REPUBLIC OF SOUTH AFRICA

IN THE HIGH COURT OF SOUTH AFRICA
GAUTENG LOCAL DIVISION, JOHANNESBURG

(1) REPORTABLE: YES/NO
(2) OF INTEREST TO OTHER JUDGES: YES/NO
(3) REVISED

DATE: 15/4/2020

CASE NO:21362/2019

In the matter between:

DISCOVERY LTD	First applicant
DISCOVERY LIFE LTD	Second applicant
DISCOVERY VITALITY (PTY) LTD	Third applicant

and

LIBERTY GROUP LTD	Respondent

J U D G M E N T

KEIGHTLEY, J:

INTRODUCTION

1. The first applicant in this matter is Discovery Ltd (Discovery). It is the sole shareholder of the second and third applicants, Discovery Life Ltd (Discovery Life), and Discovery Vitality (Pty) Ltd (Discovery Vitality), respectively. Discovery is the proprietor of two trade marks, viz. Discovery and Vitality. The trade marks are registered in relation to insurance services, among others. Discovery has permitted Discovery Life and Discovery Vitality to use the trade marks under section 38 of the Trade Marks Act (the Act).[1] Discovery Life is a company offering life insurance, sickness and dread disease cover, disability cover and income protection. Discovery Vitality's primary business comprises the Vitality wellness and rewards programme (the Vitality programme), which it administers.

2. The business of the respondent, Liberty Group Ltd (Liberty), includes the sale of life insurance and related products such as sickness cover, dread disease cover, disability cover and income protection. It is common cause that Liberty is a direct competitor of Discovery Life in this regard. The applicants contend that it also competes with Discovery Vitality, but this is disputed.

3. Anyone who is a member of a medical scheme offered within the Discovery group may elect to become a member of the Vitality programme. This involves payment of a monthly membership fee. The programme encourages members to lead a healthy lifestyle. Vitality members earn Vitality points for taking steps in this regard. The more points a member earns, the higher her Vitality status becomes. New

[1] Act 194 of 1993

Vitality members start out with a Blue status and can progress through the ranks to Bronze, Silver, Gold and Diamond status.

4. One of the products that Discovery Life sells is the Discovery Life Plan (the Discovery Plan). It links a person's Vitality status to insurance risk. An insured under the Discovery Plan can receive discounts on her premiums and receive payment of a percentage of premiums under a cash-back scheme. The higher the insured's Vitality status the greater the benefits under the Discovery Plan.

5. Liberty markets a policy called the Liberty Lifestyle Protector Plan (the Liberty Plan). With effect from 1 May 2019 Liberty introduced an additional feature to this policy, viz. the Wellness Bonus. In brief, qualifying customers can elect to disclose to Liberty their existing membership of an external wellness programme in order to add the Wellness Bonus to their Liberty Plan policy. If the wellness programme is one recognised by Liberty, the Wellness Bonus permits a policyholder to receive a portion of the premiums they paid under their Liberty Plan policy back from Liberty. The Wellness Bonus is paid out after four years, but it accrues on the first anniversary after the Wellness Bonus is taken out, and thereafter annually.

6. Critical to the present case is that the amount of the Wellness Bonus payback is dependent on a Liberty Wellness Score. In turn, this score is determined by the particular status that the policyholder has achieved on her external wellness programme. If a policy holder is a member of the Vitality programme and has a Blue status, she will have a lower Liberty Wellness Score, and will receive a lower percentage of her premiums back than another Liberty Plan policyholder who is a Diamond status member of the Vitality programme.

7. It is common cause that Liberty does not operate a wellness programme, although it did so in the past. It is also common cause that at present Liberty recognises two

external wellness programmes for purposes of the Wellness Bonus addition to the Liberty Plan. These are Discovery Vitality, and Momentum Multiply.

8. The applicants' complaint against Liberty is two-fold. They say that Liberty has unlawfully linked its insurance offering, based on the Wellness Bonus, to the Vitality Wellness programme. In so doing, the applicant's contend, in the first place, that Liberty has infringed Discovery's Vitality and Discovery trade marks. In the second place, the applicant's contend that Liberty has made unlawful and unfair use of the Vitality programme, its reputation and the "back-office" that it entails. By the "back-office" the applicants refer to, as they say, all the behind-the-scenes operations, information and know-how that goes into maintaining and developing the Vitality programme. In so doing, they say that Liberty has committed the delict of unlawful competition.

9. The applicants seek relief in the form of interdicts against Liberty prohibiting it from continuing its alleged infringement of Discovery's trade marks, and, its unlawful competition. In addition, they seek an order directing that an inquiry be held into the damages the applicants allege they have suffered from Liberty's trade mark infringements. Further, they seek an order postponing, for subsequent determination, an enquiry into the damages they allege they have suffered as a result of the alleged unlawful competition.

THE ALLEGED TRADE MARK INFRINGEMENTS

Liberty's use of the Trade Marks

10. Liberty does not dispute that it used the trade marks, Discovery and Vitality. It also does not dispute that it was not authorised by the proprietor, Discovery, to do so. However, it disputes that its use amounts to an infringement. In order to understand

the applicants' case on the alleged infringement of the trade marks, and Liberty's response to it, it is necessary to set out in some detail how the trade marks are used by Liberty.

11. The applicants assert that Liberty uses the trade marks in the course of its trade in advertising and selling its Liberty Plan, which includes the Wellness Bonus as an additional feature. Although the applicants initially identified a number of documents that they contended evidenced Liberty's unauthorised use of the trade marks, by the time the matter was ripe for hearing their complaint focused on the use of the trade marks in two documents attached to the founding affidavit.

12. Both documents are addressed to Liberty customers. The first document (attached to the founding affidavit as D34) is an online quotation that is generated for a customer by an insurance intermediary or broker (the quotation document), with an attachment for the customer (the information attachment). The second document (attached to the founding affidavit as D35) is an instruction document issued to existing policy holders (the instruction document).

13. For purposes of the case, the applicants obtained and attached a quotation document (with an information attachment) obtained by an independent intermediary, Mr Ghelig, for a potential Liberty Plan customer, Mr Nel, using an online quotation system.

14. The quotation document itself is printed under a Liberty banner, and is titled "Lifestyle Protector Quote". It includes the fact that Liberty is quoting Mr Nel for, among other things, a Wellness Bonus benefit. The quotation document itself does not include any reference to the Discovery or Vitality trade marks, although, as I explain below, the information attachment does. However, it is apparent from the

process involved in generating the quotation document that the word "Vitality" is recognised by the software used to generate the online quotation.

15. The online quotation process is operated by an intermediary, like Mr Ghelig, who has a consultation code and can access Liberty's IT system. Access to this system is not available to the general public. In fact, if a member of the public reads the quick reference guide produced by Liberty to explain the Wellness Bonus benefit, they are told to approach a financial advisor or broker. One of the documents attached to the founding affidavit was a question and answer guide for intermediaries explaining the Wellness Bonus. It includes a step-by-step guide to obtaining a quote for the Liberty Plan including the Wellness Bonus. This guide does not refer to either Discovery or Vitality. Instead, it explains that the Wellness Bonus is based on wellness programmes offered "*outside of Liberty*", or "*external wellness programmes*". The document also explains that the customer bears the onus of submitting evidence of her wellness programme status to Liberty.

