

YOUR REF:

OUR REF: BJT:5262805

WRITER'S TEL: (02) 9334 8617

WRITER'S NAME: Brian Thomas

**ABBOTT
TOUT**
SOLICITORS

FILE No:
DOC:

9 January 2001

Mr John O'Neill
Australian Competition & Consumer Commission
PO Box 1199
DICKSON ACT 2602

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MLC CENTRE
19-29 MARTIN PLACE
SYDNEY NSW 2000
DX 129 SYDNEY
TEL: (02) 9334 8555
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Dear Sir

NRMA INSURANCE GROUP: HEALTH INSURANCE NOTIFICATIONS

We act for NRMA Insurance Limited, SGIO Insurance Limited and SGIC General Insurance Limited.

Enclosed are the following:

- Exclusive Dealing Notification from NRMA Insurance Limited;
- Exclusive Dealing Notification from SGIO Insurance Limited;
- Exclusive Dealing Notification from SGIC General Insurance Limited;
- submission accompanying Exclusive Dealing Notification (in duplicate); and
- a cheque for \$1,400 (being the lodgement fees).

The Exclusive Dealing Notifications and the supporting submission are self explanatory. If you have any enquiries, please do not hesitate to contact the writer on the above telephone number.

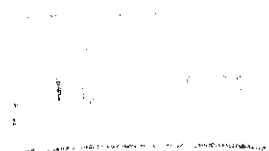
Yours faithfully

ABBOTT TOUT

Per



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EXCLUSIVE DEALING

NOTIFICATION

TO THE AUSTRALIAN COMPETITION & CONSUMER COMMISSION:

Notice is hereby given, in accordance with subsection 93(1) of the *Trade Practices Act 1974*, of particulars of conduct or of proposed conduct of a kind referred to in subsection 47(2), (3), (4), (5), (6) or (7) or paragraph 47(8)(a), (b) or (c) or (9)(a), (b), (c) or (d) of that Act in which the person giving notice engages or proposes to engage.

(PLEASE READ DIRECTIONS AND NOTICE ON BACK OF FORM)

1. (a) **Name of person giving notice** NRMA Insurance Limited (ACN 000 016 722) ("NRMA").
(see Direction 2 on the back of this form)
- (b) **Short description of business carried on by that person** General insurance services including comprehensive motor vehicle and motor cycle insurance, third party property damage insurance for motor vehicles and motor cycles, on-site caravan insurance, touring caravan or trailer insurance, compulsory third party insurance, fleet insurance, transport accident insurance, home buildings insurance, home contents insurance, personal effects insurance, strata titles insurance, boat insurance and Australian and overseas travel insurance.
- (c) **Address in Australia for service of documents on that person** 388 George Street, Sydney NSW 2000.

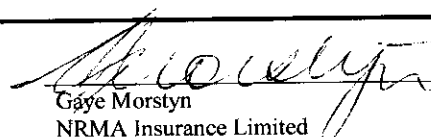
2. (a) **Description of the goods or services in relation to the supply or acquisition of which this notice relates**
General insurance services as described above.
- (b) **Description of the conduct or proposed conduct** Either:
1. NRMA will give or allow a discount, allowance, rebate or credit ("discount") in relation to the supply of general insurance and ancillary services to customers of NRMA on condition that the customer will acquire or has acquired health insurance services directly or indirectly from NRMA Health Pty Limited (ACN 075 799 236) ("NRMA Health"); or
 2. NRMA may refuse to give or allow a discount, in relation to the supply of general insurance and ancillary services to customers of NRMA for the reason that the customer has not acquired or has not agreed to acquire health insurance services from NRMA Health.

(see Direction 4 on the back of this form)

3. (a) **Class or classes of persons to which the conduct relates** All persons who obtain or may obtain general insurance and ancillary services from NRMA.
- (b) **Number of those persons -**
- (i) **At present time** 3,297,528 policies.
 - (ii) **Estimated within the next year** 3,142,779 policies.
- (c) **Where number of persons stated in item 3(b)(i) is less than 50, their names and addresses**
Not Applicable
Note that a person may hold more than one policy.

