

Completed acquisition by Iress UK Holdings Limited of Avelo FS Holdings Limited

The OFT's decision on reference under section 22(1) given on 14 February. Full text of decision published 05 June 2014.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

PARTIES

1. IRESS Limited (**IRESS**) is a supplier of wealth management systems in Australia, Asia, New Zealand, Canada, South Africa and the UK (having entered the UK market in 2011). It is present in the UK through its wholly owned subsidiary IRESS UK Holdings Limited. IRESS provides a product called 'XPLAN', which is wealth management software designed to assist those that give consumers financial advice (**intermediaries**). This type of software is referred to below as '**wealth management software**'. In 2012, IRESS had worldwide turnover of £131m and UK turnover of £[]. Information provided by IRESS states that its 2013 revenue in the UK was approximately £[]million.
2. Avelo FS Holdings Limited (**Avelo**) also provides wealth management software – its main product in this segment is called 'Adviser Office'. In addition, Avelo's product 'Exchange Portal' provides an internet portal that connects financial product providers with wealth management intermediaries (below, '**internet product portal**'). Avelo also provides mortgage sourcing software and mortgage point of sale compliance software which are primarily used by advisers and brokers specialising in mortgages. Avelo's UK turnover in the 12 months to March 2013 was £[] million.
3. Iress and Avelo are referred to below as the '**parties**'.

TRANSACTION AND TIMING

4. IRESS acquired Avelo from Lloyds Development Capital on 9 September 2013, for a consideration of £210 million, following approval by the Financial Conduct Authority ('FCA') on 27 August 2013 (hereafter, '**the merger**').¹
5. The OFT examined the merger on its own initiative, and received a satisfactory submission from the parties on 16 December 2013. The OFT's statutory deadline is 16 February 2014.

JURISDICTION

6. As a consequence of the merger, IRESS and Avelo have ceased to be distinct.
7. In the 12 months to March 2013, Avelo generated total revenues of £[~~8~~] million in the UK. The turnover test set out in section 23(1)(b) of the Enterprise Act 2002 ('**the Act**') is therefore not met.
8. The parties provide software to intermediaries. This broad term includes advisers of insurance, investments, mortgages, pensions, and protection (and related staff). Such advice is subject to regulation and 'permissions' from the FCA, which vary across products and depending on whether the adviser is advising on products from a restricted number of providers, or is an Independent Financial Adviser (**IFA**).²
9. The parties submitted that their competing products are XPLAN from IRESS, and Adviser Office (and some similar products) provided by Avelo. They submitted that these products are used by a range of adviser types including some whose permissions encompass, for example, mortgages but not investments. However, comments received from competitors suggested that the primary target customers for this type of software are Retail Investment Advisers (**RIAs**),³ or in some cases the smaller subset that are IFAs. Competitors' best estimates of the size of the market were based on the number of RIAs in the UK. The OFT considers (in light of responses received from competitors) that many of the intermediaries making up the larger figure provided by the parties will not use wealth management software, as a result of the limited range of products for which they have permissions to advise.⁴ The

¹ <http://www.aspecthuntley.com.au/asxdata/20130910/pdf/01442369.pdf>

² See <http://www.fca.org.uk/firms/being-regulated/retail-investments>

³ Those who carry out certain activities for retail clients such as advising on retail investment products, securities and/or derivatives <http://fshandbook.info/FS/glossary-html/handbook/Glossary/R?definition=G2834> <http://fshandbook.info/FS/html/handbook/TC/App/1/1>

⁴ For example, as noted within the section on market definition, the OFT has previously found that mortgage brokers that do not provide investment advice will tend to purchase mortgage-specific software and this was confirmed by comments from competitors.

OFT therefore considers that the number of RIAs is the more appropriate measure of potential users.

10. The parties submitted that there are 32,690 RIAs⁵ in the UK. The parties also submitted that on average within firms using wealth management software there are 2.2 software users per adviser.⁶ An internal document of the Parties suggests that just under [redacted] per cent of such potential software users are likely to make use of a third party software of the kind provided by the parties, with the remainder using in-house software and/or generic software not designed specifically for the investment industry.⁷ Together this evidence suggests that there are approximately 63,000 users in the UK that make use of third party, investment-industry-specific software.⁸ As of 30 November 2013, there were [redacted] users combined of the Avelo and IRESS products in this segment ([redacted] users and [redacted] IRESS users). The parties therefore had, in November 2013, an estimated combined share of (volume) of users of [below 25] per cent. The OFT also notes that the parties' user numbers increased fairly rapidly from [redacted] in August 2013 to [redacted] in November 2013, and that further users are expected [redacted].⁹ Accordingly, their share of supply is likely to have increased between November 2013 and the date of this decision.
11. Third parties contacted as part of the OFT's market investigation considered the parties to have a greater than 25 per cent share of the supply of wealth management software.
12. In coming to its decision on jurisdiction, the reference test in section 22 of the Act stipulates that the OFT should believe that it is or may be the case that a relevant merger situation has been created. There is some uncertainty about the exact size of the market. However, on the information available to it – provided by the parties and competitors who replied to the OFT's market investigation - the OFT considers that the share of supply test in section 23 of the Act is satisfied. In this instance, the OFT considers that it may be the case that a relevant merger situation has been created.

⁵ <http://www.fca.org.uk/news/adviser-numbers-in-line-with-expectations>

⁶ Russell Investments' 'Examining today's financial advisory business' report (a document provided to the OFT by the Parties. See: www.helpingadvisers.co.uk/PDF/research/2009/Examining_todays_financial_advisory_services.pdf IRESS has considered the data at Exhibit 5, on which basis on average for each respondent there are 5 advisers, 1 paraplanner and 5 administrative staff, so 11 users in total. The ratio of users to RIA is therefore $11/5 = 2.2$.

⁷ Parties' response to OFT questions of 21 November. Third party estimates ranged from 70 to 80 per cent, to almost all advisers

⁸ $32,690 \times (7/8) \times 2.2$

⁹ The Parties

FRAME OF REFERENCE

Product scope

13. There are four segments where at least one of the parties is active in the UK:
- i. Internet product portals connecting financial product providers with advisers. Avelo is present in this segment.
 - ii. Mortgage sourcing software used to conduct a 'whole of market' search to identify the mortgage products that best meet the client's needs. Avelo is present in this segment.
 - iii. Point of sale (POS) compliance software for mortgages – software which helps advisers to manage their clients' mortgage search and applications, while complying with FCA rules relating to the sales process and documentation. Avelo is present in this segment.
 - iv. Wealth management software, which is used to support investment advice businesses. The parties' products encompass a range of 'front' and 'back office' functionality required by advice businesses. These include client relationship management ('**CRM**'); document management; remuneration management relating to payments received from product providers and payments to advisers; and tools to support advice such as client risk profiling. The products also incorporate functionality to ensure that advice is provided in a way that is compliant with FCA rules, and that this compliance can be checked and verified. Both IRESS and Avelo are present in this segment.
14. As outlined, in one of these segments both parties are active and in the others only Avelo is active. However, in those other segments Avelo has a potentially significant position. The OFT has examined the extent to which the merger gives rise to both horizontal and non-horizontal issues as a result of the parties' positions in each of the above segments. When selecting candidate frames of reference in horizontal mergers for the purpose of applying the hypothetical monopolist test, the OFT will include at least the substitute products (narrowly defined) of the merger firms. In non-horizontal mergers, the OFT will include at least one of the products of the merger firms.¹⁰ Each of these segments is considered further below.

