

# Completed acquisition by FNZ (Australia) Bidco Pty Ltd of GBST Holdings Limited

## Decision on relevant merger situation and substantial lessening of competition

ME/6866-19

### SUMMARY

1. On 5 November 2019, FNZ (Australia) Bidco Pty Ltd, an indirectly wholly-owned subsidiary of Kiwi Holdco CayCo, Ltd (**FNZ**), acquired the whole issued share capital of GBST Holdings Ltd (**GBST**) (the **Merger**). FNZ and GBST are together referred to as the **Parties**, and for statements referring to the future as the **Merged Entity**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of FNZ and GBST is an enterprise; that these enterprises have ceased to be distinct; and that the share of supply test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. In the UK, FNZ is active in the supply of software and transaction processing and custody services to investment management platforms. Similarly, GBST is active in the UK in the supply of software to investment management platforms, and software to support trade settlement and clearing services for investment banks.
4. The CMA considered the impact of the Merger against the pre-Merger conditions of competition. The CMA took into account foreseeable developments in the Parties' competitive offerings within its competitive assessment, including GBST's investment in its 'E-volve' R&D programme and continued use of its partnership model with third-party servicing providers.
5. The Parties overlap in the supply of solutions involving software and/or servicing (**Platform Solutions**) to investment platforms. Investment platforms

provide tools, either directly to consumers or via financial advisers and employers, to support their investment activities, such as investment advice/management and tax administration (particularly for pensions). Both Parties supply Platform Solutions to investment platforms with a mainstream retail proposition (**Retail Platforms**).

6. The CMA found that there is differentiation across investment platforms and suppliers of Platform Solutions. There are some differences in the requirements of Retail Platforms compared to platforms operated by private-client investment managers and private banks (**Private-client Platforms**), and stockbroking platforms. In particular, Retail Platforms, in contrast to other types of platform, tend to require their Platform Solution to have strong capabilities in supporting:
  - (a) the processing of a high volume of mainstream investments and information for a large number of customers, offered at low cost with limited manual intervention; and
  - (b) a wide range of tax wrappers integrated into the platform (on-platform tax wrappers), often for pension administration (**On-Platform Pension Wrappers**).
7. The CMA found that other types of investment platform tend to focus more on managing a portfolio of investments, which can include more complex investments, for a smaller number of customers as part of a more tailored service with more manual intervention. The core proposition of other investment platforms also appears to be less focused on pension administration and other forms of tax relief, which they may offer 'off-platform' via a specialist provider where required.
8. The CMA found that the strength of suppliers' Platform Solutions varies among these different types of investment platforms. For example, some suppliers have not proven their ability to deliver the technology at scale on Retail Platforms, and some suppliers do not offer On-Platform Pension Wrappers.
9. Suppliers are also differentiated by delivery model of the software and servicing components of their Platform Solution. FNZ supplies these components as part of a combined software and servicing offering. GBST supplies software either on a standalone basis (which can be combined with in-house or third-party servicing by the customer) or in partnership with a servicing provider, in particular Equiniti.
10. Some Retail Platforms are open to different delivery models, in particular whether to keep servicing in-house or to outsource this function. In contrast,

the CMA found that Retail Platforms generally considered developing software in-house to be more difficult and less beneficial than in-house servicing.

11. In light of the differentiation in investment platforms and their requirements for their Platform Solution, the CMA assessed the impact of the Merger on the supply of Platform Solutions to Retail Platforms (**Retail Platform Solutions**) but has also considered the constraints from suppliers focusing on other Platform Solutions. The CMA has included all delivery models, with the exception of in-house software, within this frame of reference because the CMA found that many customers are open to these different options. The CMA has taken into account in the competitive assessment differences in these delivery models and the extent to which the option for in-house software and/or servicing varies by customer.
12. The CMA found that Retail Platform Solutions have to meet specific requirements resulting from different jurisdictional tax and legal regimes. Suppliers of Retail Platform Solutions cannot easily and quickly enter into a new country, given the need to adapt to these different requirements and the importance of experience and reputation in serving customers in a particular country. The CMA therefore assessed competition in the supply of Retail Platform Solutions on a UK-wide basis.
13. The CMA found that FNZ has a particularly strong position in the supply of Retail Platform Solutions given its range of capabilities in technology and servicing; and GBST is one of only a few rivals that exerts a competitive constraint on FNZ in the supply of Retail Platform Solutions.
14. Evidence from third parties, the Parties' internal documents and from recent tender evaluations indicated that the Parties are close competitors. While GBST only has capabilities in software, this does not significantly limit the extent to which it competes with FNZ. Software is a key component of a Platform Solution and the CMA considers that GBST's software when combined with in-house servicing, or third-party servicing (obtained separately by the customer or provided as part of a package with a partner such as Equiniti), is a credible alternative to FNZ's integrated software and servicing Platform Solution. In particular, the CMA found that:
  - (a) FNZ and GBST are two of the largest Retail Platform Solutions in terms of assets under administration;
  - (b) both Parties have strengths in the technology used in Retail Platform Solutions and develop this technology in direct competition to each other;

