Commerce Act 1986: Business Acquisition

Section 66: Notice Seeking Clearance

All confidential information included in [square brackets and highlighted].

Date: 19 December 2011

The Registrar
Market Structure Team
Commerce Commission
PO Box 2351
Wellington
By email: registrar@comcom.govt.nz

Pursuant to section 66(1) of the Commerce Act 1986 notice is hereby given seeking clearance of a proposed business acquisition.

PUBLIC VERSION

Contents

Summary

This is a notice seeking clearance for a proposed acquisition that will result in IAG New Zealand Limited (**IAG**) and certain of AMI Insurance New Zealand Limited's (**AMI**) insurance businesses coming under common ownership.

IAG (NZ) Holdings Limited (the **Applicant**) is of the view that the proposed acquisition will not result in a substantial lessening of competition in any market.

In support of this view, the Applicant notes the following:

- **IAG is, and will remain, constrained post-acquisition by existing competitors**: The proposed acquisition will result in increased market shares for the Applicant and higher levels of concentration in domestic insurance markets. However, the relevant markets are competitive and will remain so post-acquisition. There are a number of credible competitors, including well-established general insurers with significant financial resources and capabilities as well as an active competitive fringe. Retail customers primarily differentiate insurance products on the basis of price and there are no barriers to prevent retail customers from switching insurance providers if the merged entity attempted to raise prices to supra-competitive levels (or reduce coverage or service levels).

- **The absence of any meaningful barriers to entry and expansion**: Barriers to entry and expansion are relatively low, and the Applicant anticipates new entry would occur should the appropriate market incentives arise. Potential new entrants include major banks, overseas insurers (or firms backed by overseas insurers), or existing insurance providers not currently offering domestic house and contents or motor vehicle insurance products leveraging their existing customer databases and distribution networks to expand their offerings. In addition, the Applicant notes the success of other financial institutions and retailers in overseas markets in offering insurance products through their own distribution networks.

- **The existence of countervailing power:** Banks exercise significant countervailing power at both the wholesale and retail levels due to their ability to cross-sell insurance products into their large customer bases, and would not tolerate any attempt by the merged entity to move prices or quality of service beyond competitive levels.

The analysis underpinning this view is consistent with the Commission's analysis in its decision in respect of the CGU/Norwich merger, as market dynamics have not changed sufficiently to warrant a departure from that analysis.[1] It is also consistent with the ACCC's more recent decision in respect of Suncorp Metway Limited's acquisition of the Promina Group.[2]

Importantly, the Applicant views the relevant counterfactual to be an acquisition of AMI by another incumbent domestic insurance provider or by a new entrant insurance provider.

[1] Commerce Commission, Decision No. 391, CGU Plc and Norwich Union Plc, 9 May 2000 (Norwich).
[2] ACCC, Public Competition Assessment, Suncorp Metway Limited - proposed acquisition of Promina Group Ltd, 12 January 2007 (Suncorp).

A number of significant recent developments have impacted on the New Zealand insurance sector and are discussed in this application, most notably the series of Canterbury earthquakes and the new prudential requirements for underwriters of domestic insurance. However, while these developments are important, they do not have any material impact on the competition analysis in respect of the proposed acquisition.

Part 1 Transaction Details

1 Provide the name of the acquirer (person giving notice), and the name of the individual responsible for the notice.

This notice is given by Martin Hunter, Company Secretary

IAG (NZ) Holdings Limited
NZI Centre
1 Fanshawe Street
Auckland 1010
Telephone: 09 969 6000
www.iag.co.nz

IAG request that all correspondence is directed in the first instance to:

Webb Henderson
Level 3, 110 Customs Street West
PO Box 105-426
Auckland 1143

Attention: Mark Toner, Partner
Telephone: 09 970 4108
Email: mark.toner@webbhenderson.com

2 Provide the name of the other merger parties, and the name/position of the relevant individual within the relevant merger parties.

The target business is AMI Insurance (Operations) Limited (**AMI NewCo**).

c/- AMI Insurance Ltd
6 Show Place
P O Box 386
Christchurch 8140
New Zealand
Telephone: 03 371 9000
www.ami.co.nz

The target business requests that all correspondence in respect of this application be addressed in the first instance to:

David Blacktop, Senior Associate
Bell Gully
171 Featherston Street
PO Box 1291
Wellington

Telephone: 04 915 6531
Email: david.blacktop@bellgully.com

3 With respect to the merger parties, list the relevant companies and the person or persons controlling these directly or indirectly. Please use organisational charts or diagrams to show the structure of the ownership and control of the acquirer and participant(s) to the acquisition.

Acquirer: IAG (NZ) Holdings Limited is a wholly-owned subsidiary of Insurance Australia Group Ltd. Insurance Australia Group Ltd is listed on the Australian Securities Exchange (**ASX**). An IAG structure chart is attached as Annexure 1.

IAG (NZ) Holdings Limited is the sole owner of IAG, which trades in New Zealand under the State and NZI brands, and also distributes insurance via intermediaries. IAG owns 25% of Loyalty New Zealand Ltd, which operates the Fly Buys loyalty programme. IAG is the only insurance company involved with Fly Buys.

Target: As described further below, the target is a newly created, wholly-owned subsidiary of AMI. AMI is a company domiciled in New Zealand. The subsidiary, AMI NewCo, will include all the business of AMI with any claims resulting from the Canterbury earthquakes carved out. The subsidiary will be a limited liability company.

4 Provide details on what is to be acquired.

Clearance is sought for IAG (NZ) Holdings Limited to acquire certain business assets of AMI (being all assets related to AMI's current insurance business excluding AMI's Canterbury earthquake liabilities) through subscription to 100% of the shares in a newly created company, AMI NewCo.

5 Fully explain the commercial rationale for the proposed merger. Specify whether this is part of an international merger.

The size of the insured losses from the September 2010 and February 2011 Canterbury earthquakes will ultimately exceed AMI's reinsurance cover of NZ$600 million per event. As a consequence, in April 2011 the New Zealand Government provided a NZ$500 million capital support arrangement which, if called on, would require the Government to invest up to NZ$500 million of equity in AMI, with the right to take ownership and assume control if necessary.

The AMI Board determined that the most beneficial course of action for both AMI and the Government was to seek a strategic investor to invest in a restructured AMI. A restructuring of AMI will take place prior to the sale whereby there will be a separation of the Canterbury earthquake liabilities into a company owned by the Crown, with the balance of AMI's insurance business being transferred to a newly created company, AMI NewCo, with IAG (NZ) Holdings Limited acquiring 100% of the equity in AMI NewCo.

The purchase of AMI NewCo is consistent with IAG's strategic priority of accelerating profitable growth in its home markets of Australia and New Zealand. AMI NewCo's personal lines offering, trusted brand, customer loyalty and distribution network are a strong strategic fit with IAG's State insurance business.

The effect of the Canterbury earthquakes has been to increase reinsurance costs, which ultimately must be passed through to retail customers. This includes the pass through to all New Zealand house and contents policyholders of the threefold increase in EQC levies, due to be implemented with effect from February 2012. Therefore the impact on consumers of increasing premiums is unavoidable and will heighten sensitivity to policy affordability and competitiveness. Delivering affordable prices and insurance coverage in the New Zealand insurance market, despite the effects of the Canterbury earthquakes, is a strategic imperative for IAG. The proposed acquisition will assist IAG in looking to realise efficiencies in order to reduce pressure on increases in premium rates and minimise the prospect of domestic insurance becoming unaffordable in some households.

The proposed acquisition is not part of an international merger.

6 Provide copies of the final or the most recent versions of any documents bringing about the proposed merger (e.g. contracts, sales and purchase agreements, or offer documents if it is a public bid).

The following transaction documents are attached to this notice:

- Sale and Purchase Agreement, attached to this notice as Annexure 2.
- Subscription Agreement, attached to this notice as Annexure 3.
- Deed of Undertaking, attached to this notice as Annexure 4.
- Claims Management Services Supply Agreement, attached to this notice as Annexure 5.
- Licensing Deed, attached to this noticed as Annexure 6.

7 If any other jurisdiction's competition agency has been (or will be) notified of the proposed merger, please list each competition agency notified (or to be notified) and the date of the notification.

The proposed acquisition is not part of an international merger and so does not affect markets outside of New Zealand. Accordingly, the proposed acquisition has not been notified to competition authorities in any other jurisdiction.

Part 2 The Industry

8 Describe the relevant goods or services supplied by the merger parties.

Both IAG and AMI supply general insurance products. Most relevant for the purposes of this notice is that both insurers have significant businesses that supply domestic insurance, principally house and contents insurance and motor vehicle insurance products. IAG also has significant commercial insurance interests.

IAG: IAG trades under the NZI and State Insurance brands and underwrites general insurance business for some of New Zealand's leading financial institutions including [ ].

IAG's operations in New Zealand are conducted under two main brands:

- State
- NZI

State offers personal and commercial insurance products directly to retail customers. Customers can access State via a 24 hour, 7 day a week sales and claims telephone service, via 29 sales centres located throughout the country or via www.state.co.nz. State also offers Roadside Rescue, a 24 hour, 7 day a week vehicle breakdown service.

NZI offers a broad range of personal, rural and business insurance products through IAG's broker network. NZI has the largest broker distribution network in the country. Customers can search for brokers and access product and general company information at www.nzi.co.nz.

IAG also distributes insurance products via intermediaries such as financial institutions, travel agents and motor vehicle dealers.

IAG has also entered into a Deed of Undertaking with the Crown aimed at reassuring AMI customers in Canterbury. As part of this, IAG has confirmed continued availability of home insurance, at renewal and transfer, for all current AMI policy holders in the region.

AMI: AMI is a fire and general insurance company. Founded in Christchurch in 1926 as the South Island Motor Union, AMI has evolved over nearly 100 years into a significant personal lines insurance company. AMI was originally a mutual entity limited by guarantee. Reflecting a change in legislation, a new composite structure combining a Members Trust and a number of limited liability companies was put in place in 1997.

AMI has nearly 500,000 customers holding some 1.2 million policies. AMI's head office is located in Christchurch and it has 73 branches and 21 dedicated agencies throughout the country. AMI is a "direct" personal lines insurer operating within and only underwriting risks in New Zealand. AMI does not deal with insurance brokers and has no formal third party insurance intermediary distribution agreements. AMI writes three major products – motor vehicle, contents and house – as well as a small volume of boat and farm products. CLIC Car Insurance Limited was formed in 2007 as a wholly-owned subsidiary of AMI and is a specialist motor vehicle insurer. For example, CLIC offers retail insurance products tailored to first-time drivers, drivers of modified vehicles and similar niche markets (please see www.cliccarinsurance.co.nz). As noted above, AMI's insured losses from the September 2010 and February 2011 Canterbury earthquakes will ultimately exceed its reinsurance cover of NZ$600 million per event. As a consequence the New Zealand Government provided a NZ$500 million capital support arrangement to enable AMI to continue operations.

