OFFICE OF FAIR TRADING

Anticipated acquisition by Aon Corporation of Benfield Group Limited

ME/3884/08

The OFT's decision on reference under section 33(1) given on 18 November 2008. Full text of decision published 28 November 2008.

Please note that square brackets indicate figures or text which have been deleted or replaced at the request of the parties for reasons of commercial confidentiality.

PARTIES

1. **Aon Corporation** (Aon) is incorporated in the US and listed on the New York Stock Exchange. It acts as an intermediary (or broker)[1] for primary insurance, reinsurance and retrocessional reinsurance products. It also provides corporate financial services, and consulting services in a number of areas[2]. Aon carriers out all its principal activities in the UK and globally.

2. **Benfield Group Limited** (Benfield) is a company incorporated in Bermuda and listed on the London Stock Exchange. Benfield's main business is as a broker for reinsurance products ([ ] per cent of global revenues). It also offers actuarial consulting, catastrophe modelling and rating agency consultancy. A large part of Benfield's reinsurance broker (or 'distribution') services are generated by property catastrophe reinsurance. The remainder of Benfield's business comprises Benfield Corporate Risk (primary insurance distribution), Benfield Advisory (general corporate finance consulting

[1] In this decision, the terms 'intermediary/intermediation', 'broker/brokerage' and 'distributor/distribution' are used interchangeably.

[2] Such as employee benefits, compensation, management consulting, communications, strategic human resource consulting, capital market solutions, financial advisory and litigation consulting and human resource outsourcings.

services), and Paragon (providing consulting services to property and casualty insurers and reinsurers in the US and Bermuda). Benfield's UK turnover in 2007 was [ ] million, representing [ ] per cent of its global revenues.

TRANSACTION

3. Aon proposes to acquire the entire issued and to be issued stock capital of Benfield for a purchase price of approximately £847 million. The offer was publicly announced on 22 August 2008.

4. The transaction has also been notified and cleared in Germany, Ireland, Norway and Austria and is also currently being considered in Brazil and the US.

5. The parties notified the transaction to the Office of Fair Trading (OFT) by means of a Merger Notice under section 96 of the Enterprise Act 2002 on 7 October 2008. The extended statutory deadline for the OFT to decide whether to refer the merger to the Competition Commission (CC) expires on 18 November 2008.

JURISDICTION

6. As a result of this transaction Aon and Benfield will cease to be distinct. The share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met on the basis that the parties' combined share of supply in reinsurance brokerage services in the UK is more than 25 per cent. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

MARKET DEFINITION

7. The parties overlap in the supply of primary insurance and reinsurance distribution as well as retrocessional insurance, capital market solutions and corporate financial consulting services in the UK. Given the minimal size of the parties' combined market share of corporate financial consulting services in the UK,[3] and in the absence of any third party concerns in this

[3] According to the parties their combined market share is [0-10] per cent. The OFT did not receive any evidence that this figure could be any higher.

area, the OFT does not find it necessary to consider this area of overlap any further in its assessment of this merger.

PRODUCT SCOPE

8. The parties consider primary insurance and reinsurance distribution to be distinct frames of reference, which is consistent with past OFT[4] and European Commission cases.[5] The OFT has therefore considered each service separately in this decision.

Primary insurance distribution

9. Both Aon and Benfield are active in the supply of primary insurance distribution via intermediaries.

Direct versus primary insurance

10. Insurance is a form of risk management to protect against contingent loss. An insurance contract transfers to an insurer the original risk to which a person or business is exposed. Primary insurance is distributed through direct sales, tied agents, independent intermediaries and banks. The parties submitted that the relevant frame of reference comprises primary insurance distribution including both insurance sold directly by insurers and insurance sold via intermediaries.

11. The OFT considered both the impact of the merger on the market for primary insurance distributed via intermediaries and for the entire insurance distribution market. However, given that the merger does not cause competition concerns even on a narrow basis, it is not necessary to conclude on the issue of whether the market should be segmented according to the way primary insurance is distributed.