16. The online request for a quotation is made by the intermediary following the guidelines provided by Liberty. It is common cause that the process involves the intermediary (in this case, Mr Ghelig) asking the customer for relevant information and then entering that information in the relevant section of the online form. If the customer wishes to include the Wellness Bonus in the quote the intermediary is prompted to fill in the name of the wellness programme in respect of which the customer is a member. Mr Nel must have advised Mr Ghelig to fill in "Vitality", which was recognised by the software embedded in the IT operating the online quotation system. Similarly, Mr Ghelig filled in "Diamond" when prompted to provide Mr Nel's Vitality status. Based on this information, provided by Mr Nel, and entered into and recognised by Liberty's IT system, the quotation document was generated.

17. The information attachment is attached to the quotation document. As I have indicated, this document makes direct reference to the word *'Vitality'* (inverted commas are in the original). Once again, the information attachment is under a Liberty banner. It states that it is an explanation of "*your Wellness Benefit, and depends on the wellness programme disclosed*". Under the heading, "*Disclosed Programmes*", the document records that: "*You are a member of 'Vitality'*" (inverted commas are in the original), and that this programme is recognised for purposes of the Wellness Bonus. It goes on to explain to Mr Nel that: "*Your status on the wellness programme you disclosed will earn you a Liberty Wellness Score as follows*". Below this is a table indicating the various 'Vitality' programme statuses with a corresponding Liberty Wellness Score. Once again, the word *'Vitality'* (inverted commas are in the original) is used at the top of the table. It is used again under the heading "*Information required*", when Mr Nel is advised that he must provide proof of his *'Vitality'* (inverted commas are in the original) status obtained by way of a pdf document that must be submitted to Liberty.

18. Further features of the information document include a reservation by Liberty that: "*Liberty reserves the right to change or add which programmes are recognised and how any available information from the Recognised Programmes is allowed for in the Liberty Wellness Score*". A further reservation is made to Liberty's right to: "*…use your Personal Information to verify, from your wellness programme provider, any information you provided to us. Liberty may take action as stipulated in the terms and conditions of the benefit should it be found that false or inaccurate information has been provided.*" It is noteworthy that reference is made to "*<u>your</u> wellness programme*" more than once in the information attachment (emphasis added). The customer is also told to: "*Please inform Liberty if your membership to*

the disclosed wellness programme(s) changes", and that in that event, a new Personalised Wellness Bonus Information Document will be issued.

19. As to the other document relied on by the applicants, viz. the instruction document, it also makes reference to both the words Discovery and Vitality. This document is provided to Liberty Plan Wellness Bonus customers to assist them to upload their wellness programme status onto Liberty's electronic record system. It is a step-by-step guide under a Liberty banner. The document advises the user to: "*Please follow the steps below to obtain proof of your non-Liberty wellness programme status … .*" Step 1 tells the user to: "*Click here (if you are a Discovery Vitality member)*" or to "*Click here if you are a Momentum Multiply member*". A hyperlink is embedded in this instruction which takes the user to either the Discovery Vitality website, or to the Momentum Multiply website. At the bottom of the page, footnoted, it is stated that: "*Discovery and Vitality are registered trademarks of Discovery Limited*" and "*Momentum and Multiply are registered trademarks of Momentum Group Limited*."

20. The applicants base their case for infringement of Discovery's trade marks on sections 34(1)(a) and 34(1)(c) of the Act. These sections read as follows:

> "The rights acquired by registration of a trademark shall be infringed by—
>
> (a) the unauthorized use in the course of trade in relation to goods or services in respect of which the trademark is registered, of an identical mark or of a mark so nearly resembling it as to be likely to deceive or cause confusion. …
>
> (c) the unauthorized use in the course of trade in relation to any goods or services of a mark which is identical or similar to a trade mark registered, if such trade mark is well known in the Republic and the use of the said mark would be likely to take unfair advantage of, or be detrimental to, the distinctive character or the repute of the registered trade mark, notwithstanding the absence of confusion or deception."

Alleged infringement under s34(1)(a): trade mark use

21. It is established in our law that in order to provide a basis for an infringement under section 34(1)(a) the use complained of must be "trade mark use". In *Verimark (Pty) Ltd v BMW AG: BMW AG v Verimark (Pty) Ltd*,[2] the Supreme Court of Appeal held as follows in this regard:

> "It is trite that a trade mark serves as a badge of origin and that trade mark law does not give copyright-like protection. Section 34(1)(a), which deals with primary infringement and gives in a sense absolute protection, can, therefore, not be interpreted to give greater protection than that which is necessary for attaining the purpose of a trade mark registration, namely protecting the mark as a badge of origin."

22. In other words, while the proprietor of a registered trade mark has a monopoly over its use, it is not an unlimited monopoly. Not every use of the trade mark by a competitor will fall within the ambit of section 34(1)(a) and thus constitute an infringement. An infringement occurs when the use of the trade mark "*affects or is likely to affect the functions of the trade mark, in particular its essential function of guaranteeing to consumers the origin of the goods*".[3] Use that is purely for descriptive purposes has been held by the European Court of Justice,[4] and echoed by the House of Lords, not to constitute such an infringement. In *Verimark* the SCA held that:

> "This approach appears to me to be eminently sensible. It gives effect to the purpose of the Act and <u>attains an appropriate balance between the rights of the trade mark owner and those of competitors and the public</u>. What is, accordingly, required is an interpretation of the mark <u>through the eyes of the consumer as used by the alleged infringer</u>. <u>If the use creates an impression of a material link between the product and the owner of the mark there is infringement; otherwise there is not</u>. The use of a mark for purely descriptive

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[2] 2007 (6) SA 263 (SCA), at para 5

[3] *Anheuser-Busch Inc. v Budejovický Budvar, národní podnik* Case C-245/02 of 16 November 2004, European Court of Justice, cited in *Verimark* at para 5

[4] *Anheuser-Busch Inc*, and *R v Johnstone* [2003] UKHL 28, both cited in *Verimark* at para 5;

purposes will not create that impression but it is also clear that this is not necessarily the definitive test."[5] (emphasis added)

23. And also that:

> "There can only be primary trade mark infringement if it is established that consumers are likely to interpret the mark, *as it is used by the third party*, as designating or tending to designate the undertaking from which the third party's goods originate."[6] (emphasis in the original)

24. It is important to appreciate that the protection of trade marks under the Act is not designed to silence commercial speech. The Supreme Court of Appeal in its judgment in *Commercial Autoglass (Pty) Ltd v BMW AG*[7] made this point by noting that:

> "The object of trade mark law as reflected in s34(1)(a) … is to prevent commercial 'speech' that is misleading. Trade mark use that is not misleading (in the sense of suggesting provenance by the trade mark owner) is protected, not only constitutionally but in terms of ordinary trade mark principles. As Justice Holmes said: 'When the mark is used in a way that does not deceive the public, we see no sanctity in the word as to prevent its being used to tell the truth.'"[8] (emphasis added)

25. The question, then, is whether the particular unauthorised use of the trade mark by the third party misleads the customer by falsely identifying the provenance or origin of the third party's goods or services with that of the trade mark proprietor. In other words, the question is whether, through the impression created by its use of the trade mark, the third party is misappropriating the proprietor's badge of origin ascribed to the proprietor's own goods or services. As the SCA put it in *Verimark*, would the public perceive the use of the trade mark as performing the function of a

[5] *Verimark*, para 6
[6] *Verimark*, para 5
[7] 2007 (6) SA 637 (SCA)
[8] At para 8, citing *Prestonettes Inc v Coty* 263 US 359 at 368 (1924)

"source identifier" for the third party's goods or services?[9] It is this type of material connection in trade that amounts to trade mark use for purposes of section 34(1)(a) of the Act.