AMI NewCo: AMI NewCo is a new entity formed through the restructuring of AMI prior to completion of the proposed transaction. The new entity has been incorporated and, following completion of the proposed transaction, AMI NewCo will be a wholly-owned subsidiary of the Applicant and the holder of the the relevant insurance assets acquired from AMI. This will separate the Canterbury earthquake liabilities from AMI NewCo, by transferring AMI's business operations to an entity unaffected by the liability for the earthquakes.

In addition, AMI NewCo has entered into a Claims Management Service Agreement to provide certain services relating to the administration of claims arising from the Canterbury earthquake on behalf of AMI. These claims are currently managed by a division within AMI.

9 Describe the industry or industries affected by the proposed acquisition. Where relevant, describe how sales are made, the supply chain(s) of any product(s) or service(s) involved, and the manufacturing process. If relevant, provide a glossary of terms and acronyms.

The proposed acquisition primarily affects the domestic insurance industry.[3] The supply of domestic insurance products comprises five distinct processes:

- Underwriting.
- Claims processing.
- Distribution.
- Reinsurance.
- Investment portfolio management.

Each process is discussed below, in turn.

Underwriting: Underwriting of insurance describes the process through which insurers select the risks they are willing to insure and set the level of the premiums they consider to be necessary to cover those risks. The premium is set based on (amongst other things) the insurer's estimate of the probability of loss (that is, the risk of the insured event

[3] As explained further in the market definition section below, IAG and AMI both operate in the New Zealand domestic insurance market. IAG also operates in the commercial insurance market but AMI does not have significant business operations in commercial insurance and so there will be no aggregation.

occurring) and the attendant claims cost, plus an allowance for an adequate return on shareholder capital supporting the risk being assumed. Finally, the premium includes the fixed/capped government levies which are collected and passed through to the respective government agencies (Fire Service, EQC.)

Claims processing: Claims processing and loss handling is essentially the “product” that retail customers purchase from an insurance business. If the insured risk eventuates, the insured party relies on the insurer to process the claim and deliver on the insurance contract. Claims processing requires the insurance business to procure replacement goods and repair services from associated procurement markets.

Distribution: Insurance products are distributed to retail customers using a variety of distribution channels:

- Directly to the customer by the insurer, via a network of physical branches or via telephone call centres and (increasingly) the Internet.
- Indirectly via a separate wholesale distributor who distributes “white label” retail insurance products underwritten by the insurer (such as a bank or other financial institution).
- Indirectly via insurance brokers who are independent advisers operating on behalf of their clients to procure policies that best suit the retail customer’s needs.

Reinsurance: Reinsurance essentially describes insurance that is purchased by an insurer from a reinsurer in respect of the insurance policies the insurer holds as a means of managing the aggregated risks to the insurer of holding those policies. It is generally purchased annually through reinsurance brokers operating in global markets. Reinsurance is a key means by which primary insurers seek to manage the aggregated risks to which they are exposed by ensuring continuing solvency in a catastrophic event. The amount of protection provided by reinsurance depends to an extent on the level of “retention” (the equivalent of excess for insurance policies), and it is the underwriter’s task to ensure that retention and reinsurance levels are balanced to match the underwriter’s risk profile.

Investment portfolio management: Insurance businesses also mitigate their risk and maximise their returns by prudently investing the premiums that they receive but have not yet paid out as claims (referred to as the “float”). Managing an investment portfolio in respect of the float is a core part of insurance and the investment returns assist in reducing the level of insurance premiums charged to retail customers.

10 Describe the current industry trends and developments including the role of imports and exports, emerging technologies, and/or changes in supply and demand dynamics.

The Applicant considers that the following trends and developments are relevant for the purposes of this notice:

- The role of intermediaries such as financial institutions and large retailers in distributing personal lines insurance products such as house and contents and motor insurance.
- The increasing importance of sales via the Internet (both for direct sales and price comparison by consumers).
- The recent changes in regulatory requirements.
- The impact of the Canterbury earthquake.

Increasing role of intermediaries such as financial institutions and large retailers: Internationally there is a clear trend towards financial institutions, particularly major banks, seeking to cross-sell insurance products to their large customer bases through their various distribution channels. This trend is also visibly evident with large supermarket chains and other major retailers. It is driven by a desire to increase product and revenue per customer to offset slower growth trends in their traditional businesses.

This is a natural evolution of domestic insurance markets as major banks often have trusted brands, well established branch networks, established customer relationships, and direct customer contact when insurance is needed (such as a loan for a house or car purchase). From a customer's perspective, there is the convenience that comes with having both their banking and insurance needs fulfilled at the same time.

There is a clear trend of this occurring in Australia, with the major banks all distributing personal lines insurance products and, in the case of Westpac and Commonwealth Bank of Australia (the parent of ASB), underwriting the house and contents insurance product. Coles, one of the two large supermarket chains in Australia, is seeking to grow its market share in personal lines products and underwrites it through its Wesfarmers and Lumley insurance businesses. Woolworths, the other large supermarket chain in Australia, has recently entered into a wholesale underwriting arrangement with Swiss Re and Hollard.

While major New Zealand banks do not currently underwrite the domestic personal lines insurance products they supply, they are seeking to grow their market shares at a retail level through their large customer base and strong distribution channels and the Applicant considers that underwriting by major banks of personal lines products is likely to be a feature of New Zealand insurance markets in the foreseeable future. How soon this occurs will ultimately depend on whether financial institutions perceive there to be an opportunity to vertically integrate and enter the market upstream.

Internet distribution: In recent years the importance of direct sales to customers via telephone and the Internet has changed the dynamics of the domestic insurance market. In particular, direct sales have lower distribution costs for insurers and have reduced search costs (and therefore increase the ease of price comparison between insurers, encouraging switching towards insurers offering lower premiums or more attractive product offerings) for retail customers.

The Commission noted in its clearance of the Norwich/CGU merger that telephone and Internet distribution of insurance was likely to increase in importance.[4] This prediction has proven correct. Traditionally, insurance providers required a nation-wide physical presence in order to ensure a distribution network with effective customer reach. However, new entry can be observed in the market by participants who rely increasingly (or in some cases solely) on the internet to answer initial inquiries, compare different insurance products, provide online quotes and finalise insurance cover.

Another feature of international insurance markets, and one that has recently appeared in New Zealand, is the emergence of price comparison websites. Such websites provide an online platform from which to compare insurance prices and products (Please refer to Annexure 12).

Again, the shift in insurance trends toward Internet distribution is consistent with international developments. According to one study, 54 percent of American consumers now search for insurance rates online, a steady increase over the last five years.[5]

Not only are consumers assessing insurance premiums online from their current insurance providers, but they are also comparing between various providers to determine the best available offer. In 2011, 33 percent of those shopping for insurance online compared multiple insurers.[6]

These trends are likely to increasingly feature in New Zealand insurance markets, placing increasing pressure on insurers to compete and innovate.

Changes in regulatory requirements: The Insurance (Prudential Supervision) Act 2010 introduced new prudential requirements for underwriters of domestic insurance. The purpose of the Act is to promote the maintenance of a sound and efficient insurance sector and to promote public confidence in the insurance sector. Prior to this new legislation coming into force, prudential requirements for non-life insurers were considered to be relatively modest and the industry was effectively self-regulated.

These new requirements are discussed in more detail in the “barriers to entry” section of this notice, with a significant change being the Reserve Bank of New Zealand becoming the regulator for the sector. In short, while the Insurance (Prudential Supervision) Act and the associated regulations imposed by the Reserve Bank have increased the prudential requirements for underwriters and may impact on the smallest players, these requirements are unlikely to meaningfully impact on existing competitors’ ability to compete or raise barriers to entry for a credible new entrant.

Canterbury earthquake: The series of earthquakes in the Canterbury region over the last 15 months, and most significantly the event on 22 February 2011, have had a material impact on New Zealand insurance markets. The February earthquake was the highest impact event, but each of the major earthquakes on 4 September 2010, 26 December 2010 and 13 June 2011 have been significant in their own right.

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[4] Norwich, at [21].
[5] J.D. Power and Associates, 2011 U.S. Insurance Shopping Study.
[6] J.D. Power and Associates, 2011 U.S. Insurance Shopping Study.

All underwriters of domestic insurance in New Zealand have been affected by the scale of the earthquakes. The market for domestic insurance is largely operating as it was prior to these events with underwriters on the whole continuing to write new policies. However, there has been some media comment that reinsurance is not available to the extent that it was prior to these major earthquakes, as the appetite for exposure to New Zealand risk from global reinsurance markets has reduced.

In IAG's experience, there is no shortage of capacity in the market for reinsurance in New Zealand. However, the cost for underwriters of securing reinsurance has increased across the entire market in the last 12 months as insurers renew their reinsurance programs after the Canterbury earthquake and is likely to continue to rise in the short term. [[redacted]]. Similar increases can be expected for underwriters across the board.

11 Please highlight any relevant mergers that have occurred in this industry over the past three years.

In 2011, AMP Limited acquired the Australian and New Zealand operations of AXA Asia Pacific Holdings Limited.[7] That merger affected the national market for the provision (including the underwriting and distribution) of wealth protection and life insurance products.

There have been no mergers affecting general domestic insurance markets in the relevant time period.

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7 The Commission gave clearance to the AMP/AXA merger in Decision 694.

Part 3 Market Definition

Horizontal Aggregation

12 For each area of aggregation of market shares, please define the relevant market(s).

The Applicant considers that the acquisition will give rise to aggregation in the following markets:

- The national market for domestic house and contents insurance.
- The national market for domestic motor vehicle insurance.

Product market (insurance): In its 2000 CGU/Norwich Union decision (Norwich), the Commission defined the following markets in respect of the insurance industry:

- The national market for domestic house and contents insurance.
- The national market for domestic motor vehicle insurance.
- The national market for commercial motor vehicle insurance.
- The national market for commercial property insurance.
- The national market for commercial liability insurance.

