



Australian
Competition &
Consumer
Commission

GPO Box 3131 Canberra ACT 2601
23 Marcus Clarke Street Canberra ACT
tel: (02) 6243 1111 fax: (02) 6243 1199
www.accc.gov.au

NEWS RELEASE

ACCC DOES NOT OPPOSE IAG'S INSURANCE ACQUISITION

26 March 2014

The Australian Competition and Consumer Commission has announced that it will not oppose IAG's proposed acquisition of Wesfarmers' insurance underwriting business.

IAG's proposed acquisition was publicly announced in December 2013. The ACCC has closely reviewed the proposed acquisition as IAG and Wesfarmers are the first and fifth or sixth-largest general insurers in Australia, respectively, and the largest suppliers of rural insurance products.

The ACCC's public review focused upon the likely impact of the proposed acquisition in specific markets in Australia where IAG and Wesfarmers both underwrite the supply of insurance products, including home and contents insurance, domestic motor insurance, rural insurance products, and commercial insurance products such as heavy vehicle insurance. The ACCC also examined how the proposed acquisition may affect competition for the acquisition of key inputs by insurers, particularly smash repair and windscreen repair/replacement services.

Given the relative sizes of IAG and Wesfarmers in the rural insurance market, the ACCC's inquiries particularly focussed on the likely competitive impact of the proposed acquisition in this market. Rural insurance products include packaged farm insurance and crop insurance. Other underwriters with a substantial presence in the market include Allianz and QBE, via Elders. Other suppliers include ARGIS and Rural Affinity, underwritten by a Munich Re subsidiary, and a recent new entrant, Achmea.

The ACCC took into account the recent entry and likely expansion by Achmea, which is part-owned by Rabobank and underwriting rural insurance products marketed to Rabobank clients. Rabobank is the world's leading agribusiness bank, with a branch network and existing customer base in regional Australia. The ACCC also determined that other general insurers not currently supplying packaged farm insurance and crop insurance, including Suncorp and Zurich, which have previously been active underwriters in the market, represent credible threats of future entry or re-entry.

"The ACCC found that, while the proposed acquisition would reduce the number of key underwriters from six to five for packaged farm insurance and crop insurance in Australia, the level of existing and potential competition in this market would be expected to constrain the merged firm," ACCC Chairman Rod Sims said.

"Significantly, no farmer or grower representative associations expressed concerns to the ACCC in market inquiries," Mr Sims said.

For the home insurance and domestic motor insurance markets, the ACCC considered whether the proposed acquisition would remove a vigorous and effective competitor. Wesfarmers' underwriting of these personal insurance products sold via Coles is currently

For personal use only

small but growing. The ACCC determined that other competitors including the banks and 'challenger' brands such as Woolworths are likely to have a similar ability to provide strong price-based competition for home and motor insurance.

Also, Coles will continue to offer consumers insurance products via its supermarkets and online, underwritten by IAG in accordance with the terms of a 10-year distribution agreement. The ACCC reviewed this agreement, with particular reference to arrangements for pricing and benchmarking to competitors. The ACCC determined that, while the proposed acquisition removes an independent underwriter from the markets, at the retail level the proposed acquisition is unlikely to materially change competitive dynamics.

"The ACCC concluded that the proposed acquisition is unlikely to substantially lessen competition in any insurance market or in relation to IAG's acquisition of smash repairs or windscreen replacement services," Mr Sims said.

"Therefore, the ACCC has decided not to oppose the proposed acquisition."

IAG underwrites insurance sold through well-recognised brands including NRMA, SGIO, SGIC, RACV, CGU and Swann. IAG's Australian operations distribute a range of personal, commercial, and rural insurance products, both directly to customers and indirectly through intermediaries including insurance brokers. IAG also has a joint venture with Vero (owned by Suncorp), National Transport Insurance, which supplies heavy vehicle insurance in Australia.

Wesfarmers underwrites insurance sold through established brands including Wesfarmers Federation Insurance (WFI), Lumley and Coles Insurance. WFI is a significant rural and business insurer dealing directly with clients and via intermediaries, Lumley specialises in intermediated commercial and rural insurance products, and Coles Insurance offers car and home insurance to consumers through Coles supermarkets and online.

The ACCC's public consultation process directed inquiries to a wide range of interested parties including rival insurers, brokers, smash repairers, and relevant industry associations including many representing primary producers.

The ACCC reviewed internal company documents from both IAG and Wesfarmers. The Australian Prudential Regulation Authority (APRA), the insurance industry regulator, also assisted the ACCC's investigations. In addition, the ACCC liaised with New Zealand's competition authority, the New Zealand Commerce Commission, which is continuing to review the proposed acquisition.

For personal use only