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[4] *OFT decision on the anticipated acquisition by Catlin Group Ltd of Wellington Underwriting plc, 15 December 2006, para 7.*

[5] *Case IV/M.1307, Marsh & McLennan/Sedgwick, Commission decision of October 23, 1998.*

Reinsurance distribution

12. Reinsurance enables insurers to reduce fluctuations in their earnings by reducing their exposure to large losses. A reinsurance contract transfers risk that has been assumed by an insurer under a pre-existing or contemplated insurance contract. Reinsurance is placed, similarly to primary insurance, either directly with reinsurers or indirectly via intermediaries, who assist the primary insurers in the analysis of their reinsurance needs and negotiate the contract terms with the reinsurer on their behalf.

13. Aon and Benfield are only active in the supply of reinsurance distribution via intermediaries, as they act as brokers for insurance companies.

(i) Direct versus brokered reinsurance

14. However, the parties again submitted that the relevant frame of reference should be the entire market of reinsurance distribution, taking together reinsurance placed directly with reinsurers and indirectly via intermediaries (brokers). They argued that they have been competing regularly with other intermediaries as well as with reinsurers for primary insurers' ceded business. The parties submit that [40-60] per cent of global reinsurance is the result of direct placement with reinsurance companies and [40-60] per cent placed through independent intermediaries. In the UK, about [50-70] per cent of reinsurance premiums were distributed by brokers. In addition, based on a 2004 Swiss Re Report, the parties argued that over 80 per cent of primary insurance companies ceding risk to reinsurers use both indirect and direct channels.

15. One major reinsurance company told the OFT that it only works on a direct basis with insurers. However, one of the parties' main competitors told the OFT that brokerage and direct reinsurance are competitive substitutes from a demand perspective because insurance companies have the choice of whether to contract with reinsurance companies on a direct or indirect basis. Another competitor confirmed that reinsurance brokers compete with insurers placing reinsurance business direct with reinsurers.

16. From a demand-side, for insurers, substitution between directly placed and indirect (brokered) business seems to be more limited for certain types of reinsurance services. A number of third parties claimed that they prefer to

use reinsurance brokers, in particular the large four international brokers (including the parties) rather than dealing directly with reinsurance companies for certain types of risks.

17. In Marsh & McLennan/Sedgwick[6] the European Commission concluded that direct reinsurers can be taken to exert sufficient competitive pressure on reinsurance brokers, although the UK has traditionally had a larger than average involvement of reinsurance brokers and has a market dedicated to some particularly complex reinsurance risks.

18. The OFT considered that the evidence before it is not conclusive on whether reinsurance brokerage services should be considered part of an overall market for reinsurance distribution. However, the OFT has not needed to conclude on this issue as the proposed merger does not raise concerns, even when considered on the narrow basis of reinsurance brokerage services.

(ii) Different categories of insurance/ reinsurance risk

19. The parties submitted that it is not necessary to segment the primary insurance and reinsurance distribution markets into different types of risk (for example accident and health, aerospace, casualty and professional lines, energy, life, marine, motor and property). Even though there is no demand-side substitution between each category, the parties argued that there is sufficient supply-side substitutability. In particular, the parties argued that office duties are similar across all areas of reinsurance brokerage and that intermediaries are able to hire additional staff to cover different categories of risk. The majority of competitors agreed that supply-side substitution exists between risk categories.

20. One competitor submitted that the parties' combined market share in certain areas was high ([ ] per cent for brokerage of property and casualty reinsurance in the UK, categories that represent a major proportion of reinsurance purchases globally and in the UK), however, it did not seek to argue that each type of risk should be considered as a separate frame of reference. No customers suggested to the OFT that the relevant product

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[6] *COMP/M.1307 Marsh &McLennan/Sedgwick, 23 October 1998, para. 52*.

market should be segmented by risk category.[7] A number of customers also stated that the larger four insurance brokers (Aon, Benfield, Guy Carpenter and Willis) are active across all risk categories.