The Commission left open the question of whether product markets were as wide as a market for domestic insurance and a market for commercial insurance. The Commission assessed the competitive effects of the proposed acquisition in respect of the five markets set out above on the basis that if there were no competition concerns arising out of more narrowly defined markets, then it would be unlikely for competition concerns to arise in respect of markets defined more widely.[8]

The Applicant notes that:

- The Commission's analysis in Norwich remains appropriate. Market dynamics have not shifted sufficiently since that decision to warrant a departure from the markets defined by the Commission.
- The proposed acquisition will result in aggregation only in respect of domestic insurance markets. While IAG is a participant in each of the markets identified in Norwich, the vast majority of AMI's business relates to domestic rather than commercial insurance.
- This approach is consistent with the ACCC's recent Suncorp Metway/Promina decision where it defined markets for the manufacture/supply of motor vehicle

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[8] *Norwich*, at [42].

insurance, and the manufacture/supply of house insurance and other types of domestic insurance.[9]

Accordingly, for the purposes of competition analysis, it is appropriate to consider:

- The market for domestic house and contents insurance.
- The market for domestic motor vehicle insurance.

Because the Applicant and AMI also offer boat and farm insurance, there will be some aggregation in these markets. However, as AMI is a very small operator in these markets, any aggregation will be insignificant. Specifically, AMI has approximately [ ] boat insurance policies (an approximate [ ] share of the total market based on IAG's estimates) and [ ] farm insurance policies, which together are likely to represent [ ] of AMI annual gross written premiums. While the exact size of the national boat market is difficult to determine exactly, IAG estimates a potential [ ] boats. The total farm market, which includes forestry blocks and large scale farm units, is estimated to be worth [ ].

A similarly insignificant aggregation will occur in the commercial vehicle market, where AMI has a small number of policies for "light commercial use" motor vehicles.

Functional market: The Commission has not consistently defined separate functional markets in the insurance industry. For example, in the AMP/AXA decision the Commission did not differentiate insurance markets at the functional level.

However, should the Commission consider it is appropriate to differentiate insurance markets at the functional level, the Applicant considers the following functional levels are relevant:

- **Reinsurance**. Reinsurance is a key means by which primary insurers seek to manage the risk to which they are exposed. Reinsurance essentially describes insurance that is purchased by an insurer from a reinsurer in respect of the insurance policies the insurer holds as a means of managing the risk to the insurer of holding those policies. In this case, neither IAG nor AMI supply reinsurance, although both must purchase reinsurance in order to effectively manage risk. Accordingly, aggregation will not impact on competition because supply of reinsurance is a global market, due to the need to pool risk on a worldwide basis.[10]

- **Underwriting**. Underwriting of insurance describes the process through which insurers select the risks they are willing to insure and set the level of the premiums they consider to be necessary to cover those risks. Underwriters wholesale "white label" insurance products (including claims handling), which the wholesale customer on-sells under its own brand to retail customers. In the case of domestic insurance, major banks are the primary wholesale customers.

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[9] *Suncorp*.

[10] EC COMP/M.4059 Swiss Re/GE Insurance Solutions at [11].

Underwriters also supply insurance products directly to retail customers. The proposed acquisition will result in a level of aggregation in respect of underwriting activities.

- **Retail**. Retail refers to the direct supply of insurance (including claims handling) to retail customers by insurance companies and major banks, whether via a network of physical branches or through call centres and the Internet.

The Applicant therefore considers that the relevant functional markets are the underwriting and retail markets, and that it is appropriate to consider underwriting and retail distribution markets together.[11]

Geographic markets: The Commission has consistently assessed insurance markets for competition purposes on a national basis, most recently in AMP/AXA.[12] The Applicant considers that this remains the correct approach, and it should be applied in respect of the proposed acquisition.

In particular, the following features of the market suggest that undertaking competition analysis on the basis of national markets is appropriate:

- AMI's geographically diverse portfolio.
- AMI has (and other insurers have) a nation-wide spread of branches.
- Telephone and Internet selling of insurance and claims management and processing limits the relevance of geographic boundaries.
- The Commission has previously recognised the "uniformity" of insurance products available throughout New Zealand in Norwich.[13]

13 Where relevant, please explain how products or services are differentiated within the market(s).

Domestic insurance products are differentiated in a number of ways. The key differentiating factors on which retail insurance providers compete are:

- **Price**. Given the similarity of retail insurance products, competitive pricing is the primary differentiating factor for many consumers. Price competition may occur in respect of the headline price, but retail insurance suppliers also compete on price through discounting, such as:
  - Bundled discounts, where two or more insurance policies are held by the retail customer from the same insurance supplier (such as Tower, which offers up to a 20% discount for customers who have three or more insurance policies with Tower).

[11] Note that the ACCC considered underwriting and retail distribution markets together in its *Suncorp* decision.
[12] Commerce Commission Decision No. 694, AMP Limited and AXA Asia Pacific Holdings Limited, 18 June 2010.
[13] Norwich, at [43].

- Increases in the amount of excess payable before a claim can be made.
- No claims bonuses, providing a discount where the retail customer has not previously made an insurance claim (such as AA Insurance's "No Claim Bonus" which offers a discount of up to 60% on car insurance premiums where a customer has not made a claim for a certain period of time).
- Loyalty programmes and rewards points (such as AA Insurance's Members' Discounts, which reduce premiums for AA Members, State Insurance's Fly Buys loyalty programme, or specific loyalty offers such as free medical examinations for insured persons who have been insured with Tower for 36 months).

A table of estimated average premium pricing is included in Annexure 7.

▪ **Coverage**. While the basic coverage of insurance products is likely to be similar, a small percentage of retail customers are willing to pay a premium for extended coverage. These retail customers, such as those targeted by products like Aon's Private Clients services, are likely to be high net worth individuals (who are therefore relatively insensitive to price) and sophisticated buyers of insurance. While there is clearly flexibility to differentiate on coverage, market participants view domestic lines insurance products as substitutable in the eyes of consumers.

▪ **Service and claims handling**. Many retail customers place a premium on convenience and a "hassle free" experience when dealing with their insurer, especially at claims time. Customer service and claims handling excellence is therefore a key differentiator, particularly among consumers who may be less price-sensitive.[14]

▪ **Brand**. Retail customers also differentiate between insurers (and therefore the retail insurance products they supply) on the basis of branding and reputation. AA Insurance, for example, competes aggressively on the basis of its well-known and well-trusted consumer brand.

Retail brand is likely to continue to be a significant feature of product differentiation following the Canterbury earthquakes. Customers tend to focus on brand rather than size as a proxy for financial security, and this is likely to continue to be the case with high financial prudency standards now monitored by the Reserve Bank. Customers can now have a high degree of faith in the reliability of even small insurers, and so the credibility of particular brands is likely to continue to drive customer choice.

▪ **Additional features**. Retail suppliers of insurance may include participation in loyalty programmes (such as Fly Buys), roadside assistance (such as Tower's RoadWise service) or other non-core additional features as part of the supply of insurance in order to differentiate domestic insurance products.

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[14] For example, superior customer service is a key aspect of State's growth strategy.

Despite these points of differentiation, the underlying insurance products are broadly substitutable allowing customers to select the product that best suits their particular needs. As a result, ostensibly similar products may in fact be targeted at different demographics, and at the fringe there is likely to be more limited substitutability between such products when considered from a demand-side perspective. However, from a supply-side perspective there is a high level of substitutability between insurance products. The conditions for insurance of different types of risk are very similar from an underwriter's perspective. For that reason different types of general insurance are often considered to be part of the same product market, despite minor differentiating features.

Vertical Integration

14 Provide details of any creation or strengthening of vertical integration that would result from the proposed merger. Please use organisational charts or diagrams to illustrate the structure of the ownership and/or control of the participants and the vertical relationships in question.

The proposed acquisition will not result in the creation or strengthening of any vertical integration.

Part 4 Counterfactual

15 In the event that the proposed merger does not take place, describe what is likely to happen to the business operations of the merger parties and the market/industry.

In the Applicant’s view, given the fact that AMI initiated a competitive tender to seek a strategic investor, the likely counterfactual will be either:

- the relevant assets are acquired by another incumbent domestic insurance provider; or
- the relevant assets are acquired by a new entrant insurance provider (for example, an international insurance firm or a New Zealand firm currently offering complementary services such as a major bank).

Part 5 Competition Analysis

Existing Competitors

16 Identify all the relevant competitors in the market(s), including near competitors and importers in the market(s), and describe how they all compete in the market(s).

In its Norwich decision, the Commission found that the house and contents and motor vehicle insurance markets were competitive.[15] IAG notes that this remains the case today.

Post acquisition, the combined entity will continue to face meaningful competition from a number of credible competitors, including well-established and sizable general insurers and an active competitive fringe.

Key competitors are identified below. Each competitor is active in both the domestic house and contents insurance market and the domestic motor vehicle insurance market.

Vero

Vero is a member of the Suncorp Group. Prior to 2003 Vero was known as Royal & SunAlliance. In 2003, Royal & SunAlliance New Zealand and Royal & SunAlliance Australia formed parent company Promina Group which was listed on both the Australian and New Zealand stock exchanges. Promina Group was acquired by the Australian based Suncorp Group in 2007 making Vero part of one of the largest financial and insurance operations in Australasia. Suncorp Group's market capitalisation is approximately A$11 billion.

Vero distributes insurance products under its own brand exclusively through intermediaries (brokers). The Vero Insurance New Zealand Group consists of several specialist insurance and risk management companies including Vero Accident & Health, Vero Commercial and Personal, Vero Commercial Motor, Vero Consumer Insurance Specialists, Vero Liability, Vero Marine, Vero Specialist Risks, Mariner, Comprehensive Travel and Autosure.

Vero also distributes products under the AMP General, Autosure New Zealand, Comprehensive Travel Insurance and Mariner Marine insurance brands.

See http://www.vero.co.nz/ for further details.

Tower

Tower provides general insurance products and life and health insurance products and operates in the funds management and superannuation markets. Tower is also a default KiwiSaver provider.

Tower was originally formed as the Government Life Insurance Office. It was renamed Tower Corporation in 1987 and demutualised and listed on the Australian and New Zealand stock exchanges in 1999.

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15 Norwich at [68].

In 2006, Tower's New Zealand and Australian businesses separated. The Australian business, Tower Australia Group Limited is now owned by Dai-ichi, a listed Japanese insurer. The New Zealand business, Tower Limited, remains listed on both the NZX and ASX.

See http://www.tower.co.nz/insurance/ for further details.

Lumley

Lumley develop, market and underwrite insurance. The organisation includes:

- **Lumley Broker** works closely with independent brokers and intermediaries to offer a diverse range of commercial and personal insurance.
- **Lumley Business Solutions** is Lumley's dedicated intermediary channel focused on the manufacture and distribution of personal lines products and the distribution of SME insurance products.
- **Lumley Finance** is a leading premium funding company that specialises in short term premium finance for clients of insurance brokers and selected professional services providers.