26. Whether or not this material connection in trade is established is a question of fact to be decided in light of the particular circumstances of each case.[10] If a substantial number of customers would be deceived by the third party's use of the mark, trade mark use may be established.[11] The context within which the trade mark is used must be taken into consideration. One cannot isolate the trade mark and ignore the context of use.[12]

27. The *Verimark* and *Commercial Autoglass* cases are good illustrations of how the application of these principles may lead to different outcomes depending on the particular facts of each case. In *Verimark*, a company widely advertised its Diamond Guard car care kits and car polish by using different cars to demonstrate the wonders of its products. One car that it used was a BMW, with the BMW logo clearly visible in the advertisement. BMW claimed an infringement of its trade mark under, inter alia, section 34(1)(a) of the Act. The court held that:

> "Turning then to the facts of this case, I am satisfied that any customer would regard the presence of the logo on the picture of the BMW car as identifying the car and being part and parcel of the car. It is use of the car to illustrate Diamond Guard's properties rather than use of the trade mark. No-one, in my judgment, would perceive that there exists a material link between BMW and Diamond Guard or that the logo on the car performs any guarantee of origin function in relation to Diamond Guard."[13]

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[9] At para 9
[10] *Commercial Autoglass*, para 9
[11] *Commercial Autoglass*, para 10
[12] *Verimark*, para 9
[13] At para 8

28. In *Commercial Autoglass*, on the other hand, the company in question supplied windscreens for cars, including BMWs. However, the windscreens were not original, in the sense that they were not made by or under BMWs authorisation. It listed its windscreens for sale in advertisements by providing a price alongside descriptions such as "BMW E30 3 Series 83-92". Similar descriptions were repeated in its quotations and in its invoices, for example, it described the goods sold as "BMW E36 2 DR 92-97 WS". The company argued that it was using the BMW trade mark in a purely descriptive sense, i.e. simply to inform the public that it was selling windscreens that fit BMW cars, not that the windscreens were original BMW windscreens. Both the High Court and the SCA rejected the company's argument. The SCA found that the nature of the use of the BMW trade mark was such that a substantial number of people would be deceived by interpreting the actions of the company as representing that the windscreens were genuine BMW parts.[14] As such, the company's use of the trade mark amounted to trade mark use, and its defence did not succeed. Unlike the situation in *Verimark*, the use of the trade mark in *Commercial Autoglass* plainly misled the public as to the source identifier of the company's goods: it created the impression that they were windscreens authorised by BMW when they were not.

29. In the matter before me Liberty contends that its use of Discovery's trade marks (as outlined above) does not amount to trade mark use. The applicants vehemently dispute this. The first issue I need to determine for purposes of deciding whether there has been an infringement under section 34(1)(a) is whether Liberty or the applicants are correct on this question. If I find it is not trade mark use there will not be an infringement under that section.

[14] At para 10

30. I must examine Liberty's use of the words "Discovery" and "Vitality" in the context in which they are used. The words were used in two documents, viz. the information attachment to the quotation document, and the instruction document. The information attachment uses the word 'Vitality' in inverted commas. Throughout the document it is made clear that 'Vitality' is a reference to the customer's wellness programme, which the customer has elected to disclose: the document makes frequent reference to "*your wellness programme*"; "*your wellness programme provider*"; "*you are a member of 'Vitality'*"; "*your status on the wellness programme you have disclosed*" etc. It is difficult to comprehend how the use of the Vitality trade mark in this document could reasonably be interpreted by the customer as misleading her into believing that Liberty was claiming provenance of the Vitality programme, or misappropriating Discovery's badge of origin in that programme. As an existing Vitality member the customer would know full well that the Vitality programme originates from Discovery. The information attachment captures the customer's disclosure of that information and informs the customer what cash-back benefit she will be entitled to receive from Liberty based on the customer's existing membership of a wellness programme from a different source, viz. Discovery Vitality.

31. The broader context in which the mark Vitality is used in the information attachment supports this interpretation. The quotation and the attachment are not advertised to the public at large (as in the case of *Verimark* or *Commercial Autoglasss*). Instead, they are generated by an intermediary who has access to Liberty's online system and the step-by-step guide provided by Liberty for that purpose. The step-by-step guide makes it clear to intermediaries that the Wellness Bonus is linked to wellness programmes "*outside of Liberty*" of which customers may be members, but which Liberty may recognise for purposes of the Wellness Bonus. The step-by-step

guide also makes it clear that it is the customer who must provide the information identifying their wellness programme. In other words, intermediaries will know that this information is not available to Liberty without the customer's disclosure, as it surely would be if there was a material association in trade between Discovery Vitality and Liberty.

32. It is an important feature of this aspect of the case that the applicants do not contend that intermediaries will be confused by Liberty's use of the trade marks. It follows that it is reasonable to infer that customers who liaise with those intermediaries will be given accurate information, and will themselves not be confused. They will not be confused into thinking that Liberty's use of 'Vitality' in the information attachment means that Liberty is operating or claiming provenance of the Vitality programme. They will have provided the information about their wellness programme to the intermediary, and it is this action that triggers the use of the term 'Vitality' in the information attachment. It will thus be clear to the customer that when 'Vitality' appears in the information attachment it does not indicate that the Vitality programme is a Liberty wellness programme, or that there is a material association in trade between the customer's insurance provider and its wellness programme provider.

33. This is further reflected in the document that is available to the general public, viz. the quick reference guide referred to earlier. That document explains the Wellness Bonus addition to the Liberty Plan in broad outline. It explains, throughout, that the Wellness Bonus operates on the basis of evidence of "*your wellness on recognized external wellness programmes*" (emphasis added). It tells the public that in order to qualify they must be a member of "*an external wellness programme recognised by Liberty*".

34. As far as the instruction document is concerned, it uses the terms Discovery and Vitality to direct the customer to the correct link in order to upload their wellness programme status to Liberty's electronic record system. The user is told to "*Click here (if you are a Discovery Vitality member)*". The same instruction (with an obvious change in name) guides users who belong to Momentum Multiply. As I have already noted, the purpose of the document is to assist the customer in obtaining proof of "*your non-Liberty wellness programme*". A customer using this guide would have gone through the process of selecting to include the Wellness Bonus to their Liberty Plan through the intermediary. The same contextual considerations that applied in respect of the information attachment apply to the use of the trade marks in this document as well. On top of this, the user is reminded that the link provided to "*Discovery Vitality*" is based on their own disclosed membership of that particular "*non-Liberty wellness programme*". For good measure, Liberty notes at the bottom of the document that those terms are trade marks of Discovery.

35. The applicants contended that the fact that the instruction document includes a hyperlink to the Discovery Vitality website would give rise to the impression that Liberty and Discovery Vitality share a material association in trade, thus indicating trade mark use. In my view, there is no merit in this submission. There is nothing magical about a hyperlink. In these days of increasing use of IT systems, it is not unusual to find hyperlinks in documents inserted for the convenience of the user. In any event, the insertion of the hyperlink cannot be considered on its own. When considered within the full context in which Liberty has used the trade marks, as discussed fully above, the insertion of the hyperlink takes the applicants' case no further.

36. The same goes for the applicants' contention that Liberty's reservation of the right to use the customer's personal information to verify the customer's status with her wellness provider creates the impression that Liberty has a material association in trade with Discovery Vitality. Again, when seen in the full context of Liberty's use of the trade marks, the reasonable customer would not, in my view, be misled as suggested.

