



Australian  
Competition &  
Consumer  
Commission

6 December 2006

## Statement of Issues - Suncorp Metway Limited's proposed acquisition of Promina Group Ltd

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (ACCC) in relation to the proposed acquisition of Promina Group Ltd by Suncorp Metway Limited (**proposed acquisition**).
2. This Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides preliminary views, and draws attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's *Merger Review Process Guidelines* (available on the ACCC's website at [www.accc.gov.au](http://www.accc.gov.au)) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 13 December 2006 and anticipates making a final decision on 20 December 2006. However, the anticipated timeline can change in line with the *Merger Review Process Guidelines*. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at [www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister).
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

### Background

5. On 26 October 2006 Suncorp Metway Limited provided its submission seeking informal clearance from the ACCC.

## The parties

### Suncorp Metway Limited

6. Suncorp Metway Limited (**Suncorp**) is one of Australia's leading diversified financial services providers, operating in the banking, general and life insurance, investment and superannuation fields. In terms of its general insurance business, Suncorp manufactures and distributes personal and commercial insurance lines as well as, in some states, workers compensation and compulsory third party (**CTP**) insurance. Suncorp has a 50 per cent share of RACQ Insurance Limited in Queensland and RAA Insurance Limited in South Australia, and also acquired RACT Insurance in Tasmania 2004.

### Promina Group Ltd

7. Promina Group Ltd (**Promina**) is a group of Australian and New Zealand insurance and financial services companies with specialised brands including AAMI, Vero (personal and commercial insurance), Shannons, Australian Pensioners Insurance Agency, RAC Insurance in WA (50 per cent owned joint venture) and Just Car Insurance. Like Suncorp, the firm is strongest in personal insurance lines. Promina manufactures and distributes personal and commercial insurance lines through a combination of direct and intermediated distribution channels. Promina also provides a range of life insurance, superannuation, wealth management and trustee services.

## Market background

8. In broad terms, there are two key types of general insurance: commercial and personal insurance. Commercial insurance covers product lines such as workers compensation, commercial fire insurance, marine and aviation insurance, public and product liability, professional indemnity and commercial motor insurance. The key personal lines are domestic motor vehicle insurance, home and contents insurance and CTP insurance.
9. Suncorp and Promina are both insurance manufacturers: companies that develop and take the claims risk (as underwriters) for an insurance policy. Insurance products are generally sold to the customer in three main ways:
  - directly by the insurance manufacturer (for example, a customer who purchases a policy online from Suncorp);
  - via a separate distributor, who enters into an agreement to distribute insurance products underwritten by the manufacturer (for example, the NAB distributes a range of insurance products sourced from Allianz); and
  - via an insurance broker - independent advisers who operate on behalf of their clients to procure policies that meet the needs of their clients and are competitively priced.
10. In the case of commercial insurance, insurance brokers play the main role. In contrast, in the case of personal insurance lines, insurance brokers only account

for a relatively small proportion of policies sold. Direct sales and sales via tied distributors play a more important role here.

11. While there is generally a diverse range of insurance manufacturers, there is a relatively high concentration of manufacturing for personal insurance lines:
  - Suncorp, Promina and IAG (which markets the NRMA and CGU brands, amongst others) are the largest manufacturers of home insurance, accounting for almost 71 per cent of insurance sold by value in 2005-06 on a national basis.
  - The same three firms are also the largest manufacturers of motor vehicle insurance, accounting for almost 84 per cent of insurance sold by value in 2005-06 on a national basis<sup>1</sup>.
12. The merged firm would be particularly strong in certain states<sup>2</sup>. For example, the merged firm would account for around 74 per cent of motor vehicle insurance sold based on customer numbers in Queensland in 2005-06. In New South Wales, the merged firm would account for around 35 per cent of motor vehicle insurance sold based on customer numbers in 2005-06. However, the ACCC notes that a concentrated market is not necessarily lacking in competition.
13. Other smaller manufacturers include Allianz, QBE, Wesfarmers and Budget Direct. A number of the major banks have also shifted relatively recently from pure distribution to manufacturing insurance. The Commonwealth Bank and Westpac accounted for around 9 per cent of home insurance sold by value in 2005-06 on a national basis.
14. CTP insurance is generally distinguished from other personal lines. CTP schemes are regulated and operated on a state/territory basis. The CTP schemes in New South Wales, Queensland and the Australian Capital Territory allow private (licensed) underwriters to operate. Schemes in all other states/ territories involve a single Government Insurer. Market shares for CTP insurance in Queensland are quite concentrated. Suncorp and its JV partner RACQI accounted for around 65 per cent of CTP insurance sold by value in that state in 2005-06.