Lumley offers a diverse range of commercial and personal insurance products through intermediaries and independent brokers including commercial motor, property, marine, construction and engineering and personal lines (private house/contents/motor insurance).

Lumley's parent company is Wesfarmers, one of Australia's largest public companies.

See http://www.lumley.co.nz/home for further details.

FMG

FMG is a fully New Zealand owned, mutual general insurance company. FMG sells a wide range of general insurance tailored to the needs of rural business and home owners. These include dairy insurance, arable crop insurance, horticulture and viticulture insurance, RuralPak, HomePak, LifestylePak and BusinessPak (typical packaged style policies).

FMG offers investment advice through its FMG Investment Advisers section.

In February 2009 FMG decided to exit its equipment and vehicle finance operation to focus on the core insurance business.

Allianz

Allianz New Zealand is a wholly owned subsidiary of Allianz Australia Limited, and is part of the Allianz Group, one of the world's leading insurers and financial services providers.

Allianz New Zealand provides a range of personal, commercial and corporate insurance products though selected broker and agent business partners. Allianz offers personal lines (motor vehicle, household insurance), commercial insurance for SMEs and international corporate solutions via Allianz Global Corporate and Specialty. Club Marine writes insurance for pleasure craft.

See http://www.allianz.co.nz/ for further details.

AA Insurance

Suncorp Metway Limited and the New Zealand Automobile Association are joint venture partners for AA Insurance Limited.

AA Insurance specialises in car insurance and also provides house and contents insurance.

ASB

The ASB Group of companies is one of the largest providers of financial and insurance services in New Zealand. Key businesses in the Group include:

- **ASB Bank Limited:** which is one of New Zealand's four largest banks, with over 135 branches nationwide and more than one million personal, business and rural customers; and
- **Sovereign:** New Zealand's leading life insurance provider, providing personal and business life insurance, health insurance, as well as home loan, investment and superannuation products, through its network of 1,500 advisers nationwide, to over 650,000 customers.

The ASB Group is owned by Commonwealth Bank of Australia.

See https://www.asb.co.nz/ and https://www.sovereign.co.nz/ for more details.

ANZ/National

ANZ National is New Zealand's largest financial services firm. The group of companies includes:

- **ANZ Bank** and **National Bank**: which are, when combined, New Zealand's largest retail bank; and
- **OnePath:** which, amongst other things, provides and underwrites insurance products sold through ANZ National to its banking customer base.

ANZ National is owned by Australia and New Zealand Banking Group Limited, with 8 million customers worldwide.

See http://anz.com/about-us/ for more details.

BNZ

Bank of New Zealand has over 1 million New Zealand customers and operates a network of 180 stores nationwide.

BNZ is part of the list National Australia Bank (NAB) Group.

See http://www.bnz.co.nz/ for more details.

Westpac

Westpac New Zealand Limited has over 1.2 million customers and a network of over 200 branches nationwide. Westpac is part of the listed Westpac Group, which serves approximately 11.8 million customers globally. Westpac's New Zealand operation includes Westpac Life New Zealand, which provides and underwrites life insurance, home loan insurance and income protection products.

See http://www.westpac.co.nz/ for more details.

17 Outline the estimated market shares in terms of sales, and, where relevant, volume and productive capacity, of the merger parties and competitors identified above. Please include:

(a) The estimated total value of the domestic market; and

(b) The source of the data provided.

IAG's estimate of post-acquisition market shares are set out in Annexure 8. These estimates are based on the latest ICNZ market data available to IAG, information provided to IAG as part of the AMI bid process, and internal analysis by IAG staff.

Market share is provided as a measure of gross written premiums and percentage market share for both the underwriting and retail levels of the market.

We note that not all insurers (including significant insurers such as QBE and Lloyds) provide data to ICNZ. As a result of this "non-reported" GWP, the estimated market shares for IAG and AMI as set out in Annexure 8 overstate the actual underlying position.

18 To what extent do you consider that the merged entity would be constrained in its actions by the conduct of existing competitors in the markets affected?

Relevant markets are competitive

As noted above, the relevant markets are currently competitive. The Applicant believes that post-acquisition sufficient competitive constraint is imposed by Vero, Tower, AA Insurance and Lumley, together with the four major banks at a retail level, as well as a significant competitive fringe (including FMG and Allianz) to undermine any potential to increase prices above competitive levels, or to reduce quality or service below competitive levels.

In its Norwich decision, the Commission stated:[16]

> *"Industry sources also advised that the merged entity would be unlikely to be able to increase premiums, and still maintain market share. That is, it*

[16] *Norwich*, at [71].

> *was considered that the competitive response of these other insurers is likely to be significant, and is likely to constrain the combined entity."*

The Applicant considers that this observation remains accurate in today's market and that competition amongst insurance providers is strong and would remain so post-acquisition.

Business Monitor's New Zealand Insurance Report for Q3 2011 states that the competitive landscape of the insurance sector is fluid. Very large players are present; however no single insurer is dominant and the existence of several smaller insurers highlights various profitable niches.[17]

These market dynamics will continue post-acquisition. While the market share of the combined entity will be larger than any competitors, this will only persist if it continues to be competitive as against the many credible players that will remain in all markets. In particular, Vero, Lumley and Tower will continue to constrain the combined entity in respect of the underwriting market, including robust continuing competition for underwriting contracts with the major banks. In respect of the retail market, additional market participants AA Insurance and the major banks will continue to exert real competitive pressure. Major banks have the advantage of targeting the retail customer at the decision point (such as offering house and contents insurance at the time a mortgage is entered into), and have been steadily growing their market share since 2007. These retail competitor dynamics, together with the ease with which customers can compare pricing and switch providers, are significant and will continue to exert strong competitive pressure on the combined entity.

Consumer choice

Domestic insurance customers have a significant amount of choice in terms of provider, product, price and service. The Applicant notes that price comparison websites such as consumer.org.nz can be used to shop around for the best deal and would reveal any attempts by the merged entity to raise prices to supra competitive levels or reduce service quality. By way of example, the www.consumer.org.nz annual house and contents insurance survey finds consumers the best deals in both price and cover. The survey includes quotes from 15 insurance companies for five consumer profiles at various locations. The website advises consumers to shop around and recommends ringing at least two insurers for quotes and comparing them to your existing provider.[18]

Screenshots from www.consumer.org.nz are provided in Annexure 9.

The level of consumer choice is also demonstrated by the retail practices of the major banks. Despite being wholesale purchasers of white label insurance products, major banks go to some lengths to differentiate their retail insurance product in the market. Such product differentiation is indicative of high levels of competition in retail markets.

[17] Business Monitor International, New Zealand Insurance Report Q3 2011, page 7.
[18] http://www.consumer.org.nz/reports/house-and-contents-insurance

Ability of retail customers to switch insurance providers

Retail customers can, and do, switch insurance providers. There is some difficulty determining whether a customer is lost because it has switched, or simply no longer requires insurance (for example, because it has sold the asset). IAG had retention rates for the 2011 financial year in the region of [ ] for relevant markets. IAG's internal estimation of customer churn gives an approximate rate of [ ] arising out of specific events such as death, asset disposal, self-insurance or customers moving overseas. A further [ ] is attributed to customers switching to alternative providers. These figures represent overall averages and, for example, IAG understands that churn rates in [ ].

Retail customers can easily access price comparison websites or compare prices between insurance providers and have the opportunity to switch insurance providers on a regular basis. Policies are generally renewed annually, but in any case can usually be terminated on notice without penalty. The Applicant considers that customers differentiate insurance products primarily on the basis of price, and would be likely to respond to any material increase in prices above market levels by switching insurance providers. As such, IAG would be unable to sustain supra-competitive pricing post-acquisition.

As the Commission noted in its Norwich decision, there are no "switching" costs in domestic insurance products that prevent customers from readily changing insurance company. The "loyalty" features of insurance products such as no claims bonuses are readily transferrable between insurance companies.[19]

Potential Competition

CONDITIONS OF ENTRY

19 Please explain the requirements for new entry and/or importers in the relevant market(s).

The requirements for new entry are:

- **Branding and reputation**. Branding is a significant aspect of retail supply of insurance, and it may take some time before a new entrant can achieve sufficient brand awareness and loyalty. Credible competitors in the domestic insurance market are likely to need to be well-established, trusted brands with a proven track record.

- **Access to distribution channels**. Previously distribution channels represented a major cost for potential insurance providers, as it was necessary to establish a nation-wide network of physical branches, although entry via intermediaries (brokers) with an established presence could reduce these costs to some extent.

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[19] *Norwich*, at [70].

However, increasing use of the Internet and centralised call centres has significantly reduced the costs of establishing distribution channels in recent years, meaning that distribution channels are easier to establish in the current market. [20] In addition, alternative distribution channels exist, such as the use of online price comparison sites and partnering with retail stores (as Sovereign has recently done with the Warehouse in the life insurance market).[21]

- **Knowledge in pricing, risk and claim handling**. New entry into insurance markets will require knowledge of pricing, risk and claim handling specific to that market (although in the case of expansion the more closely related the complementary markets, the less steep the learning curve). The Commission has previously determined that acquiring this knowledge could occur comfortably within the relevant assessment timeframes (up to 24 months), even for a narrowly defined, specialist market such as travel insurance.[22] In addition, the ACCC observed in its Suncorp/Promina competition assessment that it is not difficult for a new or existing insurer to "reverse-engineer" a competitor's pricing book by obtaining numerous quotes via call centres and the internet.[23] This significantly reduces the necessity to have an extensive claims database to satisfactorily assess risks and claims costs, which may previously have provided incumbents with a significant competitive advantage, relative to new entrants.

- **Reinsurance**. All existing and potential insurance underwriters will need to consider the costs of their reinsurance arrangements when contemplating new entry or expansion. As discussed above, while there is no shortage of capacity in the reinsurance market, the costs of securing reinsurance have risen for all market participants, and are likely to increase further in the short term, a situation that both new entrants and existing competitors will face irrespective of the proposed Acquisition.

- **Marketing and advertising**. To support a new insurance product or venture an entrant would need to invest in a level of sales support in order to make the product known to potential customers. These costs are likely to be similar for all market participants.

- **Regulatory and prudential requirements**. All insurers operating in New Zealand are subject to a prudential supervision regime administered by the Reserve Bank. Previously, the prudential requirements for underwriters were relatively modest and the industry was effectively self-regulated. However, the Insurance (Prudential Supervision) Act 2010 introduced new standards, which include:

    - a "fit and proper" person policy in relation to an underwriter's board and certain senior management;

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20 In it *Norwich* decision at [21] the Commission noted that there would likely be greater use of the internet for distribution in the future. This observation has proven correct.
21 The Warehouse also offers pet insurance, which is underwritten by Allianz, and has offered a travel insurance product underwritten by IAG for almost a decade.
22 IAG/Mike Henry at [163].
23 *Suncorp*, at [37].