21. On the basis of the evidence received, the OFT considers that brokers who specialise in certain areas are able to switch with relative ease between types of risk. This is consistent with European Commission precedent which has accepted that there is a degree of supply-side substitutability between the different types of risks.[8] The OFT therefore considers that for the purposes of this case it is not necessary to examine the impact of the proposed merger on each category of insurance/reinsurance risk.

(iii) Lloyd's reinsurance brokerage services

22. A third party argued that Aon and Benfield will have a high post-merger combined market share in the Lloyd's market in the UK. All reinsurance placements through Lloyd's syndicates must be done exclusively through brokers who are registered with the General Insurance Standards Council (GISC).[9] However, the parties argued that all Lloyd's reinsurers offer precisely the same types of reinsurance as compared with other reinsurers globally. In addition, the same competitor who provided the market share data further clarified that reinsurance purchased from a Lloyd's syndicate is no different from any other reinsurance provided direct or via a broker. While it is not clear, on the basis of the evidence available, that there should be a separate Lloyd's market, the OFT has not needed to conclude on this issue as the proposed merger does not raise concerns, even when considered on this narrow basis.

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[7] One customer was concerned that the proposed merger would result in the number of brokers reducing from four to three in relation to property reinsurance, for which it is a customer, however, this customer did not suggest that the impact of the merger would be different in relation to this particular risk category than for reinsurance distribution more generally, and therefore did not seek to argue that the relevant product market should be segmented in this way.

[8] *COMP/M.3035 Berkshire Hathaway/Converium/GAUM/JV, Commission decision of February 28, 2003, para. 34*.

[9] The parties noted that there is a legislative reform proposal being contemplated in Parliament which would remove the legal requirement for Lloyd's syndicates to deal only with Lloyd's brokers.

(iv) Capital market solutions

23. Capital market solutions create additional risk capacity by providing insurers and reinsurers with an alternative way to transfer risk exposures. The most common solutions are insurance linked securities, such as reinsurance sidecars and CAT bonds.

24. Aon and Benfield are organisers of capital market solutions to traditional reinsurance companies and argue that reinsurance and capital market solutions for primary insurers and reinsurers form part of the same relevant product market.

25. However, given that the merger does not raise competition concerns on the market for capital market solutions even on a cautious approach to market definition (that is, considering that capital market solutions is a separate relevant market), the OFT has not needed to conclude whether capital market solutions is a separate frame of reference to the traditional reinsurance distribution market.

Retrocessional reinsurance

26. Reinsurance companies may themselves reinsure some of the risks they have assumed (this is called retrocessional reinsurance). Aon and Benfield are active in intermediating retrocessional reinsurance. Reinsurance companies can source retrocessional reinsurance through a number of intermediaries or direct from other reinsurance companies.

27. The evidence before the OFT is not conclusive on whether retrocessional reinsurance distribution should be considered as part of the same market as reinsurance distribution and, in addition, whether retrocessional reinsurance brokerage services should be part of an overall retrocessional reinsurance distribution market. However, the OFT has not needed to conclude on this issue as the proposed merger does not raise concerns, even when considered on the narrow basis of retrocessional reinsurance brokerage services.

GEOGRAPHIC SCOPE

28. The parties considered that it was not necessary to define the relevant geographic market for primary insurance distribution, given the minimal

presence of the parties' insurance distribution revenues in the UK. In addition, the parties submitted that the relevant geographic market for reinsurance distribution was global.

29. The main competitors of the merging parties argue that they could easily open offices in new markets and could operate in markets where they did not have local offices remotely or through connected firms. Most of the customers argued that a UK office was not important. In addition, many customers felt that the global standing of the broker was an important aspect for them because they either had operations that were exposed to risks in other regions or wanted access to the widest possible number of reinsurers globally.