- (c) most third parties considered FNZ and GBST to be close competitors and submitted that FNZ and GBST are two of only a few specialist technology competitors proven at scale, and that the differences in the Parties' delivery models have not stopped them from competing directly with each other;
  - (d) the Parties' internal documents indicate that both Parties view each other as a close competitor, with each Party comparing the other's offering. This is particularly relevant in the context of a competitive landscape where there are only a limited number of competitors offering a Retail Platform Solution with similar capabilities to those of the Parties; and
  - (e) while there have only been a small number of recent tenders for Retail Platform Solutions, FNZ and GBST are two of only a few suppliers that regularly participate in these tenders. The Parties have competed against each other in a number of these tenders, and some customers' tender evaluations indicate that FNZ and GBST (when combined with a servicing partner) are considered to have similar offerings.
15. The same sources of evidence indicate that the main third-party competitive constraints on the Parties are Bravura Solutions (**Bravura**) and SS&C Technologies (**SS&C**). Bravura, which offers a software-only Platform Solution similar to GBST, was mentioned most often as a competitor by third parties, consistent with Bravura's greater participation in recent tenders in Retail Platform Solutions than other third-party competitors. SS&C, which offers a combined software and servicing Platform Solution, was mentioned less often by third parties, although it has recently been successful in tenders for Retail Platform Solutions. Other competitors had lower levels of participation in these recent tenders and were noted less often by third parties. This is broadly consistent with the shares of supply in Retail Platform Solutions where FNZ, GBST, Bravura, SS&C are the only competitors of significant scale.
16. In addition, the CMA considered the constraint from suppliers such as Avaloq, SEI and Pershing. The CMA found that these competitors exert a weaker constraint on the Parties in Retail Platform Solutions. In particular, the CMA found that these suppliers do not have the same reputation as the Parties to deliver Retail Platform Solutions given their limited activities and/or interest in supplying Retail Platforms. These suppliers would also need to develop their technology to compete more strongly in the supply of Retail Platform Solutions.
17. The CMA believes that some of the Parties' customers may be in a weak negotiating position due to the lack of credible alternative supply options and

the high barriers to switching. These factors increase the likelihood of horizontal unilateral effects, which may include price rises or a reduction in quality (including as a result of a reduction in product development).

18. The CMA considers that the Merger will affect all Retail Platform Solutions customers. In particular, the Merged Entity may seek to exploit its increased market power by applying pressure on GBST's existing standalone customers to take a combined software and servicing solution. The Merged Entity could apply this pressure by scaling back GBST's development of this software or otherwise not offering this software on competitive terms unless existing GBST customers take a combined software and servicing solution.
19. Prior to the Merger, GBST had incentives to maintain the competitiveness of its standalone software in part due to competition from FNZ. In contrast, the Merged Entity would have incentives to reduce the competitiveness of GBST's standalone software given the higher margins the Merged Entity could earn from supplying GBST's existing customers a combined solution. The Merged Entity would be in a strong position to do this given that switching to other suppliers would be costly for customers. This concern is consistent with concerns raised by customers and FNZ's internal documents regarding FNZ's plans for GBST's Retail Platform Solution. Therefore, the unilateral effects of the Merger may be particularly acute with respect to existing GBST customers.
20. The Parties' internal documents indicate that barriers to entry are high. This is corroborated by third party comments on the difficulty of developing Retail Platform Solutions that meet the requirements of UK customers (see paragraph 12 above) and the difficulty of demonstrating proven scale in Retail Platform Solutions. In addition, there are high switching costs that would inhibit new entrants or smaller providers from achieving significant scale, including operational and reputational risks for both platform providers and suppliers of Platform Solutions should the switching fail. There are some high-profile incidences in which switching has resulted in significant disruption for the platform provider and their end-investors. The CMA therefore believes that entry or expansion into Retail Platform Solutions would not be timely, likely or sufficient to constrain the Parties post-Merger.
21. The CMA therefore believes that the Merger gives rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects in the supply of Retail Platform Solutions excluding in-house software in the UK.
22. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (the **Act**). FNZ has until 6 April 2020 to

