



DETERMINATION OF MERGER NOTIFICATION M/09/005 -

MAHC / HSB

Section 21 of the Competition Act 2002

Proposed acquisition by Munich-American Holding Corporation of HSB Group, Inc.

5 March 2009

Introduction

1. On 16 February 2009, in accordance with section 18(1) of the Competition Act 2002 ("the Act"), the Competition Authority ("the Authority") received a notification of a proposed transaction whereby Munich-American Holding Corporation ("MAHC") would acquire the entire issued and outstanding shares of HSB Group, Inc. ("HSB"). Following completion of the proposed transaction, MAHC would acquire sole control of HSB.

The Undertakings Involved

The Acquirer

2. MAHC is a Delaware holding company¹ and a wholly-owned direct subsidiary of German-headquartered Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft ("Munich Re")². Munich Re is the ultimate holding company of the Munich Re group of companies (the "Munich Re Group").
3. The Munich Re Group is active worldwide in life insurance, commercial non-life insurance, reinsurance (both life and non-life) and in asset management. Munich Re operates in the US principally through the insurance and reinsurance subsidiaries of MAHC.
4. In the State, the Munich Re Group is active in the following businesses:
 - The sale of direct non-life insurance to individuals, small firms and corporate clients; and,
 - The sale of reinsurance to primary insurers, carried out directly through Munich Re.
5. The main function of insurance is to provide compensation to meet claims in defined circumstances. Insurance markets provide a mechanism for businesses and individuals to transfer some of the risks associated with all kinds of economic activities to firms that specialise in absorbing risk. Purchasers of insurance pay a premium into a fund

¹ A Delaware corporation is a corporation that has its legal business affairs registered in the US State of Delaware.

² Munich Re is listed on the Frankfurt and Munich Stock Exchanges.

and, in return, have the right to call on that fund in the event that an insured event occurs. Insured events are generally grouped by categories, and these categories define the different types of insurance that are available. These types are life insurance, health insurance and property and casualty insurance (also known as 'non-life' insurance). Furthermore, 'direct' or 'primary' insurance is insurance coverage for which an insurer is directly responsible to the insured without involving a reinsurer.

6. The Munich Re Group's direct non-life insurance is carried out in the State through its UK subsidiary, Great Lakes Reinsurance (UK) PLC ("Great Lakes"), its participation in the Watkins Syndicate (a Lloyd's syndicate)³ and through its wholly-owned DAS Legal Expenses Insurance Company Limited, a company incorporated in England and Wales, which offers legal expenses insurance.
7. The Munich Re Group's direct non-life insurance business in the State relates to: fire and damage to property (i.e., standard property coverage); land vehicles, goods in transit and motor vehicle liability (carriers' liability only); aviation, marine and transport; liability and legal expenses insurance as well as some minor activities in other classes of direct non-life insurance.
8. Reinsurance involves the transfer of all or part of the risk assumed by an insurer under one or more insurance policies to another insurer, called the reinsurer. The purpose of reinsurance is to spread large risks over as large a base of insurers as possible. A reinsurer may also be a direct writer of insurance risks.

The Target

9. HSB is a wholly-owned direct subsidiary of AIU Holdings Inc., which is itself a wholly-owned direct subsidiary of American International Group, Inc. ("AIG"). HSB and its subsidiaries (the "HSB Group") are primarily active in the US and, to a lesser extent, in Canada, Europe and Asia. The HSB Group is active in the following businesses:
 - The sale of direct non-life insurance;
 - The sale of reinsurance; and,
 - The sale of inspection and engineering consulting services.
10. In the State, the HSB Group is active predominantly through HSB Engineering Insurance Limited ("HSB-EIL"), a company incorporated in England and Wales. HSB-EIL primarily provides the following:
 - direct non-life insurance, in particular with respect to fire and damage to property and some specialty property coverage (e.g., equipment breakdown insurance); and,

³ Lloyd's is an insurance brand. Lloyd's is not organised as an insurance company but as a society of members, both corporate and individual, who underwrite in syndicates on whose behalf professional underwriters accept risk.

- inspection and engineering services⁴.
11. HSB-EIL does not provide reinsurance directly in the State. It provides reinsurance incidentally via reinsuring certain Irish-based property for some of its UK-based clients.
 12. In addition, HSB-EIL provides reinsurance indirectly by selling its specialty property products to property and casualty insurers that provide standard property coverage but do not have significant expertise in specialty property coverage such as equipment breakdown coverage⁵. This enables such insurers to include HSB-EIL's specialty property products in their policies coverage forms. Although classified as reinsurance agreements, these are in practice outsourcing arrangements.
 13. HSB-EIL distributes its products through relationships with brokers, broker networks and general agents.