30. The European Commission has found in previous cases that the scope of the relevant geographic market for reinsurance distribution is global.[10]

31. On the basis of the evidence submitted, the OFT considers that the geographic scope for primary insurance and reinsurance distribution is at least national and most likely global. However, for the purposes of the present case the OFT considered it prudent to consider the impact of the merger through a UK lens, as well as a wider global geographic market definition, and, as set out below, concludes that no concerns arise irrespective of the geographic market definition adopted.

Conclusion

32. The OFT has not needed to conclude on the precise scope of the relevant market in this case given that, even taking a narrow approach, the proposed merger does not raise competition concerns. Accordingly, the OFT has considered the impact of the proposed merger on the supply of:

- primary insurance distribution, and separately brokerage services for primary insurance
- reinsurance distribution, and separately brokerage services for reinsurance, as well as Lloyd's reinsurance brokerage services, and capital market solutions, and

[10] *COMP/M.1307 Marsh & McLennan/Sedgwick, Commission decision of October 23, 1998, para 23*.

- retrocessional reinsurance distribution, and separately brokerage services for retrocessional reinsurance.

HORIZONTAL ISSUES

Primary insurance distribution

33. According to the parties, their market shares of gross primary non-life insurance premiums in the UK is [0-10] per cent (increment of less than one per cent), and of premiums placed through intermediaries is [5-15] per cent (increment of less than one per cent). No third party raised any competition issues about this aspect of the proposed merger. Therefore, the OFT does not consider that the merger raises concerns on the basis of primary insurance distribution.

Reinsurance distribution

34. On the basis of a single 'reinsurance distribution' market (that is, a market including reinsurance distribution done directly and through brokers), the combined entity will have [15-25] per cent (global) and [15-25] per cent (UK), with an increment of [5-15] and [5-15] per cent respectively (Table 1). In light of the relatively modest combined shares and increments, the OFT does not consider that the merger would lead to competition concerns on this basis.

Table 1 – Reinsurance distribution (direct and brokerage)						
	Global			UK		
	Aon	Benfield	Combined	Aon	Benfield	Combined
Parties' estimates	[5-15]%	[5-15]%	[10-20]%	[10-20]%	[5-15]%	[10-20]%

Reinsurance brokerage services

35. Considering the narrower market of reinsurance distribution through brokers, the parties are the first and third largest global reinsurance brokers and the largest two in the UK (Aon with [15-25] per cent and Benfield [10-20] per cent on both a global and UK basis) (Table 2). Willis Re has a market share of [10-20] per cent in the UK and [10-20] per cent on a global basis and Guy Carpenter has [10-20] per cent and [15-25] per cent respectively. A number of customers stated that they would mainly use

one of the four large brokers for their reinsurance contracts. However, the parties argue that the 'tail' of brokerage firms in the UK is significant, and much larger than many other countries. The existence of a significant tail was confirmed by customers contacted by the OFT, who named a number of firms outside the top ten capable of providing alternative services to the merging parties.

36. The OFT received market share data from a competitor that differed materially in some respects from that provided by the parties. Both sets of data are provided in the table below.

Table 2 – Reinsurance brokerage						
	Global			**UK**		
	Aon	**Benfield**	**Combined**	**Aon**	**Benfield**	**Combined**
Parties' estimates	[15-25]%	[10-20]%	[30-40]%	[15-25]%	[10-20]%	[30-40]%
Competitor's estimates	[ ]	[ ]	[ ]	[ ]	[ ]	[ ]

37. According to this competitor, the merged entity would have [ ] per cent on a global basis, and an even higher share in the UK although no precise UK figures were provided (whereas the parties' equivalent estimate was [30-40] per cent). However, the same competitor noted that 'reinsurance offered directly by reinsurers (for example by firms such as Munich Re and General Re) is a competitive substitute to reinsurance placed through an intermediary/broker'.

