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PUBLIC VERSION

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus […]. Where possible the information omitted has been replaced by ranges of figures or a general description.

To the notifying party

Subject: **Case M.9432 – Allianz Holdings/Legal and General Insurance Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004[1] and Article 57 of the Agreement on the European Economic Area[2]**

Dear Sir or Madam,

(1) On 22 August 2019, the European Commission received notification of a proposed concentration pursuant to Article 4 of the Merger Regulation by which Allianz Holdings plc ("Allianz" or the "Notifying Party", the United Kingdom), acquires sole control over Legal and General Insurance Limited ("L&G Insurance" or the "Target", the United Kingdom) by way of purchase of shares.[3] Allianz and L&G Insurance are hereinafter collectively referred to as the "Parties".

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* Handling instructions for SENSITIVE information are given at https://europa.eu/!dg43PX.

1 OJ L 24, 29.1.2004, p. 1 (the "Merger Regulation"). With effect from 1 December 2009, the Treaty on the Functioning of the European Union ("TFEU") has introduced certain changes, such as the replacement of "Community" by "Union" and "common market" by "internal market". The terminology of the TFEU will be used throughout this decision.

2 OJ L 1, 3.1.1994, p. 3 (the "EEA Agreement").

3 Publication in the Official Journal of the European Union No C 291, 29.08.2019, p. 8.

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1. THE PARTIES

(2) Allianz is part of the Allianz group, a global financial services provider headquartered in […]*, Germany, and active predominantly in relation to life insurance products and non-life insurance products (including pet insurance), as well as asset management;

(3) L&G Insurance is the general insurance business of the Legal and General Group plc and provides non-life insurance products (including pet insurance) in the UK.

2. THE CONCENTRATION

(4) On 31 May 2019, Legal and General Assurance Society Limited (which is wholly owned by Legal and General Group plc) entered into a share purchase agreement with Allianz pursuant to which Allianz agreed to acquire 100% of the shares of the Target (the "Transaction").

(5) The Transaction therefore constitutes a concentration within the meaning of Article 3(1)(b) of the Merger Regulation.

3. EU DIMENSION

(6) The undertakings concerned have a combined aggregate world-wide turnover of more than EUR 5 000 million (Allianz: EUR 132 483 million, L&G Insurance: EUR […] million)[4]. Each of them has an EU-wide turnover in excess of EUR 250 million (Allianz: EUR […] million, L&G Insurance: EUR […] million), but they do not achieve more than two-thirds of their aggregate EU-wide turnover within one and the same Member State. The notified operation therefore has an EU dimension pursuant to Article 1(2) of the Merger Regulation.

4. MARKET DEFINITION

(7) The Transaction gives rise to limited horizontal overlaps and vertical links, in the UK, in relation to the provision and distribution of non-life insurance, and reinsurance.[5] In previous decisions relating to the insurance sector, the Commission distinguished three broad categories of insurance products: life insurance, non-life insurance, and reinsurance.[6] The Commission also considered a distinct market for insurance distribution.[7]

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* Should read "Munich".

4 Turnover calculated in accordance with Article 5 of the Merger Regulation.

5 L&G Insurance is only active in the UK.

6 Cases M.6957 – *IF P&C/TopDanmark*; M.6217 – *Baloise Holding/Nateus/Nateus Life*.

7 Cases M.6957 – *IF P&C/Topdanmark*; M.6053 – *CVC/Apollo/Brit Insurance*.

4.1 Non-life insurance

4.1.1 Previous decisional practice

(8) As regards product market definition, in previous cases, the Commission observed that there were indications of a potential degree of supply-side substitutability between different types of non-life insurance products: the conditions for insurance of certain types of risks are quite similar and most large non-life insurers are active in several types of risk coverage.[8] However, the Commission also considered that, from a demand side perspective, the characteristics and purpose of the different types of insurance are distinct, and that there is typically no substitutability between different types of insurance from a customer perspective. Therefore, the Commission envisaged to segment the market based on the type of risk covered, distinguishing notably the following segments: (i) motor vehicle, (ii) property, (iii) credit and suretyship, (iv) liability, (v) accident and sickness, (vi) marine, aviation and transport ("MAT"), and (vii) and travel insurance.[9] In certain decisions, the Commission also distinguished additional segments, such as fire insurance[10] or legal assistance[11].

