



DETERMINATION OF MERGER NOTIFICATION M/18/002 – AVIVA/FRIENDS FIRST

Section 21 of the Competition Act 2002

Proposed acquisition by Aviva Group Holdings Limited of Friends First Life Assurance Company DAC.

Dated 20 February 2018

Introduction

1. On 12 January 2018, in accordance with section 18(1)(a) of the Competition Act 2002, as amended (“the Act”), the Competition and Consumer Protection Commission (“the Commission”) received a notification of a proposed transaction, whereby Aviva Group Holdings Limited (“Aviva”) would acquire the entire issued share capital and therefore sole control of Friends First Life Assurance Company DAC (“Friends First”) (“the Proposed Transaction”).

The Proposed Transaction

2. Friends First is ultimately owned and controlled by Achmea B.V. (“Achmea”). The Proposed Transaction will be implemented by way of a share purchase agreement (“the SPA”) dated 13 November 2017 between Aviva, Friends First Holdings DAC, Eureko Ireland Limited and Achmea.¹ Pursuant to the SPA, Aviva will acquire the entire issued share capital and, therefore sole control, of Friends First.
3. In the notification the parties noted that immediately upon completion of the Proposed Transaction, there will be a subsequent transfer of the shares in Friends First to another entity within the Aviva group of companies, being Aviva Life & Pensions UK Limited (“ALP”), a subsidiary of Aviva.

¹ Friends First Holdings DAC and Eureko Ireland Limited are the vendors in the Proposed Transaction, as being the majority and minority shareholders in Friends First respectively. Achmea is the vendor guarantor in the Proposed Transaction, as being the ultimate parent of Friends First.



The Undertakings Involved

The Acquirer - Aviva

4. Aviva is part of the Aviva Group and is ultimately owned and controlled by Aviva plc, a public limited company incorporated under the laws of England and Wales. Aviva plc is listed on the London Stock Exchange.
5. ALP is a subsidiary of Aviva and is trading in the State as Aviva Life & Pensions Ireland. ALP is authorised by the Prudential Regulation Authority in the UK and is regulated by the Central Bank of Ireland for conduct of business rules. Aviva plc, Aviva, and ALP are each part of the Aviva Group.
6. Aviva provides life insurance/assurance², general insurance and fund/asset management products and services. Aviva is active across 16 countries in Europe, Asia and North America. Aviva's products are:
 - Life insurance;
 - Pensions;
 - Savings and investment products;
 - Non-life insurance;
 - Reinsurance services; and
 - Medical and roadside assistance.
7. For the financial year ending 31 December 2016, the Aviva Group's worldwide turnover was approximately €[...], of which approximately €[...] was generated in the State.

The Target - Friends First

8. Friends First is active in the Irish life assurance/insurance market only with no operations outside of the State. Friends First provides a range of life and savings products which include:

² In the notification the parties noted that 'life assurance' is also referred to as 'life insurance' and that these terms are interchangeable.



- Life insurance;
 - Pensions; and
 - Savings and investment products.
9. Friends First is headquartered in Dublin and has approximately 320 employees servicing circa 281,000 customers across the State.
10. Friends First is ultimately owned and controlled by Achmea, a Dutch holding company. Achmea is a mutual insurance company and its main shareholders are the Achmea Association (the representative body of its customers) and Coöperatieve Rabobank U.A. (“Rabobank”) (a mutually owned banking organisation).³
11. For the financial year ending 31 December 2016, Friends First’s turnover was approximately €[...], all of which was generated in the State.

Rationale for the Proposed Transaction

12. The parties state in the notification:

“Aviva’s strategic rationale for the Proposed Transaction is to improve its ability to compete more effectively in the life assurance sector. It will also provide Aviva with an opportunity to offer a wider range of products to its customers including the ability to offer general (i.e., non-life) insurance products to Friends First policy holders. Friends First customers will be able to benefit from the same multi-product discounts as existing Aviva life and pensions customers, with discounts available on home, motor and travel insurance.”

