OFFICE OF FAIR TRADING

Completed acquisition by QBE International Holdings (UK) plc of MBP Holdings Ltd

The OFT's decision on reference under section 22 given on 14 November 2005. Full text of decision published 12 December 2005.

Please note that square brackets indicate information replaced by a range at the request of the merging parties for reasons of commercial confidentiality.

PARTIES

1. **QBE International Holdings (UK) plc** (QBE) is part of QBE Insurance Group and is a worldwide insurer. Amongst other risks, QBE underwrites insurance for coaches and minibuses. **MBP Holdings Limited** (MBP) is a wholesale broker of motor and other types of insurance. Its UK turnover for the year ended 31 July 2004 was £11.2 million.

TRANSACTION

2. QBE acquired MBP on the 16 August 2005. A satisfactory submission was received by the OFT on 19 September 2005. The administrative deadline is 14 November 2005 and the statutory deadline is 15 December 2005.

JURISDICTION

3. As a result of the transaction, QBE and MBP have ceased to be distinct. The UK share of supply of insurance (and broking) for bus and coach fleets is approximately [45-55 per cent] (increment [<5 per cent]) and the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

RELEVANT MARKET

4. The parties each provide products in the vehicle insurance sector.

Product focus

Insurers vs Brokers

5. QBE underwrites insurance, while MBP is a wholesale broker. Underwriting and brokerage of insurance (wholesale and retail) have been defined as separate markets by the European Commission in previous cases.[1] Insurers market their own products and have a vested commercial interest in selling these products to their client, whereas brokers act as intermediaries between (re)insurers and clients, acting on their clients' behalf and seeking to place their clients' risk with the most suitable and competitive insurers.[2] In this case, a third party commented that retail brokers (who sell to end consumers) can use either underwriters or wholesale brokers. However, for the purposes of this case it is not necessary to conclude on this point as the transaction does not raise competition concerns regardless of whether underwriting and broking are considered part of the same relevant frame of reference or not.

Different insurance products

6. On the demand-side, substitution between different types of insurance contract is limited as consumers have specific requirements for the insurance. For example, motor insurance must typically be for a specific type of vehicle.

7. The European Commission has defined the relevant product markets for insurance as being life insurance and non-life insurance separately on the basis of supply-side substitution, although it has left the question open in some decisions whether further subdivision would be appropriate.[3]

8. At the underwriting level, QBE submits that the basic characteristics for insuring one type of vehicle are the same as for the insurance of other types of vehicles. The underwriter is required to assess the risk of a claim, and the likely value and frequency of claims. Underwriters model this risk on the basis of a wide variety of factors, and this modeling allows them to assess risks across different vehicle types.

9. One third party maintained that additional expertise is required to underwrite multi-seat vehicles,[4] as the risks associated with these types of vehicles are much

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[1] Case No IV/M.1307 – *Marsh & McLennan / Sedgwick, decision of 23 October 1998*.
[2] Case No IV/M.1307 – *Marsh & McLennan / Sedgwick,* paragraph 12 citing Case No IV/M.1280 – *KKR / Willis Coroon, decision of 24 August 1998*.
[3] See, for example, Case No COMP/M.3556 *Fortis / BCP, decision of 19 January 2005* and Case No COMP/M.2491 *Sampo / Storebrand, decision of 27 July 2004.* On a non-life insurance frame of reference, the merger would not raise competition concerns (paragraph 12).
[4] These are typically coaches, buses, MPVs and taxis.

greater, compared to underwriting cars and bikes. QBE submits that it is arguable that there is a degree of specialised skill required to support the underwriting of multi-seat vehicles, as well as a properly structured reinsurance programme. However, a third party submitted that expertise possibly could be acquired via in-house training, buying in staff with expertise or purchasing consultancy services.

10. Overall, the evidence available indicates that supply-side substitution between underwriters of car and motorcycle motor insurance and multi-seat motor insurance, as well as supply-side substitution between underwriters of different types of multi-seat vehicle insurance, may be feasible. However, for the purposes of this case it is not necessary to conclude on this issue and the supply of minibuses, coach and buses and all motor insurance will each be considered individually.

11. No third party submitted that it would be difficult for a broker to switch between providing different types of motor insurance. Nevertheless, for the purposes of this case it is not necessary to conclude on this issue and again the supply of minibuses, coach and buses and all motor insurance will each be considered individually.