The Proposed Transaction

14. Under section 18(1) of the Act, any undertakings which have agreed to or are involved in a merger or acquisition must notify the Authority in writing of the proposed acquisition and provide full details thereof within 1 month after the conclusion of the agreement or the making of the public bid. While the agreement to acquire HSB from AIG was entered on 21 December 2008, it was only notified to the Authority on the 16 February 2009. Thus, the notification was not made within the statutory deadline.
15. The undertakings involved, however, have satisfied the Authority that their failure to notify on time was not "knowingly and wilfully" authorised or permitted by the person(s) in control of the undertakings involved.
16. According to the Munich Re Group, the acquisition of HSB-EIL and the other HSB Group companies will increase its presence in the specialty insurance market and enhance its business diversification.

Third Party Submissions

17. No third party submissions were received.

⁴ Inspection and engineering consulting services comprise the provision of: (i) inspection services in areas such as electronics, engineering, health and safety; (ii) consulting services in engineering, hydraulics, health and safety (including asbestos and noise surveys), along with loss prevention and risk management consulting; (iii) and, assessment of compliance with local and international standards.

⁵ Standard property coverage differs from equipment breakdown insurance since it typically excludes coverage for mechanical breakdown, explosions (other than combustion explosions) of steam boilers, steam piping, steam engines and steam turbines, and loss or damage to boilers from internal events. For instance, a boiler damaged by high winds in a hurricane would likely have insurance coverage under a property policy, while an equipment breakdown policy would cover damage from bursting, bulging, cracking or mechanical breakdown.

Analysis

Overlap

18. There is no vertical overlap in the activities of the parties in the State. However, there is horizontal overlap between their activities in respect of the provision of the following:
 - direct non-life insurance, with specific reference to standard property insurance and some specialty property insurance (such as equipment breakdown coverage); and
 - non-life reinsurance.

Direct Non-life Insurance

19. The parties submitted that there is a minimal overlap between their activities with respect to non-life insurance in general and any of its sub-segments in the State. According to the *Financial Regulator – Insurance Statistical Review 2007* (“FRISR 2007”), published by the Irish Financial Services Regulatory Authority (“Financial Regulator”), there were a total of 233 insurance businesses in Ireland (both life and non-life) in 2007 that generated total gross premium income of just over €46bn.
20. Based on figures obtained from the FRISR 2007⁶ and the parties’ own gross written premiums⁷, the parties submitted that their combined market share of the commercial direct non-life insurance business in the State is less than [0-5]%. With respect to equipment breakdown coverage, the parties estimated that their combined market share in the State is less than [0-5]%.
21. The Authority considers that there is a minimal overlap between the parties with respect to the provision of non-life insurance in the State. The Authority therefore concludes that the acquisition of HSB by MAHC is unlikely to raise any competitive concerns with respect to the provision of direct non-life insurance in the State.

Non-life Reinsurance

22. According to the Financial Regulator, as of December 2008 there were approximately 120 reinsurance companies authorised in the State.
23. While both parties are involved in the provision of reinsurance worldwide, in the State HSB-EIL does not provide reinsurance directly to Irish-based clients. As stated earlier, HSB-EIL provides reinsurance only incidentally via reinsuring certain Irish-based property for some of its UK-based clients or indirectly in the form of outsourcing arrangements. HSB-EIL estimated that the gross written premium generated from its UK clients with Irish-based property business is less

⁶ Financial Regulator – Insurance Statistical Review 2007, pages 4-8.

⁷ Audited figures for gross written premiums generated by the Munich Re Group in Ireland by way of direct non-life insurance for 2008 were not available at the time of the Authority’s determination.

than €[...]⁸. This represents less than [0-5]% of the reinsurance gross written premium in the State.

24. On the basis of the above, the Authority concludes that the acquisition of HSB by MAHC is unlikely to raise any competitive concerns with respect to the provision of non-life reinsurance in the State.

Determination

The Competition Authority, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed acquisition by Munich-American Holding Corporation of HSB Group Inc. will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, the acquisition may be put into effect.

For the Competition Authority

Dr Stanley Wong

Member of the Competition Authority

⁸ According to the parties, gross written premiums in 2008 for the worldwide non-life reinsurance sector amounted to approximately €130bn. If the Irish share is assumed to be 3%, as in the Competition Authority decision *M/05/067 – Swiss Re/Dortmund Re/International Mutual Reinsurance Company Limited* dated 18 November 2005, then a total €4bn of gross written premiums was paid to Irish reinsurers.