## Market inquiries

15. On 30 October 2006 the ACCC commenced market inquiries regarding the proposed acquisition. A range of interested parties provided responses, including competitors, distributors, insurance brokers, suppliers, end consumers of insurance, industry associations and industry regulators. The ACCC notes that a number of market participants expressed significant concerns about the proposed acquisition in relation to personal insurance lines.

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<sup>1</sup> Suncorp figures include market share from its joint venture partners, RACQI and RAA.

<sup>2</sup> *Correction:* When this Statement of Issues was released on 6 December 2006, state level data for home and motor vehicle insurance outlining concentration levels for the merged firm was incorrectly listed as insurance sold by value. The data instead is based on customer numbers. This was corrected on 7 December 2006.

## **Market definition**

16. The ACCC invites submissions regarding the geographic dimension of the relevant market/s for the manufacture and supply of motor vehicle insurance.
17. In its consideration of the proposed acquisition of RACT Insurance Ltd by Suncorp Metway Limited in 2003, the ACCC considered that there was a Tasmanian market for motor vehicle insurance. However, the ACCC noted that state-based motor vehicle insurance markets could be in transition to a national market since most insurers operate nationally, and distribution via call centres and the internet are leading to less reliance on branch networks.
18. Nevertheless, premium shares in each state are very different, with the former incumbent in each state enjoying a relatively high market share. It has been suggested to the ACCC that brand and state loyalty is still strong (for example, loyalty to Suncorp and RACQI in Queensland), and that this, combined with the prominent role of the state-based motoring clubs in motor vehicle insurance, may justify continued consideration on a state by state basis. To assist its market definition analysis, the ACCC seeks further information on the extent of state and brand loyalty. In particular:
  - What is the relative importance of price and brand/state loyalty in consumer decision-making?
  - To the extent that there is considerable state/brand loyalty, does this allow certain firms to charge a premium (relative to other competitors) without losing market share?

## **Statement of issues**

19. In a Statement of Issues, the issues are commonly divided into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to pose concerns'. In this matter, the ACCC has not formed a preliminary view that any of the following fall into the first category, 'issues of concern', so in this case the issues are divided into only the latter two categories. The ACCC would welcome further information about all of these issues, and the extent to which competitive constraints will prevent the merged entity from being able to profitably increase premiums for personal insurance lines (for example, the merged company may be prevented from doing so because of the threat of a loss of customers to competitors).

### **Issues that may raise concerns**

#### Promina as a particularly vigorous and effective competitor

20. A number of market participants have suggested that, on average, prices charged by Suncorp are at the high end of the range for most personal insurance lines, while Promina is a particularly aggressive competitor across the different personal lines (motor vehicle, CTP and home insurance). It has been suggested that Promina, primarily through its AAMI brand, often acts as a price leader for

the different personal insurance lines, setting low prices which other competitors are then forced to match. The ACCC also understands that Promina pioneered product innovations such as lifetime rating one/lifetime maximum no claim bonus, lifetime repair guarantee, valet service and Complete Replacement Cover. These since have been adopted by competitors.

21. As such, Promina may play an important role in keeping insurance premiums relatively low for consumers and in the development of innovative product features and marketing. These claims appear to be borne out by the expansion of Promina's market share in recent years, at the expense of a number of its larger competitors.
22. If these claims are correct, then the removal of Promina as a vigorous and effective competitor could have an adverse effect on the level of competition in the manufacture and supply of personal insurance lines. Further, if Suncorp's premiums are at the high end of the range and Promina's at the low end, then there may be a risk of Promina's premiums increasing after the acquisition.
23. The ACCC seeks further information on the extent to which Promina acts as an aggressive leader on price and new features in personal lines, and whether average premiums differ between Promina and Suncorp. In particular, would the acquisition of Promina by Suncorp be likely to significantly reduce competition within personal lines? The ACCC is also interested in whether there are any other small to medium sized firms who play a similar role to Promina in delivering better and cheaper products. Would these firms be able to effectively constrain the merged firm in the future?