37. The applicants also contended that the manner in which Liberty has used Discovery's trade marks would mislead customers into thinking that Liberty was one of Discovery Vitality's many reward partners. The applicants explained that Discovery Vitality has entered into commercial relationships with many suppliers of services such as pharmacies, gyms, food retailers and exercise clothing retailers. Through this partnership arrangement, suppliers may use the Vitality trademark. In exchange, members are rewarded through, for example, reduced gym fees, by the providers of those services. According to the applicants, Liberty's use of the Vitality trade mark will mislead Vitality members into believing that Liberty is one of Discovery's partners.

38. Once again, this argument must be examined within the full context within which the trade marks are used by Liberty. When considered as a whole, I am satisfied that the reasonable customer would not be misled in this way. Nowhere is there any suggestion by Liberty, through its use of the trade marks, that it is a Discovery Vitality rewards partner. Liberty makes it plain throughout in its use of the trade marks that Discovery Vitality is referred to as one of the external and non-Liberty wellness programmes it recognises for purposes of the Wellness Bonus policy. Liberty's limited use of the trade marks, as I have discussed in some detail, gives no indication that Liberty claims to be one of Discovery Vitality's rewards partners. Indeed, if there was any scope for that suggestion, it would be cancelled out by the

manner in which customers are exposed to Liberty's use of the trade marks. That exposure occurs through an intermediary whom we know, for purposes of this case at least, is not in any state of confusion about the actual relationship between Liberty and Discovery Vitality.

39. For these reasons I conclude that Liberty's use of the trade marks in the information attachment to the quotation document, and in the instruction document is not trade use for the purposes of section 34(1)(a). Liberty has used the trade marks in a limited manner, restricting the use to those two documents. The purpose of the use is to inform Liberty Plan customers that Liberty recognises Discovery Vitality membership as membership of an external, third party wellness programme that will qualify the customer in terms of the Wellness Bonus policy. It uses the trade marks to capture, in the two documents, the information that is supplied by a customer who is a member of Discovery Vitality. It uses the name of the programme disclosed by the customer in order to identify the external wellness programme operated and maintained by Discovery Vitality. As such, its use is descriptive and not trade mark use. Liberty does not usurp the provenance of the Discovery wellness programme.

40. The reasonable customer would not get the impression, through Liberty's use of the trade marks, that it is the source of the Vitality programme, or that it shares with Discovery, authority to claim provenance of the programme. Discovery Vitality members will understand, from the context within which the trade marks are used, that while their membership of that wellness programme may give them a Liberty benefit, the provenance of the Vitality programme remains that of Discovery. Conversely, they will understand that the benefit they receive from the Wellness Bonus addition to the Liberty Plan, falls separately within the provenance of Liberty. In this manner, the correct balance is achieved, as noted by the SCA in *Verimark*, between the rights of Discovery, as the trade mark proprietor, and those of Liberty

as a competitor (at least with Discovery Life), and the public, who should not be unnecessarily hindered in their freedom of commercial choice when it comes to available insurance policy products.

41. It follows that the applicants' complaint of an infringement under section 34(1)(a) cannot succeed.

Alleged infringement under section 34(1)(c)

42. What of the applicants' case that Liberty committed an infringement under section 34(1)(c) of the Act?

43. Under this section an infringement will occur if the trade marks in question are well known in the Republic, and if the unauthorised use will take unfair advantage of, or be detrimental to the distinctive character or repute of the registered marks. It is not necessary to establish that the use of the trade marks is likely to cause deception or confusion. In this respect, the test under this section is distinguishable from that under section 34(1)(a).

44. It is common cause that the trade mark Discovery is well known in the insurance market in South Africa. There is some dispute whether the same may be said of the trade mark Vitality. It is not necessary to make a determination on this issue, and I will assume that this requirement has been met in respect of both trade marks. The question then is whether Liberty's use of the marks will take unfair advantage of, or will be detrimental to, the distinctive character or repute associated with the marks.

45. It was held by the SCA in *Verimark* that the requirement of trade mark use, associated with section 34(1)(a), is not a pre-condition for liability under section 34(1)(c). This is because the purpose of this provision is to go further than merely safeguarding the proprietor's badge of origin in respect of its goods or services.

Section 34(1)(c) is aimed at protecting the reputation, advertising value or selling power of a mark that is well known.[15] This sentiment was echoed by the Constitutional Court in *Laugh It Off Promotions CC v SAB Intl (Finance) BV t/a Sabmark Intl (Freedom of Expression Institute as Amicus Curiae)*:

> "The section strives to protect the unique identity and reputation of a registered trademark. Both of these attributes underpin the economic value that resides in the mark's advertising prowess or selling power. As it is often said that the mark sells the goods and therefore its positive image or consumer appeal must be safeguarded."[16]

46. Despite this important characteristic of the protection against infringement provided under section 34(1)(c), the Court in *Verimark* went on to state the following rider:

> "But that does not mean that the fact that the mark has been used in a non trade mark sense is irrelevant; to the contrary, it may be very relevant to determine whether unfair advantage has been taken of or whether the use was detrimental to the mark. … <u>the provision is not intended to enable the proprietor of a well-known registered mark to object as a matter of course to the use of a sign which may remind people of his mark; there is a general reluctance to apply this provision too widely; not only must the advantage be unfair, but it must be of a sufficiently significant degree to warrant restraining of what is, *ex hypothesi*, non-confusing use</u>; and that <u>the unfair advantage or the detriment must be properly substantiated or established</u> to the satisfaction of the court: the court must be satisfied by evidence of actual detriment, or of unfair advantage."[17] (emphasis added)

47. The Constitutional Court made similar pronouncements in *Laugh It Off*:

> " … properly read the section requires that an infringement of a trademark may occur only if 'unfair advantage' or 'unfair detriment' is shown. Equally clear is that the detriment relied upon must not be flimsy or negligible. It must be substantial in the sense that it is likely to cause substantial harm to the uniqueness and repute of the marks. Therefore, on its terms the section has internal limitations. It sets fairness and materiality standards. The section does not limit use that takes fair advantage of the mark or that does not threaten substantial harm to the repute of the mark, or indeed that may

[15] At para 13
[16] 2006 (1) SA 144 (CC) at para 40
[17] At para 14, citing *Pebble Beach Company v Lombard Brands* [2002] ScotCS 265

> lead to harm but in a fair manner. What is fair will have to be assessed case by case with due regard to the factual matrix and other context of the case. A Court will have to weigh carefully the competing interests of the owner of the mark against the claim of free expression of a user without permission."[18]

The Court found further that for purposes of a claim based on section 34(1)(c) the claimant would have to establish a likelihood of substantial economic detriment to its mark.[19]

48. The applicants contend that Liberty has taken unfair advantage of the repute existing in Discovery's trade marks in the form of "blurring" or "dillution". In other words, Liberty's use of the trade marks impairs the exclusivity associated with them, and reduces the advertising effectiveness of the trade marks, which Discovery spent large sums of money developing and promoting. The applicants say that Liberty is taking unfair advantage of the trade marks by selling its insurance products to Vitality members, and by using the Vitality and Discovery marks to do so. The applicants do not provide evidence of actual harm or detriment. They suggest that the harm in this case is self-evident, as the inherent uniqueness of the Vitality mark is weakened when any person can use the mark in this manner without permission.