(9) In case M.8617 – *Allianz /LV General Insurance Businesses*, the Commission also envisaged a distinct market segment for the provision of pet insurance,[12] which comprises cover against the costs of medical treatment required for pets and liability in the event that the policy holder's pet causes harm to a third party. However, the Commission also stated that, given the similarities with other types of personal liability insurance, the provision of pet insurance could be part of a broader market covering more types of risks within the non-life insurance market.

(10) In addition to the above, in its past decisional practice, the Commission considered several alternative segmentations of the non-life insurance market. In particular, the Commission envisaged to further segment the market based on the applicable national insurance classification.[13] A further distinction could also be made between individual and group customers.[14]

(11) The Commission ultimately left open the precise product market definition for non-life insurance products.

(12) As regards geographic market definition, the Commission has previously considered that the market for non-life insurance and its potential sub-segments are likely to be national in scope, with a few exceptions, such as MAT and large commercial risks, for which the geographic scope is likely to be wider than national.[15] Ultimately, the Commission left the precise geographic market definition open.

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8 Cases M.6957 – *IF P&C/TopDanmark* and M.6053 – *CVC/Apollo/Brit Insurance*.

9 Cases M.4284 – *AXA/Winterthur*; and M.4701 – *Generali/PPF Insurance Business*.

10 Case M.4844 – *Fortis/ABN Amro Assets*.

11 Case M.8905 – *Axa Group / Roland*.

12 Case M.8617 – *Allianz /LV General Insurance Businesses*.

13 Case M.6649 – *Allianz/Insurance Portfolio and Brokerage Services of Gan Eurocourtage*.

14 Case M.8257 – *NN Group/Delta Lloyd*.

15 Cases M.8617 – *Allianz/LV General Insurance Business* and M.4284 – *AXA/Winterthur.*

4.1.2 Notifying Party's views

(13) The Notifying Party submits that there is a single overall market for the provision of non-life insurance, which is national in scope, but considers that the exact delineation of the relevant product and geographic market can be left open.

4.1.3 Commission's assessment

(14) The results of the market investigation suggest the existence of a distinct market for the provision of pet insurance. For instance, all competitors consider that pet insurance is a separate business line, notably on the ground that it requires "*different underwriting knowledge and skills*" and dedicated personnel.[16] Moreover, although pet insurance products may be included in distribution contracts together with other non-life insurance products, they seem to be typically sold on a stand-alone basis.[17]

(15) In any event, for the purpose of the present decision, the exact product and geographic market definition for the provision of non-life insurance can be left open as the Transaction does not raise serious doubts as to its compatibility with the internal market under any plausible market definition.

4.2 Reinsurance

4.2.1 Previous decisional practice

(16) Reinsurance consists in providing insurance cover to another insurer for some or all of the liabilities assumed under its assurance policies, in order to transfer the risk from the insurer to the reinsurer.[18]

(17) As regards product market definition, in its past decisional practice, the Commission considered a separate market for reinsurance, but has left open the question as to whether this market should be further segmented between life and non-life reinsurance.[19]

(18) As regards geographic market definition, the Commission has previously considered the reinsurance market to be global in scope, due to the need to pool risks on a worldwide basis.[20]

4.2.2 Notifying Party's views

(19) The Notifying Party does not propose any alternative product and geographic market definition for reinsurance and consider that the exact delineation of the relevant market can be left open.

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16 See replies to question 4 of pre-notification request for information to pet insurance competitors and replies to question 4 of questionnaire to competitors.

17 See replies to question 5 of pre-notification request for information to pet insurance competitors; replies to question 5 of questionnaire to competitors; and replies to question 8 of questionnaire to retailers.

18 Case M.8617 – *Allianz /LV General Insurance Businesses*, para. 15.

19 Cases M.6053 – *CVC/ Apollo/Brit Insurance* and M.5925 – *MetLife/Alico/Delam*.

20 Cases M.6053 – *CVC/Apollo/Brit Insurance*; M.5925 – *MetLife/Alico/Delam*; and M.5083 – *Groupama/OTP Garancia*.

4.2.3 Commission's assessment

(20) For the purpose of the present decision, the Commission considers that there is no reason to depart from the past decisional practice and that the exact product and geographic market definition for reinsurance can be left open as the Transaction does not raise serious doubts under any plausible market definition.

4.3 Insurance distribution

4.3.1 Previous decisional practice

(21) As regards product market definition, in past decisions, the Commission has considered the existence of a separate downstream market for insurance distribution (distinct from the upstream provision of insurance).[21] The Commission has previously analysed whether the market for insurance distribution comprises only outward distribution channels or whether it should also be considered to include the sales force and office networks of the insurer (*i.e.* direct sales). This question was ultimately left open.[22] The Commission has also considered whether a distinction could be made between the market for the distribution of life and non-life insurance products,[23] but ultimately left the market definition open in this respect.