offer an undertaking to the CMA that might be accepted by the CMA. If no such undertaking is offered, then the CMA will refer the Merger pursuant to sections 22(1) and 34ZA(2) of the Act.

## ASSESSMENT

### Parties

#### **FNZ**

23. FNZ is a global wealth management technology and investment administration services firm, set up in 2003 and headquartered in London since 2005.<sup>1,2</sup> In the UK, FNZ is active in the supply of technology solutions – including both software to support pension and investment administration and software to support trade settlement and clearing services, as well as transaction processing and custody services - to enable its customers to provide investment management platforms, either directly to consumers or via financial advisers and employers. In 2018, FNZ had worldwide turnover of £[<] million, of which £[<] million was generated in the UK.
24. FNZ provides Platform Solutions using what it describes as a platform-as-a-service (**PaaS**) model, under which it combines as part of an integrated solution both (i) business process outsourcing (**BPO**) in respect of investment transactions and asset custody and (ii) investment management software. Under this model, FNZ assumes full responsibility for delivery of services to the customer's internal staff and external-facing functions.<sup>3</sup>
25. In August 2019, FNZ acquired JHC Systems Limited (**JHC**), a technology supplier offering software solutions to wealth managers and platform providers, principally in the UK.<sup>4</sup>

#### **GBST**

26. GBST is a company headquartered in Brisbane, Queensland, Australia which was ASX-listed before being acquired by FNZ. GBST is a specialist financial technology company which provides software to support pension

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<sup>1</sup> FNZ submitted that [<].

<sup>2</sup> [<], a third-party financial investor, [<], entered into an agreement to acquire a [<] minority interest in Falcon Newco Limited (a holding company of FNZ), together with certain limited governance rights.

<sup>3</sup> FNZ's core services are FNZ One, FNZ T-Rex, FNZ X-Hub, FNZ Clear, FNZ ChainClear, FNZ Register and FNZ Digital Adviser.

<sup>4</sup> JHC's established software solutions include JHC Figaro, JHC Neon, JHC Xenon and JHC Digitize (a consultancy service).

administration, wealth management and stockbroking. In the UK, GBST is active in the supply of software to investment management platforms to support pension and investment administration, as well as software to support trade settlement and clearing services. GBST does not provide BPO services itself. In the year to 30 June 2019, GBST had worldwide turnover of £52.1 million, of which £[redacted] million was generated in the UK.<sup>5</sup>

27. GBST is a specialist financial technology company with two businesses (both active in the UK):
- (a) an investment management solutions business that provides software to platform providers to support the provision of wealth management services to consumers; and
  - (b) a capital markets solutions business which provides software to retail and institutional stockbroking firms to enable the settlement and clearing of trades in listed securities and margin lending in the same.

## The Merger

28. On 5 November 2019, FNZ acquired, via its indirectly wholly-owned subsidiary, FNZ (Australia) Bidco Pty Ltd, the whole issued share capital of GBST.
29. The Merger was structured via a scheme of arrangement in which all GBST shares were transferred to FNZ Australia (Bidco) Pty Ltd.
30. Prior to FNZ's acquisition of GBST, GBST had been engaging in negotiations with a number of other parties regarding a potential sale of GBST. GBST received bids from Bravura and SS&C.<sup>6</sup>

## Rationale

31. FNZ submitted that the main strategic rationale for the Merger is to:<sup>7</sup>
- (a) [redacted];

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<sup>5</sup> GBST's core services are: (a) Client accounting and securities transaction technology solutions for the finance, banking and capital markets industry globally; (b) Funds administration and registry software for the wealth management industry in Australia and the UK; (c) Providing gateway technology to the superannuation industry; (d) Providing data and quantitative services after tax measurement of portfolio performance in Australia; and (e) Website and mobile platform design and digital agency services focused on e-commerce and the financial services industry in Australia and Europe. Paragraph 3.26 of the Merger Notice.