49. There are fundamental difficulties with the applicants case under this cause of action. As I have found, the use of the trade marks in this case did not amount to "trade mark use". This remains a relevant factor for purposes of a section 34(1)(c) inquiry, in that it goes to the fairness of the advantage Liberty is alleged to have taken in respect of the trade marks. If (as I have found) the use was not such as to mislead the public for purposes of determining trade mark use, it would in my view require additional case-specific facts to establish that any advantage Liberty may gain from such use is nonetheless unfair. The applicants do not set out additional

[18] At para 49
[19] At para 56

facts to establish this. Instead, they aver that harm is likely to be caused to Discovery Life because sales of the Liberty Plan are likely to be at the expense of Discovery Plan policyholders, and that this economic harm is self-evident.

50. It is common cause that Discovery Life and Liberty are direct competitors in the insurance market. It is also common cause that both are what may be described as major players in this market. Discovery Life is a newer, but growing competitor, whereas Liberty has been offering insurance products for decades. It is only realistic to accept that there will be fierce competition between them. Competition usually inures to the advantage of consumers. This is one of the reasons why the courts have cautioned against section 34(1)(c) being too easily used to stifle fair, and hence protected, competition.

51. In *Laugh It Off* the Constitutional Court warned courts: "*to be astute not to convert the anti-dilution safeguard of renowned trademarks usually controlled by powerful financial interests into a monopoly adverse to other claims of expressive conduct …*".[20] Although the facts in *Laugh It Off* were somewhat different to those in this case, the principle remains the same: section 34(1)(c) should not be used in such a way that it prevents a proper balance between the competing interests involved. Those interests involve not only the trade mark proprietor and its competitor, but also the general public.

52. The applicants aver that Liberty is simply using Discovery's trade marks to trade off their unique and well known and respected reputation. However, the applicants do not dispute Liberty's assertion that it has its built up its own considerable reputation as an insurer in South Africa and in Africa; that its products conspicuously bear its own trade mark; and that it has no need or desire to be associated in any way with

[20] At para 48

the applicants. Its stance is supported by the facts outlining the nature in which it has used Discovery's trade marks in this case.

53. The principles laid down by our courts are clear: advantage through the use of another's trade mark is not per se an infringement under s34(1)(c). It is not sufficient, as the applicants have done here, simply to broadly assert that Liberty's use of Discovery's trade marks will lead to the sale of Liberty Plan policies and that this will be to the detriment of Discovery Life. Such a broad assertion ignores the reputation that Liberty itself has in its own trade mark, and its prominent use of its own trade mark in the same documentation in which it makes relatively limited, non-confusing and descriptive reference to Discoveries trade marks.

54. Furthermore, the applicants adduce no evidence in support of its asserted likelihood of significant detriment to its reputation. This is not a case where such detriment is self-evident. Competition between Discovery Life and Liberty may be self-evident, and the sale of Liberty Plan policies may give Liberty an advantage over Discovery Life. However, this is a far cry from establishing that Liberty's use of the trade marks will result in an unfair advantage to it, or in detriment to Discovery's reputation to so significant a degree that the court should stifle the competition between them.

55. In the circumstances, I find that the applicants have failed to establish liability on the part of Liberty under section 34(1)(c) of the Act.

The exception under section 34(2)(b)

56. As part of its defence to the trade mark causes of action, Liberty relied on the exception in section 34(2)(b). That section provides that a registered trade mark is not infringed by the use of any *bona fide* description or indication of the kind, quality, quantity, intended purpose, value, geographical origin or other characteristics of the

third party trade mark user's goods or services. Such use must also be consistent with fair practice.

57. There is substantial overlap, in a case like the present, between the considerations necessary for purposes of this section and those necessary for both section 34(1)(a) and section 34(1)(c). As the SCA pointed out in *Commercial Autoglass*, whether particular use is trade mark use for purposes of section 34(1)(a) is closely connected with the exceptions under section 34(2).[21] Further, the element of fair practice contained in the exception overlaps with the unfair advantage element of the infringement under sections 34(1)(c). For these reasons, and given the extensive consideration I have given to both sections 34(1)(a) and 34(1)(c), it is not necessary for me to discuss the defence raised under section 34(2)(b) in any detail.

58. Suffice it to say that on the facts before me, and for the reasons already given, I am satisfied that Liberty has established that its use of the trade marks is *bona fide* and in accordance with fair practice within the ambit of section 34(2)(b). It uses the trade marks in a non-trade mark manner, for descriptive purposes. Liberty uses the names "Discovery" and "Vitality" in a context which makes it clear that it is doing so to describe one of the wellness programmes that it recognises for purposes of its own product, viz. the Wellness Bonus element of the Liberty Plan. As I have already found, it does not use it in a manner that would give the customer the impression that Liberty is the proprietor of the Vitality programme or has a material trade association with Discovery.

59. Insofar as it is necessary for me to make a finding on the exception defence raised by Liberty, I conclude that the defence is well founded. For this reason, too, the

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[21] At para 11

applicants have failed to establish their cause of action under section 34 (1) of the Act, and their application in this regard falls to be dismissed.

60. It remains to consider the applicants' cause of action based on unlawful competition.

UNLAWFUL COMPETITION

61. Our law has long recognised the right of a competitor to protect itself against the unlawful trade practices of a rival trader. That protection lies in the delict of unlawful competition, which seeks to prohibit competition that is not fair and reasonable. The main difficulty with this *Aquilian* cause of action is to determine the dividing line between lawful and unlawful interference with the trade of another.[22] Our courts have recognised that as a general rule, every person is entitled freely to carry on her trade or business in competition with her rivals, provided that the competition remains in lawful bounds. Further:

> "In order to succeed in an action based on unfair competition, the plaintiff must establish all the requisites of *Aquilian* liability, including proof that the defendant has committed a wrongful act."[23]

62. These principles were laid down prior to our Constitutional era. However, they have been recognised and appropriately moulded to fit comfortably within the constitutional context. Thus, in *Phumelela Gaming and Leisure Ltd v Gründlingh and Others*,[24] the Constitutional Court echoed the common law principles, with reference also to the Bill of Rights:

> "The delict of unlawful competition is based on the *Aquilian* action and, in order to succeed, an applicant must prove wrongfulness. This is always

[22] *Dun and Bradstreet (Pty) Ltd v SA Merchants Combined Credit Bureau (Cape) (Pty) Ltd* 1968 (1) SA 209 (C)
[23] *Schultz v Butt* 1986 (3) SA 667 (A)
[24] 2007 (6) SA 350 (CC)

> determined on a case by case basis and follows a process of weighing up relevant factors, in terms of the boni mores now to be understood in terms of the values of the Constitution."[25]

63. The Constitutional Court went on to point out that the process of determining the limits of lawful, and hence non-actionable, competition necessitates the weighing up of many interests that may be in conflict. The test for wrongfulness has evolved over the years, and is premised on the *boni mores* or reasonableness criterion:[26]

> "The question is whether, according to the legal convictions of the community, the competition or the infringement on the goodwill is reasonable or fair when seen through the prism of the spirit, purport and objects of the Bill of Rights. Several factors are relevant and must be taken into account and evaluated. <u>These factors include the honesty and fairness of the conduct involved, the morals of the trade sector involved, the protection that positive law already affords, the importance of competition in our economic system, the question whether the parties are competitors, conventions with other countries and the motive of the actor</u>."[27] (emphasis added)

64. The Court noted that the Constitution protects both the right to property, in section 25, and the right to freedom of trade, in section 22. The consequence of this latter right is competition.[28] In this regard, the Court said:

> "In consideration of all the above factors, the promotion of the spirit, purport and objects of the Bill of Rights cannot be confined to the impact of section 25 of the Constitution alone … . The process of weighing up must include consideration of other provisions of the Bill of Rights which might be relevant to the issue, for example, as has already been mentioned, the right to freedom to trade."[29]

65. The case before me is a good illustration of these two competing interests: underpinning their claim is the applicants' interest in their right to property. Liberty,

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[25] At para 31
[26] At para 32
[27] At para 34
[28] At para 33
[29] At para 35

on the other hand, protests that it is doing no more than lawfully exercising its right of freedom to trade. Essentially the questions in this case are whether the applicants have satisfied the test of wrongfulness, and hence, where the line is correctly to be drawn between the parties' competing interests within the context of the constitutionally directed *boni mores* of our society today.