¹⁰ [Merger assessment guidelines](#) paragraph 5.2.11

Internet Product Portals

15. Avelo is present in this segment through 'The Exchange' (also known as Exweb). The OFT has not previously considered internet product portals connecting financial product providers with advisers. Third party comments did not support widening the product frame of reference to include, as well as internet product portals, any other options (such as accessing products directly from providers). It has not been necessary for the OFT to conclude on this point since no concerns have been found on the most cautious basis of narrowly considering internet product portals separately.

Mortgage Sourcing Software

16. Avelo is present in this segment through its product 'Trigold Prospector'. The OFT has previously considered mortgage sourcing software in the *TrigoldCrystal*¹¹ and *Mortgage Brain/Mortgagestream*¹² cases. These concluded that the product market is no wider than mortgage sourcing software and does not include other alternatives such as best buy tables or other online sites. This was supported by third parties who replied to the OFT's market investigation in this case, although it has not been necessary for the OFT to conclude on this point, since no concerns have been found on the most cautious basis of narrowly considering only mortgage sourcing products.

POS compliance software for mortgages

17. The *TrigoldCrystal*¹³ and *Mortgage Brain/Mortgagestream*¹⁴ cases also considered point of sale compliance software for mortgages. The OFT did not in those cases widen the frame of reference to include any non-software-based methods of ensuring compliance. The OFT in those cases also considered whether the frame of reference should be widened to include wealth management software that includes functionality to ensure compliant processes for the sale of both mortgages and other investment products, and on a cautious basis excluded these from the frame of reference.¹⁵ In this case, third parties who replied to the OFT's market investigation did not indicate that

¹¹ OFT decision of 17 March 2011 on the Anticipated acquisition by MBL Holdings Limited of TrigoldCrystal Group Limited http://oft.gov.uk/OFTwork/mergers/Mergers_Cases/2011/MBL

¹²OFT decision of 16 July 2012 on the Anticipated acquisition by Mortgage Brain Limited of Mortgagestream Limited http://oft.gov.uk/OFTwork/mergers/Mergers_Cases/2012/Mortgage

¹³ See above

¹⁴ See above

¹⁵ Both cases noted that mortgage compliance software is primarily aimed at mortgage brokers while wealth management software is aimed at financial, insurance, or wealth management advisers. It was not necessary to conclude in the *TrigoldCrystal* case. In *Mortgage Brain/Mortgagestream* the OFT did not include wealth management software within the frame of reference – this was a cautious approach given that the parties were present only in the mortgage-focused segment

non-software based methods are substitutes for point of sale compliance software. Most third parties indicated that multi-functional software (including mortgage and wealth management compliance software) are not usually substitutes for mortgage-specific point of sale compliance software. However, it has not been necessary to conclude on this point since no concerns have been found in the mortgage sourcing segment irrespective of the precise product frame of reference.

Wealth Management Software

18. The parties submitted that their only overlap is in the provision of wealth management software, which they describe as supporting intermediaries' underlying 'retail advice/solutions business, reporting and compliance needs'.¹⁶ In this segment IRESS sells one product (XPLAN), and Avelo sells a number of products and bespoke solutions. The product accounting for the largest proportion of Avelo's sales in this segment is Adviser Office/OfficeWeb.
19. The OFT considered the extent to which the frame of reference should be widened to include, alongside the parties' products:
 - Competing wealth management software which provide varying subsets of the functionality offered by the Parties' products¹⁷
 - Generic software not specifically designed for the wealth management industry but could be used for this purpose and;
 - Software developed in-house within advice firms.
20. In the case of software with subsets of functionality, the OFT considers on the basis of the evidence received from third parties that some providers of such software will compete with the parties more closely than others, in part as a result of how closely the functionality of their products are aligned with those of the Parties' products. In the case of generic or in-house software the OFT received some evidence from third parties of it providing a constraint on the Parties, but this evidence was mixed.
21. The OFT's starting point for the competitive assessment is therefore the supply of wealth management software, but the OFT takes into account all constraints

¹⁶ Customers and competitors used various terms including 'CRM' (client relationship management), 'practice management', 'point of sale' and 'back office' software, although each of these describes only a subset of the functionality provided by (both) the parties' products.

¹⁷ Both parties' products, and those of competing suppliers, incorporate a number of different functions. This varying degree of functionality partly determines the strength of competing suppliers and the closeness of substitution between them. The functionality of competing products is considered as part of the competitive assessment.

from other products discussed above that may discipline the Parties and that these constraints vary in strength.

Geographic scope

22. In its previous decision on mortgage software, in *Mortgage Brain/Mortgagestream*,¹⁸ the OFT concluded that the geographic market was UK-wide. The parties in this case submitted that the market is at least national in scope and that it may be wider than national, and provided examples of entry from outside the UK. They submitted that entry into the UK market for wealth management software is not difficult because of the increasing alignment of financial regulations across countries.
23. Third parties who replied to the OFT's market investigation confirmed that competitive conditions do not vary across the UK. Responses also suggested that entry from outside the UK is not sufficiently easy or quick that such firms should be included within the frame of reference.

Conclusion on frame of reference

24. The OFT has reviewed the merger on the basis of the of (i) internet product portals, (ii) mortgage sourcing software, (iii) mortgage compliance software, and (iv) wealth management software supply in the UK.

HORIZONTAL ISSUES

25. Horizontal effects in internet product portals and mortgage sourcing software have not been considered, since the OFT has not received any evidence to suggest that the parties overlap in those segments.¹⁹ The OFT has considered the possibility of unilateral horizontal effects in the supply of wealth management software.

¹⁸ Paragraph 28

¹⁹ The OFT also examined the potential for horizontal issues to arise in the supply of mortgage compliance software, where Avelo is active but IRESS is not. One third party indicated that there may still be a sufficient degree of competition between them, due to the multi-functional capability of IRESS' XPLAN wealth management product, which may allow it to also provide mortgage compliance functions, to warrant competition concerns. However, this overlap was not considered material by any other third parties and, as a result, nor was the possibility of concerns. Further, the OFT notes that should this be the case, the Parties would face constraints post-merger both from suppliers of wealth management software and from suppliers of mortgage compliance software. As a result, this possible overlap is not considered separately any further.

Horizontal effects in wealth management software

Shares of supply

26. The parties submitted that in November 2013, there were [redacted] users of Avelo and IRESS wealth management software ([redacted] Avelo users and [redacted] IRESS users). The parties submitted that their combined market share of users is [10-20] per cent, with a [0-5] per cent increment, where shares are expressed as a proportion of approximately 105,000 intermediaries in the UK that have permissions from the FCA to advise on insurance, investments, mortgages, pensions or protection.²⁰
27. However, when asked to estimate the size of the market for the supply of wealth management software, competitors who replied to the OFT's market investigation indicated a smaller market size made up only of users associated with RIAs (or in some cases the smaller subset that are IFAs).²¹ The OFT considers (in light of responses received from competitors) that many of the intermediaries making up the larger figure provided by the parties will not use wealth management software, as a result of the limited range of products for which they have permissions to advise.²² The OFT therefore considers that the number of RIAs is the more appropriate measure of potential users.
28. The parties also submitted that on average within firms using wealth management software there are 2.2 software users per adviser.²³ Taken together, this implies that there are around 63,000 users in the UK, and the parties have a combined user share of approximately [20-30] per cent, with an increment of [0-5] per cent.²⁴

²⁰ Data from Matrix Solutions <http://www.matrixsolutions.co.uk/>

²¹ There are an estimated 32,690 RIAs in the UK (those who have investment permissions). <http://www.fca.org.uk/news/adviser-numbers-in-line-with-expectations>. Some third parties suggested the market size should be based on a smaller subset of RIAs, those that are IFAs.