<sup>6</sup> Paragraph 11.1 of the Merger Notice and paragraph 2.11.1 of FNZ's Response to the Issues Letter.

<sup>7</sup> Paragraph 2.15 of the Merger Notice.

(b) [REDACTED]; and

(c) [REDACTED].

32. [REDACTED].<sup>8</sup>

33. [REDACTED].<sup>9</sup>

## Procedure

34. The CMA's mergers intelligence function identified the Merger as warranting an investigation.<sup>10</sup>

35. The Merger was considered at a Case Review Meeting.<sup>11</sup>

## Jurisdiction

### *Enterprises ceasing to be distinct*

36. Each of FNZ and GBST is an enterprise. As a result of the Merger, these enterprises have ceased to be distinct.

### *Share of supply test*

37. The CMA's Mergers: Guidance on the CMA's jurisdiction and procedure (the **J&P Guidance**) sets out that the share of supply test is satisfied if the merged enterprises both either supply or acquire goods or services of a particular description, and will, after the merger, supply or acquire 25% or more of those goods or services in the UK or in a substantial part of it.<sup>12</sup>

38. The CMA will have regard to any reasonable description of a set of goods or services to determine whether the share of supply test is met. The J&P Guidance sets out that the CMA has a wide discretion in describing the relevant goods or services and that, in applying the share of supply test, the CMA may have regard to value, cost, price, quantity, capacity, number of workers employed and any other criterion in determining whether the 25% threshold is met. The J&P Guidance further makes clear that the share of supply test is not an economic assessment of the type used in the CMA's

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<sup>8</sup> Paragraph 2.16.2 of the Merger Notice.

<sup>9</sup> See paragraphs 245 and 261-262 of the competitive assessment for further detail.

<sup>10</sup> See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

<sup>11</sup> See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, from paragraph 7.34.

<sup>12</sup> See *Mergers: Guidance on the CMA's jurisdiction and procedure* (CMA2), January 2014, paragraph 4.53.



substantive assessment and need not amount to a relevant economic market.<sup>13</sup>

39. FNZ submitted that the CMA does not have jurisdiction over the Merger as the share of supply test has not been met.
40. FNZ submitted that:
  - (a) The Parties' combined share of supply in the narrowest plausible product market of wealth management platform solutions in the UK on the basis of recurring revenue is [10-20]%.<sup>14</sup>
  - (b) The Parties' estimated combined share of supply of wealth management platform solutions for advised platforms in the UK on an assets under administration (**AUA**) basis is [20-30]%.<sup>15</sup>
41. However, FNZ submitted that estimating shares of supply on an AUA-basis suffers from a number of shortcomings, such as the fact that the same AUA for a given customer might be attributed equally to multiple platform solutions suppliers where customers use multiple suppliers, leading to the shares of software-only suppliers being likely to be overstated as a result of double counting.<sup>15</sup>
42. FNZ further submitted that the Parties' estimated combined share of supply of Platform Solutions to customers excluding private banks in the UK on an AUA-basis is [30-40]%.<sup>16</sup>
43. The CMA considered FNZ's submissions along with information provided by third parties and a third-party report.
44. The Parties overlap in the supply of Retail Platform Solutions in the UK. The CMA estimates that the Parties have a combined share of the supply of Retail Platform Solutions excluding in-house software in the UK on the basis of AUA of [40-50]% (increment [10-20]%).<sup>17</sup>
45. The CMA's estimate of the Parties' combined share of supply above is broadly consistent with predicted estimates in a third-party report, which are also

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<sup>13</sup> See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraph 4.56.

<sup>14</sup> Paragraph 5.3 of the Merger Notice.

<sup>15</sup> Paragraph 14.11 of the Merger Notice. FNZ also submitted that there were other limitations: (i) AUA shares are likely to distort analysis of the Parties' combined shares, insofar as there are any existing overlaps in their customer bases; and (ii) the revenue bases of software-only, BPO and PaaS solutions providers are different (see Paragraphs 14.12 and 14.13 of the Merger Notice).