38. The OFT considers that the key reason for the discrepancy between these data sets is the parties' [15-25] per cent tail estimate (that is, for brokers outside the top ten firms on a global and UK basis), while the competitor did not allocate any market share to any such tail. On the basis of evidence received during its market investigation, the OFT considers that the parties' estimates may be a truer reflection of the market structure. In particular, as noted above, customers contacted by the OFT named a number of firms outside the top ten who provide alternative services to the merging parties. Further, another competitor provided a report quoting that [ ] per cent of reinsurance premiums in 2004 were placed by the top ten firms. While this figure may have increased following subsequent consolidation in the market (thereby shrinking the size of the tail), it does suggest that it would be inconsistent with the conclusion that there is no such tail, or that such a

tail is very small. In any event, for the reasons described further below, the OFT does not consider that the proposed merger raises competition concerns even on the basis of these higher market shares.

39. The parties submitted that post-merger they will be closely competing with other reinsurance brokerage companies, in particular Guy Carpenter, which, according to the parties, describes itself as the world's leading risk and reinsurance specialist. In addition they argued that smaller brokers may also offer competitive services in specific types of reinsurance in which they specialise.

40. The parties also argued that the market shares provided in Table 2 do not provide a true reflection of the competitive constraints that they face, because it takes no account of the constraints provided from direct placement of reinsurance. In particular, the parties argued that:

- primary insurance companies often seek reinsurance through tenders where brokers compete with direct offerings from reinsurance companies. Insurance companies tender for reinsurance business every three years, and typically at least four large firms (reinsurance companies and/or reinsurance brokers) are invited to submit bids. In this regard, Aon provided some evidence that it has lost [ ] bids to reinsurance companies (direct business) in the EMEA[11] region. [ ], Aon argued that [ ] bids were lost on the basis of price and that Benfield has also lost bids to reinsurance companies (direct business) in 2007, especially to [ ]

- reinsurance companies often attract the interest of ceding insurers and other reinsurers with a better price proposition, and

- primary insurers tend to utilise multiple reinsurance brokers, on top of any direct placements. In particular, Aon submitted that [ ] of its [ ] largest insurance customers used the services of at least [ ] brokers, while the average number was [ ].

41. The views received from the majority of customers would tend to support the parties' arguments. In particular, the majority of customers stated that they could cover their reinsurance needs through the remaining three large reinsurance brokers post-merger, and that their tendering process allowed

[11] Europe, Middle East and Africa.

them to switch to alternative brokers or reinsurance firms. Some customers also felt that smaller firms would be able to expand and grow to offer competitive reinsurance brokerage services.

42. Therefore, even if direct reinsurance is not considered part of the relevant product market, evidence before the OFT, in particular the views of third parties, suggests that it would be wrong to ignore the constraint placed on brokers from direct reinsurance. Accordingly, the OFT accepts the parties' argument that the market shares provided in Table 2 would tend to over-state the competitive strength of the parties given that it does not account for any constraint from direct reinsurance. In light of the above, the OFT does not believe that there is a realistic prospect of a substantial lessening of competition on the basis of reinsurance brokerage services.

Lloyd's reinsurance brokerage services

43. The parties submit that their market share for the provision of reinsurance through Lloyd's placements is [20-30] per cent, with Guy Carpenter having [15-25] per cent, Willis Re [10-20] per cent and JLT five per cent, giving other reinsurance intermediaries a market share of [25-35] per cent. Even if the Lloyd's market were considered a separate market (which, as discussed above, is not clear from the evidence), the OFT considers that the proposed merger does not raise competition concerns given the presence of a number of alternative providers of brokerage services, and the absence of any specific third party concerns on this issue.