²² For example, as noted within the section on market definition, the OFT has previously found that mortgage brokers that do not provide investment advice will tend to purchase mortgage-specific software and this was confirmed by comments from competitors.

²³ Russell Investments' 'Examining today's financial advisory business' report (a document provided to the OFT by the Parties. See:

www.helpingadvisers.co.uk/PDF/research/2009/Examining_todays_financial_advisory_services.pdf IRESS has considered the data at Exhibit 5, on which basis on average for each respondent there are 5 advisers, 1 paraplanner and 5 administrative staff, so 11 users in total. The ratio of users to RIA is therefore $11/5 = 2.2$.

²⁴ This also excludes an estimate of those RIAs that use software developed in-house or non-specialist software (or a combination of the two). The constraint from these alternatives is considered separately below. Competitor estimates of the proportion using generic or in-house software ranged from almost none to 30 per cent. An internal document from the Parties estimated the figure at just over [redacted] per cent ([redacted]), See parties' response to OFT questions of 21 November

29. The parties have combined revenue from wealth management software of £[✂] million. Estimates of the market value provided by the parties and competitors, ranged from £40 million to £240 million, implying a combined share for the Parties of between [5-15] per cent and [50-60] per cent (and an increment of around or below [0-5] per cent). One of the parties' estimates, based on other firms' revenue data that was either published by competitors or, in some cases, estimated by the parties, is £[✂] million. This implies a combined share of [20-30] per cent, with [0-5] per cent provided by IRESS, approximately in line with the share of users figure calculated by the OFT.²⁵
30. The OFT asked third party competitors who replied to the OFT's market investigation to provide it with their own user numbers and to estimate those of competing providers. Table 1 shows, for the largest of these providers, estimated user numbers and revenues.

²⁵ See paragraph 10

Table 1: market share estimates

Firm ([REDACTED])	User nos.	Share (%)	Revenue (£m)	Share (%)
IRESS (XPLAN)	[REDACTED]	[0-5]	[REDACTED]	[0-5]
Avelo (Adviser Office)	[REDACTED]	[20-30]	[REDACTED]	[20-30]
Focus Solutions ²⁶	[REDACTED]	[REDACTED]	[REDACTED]	[10-20]
Intelliflo	[REDACTED]	[REDACTED]	[REDACTED]	[10-20]
True Potential	[REDACTED]	[REDACTED]	[REDACTED]	[0-10]
Swift/SSP ²⁷	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
Plum	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
Prestwood	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
JCS	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
Capita/Quay/CCD	[REDACTED]	[REDACTED]	[REDACTED]	[0-10]
Creative Technologies	[REDACTED]	[REDACTED]	[REDACTED]	[0-10]
Distribution Technology ²⁸	[REDACTED]	[REDACTED]	[REDACTED]	[0-10]
Pulse ²⁹	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
Redland ³⁰	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
Time4Advice	[REDACTED]	[REDACTED]	[REDACTED]	[0-5]
Others ³¹	[REDACTED]	[REDACTED]	[REDACTED]	[15-25]
Total ³²	62928	[REDACTED]	90	

Source: OFT, based on estimates by the parties of their competitors' revenues, and competitor estimates of their own user numbers and those of competing providers

31. The OFT acknowledges there is a degree of uncertainty over the total size of the market and as a result the exact share of the parties. Nevertheless, the OFT considers on the basis of the evidence it found that these shares represent a best estimate of the relative strength (based on current user numbers and revenue) of competing suppliers derived from evidence provided by the Parties and third parties. The OFT considers these shares further below,

²⁶ [REDACTED].

²⁷ [REDACTED].

²⁸ [REDACTED]

²⁹ Figures on users not available.

³⁰ Figures on users not available.

³¹ Estimated users 500 or fewer; estimated revenue below 1.5 per cent; one third party mention or fewer.

³² See section on market size for an explanation of this figure.

alongside other evidence on the extent of competition between the Parties and evidence on the constraint from other competitors.

Competition between IRESS and Avelo

32. Avelo is one of the largest suppliers in the market, with a [10-20] per cent share. The increment provided by IRESS' pre-merger share of supply is [X]- around [0-5] per cent. The parties submitted that pre-merger IRESS was not a significant competitive force.
33. Competitors who replied to the OFT's market investigation said they perceived IRESS as a stronger competitive threat than its share of supply implies. Several competitors considered XPLAN's uptake by large customers Sesame and Towry as evidence that IRESS is a stronger competitor than its size would imply. They also emphasised IRESS' financial strength. The OFT considers on the basis of the evidence it found that IRESS' share of new/switching users across the market is higher than its share of total users.
34. IRESS entered the UK market in November 2011, having secured as a customer Sesame Bankhall Group - the largest adviser network in the UK.³³ The product went live in July 2013,³⁴ and since then IRESS' user numbers have been growing rapidly (for example, from [X] in August 2013 to [X] in November).³⁵ IRESS now has [X] customers. Sesame has around [X] current users of XPLAN,³⁶ and a contract allowing for up to [X] thousand users – [X].³⁷ XPLAN is also used by [0-20] users in one small adviser business, and around [30-50] users in a large adviser firm (Towry)³⁸ [X]. Although not all guaranteed customers,³⁹ [X] users of XPLAN would amount to around a [5-10] per cent share of users in the UK.⁴⁰
35. The parties submitted that they are not each other's closest competitors. IRESS' product is a web-hosted 'software as a service' (SAAS) solution, as is the case for most of its competitors, but not Avelo, [X]. The parties submitted that solutions which are not web-hosted are viewed as being older technology, and as a result that Avelo is a weak competitor of IRESS. The parties also submitted that Avelo has a reputation for [X]- meaning that [X]⁴¹ Some third

³³ <http://www.sesame.co.uk/Pages/Home.aspx>

³⁴ http://www.iress.com/en/Media_Centre/Wealth_management_news/SBG_Goes_Live_with_XPLAN.html

³⁵ Source: the parties.

³⁶ Sesame.

³⁷ This is supported internal documents supplied by the parties which note [X].

³⁸ <http://www.towry.com/news/press-releases/iress-continues-progress-united-kingdom-xplan-selected-towry-leading-wealth>

³⁹ Source: the parties, supported by evidence from Sesame.

⁴⁰ Where the total user numbers are as described in the section on market shares.

⁴¹ As a result of its ownership by private equity investors - led by Lloyds Development Capital

party competitors and customers who replied to the OFT's market investigation said they consider that Avelo's product is somewhat weak, as a result of a lack of recent investment. This was supported by an IRESS pre-acquisition document [REDACTED].⁴² The OFT also notes that Avelo's customer numbers have fallen by [REDACTED] over the past two years. As a result, the Parties submitted that the competitive constraint exerted by Avelo is weak and less than its share of supply would suggest.

36. Most respondents to the OFT's market investigation thought the parties were close competitors, and several competitors highlighted that the first two customers won by IRESS were long-standing Avelo customers. However, no customers raised significant concerns about a loss of competition as a result of the merger, and some Avelo customers had not been aware of IRESS, pre-merger.
37. In summary, the parties will, as a result of the merger, be the largest firm in the industry, although the increment is minimal. The OFT notes that the competitive constraint exerted by IRESS on Avelo may be greater than its share of supply suggests, although the degree to which this is the case is unclear. While third parties pointed to the Parties being close competitors, no customer raised significant concerns about any loss of competition resulting from the Merger.