66. The applicants describe Liberty's alleged unlawful conduct using two labels. First, they say that Liberty has "misappropriated the applicants' performance", not only in using a customer's Vitality status to calculate the Wellness Score, but also in indirectly appropriating the underlying Vitality programme and business system (what was earlier referred to as the "back-office") to do so. The complaint is that Liberty has not bothered to use its expertise and resources to develop its own system, but instead, has leapfrogged over that hurdle by simply adopting and using the Vitality status system for its own commercial purposes. In the second place, they say that Liberty's conduct also amounts to an "appropriation of the goodwill in the Discovery and Vitality name", without taking the reasonable step of acquiring a licence to do so.

67. Misappropriation of a rival's performance and appropriation of goodwill do not, *per se*, fall within the category of clearly recognised illegalities constituting unlawful competition in our common law. These recognised illegalities have been listed as including trading in contravention of an express statutory prohibition; the making of fraudulent misrepresentations by a rival trader; passing off; the publication by a rival trader of injurious falsehoods concerning a competitor's business; and the employment of physical assaults or intimidation directed at a rival trader.[30] Of

[30] See *Schultz v Butt*, above, citing *Dun and Bradstree*t at 216F-H

course, this does not mean that the applicants do not have a case. The real question is whether the conduct complained of, however it is labeled, is wrongful.

68. That question depends on the facts. In this case, many of the relevant facts are common cause:

68.1. Liberty accepts that Vitality is a wellness programme offered to the public by, and is the primary business of, Discovery Vitality. It accepts that the Vitality programme took time and effort to develop and continues to take time, effort and resources to maintain. It also does not dispute that the Vitality programme is continuously enhanced on the basis of ongoing research and knowledge gained within the Discovery group of companies. Claims experience gained by Discovery Life feeds into this process.

68.2. Further, it accepts that the science, proprietary algorithms, data and modelling which underpin the Vitality programme and which are used to determine a member's Vitality status is confidential information which is proprietary to Discovery Vitality.

68.3. It is common cause that Liberty does not have access to, and has not misappropriated, this confidential, proprietary information.

68.4. It is also common cause that a Vitality member's Vitality status does not form part of Discovery Vitality's confidential, proprietary information. It is the members' personal information, and they are free to make it public.

68.5. Vitality members pay for their membership of the Vitality programme, and there is no lawful restriction on them disclosing their Vitality status to Liberty. The applicants accept that this disclosure is made voluntarily to Liberty by customers.

68.6. Discovery Vitality generates revenue in the region of R2,3 billion annually from Discovery Vitality membership fees, and this covers the cost of maintaining the Vitality system.

68.7. Liberty accepts that it uses a customer’s Vitality status as a risk proxy for their expected long-term mortality and morbidity risk for purposes of the Wellness bonus element of the Liberty Plan.

68.8. It is also common cause that risk proxies are commonly used in the insurance industry.

68.9. Liberty has not been licensed by Discovery Vitality to use the Vitality status of customers for purposes of the Wellness Bonus element of its Liberty Plan.

68.10. Liberty and Discovery Life are competitors for the provision of life insurance. Both use a customer’s Vitality status for purposes of determining whether and to what extent customers are entitled to a cash-back payment under their respective Liberty Plan and Discovery Plan policies. Discovery also gives discounts to Vitality members on premiums payable under its Plan.

69. While it is common cause that Liberty and Discovery Life are trade competitors, it is not common cause that Liberty is a competitor of either Discovery or Discovery Vitality. Liberty does not operate a wellness programme, and Discovery Vitality does not offer life insurance. On this basis Liberty points out that the two companies are not trade competitors. Discovery is a holding company and does not trade. For this reason, Liberty points out that Discovery, too, is not Liberty’s trade competitor. Whether or not the parties are trade competitors is one of the factors that falls for consideration in determining whether the conduct in question is wrongful.

70. This issue has further implications. The proprietary information which results in the calculation of the Vitality status tiers is that of Discovery Vitality. It does not belong to Discovery or to Discovery Life. The crux of the applicants' case is that Liberty has engaged in unlawful competition by making indirect use of the back-office, i.e. the business system and operations underpinning the Vitality programme, to win customers away from Discovery Life. The difficulty for the applicants in this regard is that it is not Discovery Life's back-office, nor Discovery Life's confidential information, that is the subject matter of the complaint. Instead, it belongs to Discovery Vitality, and Discovery Vitality does not compete with Liberty in selling life insurance policies. In other words, there is a disconnect between the subject matter of the alleged unlawful conduct (the proprietary information of Discovery Vitality, its back-office and its goodwill), and the competitor claiming to be harmed (Discovery Life).

71. Liberty contends that for this reason, the applicants' case is flawed. The applicants, on the other hand, argue that for purposes of their case based on unlawful competition they should be regarded as one economic unit. Discovery is the holding company and it stands ultimately to suffer a loss in the value of its shares and dividends accruing from its shareholding in Discovery Life as a result of Liberty unlawfully taking business away from it. They also aver that the resources of the Discovery group are utilised in the development and maintenance of the Vitality programme, and that Discovery Life's experiences are fed back into the continued development of that programme. They contend that because of these cross-interests, and the Vitality programme's integration into the wider Discovery group, the three applicants should be treated as a recognisable commercial unit of applicants for purposes of their delictual claim.

72. Liberty highlights well-established case law that does not support the applicants' standpoint. It is, of course, trite that a company is a legal entity distinct from its shareholders, and has rights and liabilities distinct from them.[31] In the context of groups of companies, the group itself does not have a legal persona, and there is no pooling of assets.[32] Liberty does not formally challenge the *locus standi* of Discovery and Discovery Vitality to make a claim based on unlawful competition. However, it points out that to find for the applicants in this case would require the court to overlook this obvious shortcoming in the very basis for the applicants' claim.

73. As the previously cited principles show, within the wrongfulness context, the *boni mores* of a society is not a static concept, and courts must recognise and apply its evolving content. Bearing this in mind, it seems to me to be appropriate that I consider the question of whether the applicants should be recognised as one commercial unit as part of the general inquiry into the question of wrongfulness in this case.

74. Is it wrongful for Liberty to use the non-proprietary and publicly available Vitality status of Vitality members as a risk proxy for calculating Liberty's own Wellness Score for marketing and selling its Wellness Bonus add-on to its Liberty Plan, which competes with Discovery Life's policy? What do the *boni mores* of current day South Africa suggest, having regard to the competing constitutional interests of the parties?