(22) As regards geographic market definition, the Commission has previously recognised the national nature of insurance distribution channels, but ultimately left open the question as to whether the relevant geographic market could be wider than national.

4.3.2 Notifying Party's views

(23) The Notifying Party does not propose any alternative product and geographic market definition for insurance distribution and considers that the exact delineation of the relevant market can be left open.

4.3.3 Commission's assessment

(24) For the purpose of the present decision, the Commission considers that there is no reason to depart from the past decisional practice and that the exact product and geographic market definition for insurance distribution can be left open as the Transaction does not raise serious doubts under any plausible market definition.

5. COMPETITIVE ASSESSMENT

5.1 Assessment of horizontally affected markets

(25) Based on the considerations on market definition above, under the narrowest possible market definition, the Transaction gives rise to only one horizontally

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[21] Cases M.6957 – *IF P&C/TopDanmark*; M.6053 – *CVC/Apollo/Brit Insurance*; and M.4284 – *AXA/Winterthur*.

[22] Cases M.6957 – *IF P&C/TopDanmark*, and M.6053 – *CVC/Apollo/Brit Insurance*.

[23] Case M.6957 – *IF P&C/TopDanmark*.

affected market, namely the potential market for the provision of pet insurance in the UK.[24]

5.1.1 Notifying Party's views

(26) The Notifying Party submits that the overlap with the Target's activities does not give rise to competition concerns notably on the grounds that (i) L&G Insurance is not a material player in this market; (ii) the combined market share of the Parties […]; (iii) there are a large number of competitors, including several new entrants over the last years and many players with market shares higher than L&G Insurance's; and (iv) the Parties are not close competitors.

5.1.2 Commission's assessment

(27) The market shares of the Parties and their main competitors in the potential market for pet insurance in the UK are set out in the table below.

	PROVISION OF PET INSURANCE IN THE UK (2018)	
	Market share in value *(gross written premiums)*	**Market share in volume** *(number of pets insured)*
Allianz	[40-50]%	[30-40]%
L&G Insurance	[0-5]%	[0-5]%
Combined	***[40-50]%***	***[30-40]%***
RSA	[20-30]%	[10-20]%
Animal Friends	[10-20]%	[5-10]%
Direct Line	[5-10]%	[0-5]%
E&L	[0-5]%	[0-5]%
Cardif Pinnacle	[0-5]%	[0-5]%
Aviva	[0-5]%	[0-5]%
Great Lakes	[0-5]%	[0-5]%
Other	[5-10]%	[20-30]%

Source: ABI and Allianz estimates

(28) In the UK pet insurance market in 2018, the Parties had a combined value market share of [40-50]% ([30-40]% in volume), with a modest increment of [0-5]% brought by L&G Insurance ([0-5]% in volume). Although the Parties' combined market share is significant, this is largely attributable to Allianz's pre-existing market share. Therefore, the Transaction is unlikely to bring any significant change to the current structure of the market.

(29) Moreover, according to the Parties' forecasts, their combined (value) market share is likely to decline from [40-50]% in 2018 to [40-50]% in 2021. Indeed, although L&G insurance's market share is expected to increase over this period (+[0-5]%), this will be largely compensated by the decrease in Allianz's market share (-[5-10]% over the same period of time). The projected decline in Allianz's market share is due notably to a regulatory change introduced recently (in late 2018) according to which [INFORMATION ABOUT IMPACT OF REGULATORY CHANGES THAT

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24 The other horizontal overlaps between the activities of the Parties in relation to the provision and distribution of non-life insurance in the UK do not give rise to affected markets, the Parties' combined market shares being well below 20% under any plausible market definition.

HAVE LIMITED ALLIANZ'S ABILITY TO SELL THROUGH CERTAIN CHANNELS].[25]

(30) Post-Transaction, the Parties would continue to face several competitors, including RSA ([20-30]% in value), Animal Friends ([10-20]% in value), and Direct Line ([5-10]% in value), as well as several smaller players.

(31) In this respect, the evidence collected during the market investigation indicates that small providers of pet insurance are credible competitors, thanks notably to price comparison websites and to limited barriers to expand. As a competitor put it, small players "*can operate efficiently and scale quickly*".[26] This argument is also supported by the fact that Allianz recently lost a tender process by a UK supermarket chain to underwrite pet insurance policies under their brand name to a small competitor (Cardif Pinnacle).