Competition from other providers

38. The parties submitted that the combined entity is only one of many UK companies active in the provision of wealth management software, and that there are over 20 other competitors with credible offerings, as well as competition from proprietary solutions. The parties provided estimates of the number of users and revenue of each competitor, and said that their five largest competitors are [REDACTED].
39. Customers who replied to the OFT's market investigation listed substitute products which they considered they could use as alternatives to the parties's products. Eleven alternative providers were mentioned in total, and three on average.
40. Competing suppliers vary in market share as does the level of awareness of these suppliers by customers. However, there are at least four suppliers – Intelliflo, True Potential, Focus Solutions and SSP – that have a share of users over five per cent and are therefore larger than the increment.⁴³ Customers who replied to the OFT's market investigation showed a good awareness of

⁴² IRESS Board Strategy Discussion October 2012

⁴³ The OFT notes that, of these, [REDACTED].

most of these suppliers as feasible alternatives and in addition a number of customers pointed to three others, Plum, Capita and Time4Advice. There are also smaller firms that were mentioned by customers– for several of these the OFT also received third party comment suggesting that they are expected to grow.

41. The parties submitted that all competitors are able to offer all functionalities clients may request, either directly through their own product or through integration with third party products. This has been confirmed by some of the competitors themselves (including Focus Solutions, Intelliflo, and True Potential).⁴⁴

Constraints from in-house and generic solutions

42. The parties submitted that as well as competing against other providers of specialist wealth management software, that they also compete to win the custom of businesses that have built in-house software solutions or that use other software that is not specific to intermediaries.
43. When asked about the proportion of investment advisers using generic software, competitors who replied to the OFT's market investigation gave estimates that ranged from under one per cent to 20 per cent. They expressed the view that users would be in small firms only, and that in response to a five per cent price rise in all specialist software,⁴⁵ very few if any advisers would switch to generic technology. Similarly, customers who replied to the OFT's market investigation did not indicate that they would switch to generic technology in response to a five per cent price rise.
44. Competitors thought that very low proportions currently use in-house technology or would switch in response to a five per cent price rise, with one competitor stating that only a small number of national firms have developed such a system. Customer responses indicated that building an in-house system is considered expensive and risky. The parties themselves submitted that the trend is from proprietary to outsourced solutions (including for [redacted]).
45. However, evidence suggests there may be some constraint, albeit limited, from generic and in-house solutions:
 - Responses from competitors and another third party indicated that some large firms have in-house solutions, including two of the larger networks [redacted]. Two

⁴⁴ [redacted]

⁴⁵ A small but significant and non-transitory increase in price (SSNIP) of five per cent is used to test if a hypothetical monopolist could profitably increase price

banks that responded to the OFT's questionnaire argued that they have an in-house solution used for most of their needs, and could shift their remaining advisers onto this in-house software if necessary.

- In-house and Microsoft solutions feature in Avelo's switching data, accounting for [10-15] per cent of wins (50-100 customers) and [0-5] per cent of losses ([50-100] customers).
- There are also examples of competing businesses (such as Thirdfin)⁴⁶ whose model is to offer customers a bespoke, investment-industry-specific, implementation of Microsoft software, although it is not clear how many users there are of such products.

Conclusion on horizontal effects

46. The share of supply increment from the merger is very small, although this may underestimate the extent of the constraint that customers consider IRESS to represent. Customers who replied to the OFT's market investigation did not raise significant concerns about a loss of competition. Some customers were not aware of IRESS pre-merger, and IRESS' internal documents show that it faced barriers to rapid expansion because of this lack of profile in the UK. There also remain a number of strong competing suppliers post-merger, with shares of supply greater than the increment. Customers who replied to the OFT's market investigation stated that they considered that there are substitutes to the parties and that these will continue to provide a constraint on the parties.
47. Although the full extent of the constraint from in-house and generic software is unclear given mixed evidence, the OFT has not needed to rely on this potential additional constraint, in the absence of competition concerns arising from unilateral horizontal effects.
48. The OFT does not therefore consider that there is a realistic prospect of a substantial lessening of competition as a result of unilateral horizontal effects in the supply of wealth management software.

NON-HORIZONTAL ISSUES

49. Avelo provides products in a number of other segments in which IRESS is not active. These include 'The Exchange', which is a portal for accessing a number of financial product types, and 'Trigold Prospector' which is software for searching available mortgages. Internet product portals and mortgage sourcing

⁴⁶ http://www.thirdfin.com/What_we_do.aspx?P_ID=2

software are often, but not always, purchased by the same customers as those that buy wealth management software.

50. As a result [X], the OFT has examined the extent to which the merged entity may use a combination of products in three markets (wealth management software, mortgage sourcing, and internet product portals), to harm its rivals in each of those markets. In particular the OFT found concerns that:
- I. IRESS could degrade, charge for, or end the integration offered to other wealth management software providers, in respect of Avelo's Trigold Mortgage Sourcing product, and The Exchange portal. This could be described as technical tying, and would make competing wealth management software unattractive relative to the parties' offer.⁴⁷
 - II. IRESS could degrade or end the integration between the IRESS/Avelo wealth management software and software that competes with Avelo's Trigold Mortgage sourcing software. This would make the competing mortgage sourcing software unattractive relative to Trigold.
 - III. IRESS could degrade or end the integration between the IRESS/Avelo wealth management software and software that competes with The Exchange portal. This would make the competing internet product portal unattractive relative to The Exchange.
51. Generally, in competition terms, conglomerate mergers are often benign or even efficiency-enhancing. However, in certain circumstances, a conglomerate merger of complementary products can result in the merged entity foreclosing rivals.⁴⁸ The OFT only regards foreclosure as anti-competitive where it results in a substantial lessening of competition in the foreclosed market(s), not merely where it disadvantages one or more competitors.
52. The third parties who raised these concerns effectively argued that such strategies by the parties could (either directly, or by attracting away a large number of customers so that the competitors lose economies of scale) weaken competitors sufficiently to reduce the competitive constraint that they provide, allowing the parties to subsequently raise prices or reduce quality in the affected market.

⁴⁷ It is possible to integrate between wealth management software on the one hand and portals and mortgage sourcing products on the other. The benefits of this are that there is no need to enter the same information multiple times, and that information and documentation about the entire advice process can be recorded in one system, in an FCA- compliant manner.

⁴⁸ *Merger Assessment Guidelines*, paragraph 5.6.15.

53. The OFT typically frames its analysis of such theories of harm by reference to the ability of the firm to harm its rivals, as well as the incentive for, and effect of, doing so.⁴⁹
54. A merged firm's ability to foreclose in this way is higher if:
- There is a large pool of shared customers for the products to be tied/bundled. This means considering whether a large proportion of the customers of those competitors targeted by the foreclosure strategy who may be harmed (for example, wealth management software users), also purchase the other products (for example, the Exchange, or Trigold).
 - There are limited substitutes for the product(s) through which access is being limited, and customers find this product(s) particularly important. In this case, this means taking into account the availability of alternative integrated or non-integrated bundles and customer preferences in relation to those bundles.
 - There are practical means by which the firm can undertake the foreclosure strategy (for example by altering the extent of integration offered).
55. A merged firm's incentive to foreclose in such a way is higher if the gains outweigh the losses. This will depend on the relative profitability of the different products and the number of customers affected. In respect of the latter point, the incentive to foreclose will be higher:
- if the number of customers that stop or reduce their use of the parties' product(s) (for example the Exchange or Trigold) as a result of being unable to use them in an integrated way, is small relative to the number that newly switch to using the parties' product (s) in the other market(s) (for example wealth management software) in order to retain integrated access.⁵⁰ This may include an assessment of the extent to which the strategy could be targeted at particular customers so as to minimise losses and maximise gains.
56. In considering conglomerate theories of harm, the OFT is focused on harm to competition, rather than to competitors. The effect of foreclosure will be greater

⁴⁹ For an example of where the OFT has previously considered conglomerate effects in detail, see ME/4163/09 Lactalis/Lubborn 2009; see also ME/6211/2013 Information Services Inc./Aztec Group 2014

⁵⁰ Those that switch to non-integrated use may have little if any effect on incentives, except by reducing the stock of customers that switch.

if competing providers are sufficiently weakened to reduce the competitive constraint that they place on the parties.⁵¹

57. This framework is applied to each non-horizontal concern in turn, considering whether there may be foreclosure of competitors in wealth management software, product portals, or mortgage compliance software.