- a requirement to have a comprehensive "risk management programme" in accordance with guidelines published by the Reserve Bank (please see Annexure 10); and
- satisfying ongoing solvency standards, which will vary depending on the profile of the particular firm (for example, it will depend on the type of risk insured, the financial rating of the insurer and the level of reinsurance cover) but in all cases requires at least $3 million of capital, again in accordance with Reserve Bank guidance (please see Annexure 11).

In particular, the solvency standards reflect a move from the current requirement to have capital available to meet a 1:250 year insured event to a 1:1,000 year insured event by 2015. This increase in capital requirements will raise the costs to all underwriters, and so prudential capital requirements may require a higher investment than was previously the case.

20 Include a full discussion on any factors that could impede entry; and what might prompt new entry post-merger.

The Commission has previously acknowledged that the above requirements do not amount to meaningful barriers to entry in the insurance sector. In its Norwich decision, the Commission noted that barriers to entry in the domestic house and contents and the domestic motor vehicle insurance markets are low.[24]

Since the Commission's Norwich decision, the costs associated with securing reinsurance from global markets and tighter prudential requirements have potentially raised barriers to entry in the relevant markets. However, the Applicant considers that barriers to entry have not been raised sufficiently to deter a credible participant from market entry or expansion.

Consistent with this view, the ACCC noted in its Suncorp Metway/Promina decision that:[25]

> *"...barriers to entry and expansion, such as the financial costs of entry, brand name recognition and brand loyalty, differ depending on the mode of entry. For completely new entrants to the insurance sector, these barriers are generally likely to be very high, based on up front establishment costs, and the ongoing costs of marketing and brand development.* ***However, in cases of overseas insurers (or firms backed by overseas insurers), major banks, or large firms in other industries with a strong brand they can carry into the insurance sector, barriers to entry are less significant.****" (our emphasis)*

[24] Norwich, at [73,75] and [93].
[25] *Suncorp*, at [34].

The Applicant considers that, consistent with this analysis, there are no meaningful barriers to new entry and expansion in the relevant markets. Accordingly, the combined entity would be effectively constrained by the threat of potential entry.

The Applicant considers that there are two main credible sources of potential competition:

- New entry from one or more of the major banks, with the bank moving from wholesaling into underwriting its own insurance products.
- The expansion by insurance companies into new market segments, either in the form of:
  - new entry in the New Zealand market from an international insurance company, either alone or in conjunction with an existing retailer (such as a supermarket); or
  - new entry or expansion from an existing New Zealand insurer into a complementary market (such as expansion from commercial insurance markets into domestic insurance markets).

Each form of potential entry is discussed below.

Major banks

Major banks are sophisticated and sizeable financial institutions, and already distribute retail domestic insurance products to their customers and are actively seeking to increase their level of cross-sell into their customer base. Accordingly, there is real potential for major banks to begin underwriting their own general insurance products, and to compete directly with incumbent insurance companies at the underwriting level as they already do at a retail level of the insurance market.

Insurance services are a natural complement to the financial services currently provided by banks. Internationally, there is a clear trend towards banks entering insurance markets (the phenomenon of banks getting into the insurance business is so common that the practice has a name: "bancassurance"). Ernst & Young's report on the 2011 global insurance outlook notes that bancassurance has become increasingly important in the Asia Pacific region as banks leverage their infrastructure to pursue cross-selling opportunities.[26] Banks also have the advantage over insurance companies of engaging with customers regularly to build a working relationship, and of being able to target the customer at decision points (such as entering into a mortgage or a car loan).

In Australia, Commonwealth Bank of Australia (the parent of ASB) and Westpac both underwrite house and contents insurance. The Applicant considers it is likely that major New Zealand banks would follow this trend (especially where their Australian parents have done the same) should appropriate market incentives arise (such as market prices rising above competitive levels). The Applicant notes that some banks operating in New

[26] Ernst & Young, "Windows of Opportunity: 2011 Global Insurance Outlook", page 6.

Zealand, such as Westpac, already offer and underwrite (through subsidiary companies) their own life insurance, home loan insurance and income protection products.

In particular, the Applicant considers that none of the requirements for entry represent significant barriers for major banks seeking to enter insurance markets directly.

- **Branding and reputation**. Banks enjoy significant brand awareness and loyalty. Banks already retail insurance, and so have credibility in that market among retail customers.

- **Access to distribution channels**. The major banks already distribute insurance products through their extensive physical network and a sophisticated online presence.

- **Knowledge in pricing, risk and claim handling**. Major banks would be required to develop knowledge and expertise in pricing, risk and claim handling. However, this is unlikely to be difficult or expensive. In its Suncorp Metway/Promina competition assessment, the ACCC considered that it was "possible for a new or existing insurer to 'reverse-engineer' a competitor's pricing book by obtaining numerous quotes via call centres and the internet".[27] This removes any significant advantage of incumbents over new entrants due to the need to have an extensive claims database to satisfactorily assess risks and claims costs. Further, as sophisticated buyers of insurance from underwriters, banks are likely to have already developed the necessary knowledge and expertise to some extent. Westpac and ASB can also draw on the experience of their Australian parents in developing the requisite knowledge and expertise (as well as their domestic experience in underwriting non-personal lines insurances through their subsidiary companies, Sovereign Insurance and Westpac-NZ).

- **Reinsurance**. The costs of securing reinsurance are unlikely to deter a major bank committed to participating in domestic insurance markets.

- **Marketing and advertising**. Banks already distribute insurance products and have a significant market presence in print media, on television and online. The incremental costs of advertising new insurance products are likely to be marginal only.

- **Regulatory and prudential requirements**. The prudential requirements for entry in the domestic insurance market are unlikely to deter a major bank with significant existing capital reserves, even accounting for the forthcoming increase in capital requirements to meet relevant solvency standards.

<u>Underwriters</u>

The Applicant considers that there is real potential for entry (or expansion) into domestic insurance markets from underwriters not currently supplying those markets. Such entry is likely to come in one of two forms:

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[27] *Suncorp*, at [37].

- New entry into the New Zealand market from an established international insurance company, such as QBE or Chartis.
- New entry or expansion into domestic insurance markets from a New Zealand underwriter currently supplying complementary insurance markets.

In respect of the second scenario, the Applicant considers the following examples to be particularly likely:

- An established life insurance provider such as Fidelity Life expanding into the general domestic insurance market.
- International insurers such as Progressive, who have recently entered the Australian market, moving into the New Zealand market.
- Partnerships with insurance companies and retail providers (such as the Warehouse or the major supermarket chains) bringing an innovative offering to the market (evidenced in the Australian market).

Recent new entry in analogous markets suggests that entry or expansion is possible and is therefore a credible threat to incumbent underwriters. Zurich's entry and expansion into the general commercial insurance market provides a good example. Zurich entered the commercial insurance market in the third quarter of 2007, and then grew quickly over 24 months to reach an **[ ]**. Entry of a similar scale could realistically occur in the domestic insurance market, if appropriate incentives arise.

Again, the Applicant considers that none of the requirements for entry identified with respect to question 19 above represent meaningful barriers to entry for an underwriter seeking to expand its New Zealand market presence or enter *de novo*.

- **Branding and reputation**. International insurance companies and underwriters already active in New Zealand are unlikely to have difficultly establishing a credible or trusted brand in respect of general insurance. Given their previous experience in insurance markets, marketing costs are likely to be the most significant feature of creating any additional necessary brand awareness.
- **Access to distribution channels**. A local underwriter expanding into domestic insurance markets will have established distribution channels, whether that is a physical network of branches, an online presence or an existing relationship with brokers. Access to distribution channels does not represent a barrier to entry in this case.

  Establishing a distribution network is likely to be more difficult for a new entrant without an existing market presence in New Zealand, especially if the preferred means of entry is via the establishment of a physical presence in a number of locations. However, the Applicant notes that credible options exist for reducing the costs of establishing a distribution network:

- **Internet and call centre distribution**. Distribution without a physical network of branches is viable, with a significant percentage of retail customers searching for and purchasing insurance online.

- **Brokers and intermediaries**. By distributing through brokers and other intermediaries, new entrant underwriters can leverage existing connections and networks and potentially forego a significant portion of the costs of establishing distribution channels.

- **Partnering with established retailers**. Major supermarket retailers Coles and Woolworths have recently entered the Australian insurance sector. Australia's second largest supermarket chain Coles (which is owned by Wesfarmers) entered the insurance sector at the end of 2009 partnering with Wesfarmers General Insurance Limited. Coles offers car insurance and house insurance. In August 2011, Woolworths launched Woolworths Insurance which has been marketed as, "a suite of simple, convenient and affordable insurance products designed to offer significant value for money for everyday customers."[28] Woolworths is partnering with Swiss Re and privately owned South African composite insurer the Hollard Group. For general insurance products, Swiss Re will act as reinsurer to the underwriter Hollard.

The entry of Coles and Woolworths into Australia's general insurance sector was promoted by the success of supermarkets overseas successfully offering insurance products such as Tesco in the United Kingdom. There is potential for major New Zealand retailers to enter the insurance market by partnering with an overseas underwriter. In addition, the Applicant notes the potential for a company like the Warehouse, New Zealand's largest listed retailer, to expand its existing insurance offering (which currently includes travel, credit card, pet and life insurance products) into personal lines insurance.

▪ **Knowledge in pricing, risk and claim handling**. New and existing participants in New Zealand insurance markets are both likely to have the requisite knowledge and experience to build up an understanding of the pricing, risk and claim handling involved with underwriting general domestic insurance quickly, since they will already be engaged in analogous processes for markets in which they currently operate. Any lack of familiarity with particular New Zealand markets is unlikely to seriously inhibit entry or expansion. In the case of providers of life insurance entering general insurance markets, for example, underwriters are likely to already have significant profile information in respect of their existing customer base.

▪ **Reinsurance**. Underwriters are likely to be familiar with reinsurance markets and while the cost of securing reinsurance is increasing across the board, those costs

[28] See: http://www.woolworths.com.au/wps/wcm/connect/website/woolworths/about+us/woolworths-news/woolworths+insurance

are unlikely to deter an international entrant with scale or a local insurer seeking to develop new markets incrementally.

- **Marketing and advertising**. For existing insurers seeking to expand into new markets, marketing and advertising costs are likely to be incremental only. Completely new entry is likely only from an international underwriter, in which case the cost of marketing to New Zealand intermediaries and retail customers is unlikely to be prohibitive.