75. The applicants point out that Liberty has used the Vitality status as a foundational and key element in the calculation of Liberty's Wellness Score table. They say that this shows the extent to which Liberty has leapfrogged over the substantial

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[31] See, for example, *Capital Property Holdings Ltd v Chavonnes Badenhorst St Clair Cooper NO* (85/201) [ZASCA] 177 (1 December 2017), at para 27
[32] *R v Milne and Erleigh (7)* 1951 (1) SA 791 (A) at 828

resources and effort put in by Discovery Vitality to calculate its Vitality status tiers. Without Liberty's reliance on Vitality Discovery's efforts, the applicants say, Liberty would not be in a position to make its Wellness Bonus offering. It is this, they say, that marks Lilberty's conduct as *contra bonos mores* and wrongful.

76. What the applicants find particularly egregious it would seem from the affidavits filed in support of their case, is that the Discovery group was a trailblazer, worldwide, in linking wellness with insurance, rather than illness with insurance. This led to the development of the Vitality programme and the cross pollination between that programme and insurance offerings from other companies in the group, like Discovery Life. The applicants are particularly aggrieved that in their view Liberty has used the Discovery group's trailblazing efforts as a shortcut to making its own offering, viz. the Wellness Bonus element of its Liberty Plan in competition with Discovery Life' insurance offering. It is on this basis that they say that Liberty has acted *contra bonos mores* in trading off their back-office and goodwill.

77. As aggrieved as the applicants may feel justified in being, the question of wrongfulness depends on more. As the Constitutional Court noted in *Phumelela*:

> "The Bill of Rights does not expressly promote competition principles, but the right to freedom of trade, enshrined in section 22 of the Constitution is, in my view, consistent with a competitive regime in matters of trade and the recognition of the protection of competition as being in the public welfare. … The constitutional property clause is not absolute and should not be employed in a manner that ignores other rights and values. Section 25(1) of the Constitution cannot possibly mean that it is the right of every property owner to be immunised from all competition. If the Court were to develop the common law test of wrongfulness to protect Phumelela's property rights to the detriment of the values on the other end of the scale, it would be discarding the nuanced test that has been developed in the common law."[33] (emphasis added)

[33] At para 36

78. As I have indicated, it is common cause that a Vitality member's Vitality status is their personal information and can be made publicly available: it does not fall within the basket of information confidential to Discovery Vitality. Therefore, in order to find that Liberty's conduct is wrongful, I would have to find that it is contrary to the *boni mores* of our society for Liberty to use publicly available information, voluntarily provided by a paid-up Vitality member who seeks insurance from Liberty, as a risk proxy and basis for calculating a Liberty customer's Wellness Score under the Wellness Bonus scheme. I would have to do so in circumstances where Liberty's conduct has no directly negative impact on Discovery Vitality, with which Liberty does not even compete. In actual fact, it cannot be gainsaid that in its use of the Vitality status in its offering, Liberty encourages its customers to remain or become members of Vitality. Liberty's Wellness Bonus scheme is therefore compatible with, and in this sense, advances, Discovery Vitality's commercial interests. It is only if the "group wrong" approach is adopted that this problem for the applicants may be solved. In that case, the court might be justified in taking into account the possible loss of sales for Liberty's competitor, Discovery Life.

79. In oral argument before me counsel for the applicants accepted that in order to find in their clients' favour I would need to extend the current common law understanding of *boni mores*. This concession no doubt takes cognisance of the fact that the applicants' case rests on a "group wrong" having been committed against them, rather than a wrong constituted by the conduct of one competitor against another, i.e. the conduct of Liberty against Discovery Life. It also takes account of the fact that there is no suggestion that Liberty has misappropriated Discovery Vitality's confidential and proprietary information in its alleged unlawful conduct. The applicants' claim, instead, is that by using the Vitality status of members to calculate the Wellness Bonus cash-back, Liberty has in effect used Discovery Vitality's

business systems and operations, which are obviously fed by its confidential information.

80. What warrant is there for extending the concept of *boni mores* in this case? It is difficult to pin down exactly why the applicants contend that it is justified. This is not an exercise that I should undertake in a vacuum, according to my own thoughts on what is fair and what is *contra bonos mores*. I must consider the relevant factors, usefully highlighted by the Constitutional Court in *Laugh It Off*, cited above, in the context of the facts of this case.

81. I must accept that Discovery Vitality has a significant interest in the goodwill that has accrued to it from the substantial resources it has spent in developing the Vitality programme and formulating the system used to determine the Vitality status of members. These interests are protected under section 25 of the Constitution. However, as I have already indicated, there are limitations as to how heavily Discovery Vitality's constitutional interests should weigh in this case, given that it is not Liberty's direct competitor.

82. In any event, it is common cause that Discovery Vitality reaps substantial financial reward from the Vitality programme, and that these are sufficient to cover the costs associated with managing that programme. Those rewards are ongoing, as they are derived from monthly membership fees. As I have already said, the Wellness Bonus scheme does not obstruct this flow of income to Discovery Vitality, but instead supports it. In this respect, it does not seem to me that there is anything unfair, *vis-a-vis* Liberty and Discovery Vitality, in Liberty's use of members' Vitality status. Nor is there any obvious loss or harm for Discovery Vitality.

83. It is also significant, as the Constitutional Court pointed out in the dictum cited earlier, and as I have already highlighted, that Liberty does not compete with

Discovery Vitality. Whether the parties are competitors is one of the factors to consider for purposes of determining whether conduct is wrongful. It is only on the "group wrong" approach that this factor could arguably weigh in the applicants' favour.

84. The applicants do not accuse Liberty directly of any dishonest conduct. Indeed, they cannot do so in light of the fact that it is common cause that Liberty has not misappropriated any of Discovery Vitality's confidential information. The applicants' case rests instead on Liberty indirectly accessing the benefit of the back-room component of the Vitality programme by using the Vitality status as a key component of its Wellness Bonus offering.

85. However, the applicants do not dispute that Liberty has used its own know-how and resources in the development of its offering. They contend that Liberty's input must have been minimal, but there is no evidence of this. The evidence shows that Liberty does not base its Wellness Bonus offering only on the Vitality status of customers, but also on customers' status under the Momentum Multiply wellness programme. The Wellness Scores are not the same in respect of both programmes, implying that Liberty has done more than simply copying and pasting from Discovery Vitality's back-room. Furthermore, there are differences between the Liberty Plan and the Discovery Life Plan. Once again, this is evidence that Liberty has used its own resources in developing its Wellness Bonus offering. In any event, the adoption of risk proxies, which is common in the insurance industry, does not remove the need for companies to use their own resources in factoring the risk proxies into their calculations for purposes of their insurance offerings. This is how the insurance industry works.

86. Liberty's motive in using the Vitality status of its customers is obviously to compete with other insurance companies, like Discovery Life. There is nothing inherently wrong with this. In fact, the law protects its right to do so. It is also relevant in my view that Liberty's real trade competitor, Discovery Life, has the benefit of using the Vitality status of its customers to compete with Liberty. The applicants say that this does not place Liberty and Discovery Life on a level playing field. This is because, they say, Discovery Life is part of the Discovery group and its experiences are fed into the continued development of the Vitality programme to the benefit, ultimately of all three applicants. This argument, of course, depends on this court opening the door to the applicants' "group wrong" approach to their unlawful competition claim. However, it also touches on another, albeit related, issue which in my view is critical to the inquiry into wrongfulness in this case.

