

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

26 February 2014

Question: AET 25-26

Topic: Insurance Competition (ACCC)

Written: 3 March 2014

Senator WILLIAMS asked:

25. The ACCC is currently considering whether to allow IAG to acquire Wesfarmers Insurance. There is already concern at a lack of proper competition in the insurance industry which has seen premiums rise. What do you see is the benefit to Australia of two insurance giants becoming one?
26. If the acquisition is approved, can the ACCC guarantee insurance premiums will not increase, particularly for primary producers, because of the reduced competition?

Answer:

25. On 26 March 2014 the ACCC decided to not oppose IAG's proposed acquisition of Wesfarmers' insurance underwriting business. Taking into account the results of the comprehensive market inquiries conducted into this acquisition, the ACCC decided the acquisition by IAG of Wesfarmers Insurance is not likely to substantially lessen competition in any market in contravention of section 50 of the *Competition and Consumer Act 2010*. The section 50 test does not assess the benefit of a transaction to Australia but rather whether an acquisition is likely to substantially reduce competition in any market within Australia. Further details about the ACCC's decision can be found in its media release, which can be accessed at <http://www.accc.gov.au/media-release/accc-does-not-oppose-iags-insurance-acquisition>.
26. The ACCC's review assessed the likely impact of the acquisition across a number of different markets where IAG and Wesfarmers both supply insurance products including: (i) home and contents insurance; (ii) motor insurance; (iii) rural insurance products including packaged farm insurance and crop insurance; and (iv) commercial insurance.

Given the relative size of IAG and Wesfarmers in the rural insurance market, the ACCC's inquiries paid particular focus to the impact in this market and comment was sought from relevant industry associations including many representing primary producers.

There are a range of factors that may result in increases in the price of insurance premiums. The ACCC's merger assessment focused on the impact of the acquisition on competition in the relevant market/s with particular reference to whether post acquisition the merged firm is likely to be constrained by existing or potential competitors or other factors from increasing prices or decreasing service. This is a forward looking assessment based on the likely changes in market structure and incentives resulting from the acquisition and relies heavily on the information available from the merger parties and other interested parties.