- **Regulatory and prudential requirements**. An underwriter already participating in related domestic insurance markets is already likely to be affected by the changes in prudential requirements by virtue of its existing business (although the requirements are different for life and non-life underwriters). Similarly, an international underwriter seeking to enter the New Zealand market is likely to be familiar with comparable prudential requirements in other jurisdictions, and is very unlikely to have difficulty maintaining the necessary solvency requirements. In neither case are the mandatory prudential requirements likely to present a meaningful barrier to entry.

Online comparison portals

The Applicant considers that online comparison portals also provide the potential for further competitive constraint. These types of websites, which operate overseas and are appearing in the New Zealand market, provide an online platform from which to compare insurance prices and products.

Insure Me, which offers life and health insurance is one example of this type of website operating in New Zealand (please see screenshots included in Annexure 12). The Applicant considers that these websites have the effect of:

- providing another low-cost means of establishing distribution networks, further lowering barriers to entry for underwriters not currently operating in New Zealand insurance markets; and

- further promote the ability of retail customers to compare prices and products, and switch retail insurance providers, which acts as a competitive constraint on existing providers.

In addition, the barriers to entry for these websites are relatively low and the Applicant understands that they have been commercially successful in overseas markets, including in Australia. Accordingly, the Applicant considers that further competitive restraint, beyond what is already experienced, is likely to emerge through online price comparison websites operating in New Zealand.

Conclusion on potential entry

New entry will necessarily incur some sunk costs (particularly in order to meet regulatory requirements), but these costs do not constitute a meaningful barrier to entry. Barriers to expansion are even lower, and it would be relatively straight forward (for example) for a commercial insurance provider to expand into domestic insurance. The merged entity is therefore very likely to be constrained by potential entry post the Acquisition.

LIKELIHOOD, EXTENT AND TIMELINESS OF ENTRY (THE LET TEST)

21 **Please name any likely businesses (including overseas businesses) you are aware of that do not currently supply the market but which you consider could supply each of the relevant market(s). Discuss the likelihood of such entry.**

If the merged entity attempted to raise prices to supra-competitive levels or reduce service quality, major New Zealand banks, overseas insurance companies or domestic insurance companies could readily enter the market.

The applicant considers that the following organisations represent a credible threat of entry:

- Life insurance businesses:
  - Fidelity Life is New Zealand's largest, 100% privately held and New Zealand owned life insurance company, with total annual in-force premium income in 2010 of $80.7 million.
- Overseas insurers:
  - Chartis: a global insurance firm, serving more than 70 million customers worldwide and writing over US$30 billion NPW in 2010. Chartis contains the non-life insurance business of AIG, following its restructuring from 2009. Chartis currently underwrite business insurance, as well as accident and health and travel insurance in New Zealand.
  - QBE Insurance Group: Australia's largest international general insurance and reinsurance group, with a gross written premium of US$13.6 billion in 2010. QBE Insurance already underwrites business insurance and travel insurance in New Zealand.
  - Progressive: a major auto-insurance company based in the United States. Progressive has recently commenced underwriting domestic motor insurance in Australia.
  - Hollard Group: South Africa's largest privately held insurance group, with net written premium income totalling R10.7 billion in 2010. Hollard has recently partnered with Woolworths (alongside Swiss Re) to underwrite insurance for distribution in Australia. Hollard entered the Australian market in 1999 under the brand Real Insurance, and offers domestic home and motor insurance as part of a broad insurance offering. Hollard has offered innovative products such as "Pay as you Drive", allowing the company to grow its market share.

- Major banks:
  - ANZ/National
  - ASB
  - BNZ
  - Westpac

The Applicant considers that new entry is very likely, if the opportunities arise in the market. In the short term the market will continue to be quite volatile following the series of earthquakes in the Canterbury region. This may discourage extensive entry over the short term, but as that volatility subsides in the next 12 – 18 months, entry is increasingly likely.

22 To what extent do you consider that potential entry would be sufficient to constrain the merged entity in the markets affected?

The Applicant considers that the threat of potential entry will be sufficient to constrain the merged entity in the relevant markets. The absence of any meaningful barriers to entry means that if the merged entity attempted to move price or service levels beyond competitive levels, entry from major banks or insurance companies is a genuine possibility.

23 How long would you expect it to take for entry to occur, and for market supply to increase, in respect of each of the potential entrants named in question 21 above? Provide reasons for your estimates.

The Applicant estimates that new entry would take 12 months.

Countervailing Power of Buyers

24 To what extent do you consider that the merged entity would be constrained in its actions by the conduct of buyers in the markets affected?

The Applicant notes that banks possess meaningful countervailing power vis-à-vis the combined entity and would not tolerate any attempts to raise prices or reduce service quality beyond acceptable levels. This countervailing power will constrain the combined entity at the wholesale level in its dealings with bank customers and at the retail level where it will have to continue to compete aggressively on price and service levels.

The insurance products offered by banks are sourced at competitive costs and banks are able to effectively manage their wholesale costs to bring competitive offerings to the retail market. For example, ASB, PSIS, TSB and Westpac all score highly on the www.consumer.org.nz comparison of house and contents insurance (please refer to Annexure 9). This places genuine competitive constraint on insurers operating at the retail level of the market.

The size of bank accounts, the ability of banks to switch providers and the extent of the loss of underwriting business that such a switch would entail, make bank contracts extremely important to insurance companies. For example, IAG's relationships with [ ] are worth [ ]. The ability of banks to switch imposes real competitive constraint because [ ]. As a result, bank relationships are a key feature of each underwriter's strategic planning. The risk of the loss of a bank contract is, in the Applicant's view, sufficient to constrain the combined entity post-acquisition.

The countervailing power of banks was acknowledged by the Commission in its Norwich decision.[29]

Banks that purchase insurance wholesale are:

- larger than or of a comparable size to insurance businesses;
- sophisticated purchasers who understand insurance products and are well informed about alternative sources of supply;
- readily able to switch from one supplier to another; and
- likely to be readily able to foster new supply (including self-supply).

Banks have a direct relationship with retail customers (the banks "own" the customer relationship), who in turn rely on the bank's brand and reputation. This means that the insurance company becomes a commodity provider to the bank. In addition, the standard requirement of banks that house insurance is a condition of securing a mortgage means that banks are an important distribution outlet for house and contents insurance.

Banks obtain competitive tenders for the underwriting of their products. The underwriting period may be for [ ], after which the banks may retender. [ ]. This provides the ability to change underwriters periodically and, while there may be a cost associated with this, banks can and do change wholesale suppliers where they are dissatisfied, and tender aggressively to do so. For example, [ ].

The Applicant notes that developing insurance propositions and securing profitable growth have become high priorities for banks. For example, ASB has recently created a wealth management executive position which will oversee insurance services and investments. An increasing focus on insurance by banks necessarily translates to their

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29 Norwich, at [83,84].

contracts with insurance underwriters and banks do (and will increasingly) negotiate hard on price and service levels.

25 If you consider that there is a constraint from buyers, identify the top five buyers by sales and/or volume (including overseas companies/importers) in the relevant market(s). Where there are significant differences in the size of the buyers please provide details for five medium and five small buyers.

[[redacted]]

Coordinated Market Power

26 Identify and discuss the various characteristics of the market that, post-merger, you consider would either facilitate or impede coordination.

The Applicant considers that the market does not currently display any signs of co-ordinated market power. This will not change as a result of the proposed acquisition.

The market factors that may suggest the potential for coordinated market power are as follows:

- High market concentration. The proposed acquisition will increase market concentration, but this is already high (CR3 ≥ 70%).
- There is a degree of price transparency. It is relatively easy and inexpensive for the competitors to ascertain prices (just as it is easy and inexpensive for customers to do the same).

These factors will be present with or without the proposed acquisition taking place, and there are a number of factors that currently, and will continue to, preclude the exercise of coordinated market power in relevant markets:

- There is meaningful product differentiation. While there is some degree of homogeneity between comparable products offered, retail customers differentiate insurance products on the basis of price and to a lesser extent the scope of cover.
- There is (and will continue to be) a strong competitive fringe comprising a number of diverse competitors.
- The product market is not static. There is continuing innovation in development and marketing of new insurance products (such as the recent introduction of State's "Favourite Things" policy).
- Demand for insurance is reasonably price elastic. A small but significant increase in price or decrease in quality will induce retail customers to switch insurers. In addition, the countervailing power of wholesale customers is significant.
- The insurance industry has a history of robust competition with established and well-regarded brands.
- The market is not saturated, and there is scope for further profitable growth. In addition, there are no meaningful barriers to entry, meaning new entry could occur relatively quickly.
- Vertical integration is not significant. While insurers may be active in both wholesale and retail markets, the majority of insurers actively pitch for wholesale customers and the countervailing power of those customers is significant and is growing.

Efficiencies

27 If applicable, provide a description of any efficiencies that you believe the acquisition could bring. Would such efficiencies enhance rivalry, or offset the impact of a lessening of competition?

[[redacted]

[redacted]]

Other Factors

28 Where relevant, provide a description of any other features of the market(s) that should be taken into account in considering the effect of the proposed merger.

There are no other factors that the Applicant wishes to raise at this time.

Part 6 Further Information and Supporting Documentation

29 Provide the contact details of relevant competitors, buyers and suppliers and any other relevant market participants in the form of the example table shown below.