87. As the Constitutional Court made clear in *Laugh It Off*, the element of wrongfulness in competition matters involves a weighing up of two competing constitutional interests. In this case, they are, on the one hand, the applicants' interests under section 25, and on the other hand Liberty's interest in its right to trade under section 22. However, the weighing-up exercise is not limited only to the interests of the disputing parties. This is for two reasons. First, in a consideration of *boni mores* the interests of the broader society, or the public at large, will always be an inherent factor in the equation. Second, and critical to the *boni mores* inquiry in unlawful competition cases, is the fact that, as the Constitutional Court has noted, the protection of competition in matters of trade benefits the public welfare. This means that there is in effect a three-way consideration of interests in cases like this one: the applicants' interests in protecting what they say are their property rights under section 25; Liberty's interest in what it says is its legitimate right to trade under

section 22; and the public interest in ensuring that in balancing the other two interests the benefit of competition in trade is not lost.

88. How this exercise is carried out will depend on the facts at hand. In this case, there is an added element to the public interest component of the inquiry. This stems from the fact that Vitality members pay for their membership of the Vitality programme. One of the things they get in return is their personal Vitality status. They are entitled to use this for whatever lawful reason they may wish. Liberty allows them to use their status, should they wish to do so, to obtain the benefits available under the Wellness Benefit add-on to the Liberty Plan. Of course, Vitality members may also wish to use their Vitality status to obtain benefits under Discovery Life’s competing plan.

89. The point is that members of the public, who have paid for their Vitality membership and status, should be entitled to continue to have the choice of what they wish to use that status for. This is obviously in their interests and in the interests of competition in the insurance industry more broadly. To prevent Vitality members from being able to exercise this choice would be to restrict their own proprietary interests in their Vitality status.

90. Moreover, as far as the broader public interest is concerned, it would have the effect of limiting competition in the insurance industry. It would only permit Vitality members to use their Vitality status for purposes of taking out comparable insurance from Discovery Life. Discovery LIfe’s competitors, like Liberty, would be prohibited from doing what Discovery Life does, i.e. using a customer’s Vitality status to calculate the cash-back benefit under its Liberty Plan. This would be regardless of the fact that Liberty does not actually compete with the entity that holds the proprietary interest in the Vitality programme, viz. Discovery Vitality. On the

applicants' case, Liberty requires a licence from Discovery Vitality to use the Vitality status, even though it is not a competitor, and even though, on the facts of this case, it appears that Discovery Life does not have to pay a licence fee to Discovery Vitality. The inevitable consequence of accepting the applicants' "group wrong" approach would be that the non-legal entity of the Discovery group would be given wide powers to control even indirect competition.

91. It is difficult to fathom how the chilling effect that an acceptance of this approach would have on competition in the insurance industry could possibly be in the public interest. Instead, it would encourage a monopoly by the Discovery group in offerings in the insurance sector, to the detriment of Vitality members and the public. It is so that the Discovery group has been a major innovator in various business sectors, including in the insurance sector. But this does not give them licence to stifle competition that is plainly in the public interest. Innovation itself is not a basis for placing unreasonable constraints on what competitors may do with one's innovations. If this was the case, our society would not have progressed much beyond the invention of the wheel.

92. Liberty has used an aspect of Discovery's innovations, viz. the Vitality status of its members, to develop and market a cash-back bonus for members of its Life Plan. There is nothing obviously unlawful in what it has done. The insurance industry uses risk proxies as a matter of course. Further, Discovery does not claim to have invented the idea of a cash-back bonus in the insurance industry. Discovery has registered its trade marks, but I have found that Liberty has not infringed those. Liberty has not misappropriated Discovery Vitality's confidential information, nor has it acted dishonestly or with an underhand motive. It has been open in its advertising about how it uses a customer's Vitality status, and it has not falsely claimed any proprietorship of the Discovery programme.

93. Moreover, it is not disputed that Liberty has its own status and reputation built up over decades in the insurance industry. It has marketed its Wellness Bonus product prominently under its own banner, trading on its own reputation. It has not relied solely on Discovery Vitality's Vitality status system, but has also extended the Wellness Bonus scheme to Momentum Multiply members. Without complaint from that company, it has used the Momentum Multiply status system to calculate the benefits accruing to Momentum Multiply members who have chosen to add the Wellness Bonus to their Liberty Plans. In my view, these factors are markers of how innovation can be used lawfully by competitors to further competition in the public interest. They are not markers of conduct that is contrary to the *boni mores* of our society.

94. The applicants laid much store on the minority judgment in the Supreme Court of Appeal in *Phumelela*, to the effect that a basis for unlawful competition had been laid.[34] In my view, this decision takes the matter no further for the applicants. Neither the minority or the majority judgments of the SCA in *Phumelela* undertook the exercise of weighing the two competing constitutional interests involved in the same way as the Constitutional Court did in its approach to the matter. In any event, I am not persuaded that, on the facts, the manner in which Liberty has used the Vitality status of its customers is the same as the use that bookmakers' made of the totalizator data in *Phumelela*.

95. The applicants emphasised and relied on a dictum in the majority judgment of the SCA at paragraph 43 of the *Phumelela* judgment. There, the majority judgment said that Phumelela: "*would have been assured of victory if it had been launched during the time that the use of totalizator data by bookmakers was prohibited by the*

[34] *Gründlingh v Phumelela Gaming & Leisure Ltd* 2005 (6) SA 502 (SCA)

Gauteng legislature." The applicants submitted that this meant that the majority agreed with the minority judgment that the bookmakers' conduct in using the totalisator data would have been *contra bonos mores* but for the fact that the legislature had not outlawed it.

96. I differ with this interpretation. In my view, the majority of the SCA in *Phumelela* meant no more than that if Phumelela's action had been instituted when the bookmakers' conduct was prohibited by the Gauteng legislation, the conduct would have constituted an act of trading in contravention of an express statutory prohibition. It was for this reason that Phumelela would have been assured of victory. The bookmakers would have been in engaging conduct that was a recognised illegality. Thus, the dictum cannot be interpreted as giving implicit support for the minority's finding on *contra bonos mores* as suggested by the applicants.

97. In conclusion, then, I can find no cogent reason to accept the applicants' invitation to extend the common law concept of *boni mores* on the facts of this case. Liberty competes with Discovery Life in the insurance trade. It has not acted *contra bonos mores* as a trade competitor by using the Vitality status developed by Discovery Vitality as a risk proxy in Liberty's Wellness Bonus component of its Liberty Plan. To find otherwise would be to do precisely what the Constitutional Court warned against in *Phumelela*, viz. to confine the *boni mores* consideration to the impact on section 25 alone. To accept the applicants' "group wrong" approach would encourage monopolistic control by a group of companies in the insurance industry, which is something the Constitutional Court also cautioned against in *Laugh It off*. On a proper balance of the proprietary interests claimed by the applicants against the broader constitutional imperative of competition and the public welfare, I find

that Liberty's conduct is consistent with the prevailing *boni mores* of South African society, and is not wrongful.

98. In the absence of a finding that Liberty's conduct is wrongful, the applicants have failed to satisfy the requisites of the *Acquilian* action. For these reasons, the applicants' cause of action based on unlawful competition must fail.

<u>CONCLUSION AND ORDER</u>

99. I make the following order:

> The applicants' application is dismissed with costs, including the costs of two counsel, one of whom is Senior Counsel.

R M KEIGHTLEY

JUDGE OF THE HIGH COURT

GAUTENG LOCAL DIVISION

Date Heard	: 11 March 2020
Date of Judgment	: 15 April 2020
Counsel for the applicants	: P Ginsburg SC; K Iles; N Nyembe
Instructed by	: Edward Nathan Sonnenburgs
Counsel for respondent	: C Puckrin SC; G Marriott
Instructed by	: Adams & Adams