Barriers to expansion for competitors in the manufacture and supply of CTP insurance in Queensland

24. As noted earlier, CTP schemes are regulated and operated on a state/territory basis. Queensland and New South Wales are presently the only two states where CTP competition takes place. Market shares are particularly concentrated in Queensland. Suncorp, and its JV partner RACQI accounted for around 65 per cent of CTP insurance sold (by value) in that state in 2005-06.
25. A number of market participants have expressed concerns regarding barriers to expansion in the Queensland CTP market. The ACCC has been advised that regulatory arrangements in place in Queensland may make it harder and more time consuming for consumers to switch insurance providers than in New South Wales. Some market participants have noted that in Queensland, CTP insurance policies are sold at the time of registration through Queensland Transport, and in order to change CTP insurance provider, a customer needs to investigate the various insurers' offers and then approach Queensland Transport to switch insurers. Customers cannot organise the change of insurer by contacting the insurer alone. This arrangement may reinforce the competitive advantage enjoyed by the incumbents with larger market shares and exclusive distribution deals with motor dealers in Queensland. The ACCC has not formed a preliminary view on this issue at present, and seeks further information from industry participants. In particular:

- Is the customer 'churn' rate for CTP insurance in Queensland significantly different from the rate of 'churn' in New South Wales?
  - To what extent can firms effectively compete for customers at the point of registration renewal?
  - Will the proposed acquisition lead to a significant lessening of competition in the Queensland CTP market (and if so, how will this occur)?
26. The ACCC also understands that Suncorp and Allianz have exclusive distribution deals with a large proportion of motor dealers in Queensland, whereby these dealers are paid commissions to sell the CTP insurance policies of their respective allied manufacturer. Contractual arrangements may encourage motor dealers to stay with their existing provider by paying recurring commissions to dealers for each CTP renewal provided they remain contracted to the insurer. It has been suggested that this provides Suncorp with a substantial competitive advantage, due to its large existing market share and dealership arrangements. The ACCC seeks further information on the extent to which other competitors are able to compete for these distribution deals and buy out the recurring commissions.

Barriers to expansion in motor vehicle insurance

27. The acquisition will increase concentration in the manufacture and supply of motor vehicle insurance at the national and state levels. In particular, it will reduce the number of motor vehicle insurers with a prominent presence at the national and state levels from 4 to 3. The ACCC is interested in the ability of smaller insurance companies (those with less than 5 per cent of the national and state shares) to constrain the larger insurance companies in the event, for example, that the larger insurance companies raise premiums. In order to act as an effective constraint, smaller insurance companies must be able to take market share from the larger insurance companies in the event larger insurance companies raise premiums or diminish their levels of service, for example by being slower or less generous in assessing and paying claims.
28. The ACCC notes that in the recent past Allianz is the only small motor vehicle insurer that has been able to increase its share of national motor vehicle insurance in any significant way. Some market participants have noted that brand name recognition and brand loyalty are strong barriers to expansion at a national and state levels. The ACCC is not however convinced that these are significant barriers to expansion. The ACCC seeks views and evidence to the contrary.
29. The ACCC is particularly interested in the role banks and other providers of financial services can play as a surrogate for brand name reputation. The ACCC considers that banks (by re-badging the motor vehicle insurance product of a small provider or developing their own motor vehicle insurance product) may be able to gain share in motor vehicle insurance in a similar vein to the banks growth in the distribution of home and contents insurance.

30. Although no concerns were raised in relation to barriers to expansion for home insurance, the ACCC also invites comments on the extent to which there are barriers to expansion for smaller manufacturers and suppliers of home insurance.

#### **Issues unlikely to pose concerns**

31. At this stage, the ACCC considers that the proposed acquisition is unlikely to pose substantial competition concerns in relation to commercial insurance lines, and in relation to the other financial products and services offered by Suncorp and Promina: life insurance, disability insurance, superannuation, wealth management and trustee services. The manufacture and supply of these products is not heavily concentrated. However, the ACCC will accept further submissions from industry participants and will further explore these issues if it considers that such assessment is warranted.

#### **ACCC's future steps**

32. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
33. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
34. Submissions are to be received by the ACCC no later than 13 December 2006. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view as to the appropriate course of action to take to resolve any competition concerns that remain.
35. The ACCC intends to publicly announce its final view by 20 December 2006. However the anticipated timeline may change in line with the *Merger Review Process Guidelines*. A public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.