Case M1451J

Proposed acquisition of Heritage Insurance Brokers Limited by Artex Risk Solutions Limited

Decision

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Summary

1. Heritage Insurance Brokers (CI) Ltd (**HIBCI**), a subsidiary of Artex Risk Solutions (Holdings) Limited (**Artex**), a subsidiary of Arthur J Gallagher & Co. (**Gallagher**), proposes to acquire the business of Heritage Insurance Brokers Ltd (**HIBL**), a subsidiary of Avantis Limited (**Avantis**).

2. The transaction has been notified to the Jersey Competition Regulatory Authority (**JCRA**) for approval pursuant to Article 21 of the Competition (Jersey) Law 2005 (the **2005 Law**).

3. The JCRA has determined that the proposed acquisition will not lead to a substantial lessening of competition in any relevant market and hereby approves the notified transaction.

The Notified Transaction

4. On 14 February 2019, the Channel Islands Competition and Regulatory Authorities[1] (**CICRA**) received a joint application from Artex and HIBL for the proposed acquisition of the business of HIBL.

5. CICRA registered the application on its website with a deadline for comments of 28 February 2019. No submissions were received.

The Parties

6. Arthur J Gallagher & Co. is incorporated in Delaware (No 780509) and is the ultimate parent of Artex Risk Solutions (Holdings) Limited, which is the parent company of Heritage Insurance Brokers CI Limited. The Gallagher Group had a turnover of USD3.8bn in 2017. The Gallagher Group also owns Rossborough, a general insurance broker in Jersey, which deals across all classes of business with primarily retail but also commercial clients.

7. HIBL is an insurance broker in Guernsey, receiving business from sources in Guernsey and wider markets including Jersey.

Jersey: Requirement for JCRA Approval

8. Under Article 2(1)(b) of the 2005 Law, a merger[2] occurs where a person who controls an undertaking acquires direct or indirect control of the whole or part of another undertaking. On completion of the notified transaction, HIBCI will acquire the business of HIBL. The notified transaction therefore constitutes a merger as defined by the 2005 Law.

9. According to Article 20(1) of the 2005 Law, a person must not execute certain mergers or acquisitions except with and in accordance with the approval of the JCRA. Article 4 of the Competition (Mergers and Acquisitions) (Jersey) Order 2010 (the **Order**) provides that if one or

[1] The JCRA and GCRA co-ordinate their activities with respect to competition law enforcement in the Channel Islands. For the purposes of this document, the JCRA and GCRA are together referred to as CICRA, and all references to CICRA should therefore be read as references to each of the JCRA and GCRA unless the context otherwise requires.

[2] For brevity, mergers and acquisitions are referred to as 'mergers' in this document.

more of the parties to the proposed merger has an existing share of 40% or more of the supply or purchase of goods or services of any description supplied to or purchased from persons in Jersey, then the merger must be notified to the JCRA for approval under Article 20(1) of the 2005 Law.

10. According to information provided by the parties to the transaction, Rossborough, another subsidiary of Gallagher, the ultimate parent company of Artex, has more than a 40% share of certain parts of the insurance market in Jersey. The notified transaction therefore requires the approval of the JCRA prior to its execution.

Market Definition

11. Under Article 22(4) of the 2005 Law, the JCRA must determine if the merger would substantially lessen competition in Jersey or in any part of Jersey. To this end, CICRA will identify the markets which are likely to be affected by the merger and then assess whether competition in these markets will be substantially lessened[3].

Views of the Parties

12. The parties consider the relevant market to be the insurance mediation market in Jersey. The parties also refer to a previous JCRA decision involving Gallagher (M1008JG) in which they proposed a market of 'general insurance distribution', however in this case, the overlap is the insurance intermediation market in Jersey.

CICRA Consideration

13. The relevant product market is defined primarily by reference to the likely response of consumers and competitors[4]. It will comprise products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the product's characteristics, prices and intended use. An undertaking cannot have a significant impact on the prevailing conditions of a market if customers can easily switch to other service providers.

14. As with the previous CICRA decision (M1008JG), in this case the market definition can be left open since as, for the reasons set out below, the transaction will not give rise to a substantial lessening of competition in Jersey on any reasonable basis.

Effect on Competition

Horizontal effects

15. The parties estimate that the total value of the insurance mediation segment in Jersey to be c.£21.4M. HIBL generates £✂ income from this market (representing less than 0.5%) and Rossborough estimate their share to be approximately 20-30%. The incremental increase in Rossborough's share of this segment that will be brought about by the transaction, albeit on a highly estimated basis in terms of the total value of that market segment, is very low.

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[3] In many cases, a market may already have been investigated and defined by CICRA or another competition authority. CICRA may take note of market definitions applied by other competition authorities, although these are not precedents. Competition conditions may change over time, changing the market definition. Market definition will always depend on the prevailing facts.

[4] CICRA Guideline 7 – Market Definition

16. The Jersey Financial Services Commission (**JFSC**) maintains and publishes a register of entities registered to undertake general insurance mediation business in Jersey pursuant to the Financial Services (Jersey) Law 1998. As at January 2017, there were 118 such entities. The parties together hold 4 of these licences (3.4%)[5].

17. A horizontal merger may impede effective competition in a market by removing competitive constraints on one or more firms, which consequently would have increased market power without resorting to coordinated behaviour (non-coordinated effects). This is more likely in circumstances where, for example, the merging firms have large market shares or consumers' ability to switch supplier is limited.

18. In this case, the incremental increase in market share held by Gallagher is very low and there are a large number of remaining license holders in Jersey following this transaction. The likelihood of anti-competitive horizontal effects arising as a result of this transaction is therefore very low.

Decision

19. Based on the preceding analysis the JCRA concludes that the acquisition will not substantially lessen competition in Jersey or any part of Jersey.

20. The merger is therefore approved under Article 22(1) of the 2005 Law.

12 March 2019 **By Order of the Board of the JCRA**

[5] On 15 February 2019, the JCRA approved the acquisition of Stackhouse Poland by Gallagher. Once both transactions complete, this will increase the number of licenses held by Gallagher to 5 (4.2%).