Foreclosure of competitors in investment advice software

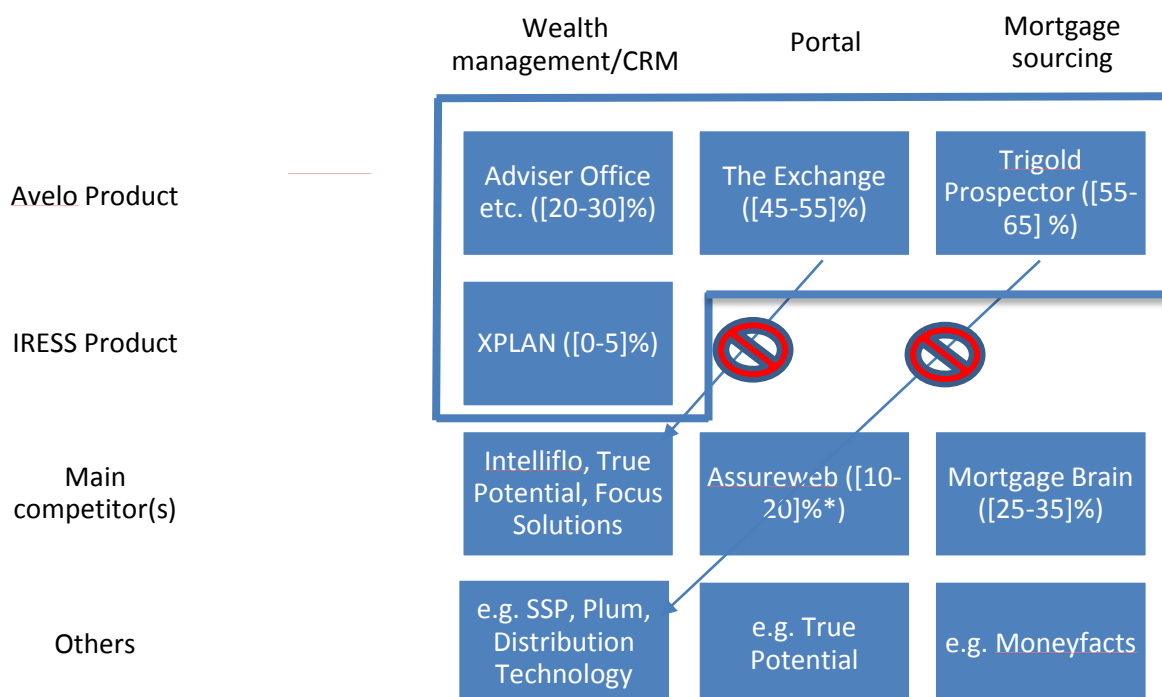
58. Among competitors to the parties in wealth management software, a number of them integrate into The Exchange (Avelo's internet product portal) and/or Trigold Prospector (Avelo's mortgage sourcing product), including four of the Parties' five largest competitors (as indicated by the Parties).
59. The [OFT assessed given] that The Exchange and Trigold are both important products, with potentially few alternatives, [X] if a competitor's wealth management product could no longer integrate with the Exchange or Trigold (as shown in Figure 1), it would become less attractive. [The issue under consideration is whether] customers may switch to the IRESS/Avelo product in order to gain integrated access to the Exchange and Trigold. By implication this would weaken the wealth management competitor and the constraint they provide on the Parties within the wealth management software segment.

Ability

60. Figure 1 shows the estimated market shares of the parties and of alternative competing products, in wealth management software, internet product portals, and mortgage sourcing. Avelo already (pre-merger) supplied products in all three segments, and in all three it was [X]. IRESS brings only a small increment to market share in one segment.

⁵¹ The OFT may also need to take account of any stimulus to rivalry that may arise as a result of efficiencies from the merger. *Merger assessment guidelines*, paragraph 5.6.12.

Figure 1: Theory of harm considered- refusal to integrate The Exchange and Trigold with rival wealth management software



Source: Parties [and several third parties]: Third parties argued that the Exchange has a share of more than [45-55] per cent

Overlapping customers

61. The ability to harm competing wealth management software providers will be greater the higher the percentage of customers of competing wealth management software that also use The Exchange or Trigold, through integration with their wealth management software.
62. In relation to The Exchange, competing providers of wealth management software and internet product portals who replied to the OFT’s market investigation said that a significant proportion, or almost all, wealth management software customers use a product like the Exchange and that most or almost all will do so in an integrated way – with The Exchange being the leading internet product portal choice. However, the parties provided data showing that of quote requests made to The Exchange, a large proportion ([50-60] per cent) are made from [⊘] and 35-45 per cent of quote requests to the Exchange are made in [⊘]. Relatively few are received [⊘] – this suggests that a low proportion of these software providers’ users are accessing the Exchange in an integrated way.⁵²

⁵² On average, [⊘] such requests were received each month in 2013 (excluding requests from mortgage only compliance software) compared to around [⊘] users among those [0-20]wealth

63. In relation to Trigold, competing wealth management software providers argued that the large majority of adviser firms have mortgage permissions and would use a mortgage sourcing system, albeit that some have more emphasis on mortgages than others. Competitors also emphasised that Trigold is the leading mortgage sourcing product.⁵³ However, not all investment advice businesses offer advice on mortgages, and among those who do, the advice is sometimes provided by specialist mortgage advisers within the firm, who may not need access to investment advice software. Demand for mortgage sourcing among firms that use investment advice software therefore varies across firms and across users within firms.⁵⁴
64. On the basis of the evidence found, the OFT considers, there is some uncertainty about the proportion of wealth management software purchasers that use the Exchange or Trigold in an integrated way. The figure is likely to be lower for Trigold than for the Exchange given that not all investment advisers also provide mortgage advice (which is the focus of Trigold) whereas the Exchange includes products relating to life and health protection, pensions, investments, mortgages and general insurance. However, the data from the parties seems to indicate that even for the Exchange there are relatively small numbers of users accessing it through integration with wealth management software that competes with the parties.

Availability of alternatives

65. If the parties were to refuse their wealth management software competitors integration with Trigold and the Exchange, on the basis of the evidence it found, the OFT considers the options open to (potential) customers of competing wealth management software providers would be:

management software providers with integration to the Exchange. This is a ratio of [X] per cent, and compares with a ratio of [X] integrated quote requests that came from Avelo's [X] users. Source: the Parties; competitor user numbers provided by competitors

⁵³ In the case of mortgage sourcing, the OFT has previously considered this theory of harm in Mortgage Brain/Mortgage Stream, which brought together mortgage sourcing with mortgage compliance/CRM for mortgage brokers. In that case, the OFT noted that Mortgage Brain would not have the ability to weaken competitors in mortgage compliance (CRM) owing to Trigold's presence in POS compliance software and its share of 50 to 60 per cent in 2009/2010. In the current case, the analogous argument would be that Mortgage Brain's presence in mortgage sourcing will prevent Avelo from harming competitors in CRM. In the current case, the proportion of overlapping customers is also likely to be lower than the previous one, where the concern related to mortgage-specific compliance/CRM rather than combined investment and mortgage compliance/CRM where IRESS and Avelo overlap.

⁵⁴ On the basis of the evidence it found, the OFT considers that there are also many firms that provide mortgage advice but not investment advice, who would therefore not require investment advice software.