	Name of company	Contact details	Contact person
Competitors	AA Insurance	AA Insurance Level 17, AA Centre 99 Albert Street PO Box 992 Shortland Street Auckland 1140 Phone 09 966 8071	Suzanne Wolton Head of Corporate Affairs
	Allianz	Allianz New Zealand Level, Grant Thornton House 152 Fanshawe Street PO Box 794 Auckland Phone: 09 377 1459 Fax: 09 303 1909	
	FMG	FMG Vodafone on the Quay Level 20, 157 Lambton Quay PO Box 521 Wellington Phone 0800 366 466 Fax: 0800 366 455	Chris Black Chief Executive
	Lumley	Lumley Centre 88 Shortland Street PO Box 2426 Auckland Phone: 09 308 1100 Fax: 09 308 1114	John Lyon Chief Executive
	Tower	Tower Insurance 22 Fanshawe Street PO Box 90 347 Auckland Phone: 09 369 2000 Fax: 04 489 3817	Rob Flannagan Group Managing Director
	Vero	Vero Centre 48 Shortland Street Private Bag 92120 Auckland Phone: 09 363 2222 Fax: 09 363 2650	Gary Dransfield Chief Executive
Buyers	ANZ/National Bank	ANZ National Bank Limited Level 6, 1 Victoria Street 1 -9 Victoria Street Wellington	David Hisco Chief Executive ANZ New Zealand (responsible for ANZ and National Bank)

	AON CPF	Aon CPF 16th Floor AMP Centre 29 Customs Street West PO Box 1184 Auckland 1010 Phone: 09 362 9000 Fax: 09 309 2536	
	ASB Bank	ASB Bank Level 28 ASB Bank Centre 135 Albert Street Auckland Phone: 09 374 7300 Fax: 09 379 2100	Barbara Chapman Group Executive (Commonwealth Bank Australia) Chief Executive and Managing Director, ASB
	BNZ Bank	Bank of New Zealand 80 Queen Street Private Bag 92208, Victoria St W Auckland 1142 Phone: 09 375 1300	Andrew Thorburn Managing Director and Chief Executive
	Crombie Lockwood	Crombie Lockwood Level 5 33 Enfield Street Mt Eden Auckland 1024 Phone: 09 623 9900 Fax: 09 623 9901	
	Kiwibank	Kiwibank Level 6 Radio New Zealand House 155 The Terrace Wellington Phone: 04 473 1133 Fax: 04 462 7996	Paul Brock Chief Executive
	Cooperative Bank	The Co-operative Bank Cnr Ballance and Featherston Streets PO Box 54 Wellington Telephone: 04 495 7700 Fax: 04 495 7701	Dr Girol Karacaoglu Chief Executive
	TSB Bank	TSB Bank TSB Centre 120 Devon Street East PO Box 240, Taranaki Mail Centre New Plymouth Telephone: 06 968 3700 Fax: 06 968 3818	Kevin Murphy Managing Director and Chief Executive
	Westpac	Westpac New Zealand	George Frazis

		Level 12, 16 Takutai Square Auckland 1010 Telephone: 09 367 3999 Fax: 09 367 3729	Chief Executive
Suppliers	Novus		
	Smith & Smith		
Trade Associations	Insurance Council of New Zealand	Insurance Council of New Zealand iSoft House Level 7 111 – 115 Customhouse Quay PO Box 474 Wellington Phone: 04 472 5230 Fax: 04 473 3011	Chris Ryan Chief Executive
Other participants	Consumer New Zealand	Consumer NZ Private Bag 6996 Wellington 6141 Phone: 04 801 0417	Sue Chetwin Chief Executive
	Insurance and Savings Ombudsman	Office of the Insurance Ombudsman Level 7, Dimension Data House 99 – 105 Customhouse Quay PO Box 10-845 Wellington	Paula Rebstock Chairperson
	Reserve Bank of New Zealand	Reserve Bank of New Zealand 2 The Terrace PO Box 2498 Wellington 6011 Telephone: 04 472 2029 Fax: 04 473 8554	Dr Allan Bollard Governor

30 Please provide a copy of the most recent annual report for each of the merger parties. If an annual report is not available, please provide a copy of the audited financial statements of the merger parties (profit and loss account, showing total turnover and profit before tax, and balance sheet). If the merger only relates to a segment of the business of the merger parties, please also provide a copy of any management accounts for the relevant business segment.

A copy of IAG's latest annual report is attached as Annexure 13.

A copy of AMI's latest annual report is attached as Annexure 14.

Part 7 Confidentiality

31 If you wish to request confidentiality for specific information contained in or attached to the notice, please state why you consider the information to be confidential and state the reasons for your request in terms of the criteria set out in the Official Information Act 1982.

Confidentiality is sought in respect of the information in this application that is contained in square brackets. In addition, confidentiality is sought in respect of:

- Annexure 2;
- Annexure 3;
- Annexure 4;
- Annexure 5;
- Annexure 6;
- Annexure 7;
- Annexure 8; and
- Annexure 15.

Confidentiality is sought for the purposes of section 9(2)(b) of the Official Information Act 1982 on the grounds that:

- the information is commercially sensitive and contains valuable information which is confidential to the Applicant and/or the Vendor; and
- disclosure would be likely to unreasonably prejudice the commercial position of the Applicant and/or the Vendor, as the parties providing the information.

The Applicant also requests it is notified of any request made to the Commission (including under the Official Information Act 1982) for the confidential information, and that the Commission seeks the Applicant's views as to whether the information remains confidential, and commercially sensitive at the time those request are being considered.

The foregoing applies equally in respect of any information provided to the Commission that is expressed to be confidential.

32 Provide a separate schedule of all confidential information claimed in the application.

Please see Annexure 15.

THIS NOTICE is given by IAG (NZ) Holdings Limited.

I, Martin Hunter, am an officer of IAG (NZ) Holdings Limited an am authorised to make this application.

I hereby confirm that:

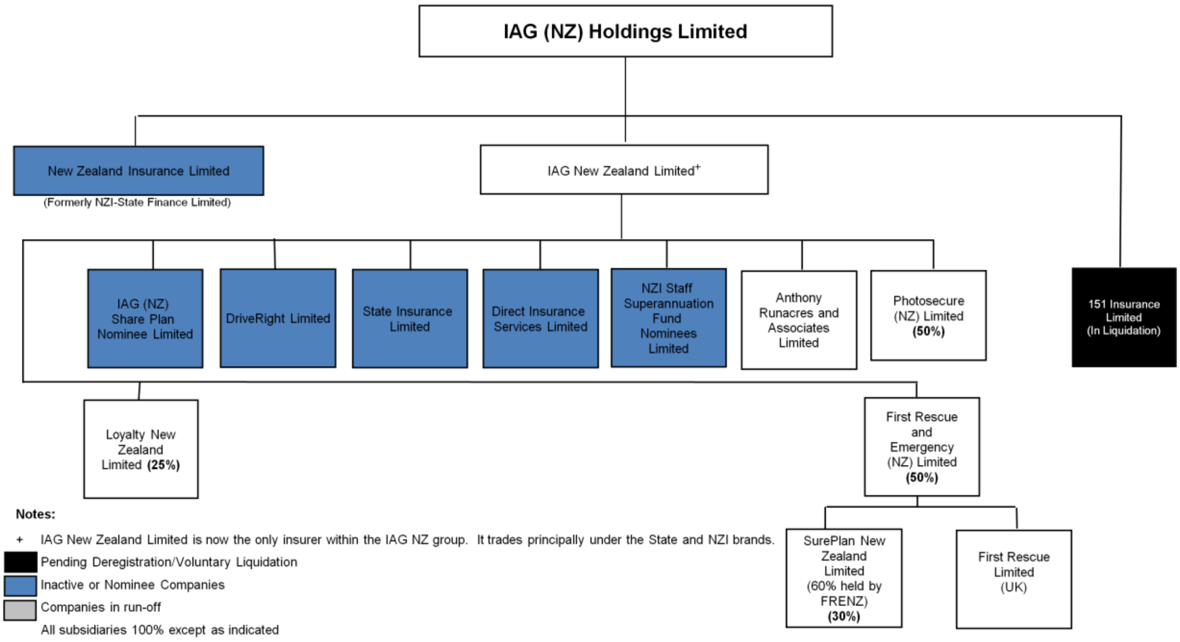
- All information specified by the Commission has been supplied;
- If information has not been supplied, reasons have been included as to why the information has not been supplied;
- All information known to the applicant(s) which is relevant to the consideration of this application/notice has been supplied; and
- All information is correct as at the date of this application/notice.

I undertake to advise the Commission immediately of any material change in circumstances relating to the application.

Dated this 19th day of December 2011.

Martin Hunter
Company Secretary
IAG (NZ) Holdings Limited

Annexure 1 – IAG structure chart



Annexure 2 – Sale and Purchase Agreement [Confidential Annexure]

Annexure 3 – Subscription Agreement [Confidential Annexure]

Annexure 4 – Deed of Undertaking [Confidential Annexure]

Annexure 5 – Claims Management Services Supply Agreement [Confidential Annexure]

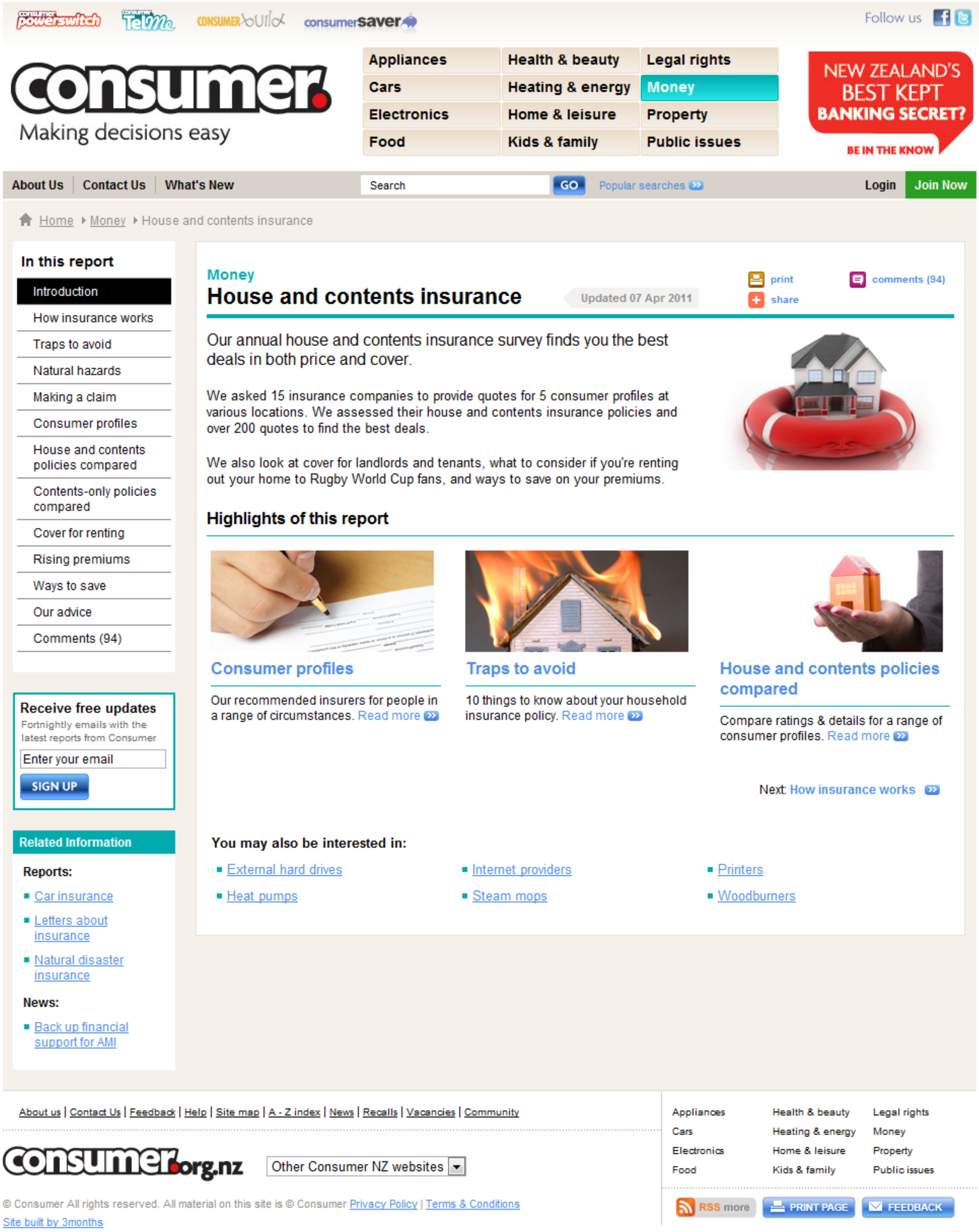
Annexure 6 – Licensing Deed [Confidential Annexure]