Third Party Submissions

13. No submission was received.

³ Achmea Association holds a 61% shareholding in Achmea BV, Rabobank holds a 27% shareholding in Rabobank with the remaining shares held by smaller shareholders. Source: Achmea Annual Report 2016 available at <https://www.achmea.nl/>.



14. The Commission did however contact the Central Bank of Ireland, the institution responsible for regulating the financial services sector, as part of its assessment. The Central Bank did not raise any concerns with respect to the Proposed Transaction.
15. The Commission also contacted the Pensions Authority in relation to the Proposed Transaction. The Pensions Authority did not raise any concerns in relation to the Proposed Transaction.

Competitive Analysis

Horizontal overlap

16. There is horizontal overlap in the State between the activities of Aviva and Friends First in the provision of life insurance/assurance products, with respect to the provision of the following products: i) protection products; ii) savings and investment products; and iii) pensions products.

Pure Protection products

17. Pure protection products are products for which, in return for a regular premium, the insurer agrees to pay a lump sum on a certain specified event, such as death or serious illness. Pure protection products may include: (i) mortgage protection policies; (ii) term life insurance policies (i.e., protection for a defined period, where the policyholder chooses the cash sum required to cover their families in the event of death or the expiration of the policy); (iii) whole life policies (which pay a lump sum on the death of the insured); (iv) critical illness cover policies; (v) income protection policies; and (vi) combined/accelerated life insurance policies.

Savings and investment products

18. Savings and investment products provide a wealth accumulation service to consumers. These products include: (i) tracker funds (where the investment return over a specified period is based the performance of one or more stock market indexes); (ii) guaranteed funds (providing a guaranteed return over a specified period); (iii) managed funds (pooled funds investing in a mix of assets such as equities, securities and properties); (iv) personal investment plans; and (v) personal equity plans. In general, the products within this category differ according to the mechanism used to generate returns.



Pension products

19. Pension products allow the accumulation of funds for the purposes of the provision of retirement income. Group pension schemes, or company pensions as they are sometimes known, are set up by employers to provide retirement and death benefits for their employees. There are two main types of occupational pension scheme: (i) defined benefit schemes provide a set level of pension at retirement; and (ii) defined contribution schemes where employee contributions and employer's contributions are both invested and the proceeds used to buy a pension or other benefits at retirement.
20. Individuals' and small group's pension needs are served by life insurance providers via various distribution channels, while larger group pension funds are usually administered by specialist pension administrators who deal directly with investment managers.

Relevant Markets

21. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In previous decisions relating to the insurance sector, the European Commission has distinguished between product markets for life insurance/assurance, non-life insurance and re-insurance.⁴ In another decision, the European Commission has further considered segmenting the life insurance market according to the purpose served by the product, distinguishing between: (i) pure protection products; (ii) savings and investment products; and (iii) pension products.⁵
22. In addition, the European Commission has considered a possible segmentation of these product markets between group and individual products.⁶
23. However, the European Commission has not taken a definitive view as to the precise scope of the relevant product market in any of the decisions referred to in paragraph 21 above.

⁴ See Case COMP/M.6883 – Canada Life / Irish Life, paras 9-11.

⁵ See COMP/M.4701 Generali/PPF Insurance business, COMP/M.6521 Talanx International Meiji Yasuda Life insurance/Warta.

⁶ See COMP/M.5075 Vienna Insurance Group/EBV, COMP/M.4701 Generali/PPF Insurance Business.