- (Carry on) using the competing wealth management software, alongside Trigold and The Exchange in a non-integrated way
 - (Carry on) using the competing wealth management software, and switch to mortgage sourcing and portal alternatives (for example, Mortgage Brain and Assureweb), using them in an integrated way
 - Switch to the IRESS/Avelo wealth management software in order to continue using the Trigold and Exchange products in an integrated way
66. With regard to internet product portals, the parties submitted that iPipeline's Assureweb portal in particular provides strong competition, and that this explains the [redacted] number of quote requests to the Exchange from competing integrated software.⁵⁵ The parties also highlighted that Assureweb provides free access to its product to distribution groups and advisers and users can easily use multiple portals or switch portal use as they are accessed via the internet. This was supported by customers who replied to the OFT's market investigation, who mentioned that most advisers had access to Assureweb because it is free of charge, and could easily switch to using it, though the parties also noted that both portals and mortgage sourcing are markets where users tend to stick with the product they know unless there are clear reasons to switch.
67. The parties also submitted that within large businesses/distribution networks, many advisers have access to both Trigold and Mortgage Brain (as well as to both the Exchange and Assureweb) and, with advisers able to choose which to use, this would make switching easier in the event of the parties degrading integration with competing wealth management software.
68. Most customers who replied to the OFT's market investigation confirmed that Trigold and The Exchange are popular products, with (in the case of mortgage software especially), some quite loyal customers. However, in the main, customers were open to the possibility of switching from Trigold to Mortgage Brain, and from The Exchange to Assureweb. Moreover, responses from customers (that use Trigold and/or the Exchange but do not currently use an IRESS/Avelo wealth management system) strongly suggested that the wealth management software product is more important than integrated access to The Exchange and Trigold. While competitors who replied to the OFT's market investigation emphasised the importance of integration,⁵⁶ customers, although also believing integration to be important, indicated that they would take it into account in their purchase of wealth management software, alongside a range of

⁵⁵ The parties claim that other wealth management software providers [redacted]

⁵⁶ [redacted].

other factors, and most said that they would be unlikely to switch wealth management software provider in order to achieve a particular integration.

69. In broad terms, when asked what they would do if integration was switched off between these products and their chosen wealth management software, customers who replied to the OFT's market investigation indicated that they would:
- In the first instance, carry on using the same products on a standalone, non-integrated basis
 - Investigate alternatives to Trigold and the Exchange, that could integrate with their existing wealth management software. In the case of the Exchange this would be particularly easy since many advisers use both the Exchange and Assureweb already.
 - Take integrations into account in their future purchase of a wealth management system, but 'would not be held to ransom' – they considered that the wealth management system is far more important than the other products.
70. On the basis of the evidence it found, the OFT considers that the parties may have only very limited ability to undertake such a foreclosure strategy as a refusal to integrate existing customers of competing wealth management software would not likely result in customers switching to the parties (instead switching to non-integrated use or to competing alternatives). However, customers who replied to the OFT's market investigation did indicate that they take integrations into account in their initial purchase of wealth management software. As a result, the OFT has gone on to examine the incentive to foreclose and the effect below to examine whether any concerns arise in relation to a targeted foreclosure strategy of new customers or those that are already considering switching wealth management software provider.

Incentive

71. Although the parties' per-user profit margin on wealth management software is greater than that from the Exchange, the OFT considers, on the basis of the evidence available to it, and in particular the strength of relative preferences for wealth management software over product portals and/or mortgage sourcing is sufficient that this strategy would nonetheless not be profitable.
72. This is because all customers who replied to the OFT's market investigation said that they are unlikely to switch wealth management software simply in order to gain integrated access to the Exchange - this means that a refusal of integration that affected competitors' existing customers would lead to a loss of

them as integrated customers of The Exchange. While customers told the OFT that they would take integrations into account when initially choosing, or switching, provider, this would be one factor amongst many with the quality of the wealth management software being most important.

73. Furthermore, the parties submitted that it would not be possible to differentiate between existing and new clients using a competitor's wealth management software, because of both practical and contractual reasons.⁵⁷ This suggests in order to end integration, the parties would need to end it for all customers of their competitors. Because the group of existing customers is significantly larger than the number of switching customers, the OFT considers that the revenue lost through lost customers of the Exchange would outweigh possible gained revenue from new customers in the wealth management segment. The OFT does not therefore consider that the parties would have the incentive to undertake this strategy.
74. Moreover, Avelo, pre-merger, has not been undertaking such a strategy in respect of the Exchange, suggesting that it does not have an incentive to do so. Given the small increment provided by IRESS (and likely small resulting increase in the gains from such a strategy), this incentive is not significantly increased by the Merger.

Effect

75. The assessment of ability and incentive set out above, including evidence from customers who replied to the OFT's market investigation, suggests that the number of customers that may switch providers of wealth management software as a result of this strategy will be limited. As a result, any foreclosure is unlikely to have a significant effect on the competitive constraint provided by competitors. In particular, several providers who replied to the OFT's market investigation already integrate with Assureweb and Mortgage Brain, and many customers already use these products (especially Assureweb) alongside the Avelo equivalents, so that they could easily switch away from the Avelo products. Other competitors could newly collaborate with Assureweb and Mortgage Brain, [X].

⁵⁷ For example, having integrated XPLAN to the Exchange on behalf of SBG, IRESS freely assumed this existing integration for its proposition [X] pre-acquisition.

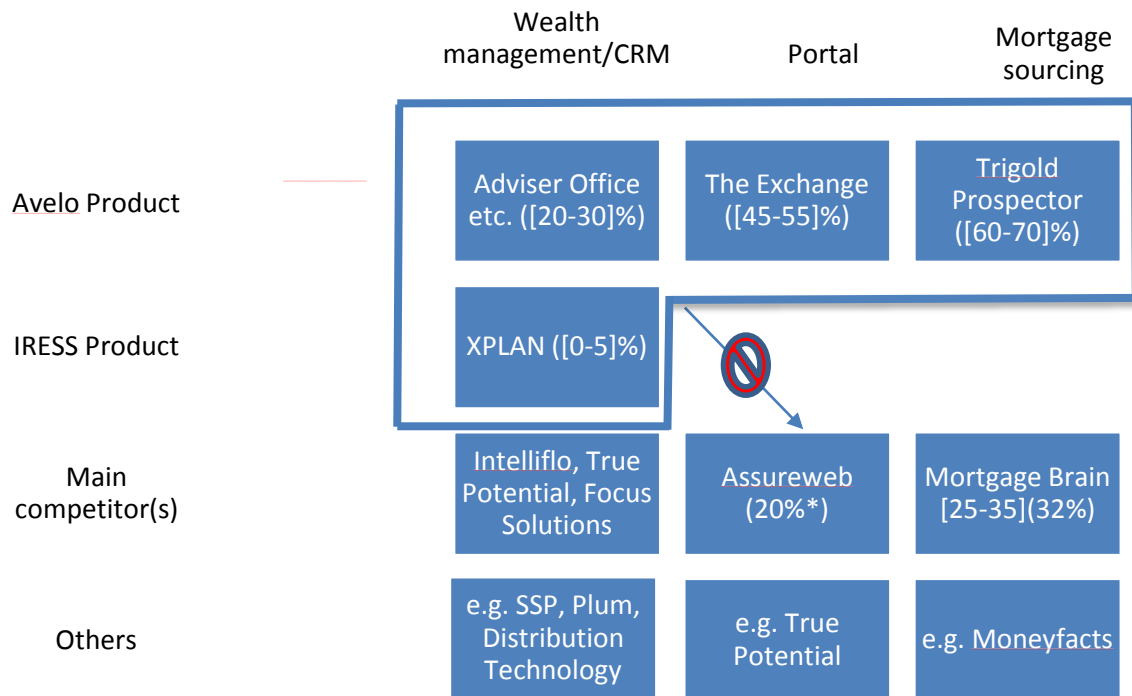
Conclusion on foreclosure of wealth management software competitors through refusal of integration with Trigold or The Exchange

76. Evidence from customers showed that they would consider using Assureweb and Mortgage Brain instead of The Exchange and Trigold, meaning that competing wealth management software providers will not be significantly weakened since they can offer integration with these products instead. Customers said that they would be more likely to switch to non-integrated solutions or to Assureweb and Mortgage Brain, than to switch their provider of wealth management software. This, combined with evidence that the Parties would find it difficult to focus a foreclosure strategy on customers that are already intending to switch provider of wealth management software, means that the OFT does not consider that there is a realistic prospect of a substantial lessening of competition as a result of the parties refusing or degrading integration between The Exchange or Trigold, and their competitors in the provision of wealth management software.