Capital market solutions

44. One competitor claimed that the parties will have a leading position in the placement of capital market solutions post merger due to the withdrawal of the investment banks from the sector during the recent financial crisis. However, based on the data provided by the parties, their global combined share post-merger will be [15-25] per cent, with an increment of only three per cent. The other competitors are Swiss Re having [25-35] per cent and Goldman Sachs with [15-25] per cent. [ ], and therefore the impact of the proposed merger in the UK in relation to capital market solutions will be negligible.

45. A competitor argued that the parties are the leading organisers of capital market solutions and that post-merger the merged entity will have the

ability and incentive to set its prices accordingly. Another competitor argued that the parties' position in this market was particularly strong, but said that it could still compete effectively against the merged entity. None of these competitors provided further evidence to support these claims. No customers raised any concerns regarding these offerings.

46. Furthermore, the OFT considered that suppliers of capital market solutions would face competitive constraints to some degree from suppliers of reinsurance, either through direct placement or via brokers.

47. Given the evidence submitted, the OFT does not believe that the merger raises any particular competition concerns in relation to capital market solutions.

Retrocessional reinsurance

48. Post-merger the parties' estimate that their combined market share for retrocessional reinsurance brokerage services is [45-55] per cent globally and [45-55] per cent in the UK. On a global basis, there are four other suppliers: Guy Carpenter ([15-25] per cent), Willis Re ([10-20] per cent), BMS ([0-10] per cent) and JLT ([0-10] per cent). In the UK, the parties argue that their competitors' market shares would be similar, although JLT would account for a larger share. One third party provided market share estimates attributing a lower combined market share to the parties [ ] per cent with [ ] per cent increment). The parties claimed that their strong position is largely historical as Benfield was one of the first companies which developed this insurance product. In addition, the parties argued that the market share data over-estimated their competitive position in the market place because it did not include the amount of retrocessional reinsurance premiums placed directly, which they claim is a substitute for retrocessional reinsurance placed by brokers. The parties, however, did not provide market share data on the basis of all retrocessional reinsurance distribution.

49. Even if direct retrocessional reinsurance is not considered as part of the relevant product market, the OFT considers that it would be unrealistic to ignore constraints placed on retrocessional reinsurance brokers from direct retrocessional reinsurance. Accordingly, the OFT accepts the parties' argument that the market shares referred to above would tend to over-

state the competitive strength of the parties given that they do not account for any constraint from direct retrocessional reinsurance.

50. In addition, no concerns were raised by third parties regarding the impact of the merger on retrocessional reinsurance distribution apart from one competitor who claimed that the parties would be able to foreclose competitors offering retrocessional reinsurance brokerage by leveraging its market power in the reinsurance brokerage segments, but did not provide any further evidence. However, as set out above, the evidence before the OFT suggests that the parties will not have market power in reinsurance brokerage, and therefore they will not have the ability to foreclosure competitors offering retrocessional reinsurance brokerage services.

51. In view of all of the above, the OFT does not consider that the merger raises competition concerns on the basis of retrocessional reinsurance brokerage services.

Barriers to entry and expansion

52. The parties submitted that expansion is easy with no physical, regulatory or economic constraints that would prevent a substantial increase of reinsurance brokers in a short period of time. According to evidence submitted to the OFT by the parties and by competitors, entry requires office space, IT capabilities and expert personnel. The OFT received evidence from the parties and competitors of some expansion and entry into the reinsurance brokerage market in recent years, where insurance providers entered reinsurance distribution in the UK and globally. In addition, one competitor claimed that entry into the market is facilitated by the short nature of reinsurance contracts. A number of customers argued that smaller reinsurance brokers would be expected to grow their business and take some of the specialised staff of the leading brokerage firms, although reaching the level of analytical expertise of the large international brokers is considered to be difficult.