4. **Name and address of person authorised by the person giving this notice to provide additional information in relation to this notice** Adrian David Batterby, Corporate Counsel of 388 George Street, Sydney NSW 2000

Dated 15.12.2000
Signed on behalf of the person giving this notice


Gaye Morstyn
NRMA Insurance Limited
Company Secretary

DIRECTIONS

1. If there is insufficient space on this form to furnish the required information, the information is to be shown on separate sheets, numbered consecutively and signed by or on behalf of the person giving the notice.
2. If the notice is given by or on behalf of a corporation, the name of the corporation is to be inserted in item 1(a), not the name of the person signing the notice, and the notice is to be signed by a person authorised by the corporation to do so.
3. In item 1(b), describe that part of the business of the person giving the notice in the course of which the conduct is engaged in.
4. If particulars of a condition or of a reason of the type referred to in subsection 47(2), (3), (4), (5), (6), (7), (8) or (9) of the *Trade Practices Act 1974* have been reduced in whole or in part to writing, a copy of the writing is to be provided with the notice.
5. In item 3(a), describe the nature of the business carried on by the persons referred to in that item.
6. In item 3(b)(ii), state an estimate of the highest number of persons with whom the person giving the notice is likely to deal in the course of engaging in the conduct at any time during the next year.

NOTICE

If this notification is in respect of conduct of a kind referred to in subsection 47(6) or (7), or paragraph 47(8)(c) or (9)(d), of the *Trade Practices Act 1974* ("the Act"), it comes into force at the end of the period prescribed for the purposes of subsection 93(7A) of the Act ("the prescribed period") unless the Commission gives a notice under subsection 93A(2) of the Act within the prescribed period, or this notification is withdraw.

The prescribed period is 14 days, starting on the day when this notification is given.

If the Commission gives a notice under subsection 93A(2) of the Act within the prescribed period, this notification will not come into force unless the Commission, after completing the procedures in section 93A of the Act, decides not to give a notice under subsection 93(3A) of the Act. The notification comes into force when that decision is made.

If this notification is in respect of conduct of a kind referred to in subsection 47(2), (3), (4) or (5), or paragraph 47(8)(a) or (b) or (9)(a), (b) or (c), of the Act, it comes into force when it is given.

SUBMISSION ACCOMPANYING EXCLUSIVE DEALING NOTIFICATION BY NRMA INSURANCE LIMITED SGIC INSURANCE LIMITED AND SGIO INSURANCE LIMITED

1. Scope of submission

1.1 This submission accompanies exclusive dealing notifications by each of NRMA Insurance Limited (ACN 000 016 722) ("NRMA Insurance"), SGIC General Insurance Limited (ACN 069 065 158) ("SGIC") and SGIO Insurance Limited (ACN 058 277 866) ("SGIO") (collectively, with their subsidiaries, "NRMA Insurance group"). It does not form part of the notification and is intended to assist the Australian Competition and Consumer Commission ("Commission") in its consideration of the notifications. If additional information is thought by the Commission to be necessary or of assistance, NRMA Insurance group wishes to be given an opportunity to provide the additional information.

2. Background

- 2.1 NRMA Insurance is a general insurance company operating mainly in motor vehicle and household insurance. Toward the end of 1998, SGIC and SGIO respectively became subsidiaries of NRMA Insurance. NRMA Insurance group's activities grew from NRMA Limited (ACN 000 010 506) ("NRMA"), a motoring club formed in 1920.
- 2.2 Over time, NRMA group's activities have extended beyond those of a motoring club alone. Although each additional activity has had a close connection with NRMA group's activities immediately before the change, there are now many activities not closely associated with the motoring club. In July 2000, NRMA Insurance became a wholly owned subsidiary of NRMA Insurance Group Limited (ACN 090 739 923), and in August 2000, that company was listed and commenced trading on the Australian Stock Exchange Limited. Now, NRMA has a significant shareholding in, but does not control, NRMA Insurance group.
- 2.3 NRMA Insurance group's activities are spread among many subsidiaries for a number of reasons. These reasons include:
- some activities have commercial risks which are quarantined in limited liability entities to prevent a catastrophe in one activity destroying the entire NRMA Insurance group;
 - some statutory provisions and licensing requirements prescribe separate incorporation so that other activities are not mixed with regulated activities (eg NRMA Health Pty Limited's health insurance business, NRMA Insurance's general insurance business and NRMA Life Limited's life insurance business); and
 - some activities involve a requirement for corporate securities to be issued in respect of limited activities (eg NRMA Finance Limited's debenture issues).
- 2.4 Accordingly, NRMA Insurance group's diverse activities are spread among diverse subsidiaries.