Foreclosure of competitors of The Exchange

77. The OFT has also considered whether there is a prospect for a substantial lessening of competition in the supply of internet product portal services, as a result of the parties refusing or degrading integration between IRESS/Avelo wealth management software and software that competes with Avelo's portal product, The Exchange, as is illustrated in Figure 2. The parties submitted that they do not have a sufficient combined share in wealth management software to have the ability (or incentive) to significantly affect competition in the internet product portals segment by refusing integration, and that such a strategy would have little effect.

Figure 2: Theory of harm considered - Refusal to integrate with competitors to The Exchange



Source: Parties,[and some third parties] Note: Third parties argued that the Exchange has a share of more than [45-55] per cent

Ability, Incentive and Effect

78. [redacted].

79. [redacted].

80. Together, this suggests there are few additional overlapping customers that could be affected by this strategy - given that [redacted]. Moreover the shares of supply of competing wealth management software remain sufficient to ensure that [redacted] will continue to have significant routes to market through both non-integrated use and through integration with wealth management software providers that compete with IRESS/Avelo.

81. This suggests that [redacted] for only a small number of customers could the merged entity end integrations between XPLAN/Adviser Office and Assureweb (or competitors, for whom the same arguments apply). As outlined above, customers told the OFT that if integration was halted between their wealth management software and an internet product portal, they would be unlikely to switch wealth management software in order to regain integration. This suggests that among the small group of affected customers, the parties would

be unlikely to lose wealth management software customers if they were to replace [X] integration with Exchange integration. However, the parties may also gain only few customers for the Exchange as a result, since many customers told the OFT that in response to an end of integration, they would in the first instance continue to access the same internet product portal, in a non-integrated way.

82. Given the small number of customers that could be affected, the OFT does not consider that there is prospect of significant effects on competition as a result of this strategy.

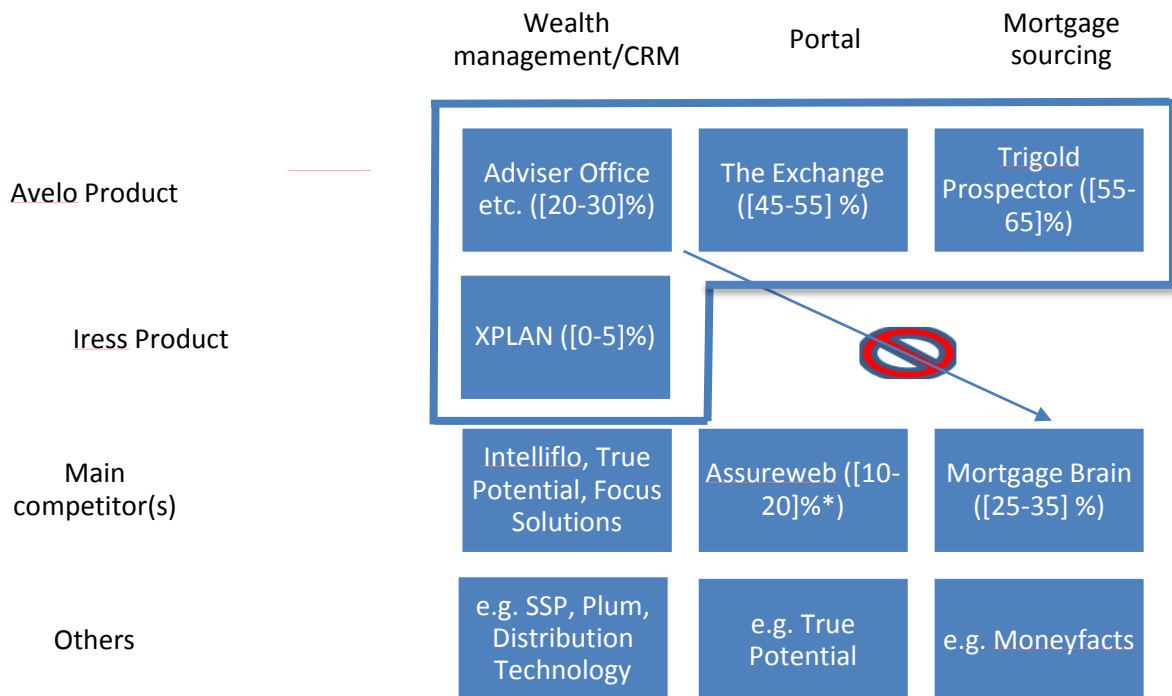
Conclusion on foreclosure of portal competitors by refusing integration with IRESS/Avelo wealth management software

83. In summary, given the limited switching from [X] to The Exchange that would be expected to take place among customers of IRESS/Avelo wealth management software, and the continued presence of alternative suppliers of wealth management software through whom Assureweb can provide integrated access, the OFT does not consider that there is a realistic prospect of a substantial lessening of competition as a result of the Parties refusing or degrading integration between IRESS or Avelo wealth management software and their competitors in the provision of product portals.

Foreclosure of competitors of Trigold Prospector

84. The OFT has also examined the extent to which the parties would refuse or degrade integration between the parties' wealth management software and software that competes with Avelo's sourcing product, Trigold Prospector. The parties submitted that they do not have a sufficient combined share in wealth management software to have the ability (or incentive) to significantly affect competition in the mortgage sourcing segment by refusing integration. They also emphasised that the target markets differ for wealth management software and mortgage sourcing software, with one more focused on general investment advisers and the other more on mortgage-specific brokers.

Figure 3: Theory of harm considered - Refusal to integrate with competitors of Trigold Prospector



Source: Parties, [redacted] Note: Third parties argued that the Exchange has a share of more than [45-55] per cent

Ability

85. The main foreclosure target here, should such a strategy be feasible, would be Mortgage Brain, since other providers of mortgage sourcing software have very low market share. [redacted]. However, the parties provided equivalent information for the Trigold product which competes with Mortgage Brain. This showed that [20-30] per cent of Trigold users have an integration in place with an Avelo/IRESS wealth management software product – this could be considered an upper estimate of the proportion of Mortgage Brain users that have such an integration, since we might expect integrations to be more common between two Avelo products owned by the same company than between a Mortgage Brain and Avelo product owned by different companies.

86. [redacted].

87. While the parties submitted that [redacted], Mortgage Brain argued that the extent of integration between [redacted], to a more generic integration that provides a less smooth interaction. [redacted].

88. Sesame in its response to the OFT emphasised that integration with 3rd party systems is [redacted] choice of wealth management software, and [redacted]. The Parties

presented evidence showing that [redacted]. Given these facts, it appears that any switching in the short term would be driven by Sesame's own preference, rather than anti-competitive behaviour by the parties. In the longer term, the parties may have the ability to alter contracts at the point when customers switch wealth management provider, but this would affect only a limited proportion of Mortgage Brain's customers. The reason for this is first that [redacted].