(32) A limited number of respondents to the market investigation raised concerns about the Transaction. In particular, one competitor claimed that, as a result of the Transaction, the Parties would have a particular advantage due to an unrivalled wealth of customer data, making it difficult for competitors, especially new entrants without sufficient data, to profitably compete in the UK market for pet insurance. In this respect, the Commission notes that this competition concern is largely unsubstantiated. On the one hand, given L&G Insurance's limited market position, Allianz's customer database will not significantly increase as a result of the Transaction. On the other hand, during the last five years, several new players entered the market as well as small competitors increased their market share, suggesting that data may not be an essential input.[27]

(33) The Commission also investigated the claim of one respondent to the market investigation, according to which post-Transaction, the combined entity could benefit of its size in the pet insurance market to price competitors out of the market by lowering prices below a profitable level and then raise prices again. The evidence in the Commission's file does not support the above claim. In particular, the results of the market investigation revealed that barriers to entry/expand in the UK market for pet insurance are low, with practically no capacity constraints, and that pet insurance is largely substitutable with other non-life insurance products, from a supply side perspective.[28] It follows that competitors having exited the pet insurance segment because of the predatory pricing, or other insurers active in other non-life insurance market segments, are likely to enter (or to re-enter) this market segment when the predator raises prices again. The above would limit the ability of the

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25 See notably pre-notification request for information to pet insurance competitors.

26 See replies to question 9 of pre-notification request for information to pet insurance competitors; replies to question 9 of questionnaire to competitors; and replies to question 13 of questionnaire to retailers.

27 For instance, according to the Parties' estimates, Great Lakes with its brand "Bought by many" entered the market in 2017 and increased its market share by 50% over the last three years, while the pet insurance market in the UK overall grew by 22% during that time. Over the last five years (2014-2019), […]* (including the Target) entered the market for pet insurance in the UK (see the Parties' reply to question 2 of RFI 3).

28 See notably replies to question 9 of pre-notification request for information to pet insurance competitors; replies to question 9 of questionnaire to competitors; and replies to question 13 of questionnaire to retailers.

* Should read "eight new insurers".

combined entity to implement a predatory pricing strategy. Moreover, as previously mentioned, the increment in market share being modest, the Transaction would not bring any significant change to the current structure of the market. Additionally, the Commission notes that the above concern contrasts with Allianz's current market position rather at the high-end in terms of value in pet insurance. Consequently, overall, trying to outprice competitors in the UK pet insurance market would seem to be unprofitable and ultimately counter-productive.

(34) Based on the above considerations, which are supported by the results of the market investigation, the Commission concludes that the Transaction does not raise serious doubts as to its compatibility with the internal market in relation to the provision of pet insurance in the UK.

5.2 Assessment of vertically affected markets

(35) The Transaction also leads to the following potential vertically affected markets:

- the (*upstream*) provision of pet insurance in the UK and the (*downstream*) distribution of non-life insurance in the UK

- the (*upstream*) provision of reinsurance at global level and the (*downstream*) provision of pet insurance in the UK.

5.2.1 Vertical link between the provision of pet insurance (UK) and the distribution of non-life insurance (UK)

(36) In the UK, both Parties are active on (i) the possible (upstream) market for the provision pet insurance and (ii) the (downstream) market for the distribution of non-life insurance. These vertically related markets are affected as a result of the Parties' combined market share in the UK pet insurance market (see table below).

	PARTIES' (VALUE) MARKET SHARES IN THE UK (2018)	
	Pet insurance market (upstream)	**Non-life insurance Distribution**[29] (downstream)
Allianz	[40-50]%	[0-5]%
L&G Insurance	[0-5]%	< [0-5]%
Combined	***[40-50]%***	***< [0-5]%***

Source: ABI and Allianz estimates (upstream) / Global Data UK and SFCR (downstream)

5.2.1.1 Notifying Party's views

(37) The Notifying Party's submits that, in line with the Commission's findings in *Allianz/LV General Insurance Businesses*,[30] the above vertical link does not give rise to any foreclosure risk. *First*, it is claimed that the combined entity would not have the ability or incentives to foreclose downstream rivals on the grounds that (i) the Parties' pet insurance products do not constitute an essential input for downstream distributors and (ii) L&G Insurance is not a material player on the upstream market. *Second*, it is argued that the risk of customer foreclosure can be excluded since

29 Including the distribution of their own products and third-party insurance products.

30 Case M.8617 – *Allianz/LV General Insurance Businesses*.

(i) the Parties' downstream market shares are marginal and (ii) L&G Insurance does not distribute third party insurance products.

