

IN THE COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 109/LM/Sep07

In the matter between:

PSG FINANCIAL SERVICES LTD

Acquiring Firm

And

ALTERNATIVE CHANNEL LTD

Target

Firm

Panel : D Lewis (Presiding Member), Y Carrim (Tribunal Member)
and N Manoim (Tribunal Member),

Heard on : 15 November 2007

Decided on : 15 November 2007

Reasons issued on : 11 December 2007

REASONS FOR DECISION

APPROVAL

[1] On 15 November 2007, the Tribunal unconditionally approved the merger between PSG Financial Services Ltd (“**PSG**”) and Alternative Channel Ltd (“**Alternative Channel**”).

THE TRANSACTION

[2] PSG Financial Services Ltd (“PSG”), the primary acquiring firm, is controlled by PSG Group Ltd (“**PSG Group**”). PSG Group is not controlled by any firm. It controls a substantial number of firms in South Africa.¹ PSG, the primary acquiring firm, controls various firms,² including Channel Life Holding.

[3] Alternative Channel Ltd, the primary target firm, is controlled by Channel Life Ltd (“**Channel Life**”). Channel Life is controlled by Channel Life Holdings (a wholly owned subsidiary of PSG), which holds 33.9% of the shares and Sanlam Life Insurance Ltd (“**Sanlam**”), which holds above 50% of the shares.

[4] In terms of the Sale of Shares Agreement PSG is Purchasing 98% of Alternative Channel’s entire issued share capital.

RATIONALE FOR THE TRANSACTION

[5] Channel Life, which controls Alternative Channel, is controlled by Sanlam. Sanlam wants Channel Life to focus on the emerging market. As result it has been decided that Alternative Channel, with its products better suited for institutional clients and high net worth individuals, should be sold to a suitable purchaser. PSG, which is active and wants to continue offerings its products to institutional clients and high net worth individuals, has been identified as a suitable purchaser. After the implementation of the transaction Alternative Channel will become part of PSG and Sanlam will cease to have interest in the business.

THE PARTIES’ ACTIVITIES

[6] Alternative Channel sells linked life products.³ A Linked life policy is an investment

¹ The merging parties have claimed confidentiality over the PSG Group structure.

² The merging parties have claimed confidentiality over these details.

³ The Long Term Insurance Act defines a linked policy as a long term policy of which the amount of the policy benefits is not guaranteed by the long term insurer and is to be determined

product that requires the insured to invest an amount of money with the linked life insurer for a minimum of five (5) years. The restriction on the ability of the investor to access the funds during the five year period distinguishes the product from other investment products such as unit trusts. Apart from linked life products Alternative Channel does not offer any other service.

[7] PSG Group is a financial services and investment company that offers a range of products.⁴ PSG Group also provides marketing and brokerage services to Alternative Channel. PSG Group does not offer any linked life products, as does Alternative Channel.

[8] The Commission also noted the fact that the transaction results in a vertical integration between the parties in that PSG markets and distributes Alternative Channels' products. PSG also provides brokerage advice services to Alternative Channel.

COMPETITION ANALYSIS

HORIZONTAL ANALYSIS:

[9] The Commission together with the parties submitted that there is no horizontal overlap in the parties' activities as PSG Group does not offer any linked life products and Alternative Channel's activities are limited to linked life products. Neither is the linked life products sold by Alternative Channel nor the range of investment products sold by PSG substitutable. We have not examined this contention in great depth as PSG's market share is insignificant. Nevertheless we find the Commission's conclusion on the basis of evidence available to us reasonable.

solely by reference to the value of particular assets or categories of assets which are specified in the policy and are actually held by or on behalf of the insurer specifically for the purpose of the policy.

⁴ These includes corporate finance; retail banking; asset management; portfolio management; stock broking; local and offshore investment; life insurance; short and long term investment and private equity investments.

VERTICAL ANALYSIS:

[10] The Commission submitted that there are no competition concerns that arise from the vertical integration between the merging parties. Alternative Channel has a low market share⁵ in the market for linked life product. PSG also has an insignificant market share in the markets for marketing services to linked life policies⁶ and brokerage advice service.⁷ In their respective markets both Alternative Channel⁸ and PSG⁹ compete with participants with significant market shares.

CONCLUSION

[11] We find that the transaction does not raise any significant public interest issues and accordingly approve the merger without conditions.

D Lewis

11 December 2007
Date

N Manoim and Y Carrim concurring.

Tribunal Researcher : P S Munyai

For the merging parties : Hofmeyr Herbstein & Gihwala Inc

⁵ [Confidential: 2% - 5%].

⁶ [Confidential: 2% - 5%].

⁷ [Confidential: 0.5 - 3%].

⁸ In the market for linked life products alternative Channel compete with Allan Gray (10.56%); Investments Solutions (48.14%); Coronation Life (8.9%); Mcubed (6.3%) and others.

⁹ In the market for the provision of marketing services to linked life policies PSG compete against companies such as ABSA (4.5%); Sasfin (1%); Alpha Capital (1%) and Grand Thornton Capital (1%). In the market for brokerage advice service PSG compete with Peregrine Securities (20%); Deutsche securities (20%); JP Morgan (20%) and RMB (20%).

For the competition commission : I Selaedi
(Mergers & Acquisitions)