3. Details of NRMA Insurance group's discount scheme

- 3.1 NRMA Insurance group proposes to reward those customers who acquire a range of goods and services across a range of activities from NRMA Insurance group members, including health insurance services from NRMA Health Pty Limited (ACN 075 799 236) ("NRMA Health"). NRMA Health supplies health insurance services in NSW under its own name, in SA under the trading name SGIC Health and in WA under the trading name SGIO Health. The reward will be in the form of discounts, allowances, rebates or credits ("**discounts**") when a customer obtains more than 1 type or description of goods or services from NRMA Insurance group members ("**Discount Scheme**").
- 3.2 The Discount Scheme will not be a universal scheme. It cannot be described as "obtain 2 services get a 5% discount; obtain 3 services get a 10% discount" style scheme. NRMA Insurance group will identify goods or services to be incorporated into the Discount Scheme and apply a discount to those goods or services.
- 3.3 For example, the first scheme will involve NRMA Insurance group customers who hold multiple insurance policies (eg in NRMA Insurance's case, comprehensive car insurance, compulsory third party insurance, home contents or building insurance and membership). Their next comprehensive car insurance renewal will include a \$50 rebate voucher in respect of the premium for that policy. The \$50 rebate voucher will be able to be used if the customer has or takes out health insurance with an NRMA Health. The amount of the rebate may change or it may be discontinued from time to time.

4. Other customer loyalty schemes

It is well recognised that marketing products to existing customers is more efficient than winning new customers. Customer loyalty schemes are very common in the marketplace and reward customers for additional custom.

5. Potential third line forcing

- 5.1 The discount will be given by NRMA Insurance group because the customer has acquired or will acquire health insurance services from an NRMA Insurance group member. It is arguable that sections 47(6) or (7) of the *Trade Practices Act* might apply to the discount. Unlike many other provisions of the *Trade Practices Act*, sections 47(6) and (7) do not allow NRMA Insurance group to be regarded as a single entity for third line forcing purposes.
- 5.2 There are a number of technical arguments to the effect that the Discount Scheme does not constitute third line forcing. However, those arguments rely on NRMA Insurance group establishing that a very precise course of conduct is followed. NRMA Insurance group is concerned that human frailties may mean that technical third line forcing occurs or that NRMA Insurance group may have difficulties establishing that the very precise course of conduct has been followed in particular cases.
- 5.3 NRMA Insurance group does not wish to rely on such technical arguments. They are uncertain and NRMA Insurance group wishes to unequivocally comply with the *Trade Practices Act*.

6. Market position

- 6.1 Market power is not relevant in determining whether or not certain conduct constitutes third line forcing. However, it is relevant in determining whether or not an exclusive dealing notification in respect of third line forcing should be allowed to stand.
- 6.2 The consideration should focus on the extent to which a person's market power can be translated into the market in which the third line goods or services compete. Where a person has a high degree of power in a market and another market is highly dependant on the first market, third line forcing may be unacceptable.
- 6.3 Arguably, NRMA Insurance group has substantial power in some markets but not others. NRMA Insurance group estimates its market share in various relevant markets as follows:

Market Description	Approximate Market Share	Comments
General Insurance		
NSW & ACT motor vehicle property damage insurance	56.17%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
NSW & ACT motor vehicle personal injuries insurance	47.65%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
NSW & ACT household insurance	36.29%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
Qld motor vehicle property damage insurance	6.83%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
Qld motor vehicle personal injuries insurance	3.02%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
Qld household insurance	3.81%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
Vic motor vehicle property damage insurance	8.32%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
Vic motor vehicle personal injuries insurance	N/A	