5.2.1.2 Commission's assessment

(38) The Commission considers that, post-Transaction, the combined entity is unlikely to have the ability to foreclose its downstream or upstream rivals for several reasons.

(39) As regards potential input foreclosure, the increment brought by the Transaction on the potential pet insurance market in the UK is indeed very small ([0-5]% in value, [0-5]% in volume). Therefore, the Transaction is unlikely to change the current structure of the market. Moreover, subject to limited exceptions, the pet insurance products provided by the Parties are only sold through direct channels[31] and, therefore, do not involve third-party distributors.

(40) As regards potential customer foreclosure, the Parties are unlikely to have the ability to harm upstream rivals given the very limited market presence of the Parties on the downstream market for the distribution of non-life insurance (below [0-5]% including both outward distribution channels and direct sales).[32] Thus, there would remain sufficient alternative distributors for competing pet insurance providers. Moreover, L&G Insurance only distributes its own products, which means that the Transaction has no impact on Allianz's ability to foreclose upstream competitors.

(41) Based on the above considerations, the Transaction is unlikely to raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the provision of pet insurance in the UK (upstream) and the distribution of non-life insurance in the UK (downstream).

5.2.2 Vertical link between the provision of reinsurance (global) and pet insurance (UK)

(42) The Transaction also gives rise to a vertical relationship between Allianz's activities on the global market for reinsurance (upstream) and the Parties' activities on the potential UK market for pet insurance (downstream). These vertically related markets are affected as a result of the Parties' combined market share in the UK pet insurance market (see table below).

	PARTIES' (VALUE) MARKET SHARES (2018)	
	Reinsurance (worldwide) (upstream)	**Pet insurance market (UK)** (downstream)
Allianz	[0-5]%	[40-50]%
L&G Insurance	-	[0-5]%
Combined	***[0-5]%***	***[40-50]%***

Source: S&P Global ratings (upstream) / ABI and Allianz estimates (downstream)

31 The Parties' direct sales of pet insurance also include policies sold pursuant to "affinity deals" concluded with retailers (such as supermarkets). Affinity deals allow insurers to offer policies for sale under the brand of a supermarket or other retailer. The insurance policies are underwritten and sold directly by the insurer who handles all aspect of the sales process.

32 Considering only distribution of third-party insurance products (to the exclusion of direct sales), the Parties' activities do not overlap. Only Allianz distributes third-party insurance product and its market share on that segment in the UK is negligible ([0-5]%).

5.2.2.1 Notifying Party's views

(43) The Notifying Party submits that, in line with the Commission's findings in *Allianz/LV General Insurance Businesses*,[33] the above vertical link does not raise any foreclosure risk on the grounds that (i) Allianz has a *de minimis* market share on the upstream global market for reinsurance, whereas L&G Insurance is not active on that market, and (ii) downstream, L&G Insurance accounts for a tiny proportion of the overall global demand for reinsurance services.

5.2.2.2 Commission's assessment

(44) The Commission considers that, post-Transaction, the combined entity is unlikely to have the ability to foreclose the markets downstream or upstream for several reasons.

(45) As regards potential input foreclosure, only Allianz is active on the upstream global reinsurance market. Given its negligible market share on this market, Allianz would be unable to foreclose competitors on the downstream potential UK pet insurance market.

(46) As regards potential customer foreclosure, the Commission notes that reinsurance services involve the pooling of a very wide range of risks on a worldwide basis.[34] In this respect, the Parties confirmed that, to the best of their knowledge there are no reinsurers specialised in pet insurance. The above corroborates the Parties' claim that L&G Insurance accounts for a tiny proportion of the total demand for reinsurance services. Consequently, the combined entity would not be in a position to restrict the access of its upstream rivals to a significant customer base.

(47) Based on the above considerations, the Transaction does not raise serious doubts as to its compatibility with the internal market in relation to the vertical link between the provision of reinsurance at global level (upstream) and the provision of pet insurance in the UK (downstream).

6. CONCLUSION

(48) For the above reasons, the European Commission has decided not to oppose the notified operation and to declare it compatible with the internal market and with the EEA Agreement. This decision is adopted in application of Article 6(1)(b) of the Merger Regulation and Article 57 of the EEA Agreement.

For the Commission

(Signed)
Margrethe VESTAGER
Member of the Commission

33 Case M.8617 – *Allianz/LV General Insurance Businesses*, para.40.
34 Case M.8617 – *Allianz/LV General Insurance Businesses*, para. 48.