53. The evidence before the OFT does not allow it to conclude on whether, if the merger were to cause competition concerns in the reinsurance distribution business as a whole, entry would be timely, likely and sufficient to deter any attempt by the merging parties to exploit the reduction in rivalry flowing from the merger. However, this does not affect the OFT's

conclusion in this case given that, as discussed above, the proposed merger does not raise prima facie competition concerns.

Buyer power

54. The OFT considered whether the countervailing power of buyers would be a competitive constraint to the parties post-merger. Reinsurance intermediaries deal with primary insurance companies as their customers. Whether large or small, the majority of reinsurance customers argued that they possessed negotiating strength when dealing with reinsurance brokers. They say that part of their negotiating strength derives from the ability to place their reinsurance policies through a number of brokers as well as to deal directly with reinsurance companies. In addition, the majority of customers argued that they could simply switch to another broker or reinsurance firm, should the merging parties raise their prices.

55. While the parties' arguments on buyer power appear plausible, the OFT does not consider it necessary to conclude on this issue given that the merger does not raise prima facie competition concerns.

THIRD PARTY VIEWS

56. The OFT received comments and views about the merger for a large number of third parties, including competitors and customers of the merging parties.

57. No third parties, including customers and competitors, raised any concerns regarding the primary insurance distribution market.

58. Regarding reinsurance distribution, the majority of customers stated that post-merger the three major reinsurance brokers would be enough for competitive placements. In addition, a large number of customers and competitors claimed that there were a number of alternative reinsurance brokers to choose from and some customers confirmed that their negotiation strength would not be harmed. One customer raised concerns about the reinsurance distribution market, stating that the merger would eliminate one of the top four reinsurance brokers and therefore reduce the choice of broker.

59. One competitor raised concerns, stating that the merging parties would have a very strong position in the property and casualty reinsurance brokerage market post-merger and that their combined market share of Lloyd's placements in the UK will be high as well. In addition, the same competitor raised concerns regarding the ability of the merging parties to exercise leverage in the reinsurance segments to foreclose competitors offering retrocessional reinsurance. Finally, the same competitor claimed that the merging parties will have the ability and incentive to set prices in the capital market solutions segment. Another competitor also raised concerns regarding the combined entity's size in capital market solutions. All of these concerns have been dealt with above.

ASSESSMENT

60. The parties overlap in the supply of brokerage services for primary insurance, reinsurance distribution (including capital market solutions), and retrocessional reinsurance distribution. They are both active in the UK and globally.

61. In the primary insurance distribution market the parties' combined market shares are small and third parties did not raise any concerns. Therefore, the OFT believes that the merger does not raise any competition concerns in that market.

62. Taking the market for reinsurance distribution as a whole, the parties' combined market share is less than 20 per cent, and there are a number of large and small providers active in the market. In addition, on a narrow basis, considering reinsurance distribution via brokers separately, the parties' combined market share is between [30-40] and [ ] per cent. However, brokers are to a certain extent constrained by reinsurance companies who place contracts directly with insurance companies without the need for brokerage services. The majority of customers stated that they could cover their reinsurance needs through the remaining three large reinsurance brokers post merger and that their tendering processes allowed them to choose suppliers and switch away to alternative brokers or reinsurance firms. In addition, some customers thought that smaller firms would be able to expand and grow to offer competitive reinsurance brokerage services.

63. One competitor highlighted the merging parties' strong position in retrocessional reinsurance and capital market solutions. However, the OFT considered that suppliers of brokerage services for retrocessional reinsurance are constrained to some degree by the wider market for direct placement of retrocessional insurance, and that therefore its shares on the narrower basis would tend to over-state the parties' competitive strength. In capital market solutions, two competitors claimed that the merging parties will have a strong position in the field. However, the parties' combined market share is below 25 per cent, with a number of alternative suppliers of similar size. In addition, their capital market solutions activities in the UK seem to be limited.

64. Third parties were largely unconcerned about the impact of the merger on competition.

65. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

66. This merger will therefore not be referred to the Competition Commission under section 33(1) of the Act.