Vic household insurance	4.02%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
SA motor vehicle property damage insurance	(SGIC) 12.7%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
SA motor vehicle personal injuries insurance	N/A	
SA household insurance	(SGIC) 11.68%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
WA motor vehicle property damage insurance	(SGIO) 21.17%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.
WA motor vehicle personal injuries insurance	N/A	
WA household insurance	(SGIO) 9.3%	Source: Roy Morgan Research FAMIS July 1999 to June 2000.

Health Insurance

NSW & ACT health insurance	0.72%	Medibank 23.9%, MBF 21.4%, HCF 19.9% NIB 12.6%
Vic health insurance	less than 0.1%	Medibank 40.4%, AXA 25.0%
Qld health insurance	less than 0.1%	MBF 42.6%, Medibank 32.7%
SA health insurance	11.5%	AXA 45.8%, Medibank 19.0%, MBF 6.2%, Health Par 5.4%
WA health insurance	2.3%	HBF 63.8%, Medibank 20.8%, AXA 1.3%

6.4 The prohibition on third line forcing is designed to prevent distortions in a target market (ie. the third line market) caused by a supplier in another market using whatever power it has to direct potential customers to a particular supplier in the target market. Where the "third line forcer" has comparatively little power in a

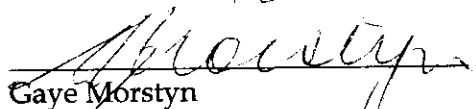
market, despite any natural linkages between that market and the target market, the third line forcing becomes insignificant.

- 6.5 NRMA Insurance group does not consider that it has any significant activities with linkages in the health insurance markets of a type which should give the Commission concern. It does not have sufficient market power to effectively force a customer to do anything outside normal commercial practice for those industries. If NRMA Insurance group tried to do so, the customer could obtain the relevant insurance policy from a multitude of other suppliers in the market.
- 6.6 In each relevant State, other than South Australia, NRMA Insurance group has negligible market share in the health insurance market. In South Australia, NRMA Insurance group is the third largest supplier (behind AXA with 45.8% and Medibank with 19.0%). It is a long way behind both AXA and Medibank in terms of market share.
- 6.7 The Discount Scheme is designed to encourage NRMA Insurance group's existing customer base to consider taking out health insurance with NRMA Insurance group or changing to NRMA Insurance group.

7. Public benefit and public detriment

- 7.1 Clearly, the Commission will not overturn the notification under section 93 of the *Trade Practices Act* if the benefits to the public of the Discount Scheme outweigh its detriments to the public.
- 7.2 NRMA Insurance group is of the opinion that the public benefits from the Discount Scheme because customers will get a discount for supporting a range of products, including NRMA Insurance group's health insurance products. At present, the health insurance markets of each State other than NSW are characterised by the existence of a dominant supplier (ie AXA in South Australia, HBF in Western Australia, Medibank in Victoria and MBF in Queensland). In NSW, NRMA Insurance is much smaller than the 3 suppliers who, between them control about 65% of the health insurance market.
- 7.3 NRMA Insurance group is committed to entering the health insurance markets and competing with the established suppliers of health insurance services. The Discount Scheme is only one method by which NRMA Insurance group proposes to compete. Overall, the health insurance markets will benefit from NRMA Insurance group's entry into those markets because it is the entry of a vibrant competitor. The Discount Scheme helps to achieve that end with the consequent benefits to the public.
- 7.4 NRMA Insurance does not consider that the Discount Scheme has any real detriments to the public.

Dated: 15.12. 2000


Gaye Morstyn
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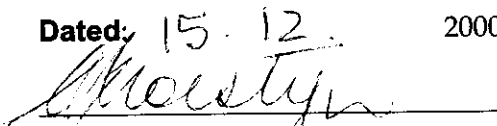
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Dated: 15. 12. 2000



Gaye Morstyn
NRMA Insurance Limited
Company Secretary