24. Therefore, in the light of past decisional practices of the European Commission, the narrowest potential product markets affected by the Proposed Transaction are: (i) pure protection products; (ii) savings and investment products; and (iii) pension products.
25. The Commission has followed a similar approach to the European Commission to defining markets in previous merger assessments in the Irish insurance sector, for example, in both Standard Life/Aberdeen (M/17/023)⁷ and Liberty/Ironshore (M/17/010)⁸ the Commission did not reach a final conclusion on the relevant product market.
26. The Commission does not need to come to a definitive view on the precise relevant product market in this instance since its conclusion on the competitive impact of the Proposed Transaction will be unaffected whether the precise relevant product market is narrow (e.g. separate markets for pure protection products, pension products, and savings and investment products) or broader (e.g. all life insurance/assurance and pension products). In order to determine, however, whether the Proposed Transaction might result in a substantial lessening of competition, the Commission has analysed its impact by reference to the narrowest potential relevant product markets, namely: (i) pure protection products; (ii) savings and investment products; and (iii) pension products.

Geographic market

27. The European Commission in its previous decisions has considered the geographic market for life insurance/assurance products to be national in scope due to the following elements: (i) existence of national distribution channels; (ii) different regulatory framework and fiscal regimes; and (iii) different established brands. However, the European Commission has not been definitive as to the scope of the relevant geographic market definition.⁹

⁷ <https://www.ccpic.ie/business/mergers-acquisitions/merger-notifications/m17023-standard-lifeaberdeen/>

⁸ <https://www.ccpic.ie/business/mergers-acquisitions/merger-notifications/mergers-competition-consumer-protection-act-criminal-enforcement-civil-competition-enforcement-consumer-enforcement-mergers-acquisitions-m17010-libertyironshore/>

⁹ See Cases No. COMP/M.5075 Vienna Insurance Group/EBV; COMP/M.5057 Aviva/UBI Vita; Case No COMP/M.6521 Talanx International / Meiji Yasuda Life Insurance / Warta.



28. Aviva and Friends First both operate in the State and utilise national marketing, national advertising, and national pricing. The State is the only relevant geographic area where the activities of the Parties overlap, as Friends First only operates in the State. Equally, regulation and taxation of insurance products in the State is done on a national basis only. All of these factors support the view that there is a national market for life insurance products. Therefore, the Commission will assess the likely competitive effective of the Proposed Transaction on a national basis.

Competitive assessment

Relative market shares

29. Table 1 below presents market shares of providers of life insurance/assurance products in the State.

Table 1: life insurance/assurance and pensions product market shares – Segment breakdown, quarter 2 2017

Undertaking	All Life Insurance & Pensions Products ¹⁰ (excluding investment-only business) ¹¹	Protection		Pension		Savings and investment		
		Group	Individual	Group	Individual	Single Premium	Annual Premium	Regular
Aviva	[5-10]%	[0-5]%	[10-15]%	[5-10]%	[10-15]%	[0-5]%	[10-15]%	
Friends First	[5-10]%	[5-10]%	[5-10]%	[0-5]%	[5-10]%	[0-5]%	[0-5]%	

10 “All life insurance & pension products” refers to the overall product market not segmented on the basis of risk / service provided (i.e. includes (i) pure protection products; (ii) pension products; and (iii) savings and investment products).

11 “Investment only business” represents the investment of assets already held under a pension scheme by the trustees of that scheme, whereby the asset of the scheme is invested as one policy with the insurer, often in very large amounts. This differs from other savings and investment or pensions contracts which accept money from employers or individuals. Therefore, Investment only business is made as a single payment from an existing approved pension scheme, and is wrapped in an insurance policy.



Combined Aviva / Friends First	[15-20]%	[10-15]%	[15-20]%	[5-10]%	[20-25]%	[5-10]%	[10-15]%
Competitors' Estimated Market Shares (Milliman)*							
Irish Life	[35-40]%	[40-45%]	[30-35%]	[50-55%]	[25-30%]	[45-50%]	[25-30%]
Zurich	[20-25]%	[15-20]%	[15-20]%	[20-25]%	[20-25]%	[10-15]%	[30-35%]
New Ireland	[20-25]%	[25-30%]	[15-20]%	[15-20%]	[15-20%]	[25-30%]	[15-20%]
Standard Life	[0-5] %	[0-5]%	[0-5]%	[0-5]%	[5-10]%	[0-5]%	[0-5]%
Royal London	[0-5]%	[0-5]%	[10-15]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%
Other	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%	[0-5]%

Source. Information provided by the parties¹² and verified by the Commission.