Incentive

89. The above suggests that the parties could end integrations between XPLAN/Adviser Office and competitors (such as Mortgage Brain) for only a minority of customers. As outlined above, customers told the OFT that if integration was halted between their wealth management software and a mortgage sourcing software, they would be unlikely to switch wealth management software in order to regain integration. In support of this, competitors who replied to the OFT's market investigation argued that an investment adviser may spend around two hours using wealth management software with or for a particular client, and within that time may spend a few minutes using mortgage sourcing software, whether in an integrated or non-integrated way. This suggests that among the small group of affected customers, the parties would be unlikely to lose wealth management software customers if they were to replace [other competitors'] integration with Trigold integration.
90. However, the OFT considers that the parties may also gain [redacted] as a result, since many customers who replied to the OFT's market investigation said that in response to an end of integration, they would in the first instance continue to access the same mortgage sourcing software in a non-integrated way. This is particularly true, since several customers said that mortgage sourcing software tends to be used by (mortgage-specific) advisers within their firm that are different from those that use wealth management software. Customers with a strong preference for [other competitors] may in the long run choose to move to a wealth management software provider that integrates with it, since customers told the OFT that they would take integrations into account at the point of choosing new wealth management software (although as noted above, customers also emphasised the relative importance of wealth management software compared to mortgage sourcing). Furthermore, the parties' per user profit margins on [redacted], further reducing the parties' incentive to engage in such a strategy.
91. The OFT therefore considers on the basis of the evidence it found that the parties would not have sufficient ability or incentive to degrade integration

between IRESS/Avelo wealth management software and [redacted] (or other) mortgage sourcing software to give rise to a realistic prospect of a substantial lessening of competition.

Effect

92. [redacted].⁵⁸

93. Certain customers of IRESS/Avelo may be encouraged by the merged entity to switch from [other competitors' products] to Trigold. However, among users of mortgage sourcing, only around 50 to 60 per cent also use wealth management software (since mortgage-specialist firms generally use mortgage specialist rather than investment specialist software).⁵⁹ Of these users, the parties have a combined share of only around [20-30] per cent. Moreover, users of the parties' software will continue to have non-integrated access to [other competitors].

94. On balance therefore, the OFT considers [redacted] will continue to have significant routes to market through both non-integrated use and through integration with wealth management software providers that compete with IRESS/Avelo. [redacted].

Conclusion on foreclosure of mortgage sourcing competitors by refusing integration with IRESS/Avelo wealth management software

95. The OFT does not consider that there is a realistic prospect of a substantial lessening of competition as a result of the parties refusing or degrading integration between IRESS or Avelo wealth management software and their competitors in the provision of mortgage sourcing software.

BARRIERS TO ENTRY AND EXPANSION

96. The OFT received some evidence from third parties who replied to its market investigation that there are substantial costs of entry into the market for wealth management software, although there have also been examples of recent new entry and entry from outside the UK, including IRESS from Australia. Since the OFT concludes that this merger does not give rise to any competition concerns, it is not necessary to conclude on the issue of barriers to entry.

⁵⁸For discussion of the relative position of the Mortgage Brain and Trigold mortgage sourcing products, see OFT decision of 17 March 2011 on the anticipated acquisition by MBL Holdings Limited of TrigoldCrystal Group Limited http://oft.gov.uk/OFTwork/mergers/Mergers_Cases/2011/MBL

⁵⁹ Source: [redacted]

BUYER POWER

97. Several customers who responded to the OFT felt that they had a degree of buyer power, and some competitors noted that larger firms and networks have some negotiating power. Given the earlier conclusions, it has not been necessary to conclude on the strength of this constraint.

THIRD PARTY VIEWS

98. The OFT received comments and views from a large number of third parties, including competitors and customers. These are referred to above as appropriate but the OFT notes that while a large proportion of competitors raised concerns, no significant concerns were raised by customers.

ASSESSMENT

99. The parties overlap in the provision of wealth management software in the UK with an estimated combined share of supply of approximately [20-30] per cent. As such, the OFT considers that the share of supply test in section 23 of the Act is met.

100. The OFT reviewed this merger in relation to the supply of:

- a) Internet product portals
- b) Mortgage sourcing software;
- c) Point of sale compliance software for mortgages; and
- d) Wealth Management Software.

Horizontal Issues

101. The parties submitted that their combined share of wealth management software users is [10-20] per cent, with an increment of [0-5] per cent. The OFT considers that the relevant frame of reference is narrower than that presented by the parties, and that the parties have an estimated combined share of approximately [20-30] per cent.

102. IRESS has a share of users of around [0-5] per cent. Evidence from competitors suggests that the strength of the competitive constraint provided by IRESS is greater than represented by this share.
103. Customers responding to the OFT's market investigation did not raise any significant concerns about a loss of competition. Some customers were not aware of IRESS pre-merger, and IRESS' internal documents [REDACTED]. There remain a large number of other providers in the UK, including several whose shares are higher than the increment. Customers stated that they considered that there are substitutes to the parties' products and that these will continue to provide a competitive constraint on the merged entity. The parties also appear to face some limited constraint from generic and in-house software.
104. The OFT does not therefore consider that, as a result of the merger, there is a realistic prospect of a substantial lessening of competition due to unilateral horizontal effects in the supply of wealth management software.

Non-Horizontal Issues

105. Following third party concerns, the OFT investigated the likelihood of a substantial lessening of competition arising as a result of the merger from conglomerate effects due to a degradation of integration between software provided by the parties and competing providers.
106. In relation to the possibility of foreclosure of wealth management software competitors of the merged entity through refusal of integration with Trigold or The Exchange, the OFT considers that the parties have some ability to degrade integration, but that they would have limited incentive to do so. This is because, firstly, customers told the OFT that they would be unlikely to switch providers of wealth management software solely in order to regain integration with Trigold or The Exchange. Secondly, the OFT considers on the basis of the evidence it found that the parties would be unable to focus such a strategy only on new or switching customers of wealth management software, and as a result would be likely to lose many existing customers of The Exchange and Trigold, making the strategy untenable. Evidence from customers indicating their willingness to access The Exchange and Trigold on a non-integrated basis, or to switch to competitors of The Exchange and Trigold, suggests that even if the parties were to refuse integration, this would not have the effect of significantly weaken their competitors in wealth management software, whose products could continue to be used alongside non-integrated access to the Exchange and Trigold, or alongside integrated access to competing products.

107. In relation to the possibility of foreclosure of competitors of The Exchange (internet product portal) or Trigold (mortgage sourcing) through refusal of integration with the Parties' wealth management software, the OFT considers that the parties have only limited ability to degrade integration. This is because only a small proportion of customers of competitors' products are also (integrated) customers of the parties' wealth management software. In addition, customers who replied to the OFT's market investigation said that if integration were prevented, they would in the first instance continue to use the same product portal and mortgage sourcing software, rather than switch to an alternative with which they could gain integration – this means that the gains from such a strategy would be small, weakening the incentive to carry it out. Moreover, given that only a limited number of customers could be affected by such strategies, the OFT does not consider that such a strategy would lead to a significant effect.
108. The OFT does not therefore consider that there is a realistic prospect of a substantial-lessening of competition as a result of non-horizontal effects relating to the supply of wealth management software, internet product portals, or mortgage sourcing software.
109. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

110. This merger will therefore **not be referred** to the Competition Commission under section 22(1) of the Act.

OFFICE OF FAIR TRADING
14 February 2014