Annexure 7 – Average premium pricing [Confidential Annexure]

Annexure 8 – Market share estimates [Confidential Annexure]

Annexure 9 – www.consumer.org.nz screenshots

9.1 Home page



9.2 Advanced comparison

Related Information

Reports:
- Car insurance
- Letters about insurance
- Natural disaster insurance

News:
- Back up financial support for AMI

House and contents insurance Updated 07 Apr 2011

House and contents policies compared

print comments (94)

You are viewing **14** of **14** products.

COMPARE Sort by: Company/Policy name SORT

Company/Policy name	Premium rating - Young couple	Premium rating - Family of two	Premium rating - Family of four	Premium rating - Retired couple	Policy cover
AA Insurance Home and Contents Cover	★★★★	★★★★★	★★★★	★★★★	★★★★
AMI Premier House and Contents	★★★★★	★★★★★	★★★★★	★★★	★★★
ANZ Asset Protector	★★	★★★	★★★	★★★★★	★★★★
ASB Bank Home Insurance and Classic Contents	★★★★★	★★★★★	★★★★★	★★★★★	★★★★
BNZ PremierCare	★★★★	★★★★	★★★★	★★★	★★★★
Kiwibank House and Contents Extra Cover	★★★★★	★★★★★	★★★★	★★★★★	★★★★
Lantern Insurance Echelon Home and Contents	★	★	★	★	★★★★
National Bank Principal Protect	★★	★★★	★★★	★★★★★	★★★★
PSIS Asset Care	★★★★★	★★★★★	★★★★★	★★★★	★★★
SIS Insurance Home and Contents			★★★	★★★	★★★★★
State Home and Contents Comprehensive	★★★★	★★★★★	★★★	★★	★★★★
Tower Provider House Maxi Provider Contents Maxi	★★★★	★★★★★	★★★	★★★★★	★★★★
TSB Bank House and Contents Cover	★★★★	★★★★★	★★★★	★★★★★	★★★★
Westpac Home and Contents Cover	★★★★	★★★★	★★★★	★★★	★★★★

COMPARE

Guide to the table

We've provided policy detail and premium summary information for each of our consumer profiles requiring both house **and** contents insurance. See Consumer profiles for more information.

For a comparison of contents-only policies, see Contents-only policies compared.

Policies

The house policies are based on open-ended replacement cover.

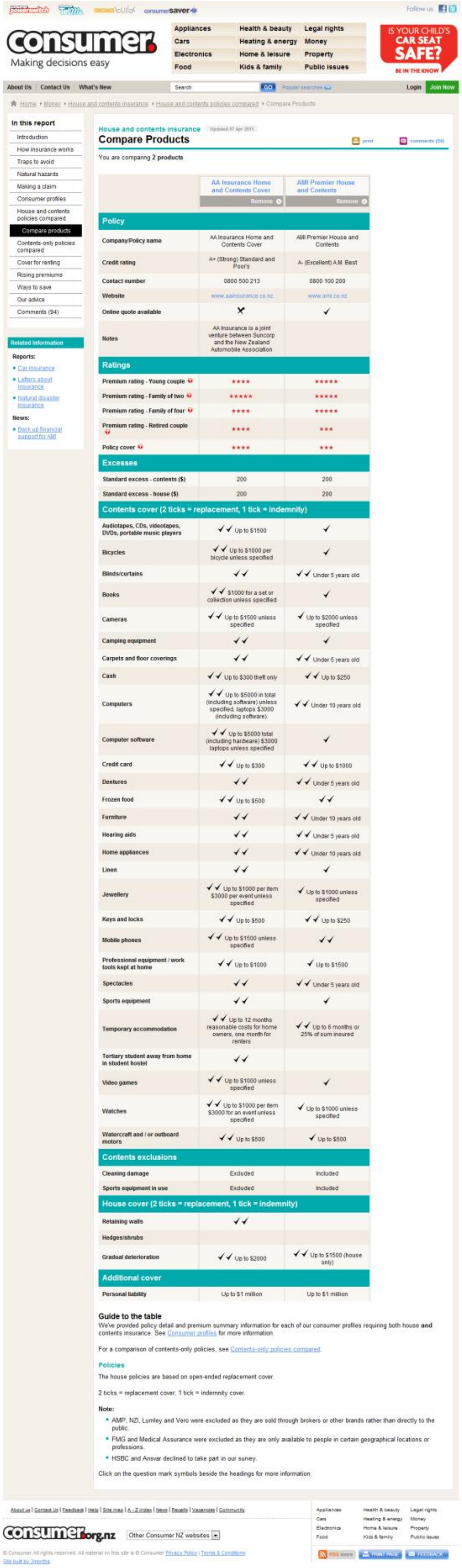
2 ticks = replacement cover; 1 tick = indemnity cover.

Note:
- AMP, NZI, Lumley and Vero were excluded as they are sold through brokers or other brands rather than directly to the public.
- FMG and Medical Assurance were excluded as they are only available to people in certain geographical locations or professions.
- HSBC and Ansvar declined to take part in our survey.

Click on the question mark symbols beside the headings for more information.

Previous: Consumer profiles   Next: Contents-only policies compared

9.3 Advanced comparison



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Home › Money › House and contents insurance › House and contents policies compared › Compare Products

In this report

- Introduction
- How insurance works
- Traps to avoid
- Natural hazards
- Making a claim
- Consumer profiles
- House and contents policies compared
- Compare products
- Contents-only policies compared
- Cover for renting
- Rising premiums
- Ways to save
- Our advice
- Comments (94)

Related Information

Reports:

- Car insurance
- Letters about insurance
- Natural disaster insurance

News:

- Back up financial support for AMI

House and contents insurance

Compare Products

print | comments (94)

You are comparing **2 products**

	AA Insurance Home and Contents Cover	AMI Premier House and Contents
Policy		
Company/Policy name	AA Insurance Home and Contents Cover	AMI Premier House and Contents
Credit rating	A+ (Strong) Standard and Poor's	A- (Excellent) A.M. Best
Contact number	0800 500 213	0800 100 200
Website	www.aainsurance.co.nz	www.ami.co.nz
Online quote available	✗	✓
Notes	AA Insurance is a joint venture between Suncorp and the New Zealand Automobile Association	
Ratings		
Premium rating - Young couple	★★★★	★★★★★
Premium rating - Family of two	★★★★★	★★★★★
Premium rating - Family of four	★★★★	★★★★★
Premium rating - Retired couple	★★★★	★★★
Policy cover	★★★★	★★★
Excesses		
Standard excess - contents ($)	200	200
Standard excess - house ($)	200	200
Contents cover (2 ticks = replacement, 1 tick = indemnity)		
Audiotapes, CDs, videotapes, DVDs, portable music players	✓✓ Up to $1500	✓
Bicycles	✓✓ Up to $1000 per bicycle unless specified	✓
Blinds/curtains	✓✓	✓✓ Under 5 years old
Books	✓✓ $1000 for a set or collection unless specified	✓
Cameras	✓✓ Up to $1500 unless specified	✓ Up to $2000 unless specified
Camping equipment	✓✓	✓
Carpets and floor coverings	✓✓	✓✓ Under 5 years old
Cash	✓✓ Up to $300 theft only	✓✓ Up to $250
Computers	✓✓ Up to $5000 in total (including software) unless specified, laptops $3000 (including software).	✓✓ Under 10 years old
Computer software	✓✓ Up to $5000 total (including hardware) $3000 laptops unless specified	✓
Credit card	✓✓ Up to $300	✓✓ Up to $1000
Dentures	✓✓	✓✓ Under 5 years old
Frozen food	✓✓ Up to $500	✓✓
Furniture	✓✓	✓✓ Under 10 years old
Hearing aids	✓✓	✓✓ Under 5 years old
Home appliances	✓✓	✓✓ Under 10 years old
Linen	✓✓	✓
Jewellery	✓✓ Up to $1000 per item $3000 per event unless specified	✓ Up to $1000 unless specified
Keys and locks	✓✓ Up to $500	✓✓ Up to $250
Mobile phones	✓✓ Up to $1500 unless specified	✓✓
Professional equipment / work tools kept at home	✓✓ Up to $1000	✓ Up to $1500
Spectacles	✓✓	✓✓ Under 5 years old
Sports equipment	✓✓	✓
Temporary accommodation	✓✓ Up to 12 months reasonable costs for home owners, one month for renters	✓✓ Up to 6 months or 25% of sum insured
Tertiary student away from home in student hostel	✓✓	
Video games	✓✓ Up to $1000 unless specified	✓
Watches	✓✓ Up to $1000 per item $3000 for an event unless specified	✓ Up to $1000 unless specified
Watercraft and / or outboard motors	✓✓ Up to $500	✓ Up to $500
Contents exclusions		
Cleaning damage	Excluded	Included
Sports equipment in use	Excluded	Included
House cover (2 ticks = replacement, 1 tick = indemnity)		
Retaining walls	✓✓	
Hedges/shrubs		
Gradual deterioration	✓✓ Up to $2000	✓✓ Up to $1500 (house only)
Additional cover		
Personal liability	Up to $1 million	Up to $1 million

Guide to the table

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Annexure 10 – Reserve Bank risk management guidelines

Annexure 11 – Reserve Bank solvency standard

Annexure 12 – Screenshots from Insure Me

12.1 Comparison tool

12.2 Quotes

Annexure 13 – IAG’s annual report

Annexure 14 – AMI’s annual report

Annexure 15 – Schedule of confidential information [Confidential Annexure]