*The market share data is Aviva's best estimate of competitors' market shares.

Pure protection Products (Individual and Group)

30. The Parties' combined market share in respect of the provision of pure protection products is approximately [15-20]% on an individual customer basis and [10-15]% on a group customer basis, with a potential market share accretion of [5-10]% and [5-10]% respectively. Post-transaction, the merged entity would be the fourth largest provider of group protection products and the third largest provider of individual protection products. There will also remain significant smaller competitors in the individual protection segment namely Zurich [15-20]% and Royal London [10-15]%. Therefore, the Commission considers that the Proposed Transaction will not give rise to competition concerns in relation to the provision of protection products (individual and group) in the State.

Pensions Products (Individual and Group)

¹² Market share data is based on the most recent Milliman survey and is based on new business premiums as at half year 2017. Market shares are Aviva's best estimates of competitors' market shares.



31. The Parties' combined market share in respect of the provision of pensions products is approximately [20-25]% on an individual customer basis and [5-10]% on a group customer basis, with a potential market share accretion of [5-10]% and [0-5]% respectively. Post-transaction, the merged entity would be the fourth largest provider of group pension products behind Irish Life [50-55]%, Zurich [20-25]% and New Ireland [15-20]%. Post-transaction, the merged entity would be the third largest individual pensions products provider behind Irish Life [25-30]% and Zurich [20-25]%. However, New Ireland [15-20] % and Standard Life [5-10] % will remain as significant competitors in this segment. Therefore, the Commission considers that the Proposed Transaction will not give rise to competition concerns in relation to the provision of pensions products (individual and group) in the State.

Savings and Investment Products (Annual Premium and Single Premium)

32. The Parties' combined market share in respect of the provision of savings and investment products is approximately [15-20]% on an annual premium basis and [5-10] % on a single premium basis with a potential market share accretion of [0-5]% and [0-5]% respectively. Post-transaction, the merged entity would be the fourth largest provider of single premium savings and investment products behind Irish Life [45-50]%, New Ireland [25-30]% and Zurich [10-15]%. In the annual/regular premium segment, the merged entity would be the fourth largest provider behind Zurich [30-35]%, Irish Life [25-30]% and New Ireland [15-20]%. Therefore, the Commission considers that the Proposed Transaction will not give rise to competitive concerns in relation to the provision of savings and investment products (annual premium and single premium) in the State.

All life insurance/assurance and pensions products

33. For the sake of completeness, the Commission has also assessed the likely competitive impact of the Proposed Transaction on the potential market for all life insurance/assurance pensions products markets in the State.
34. Table 1 shows that the potential market for the provision of all life insurance/assurance and pension products is currently served by not less than five competitors consisting of



both domestic and international insurers. Post-transaction, the merged entity would remain fourth in terms of market share with a combined market share of [15-20]% with an increase in market share of [5-10]%. There will remain three significant and large competitors, namely; Irish Life, Zurich and New Ireland who collectively account for approximately [50-80]% of the market (with market shares of [35-40]%, [20-25]% and [20-25]%, respectively). Other providers in the State include Standard Life and Royal London. Therefore, the Commission considers that the Proposed Transaction will not give rise to competition concerns in relation to the provision of life insurance/assurance products in the State.

Switching

35. Switching is a well-established and common feature of the life insurance/assurance market. Customers are able to switch their life insurance, pensions, or investment fund value from one provider to another at any time and with relative ease. Switching only attracts a cost to the customer if the switch occurs within a surrender penalty period. Some pension arrangements allow completely free switching or a number of free switches each year. The European Commission noted in its decision in Canada Life/Irish Life that switching is a feature of the market in the State.¹³
36. Pension arrangements generally allow consumers to transfer pension benefits from one arrangement to another. The transfer rules depend on the arrangements in place in the two relevant pension schemes.

