessment of the competitive environment is therefore made below.
45. The applicants state that at least 8 other locally based businesses are actively engaged in supplying commercial/business cover in Jersey. The JCRA's analysis shows that all of these eight businesses are based in Jersey. In the vast majority of cases these firms have been in existence for well over a decade. Outside of this group other competitors are also seen to offer cover. Given this, a number of firms exist to constrain any significant and sustained price increases to customers were they to occur. The conservative nature of the market definition is also a factor that taken into consideration in forming this view.
46. Given the above, despite Islands market share initially appearing high, the prevalence of competitors in this sector provides comfort that the merger will not be to the detriment of customers in this market and no further assessment is therefore considered necessary for the purposes of assessing this transaction.

⁶ Ibid.

Private Medical Insurance

47. The applicants believe that most employers in the financial services and legal activities sector offer employees private medical insurance free or at a discounted rate as part of their benefits package. There is a paucity of information in this area but the applicants estimate that there at least 10,000 policies under such schemes in Jersey. The States of Jersey also offer discounted rate schemes to employees.
48. Reeds has [REDACTED] clients covered by private medical insurance arranged by the company and Islands has [REDACTED]. The scale of these figures are such that it would appear that no substantive concerns are likely to arise in this market, particularly given the applicants are broker/intermediaries in supplying such cover. Larger medical insurers such as BUPA and Aviva are likely to occupy strong positions in the provision of medical insurance in Jersey in any event and any perceived strengthening of the position of Islands post transaction is unlikely to be material.

Conclusion

49. On the basis of the evidence provided and the above assessment, there is no basis for the JCRA to either prevent or subject the transaction to undertakings. The JCRA therefore approves the acquisition.

28 June 2011

By Order of the JCRA Board