Fleet vs single vehicles

12. The parties overlap in the provision of insurance products for both single vehicles and fleets of vehicles.[5] QBE submits that there is some distinction in distribution between the provision of insurance products for fleets and single vehicles.

13. Some third party responses suggest that it would be relatively simple for underwriters of fleet insurance to provide single vehicle insurance and vice versa. However, one third party submitted that underwriting fleet insurance is less automated than for single vehicles and is primarily underwritten on a case by case basis using the insurers own rating tools.

14. No third party submitted that it would be difficult for a broker to switch between providing fleet and single vehicle insurance.

15. However, for the purpose of this case, it is not necessary to conclude on this issue and the provision of insurance products for fleets and single vehicles will be considered separately where data is available.

[5] QBE submits that the relevant sub-division is actually between 1-4 vehicles (single vehicles) and 5 or more vehicles (fleets). Some third parties disagreed with this analysis and supported alternative sub-divisions, but did not provide information on the basis of their proposed sub-divisions. QBE's data based on its sub-division has therefore been used where data was available.

Geographic focus

16. For the purposes of this case, consistent with previous cases, a UK geographic frame of reference has been used.

HORIZONTAL ISSUES

Market shares

17. If underwriting and broking are considered as separate frames of reference, then there is no overlap between the parties' activities and no horizontal competitive concerns arise.

18. If underwriting and broking are considered together, then the parties' UK shares of supply (as set out in the table below) do not raise prima facie competition concerns. No third parties raised any horizontal competition concerns.

Table 1: Parties' shares of supply of aggregated underwriting and broking

Product / service (UK)	QBE (%)	MBP (%)	Aggregate (%)
Motor insurance total	[<5]	[<5]	[<5]
Motor insurance fleet	[5-10]	[<5]	[5-15]
Minibuses - total	[5-15]	[15-25]	[25-35]
Minibuses - fleet	-[6]	-	-
Minibuses - single	-	-	-
Coach / bus - total	[40-50]	[<5]	[40-50]
Coach / bus - fleet	[45-55]	[<5]	[45-55]
Coach / bus - single	-	-	-

Source: the parties

Barriers to entry and expansion

19. The capital costs of setting up a new insurance underwriter appear to be high and include: capital support costs as dictated by the regulatory framework; and advertising to generate brand awareness. Moreover, new entrants must gain authorisation from the FSA by class of risk before underwriting the risk. As noted above, QBE submits that it is arguable that there is a degree of specialised skill required to support the underwriting of multi-seat vehicles. However, for the purposes of this case, no conclusions need to be drawn about barriers to entry

[6] '-' indicates that no data was available. We have no evidence to suggest that such shares are substantially higher than for the relevant total figure.

and expansion at the underwriting or broking level given the lack of competition concerns.

Buyer power

20. QBE submits that there is very substantial buyer power at a number of levels of the UK insurance industry, which affects both minibus and coach insurance. However, given the lack of competition concerns, it is not necessary to draw conclusions on whether customers possess countervailing buyer power or not.

VERTICAL ISSUES

21. If broking and underwriting are considered as separate frames of reference, the parties will be active at two separate levels of the supply chain. Vertical competition concerns are likely to arise as a result of a merger only if market power exists or is created in one or more markets along the supply chain. The parties' largest shares of supply are in the total coach/bus segment ([40-50 per cent] of underwriting and less than [5 per cent] of broking) and fleet coach/bus segment ([45-55 per cent] of underwriting and less than [5 per cent] of broking). While these shares are high at the underwriting level, it does not appear credible to suggest that QBE would have the ability and incentive to seek to foreclose brokers other than MBP from supplying these types of insurance given the lack of third party concerns in this segment and that the size of MBP's share of broking in each of these segments suggests that QBE's incentives will not change significantly as a result of the merger.

22. One third party raised the possibility of QBE foreclosing competition for minibus insurance broking by refusing to supply insurance to brokers other than MBP. However, given that MBP has a [15-25 per cent] share of minibus insurance broking and QBE underwrites only [5-15 per cent] of minibus insurance, the OFT does not believe that such a strategy is credible.

THIRD PARTY VIEWS

23. The vast majority of third parties contacted raised no concerns about the competitive effects of the transaction.

ASSESSMENT

24. No horizontal or vertical competition concerns arise on any of the frames of references analysed. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

25. This merger will therefore **not be referred** to the Competition Commission under section 22(1) of the Act.