Barriers to entry

37. Barriers to entry into any of the potential markets discussed above appear to be relatively low. The European Commission in the Canada Life/Irish Life decision stated: *"[a]s regards entry barriers, the notifying party argues that these are relatively low. In particular brand recognition is not a key determinant competitive factor in the life insurance market and access to an effective distribution network is easy due to the*

¹³Case No COMP/M.6883 – Canada Life/ Irish Life:
http://ec.europa.eu/competition/mergers/cases/decisions/m6883_20130531_20310_3157339_EN.pdf



existence of independent brokers who are required by law to hold appointments with at least five insurance providers. This has been confirmed by the market investigation and it is illustrated by the fact that at least two companies (MetLife and Generali) have entered the market in the last three years".

Intermediaries

38. All providers of life insurance/assurance products currently supply a similar set of products through similar distribution systems including the broker market, directly to the customer, agency/tied distribution, and through financial institutions (i.e., the bancassurance channel).
39. Typically, life insurance/assurance, pensions and savings and investment products are distributed by financial brokers and by banks/insurers (bancassurance). Financial brokers have traditionally played a key role in the life insurance/assurance market in the State providing independent advice to their clients. The parties estimate that at half-year 2017, 85% of life and pensions products (by volume) were sold through broker and bank channels. The remaining 15% of life insurance/assurance products and pensions products were sold through direct channels, i.e., insurers. Where companies offer similar financial products, it is the legal responsibility of the broker to ensure that the best interests of the customer are served.
40. Moreover, in the pensions product segment there is a subset of specialist brokers, the Employee Benefit Consultants ("EBCs"). The EBCs are specialised in dealing with corporate customers, typically much larger in scale than ordinary brokers, supplying advisory services advice across all group products (as well as various non-insurance services) which make them EBCs particularly attractive for corporate customers. The EBCs can administer employers' pension schemes, collect contributions, and subcontract the asset management to a third party, thus substituting the life insurance provider completely. As a result, the EBCs could exercise significant competitive pressure on the life insurance providers, in particular in the segment for group pension products.



41. In the light of the above, the Commission considers that the Proposed Transaction is unlikely to raise horizontal competition concerns in relation to the provision of life insurance/assurance products in the State.

Vertical Relationship

42. There is no identifiable vertical relationship between the parties. Therefore, the Proposed Transaction does not raise any vertical competition concerns in relation to the provision of life insurance/assurance products in the State.

Conclusion

43. In light of the above, the Commission considers that the Proposed Transaction will not substantially lessen competition in any market for goods or services in the State.

Ancillary Restraints

44. The SPA contains non-solicitation and non-compete obligations on Friends First Holdings DAC, including Achmea (and companies or enterprises controlled by Achmea) in the life insurance/assurance, savings, pensions or income protection business segments in the State for two years following completion of the Proposed Transaction. The duration of those restrictive obligations does not exceed the maximum duration acceptable to the Commission.¹⁴ The Commission considers those non-compete and non-solicitation obligations to be directly related to and necessary for the implementation of the Proposed Transaction insofar as they relate to the State.

¹⁴ In this respect, the Commission follows the approach adopted by the European Commission in paragraphs 20 and 26 of its “Commission Notice on restrictions directly related and necessary to concentrations” (2005). For more information see:

[http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52005XC0305\(02\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52005XC0305(02)&from=EN)



Determination

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, as amended, has determined that, in its opinion, the result of the proposed transaction, whereby Aviva Group Holdings Limited would acquire sole control of Friends First Life Assurance Company DAC, will not be to substantially lessen competition in any market for goods or services in the State, and, accordingly, that the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

Brian McHugh
Member
Competition and Consumer Protection Commission