<sup>16</sup> Response to the Issues Letter, paragraph 10.30.

<sup>17</sup> See **Table 1** below, setting out shares of supply.

based on AUA.<sup>18</sup> These shares of supply, as set out in the third-party report, are also referred to by GBST in its internal documents.<sup>19</sup>

46. For the reasons explained in the Frame of Reference section at paragraph 76 onwards, the CMA considers that the supply of Retail Platform Solutions in the UK is a reasonable description of goods or services for the purposes of the share of supply test.
47. Furthermore, for the reasons explained in paragraph 141, the CMA considers that AUA is an appropriate basis on which to estimate the Parties' shares of supply.
48. Accordingly, the CMA believes that it is or may be the case that the share of supply test in section 23 of the Act is met.
49. The Merger completed on 5 November 2019 and was made public on the same date.<sup>20</sup> The four-month deadline for a decision under section 24 of the Act is 14 April 2020, following extensions under section 25(2) of the Act.

### ***Conclusion on jurisdiction***

50. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
51. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 4 February 2020 and the statutory 40 working day deadline for a decision is therefore 30 March 2020.

### **Counterfactual**

52. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is

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<sup>18</sup> The Lang Cat blog, 2017: <https://www.langcatfinancial.co.uk/2017/05/sub-datagasm-new-tech-market-share-figures-released/> See also [3<].

<sup>19</sup> [3<].

<sup>20</sup> Annex 8.1 to the Merger Notice.

a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>21</sup>

### ***FNZ's submissions***

53. FNZ submitted that the appropriate counterfactual is one in which GBST is acquired by another party currently supplying Platform Solutions. This is on the basis that, prior to FNZ's acquisition of GBST, GBST had been engaging in negotiations with other parties regarding a potential sale, including Bravura and SS&C, following an unsolicited bid from Bravura in April 2019.<sup>22</sup> FNZ submitted that this outcome was made more plausible due to [redacted], the self-evident interest from both Bravura and SS&C in acquiring GBST, the clear willingness of GBST to entertain bids and the willingness of GBST shareholders to sell the company and the fiduciary duty of its board to maximise shareholder value.<sup>23</sup>

54. FNZ also submitted that [redacted].<sup>24</sup> [redacted],<sup>25</sup> [redacted].<sup>26</sup> [redacted].<sup>27</sup>

### ***CMA assessment***

#### ***GBST's continued viability***

55. Evidence from GBST's pre-Merger internal documents indicates that GBST had a strategy for growth and was planning (and indeed, had begun) significant investment in its technology, absent the Merger.<sup>28</sup> In addition, GBST's financial results for the year ended 30 June 2019, one month prior to the binding Scheme Implementation Deed between GBST and Kiwi HoldCo CayCo, Ltd was entered into on the 29 July 2019, do not indicate concerns with regards to GBST's financial viability. On the contrary, they show "*Net profit after tax was up 103% to \$12.7m*", "*Strong operating cash flow of \$26.3[m]*" and "*Three-year Strategic R&D Program is progressing to plan*".<sup>29</sup>

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<sup>21</sup> [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, from paragraph 4.3.5. The [Merger Assessment Guidelines](#) have been adopted by the CMA (see [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, Annex D).

<sup>22</sup> Paragraph 11.1 of the Merger Notice.

<sup>23</sup> Paragraphs 3.6 and 5.17-5.21 of FNZ's Response to the Issues Letter.

<sup>24</sup> Paragraph 11.3 of the Merger Notice.

<sup>25</sup> Paragraphs 5.1-5.6 of FNZ's Response to the Issues Letter.

<sup>26</sup> Paragraphs 5.7-5.16 of FNZ's Response to the Issues Letter.

<sup>27</sup> FNZ's additional submission dated 21 March, page 13.

<sup>28</sup> [redacted].

<sup>29</sup> GBST 30 June 2019 Annual Report.

56. GBST submitted that it believes that [REDACTED].<sup>30</sup> [REDACTED].<sup>31</sup>
57. In addition, GBST's internal documents do not indicate that it considered its viability as an independent market participant was uncertain.<sup>32</sup>
58. The available evidence from customers also indicates that they consider GBST would continue to be a viable competitor. A large number of customers felt that GBST was a viable provider of Retail Platform Solutions (whether provided with or without servicing),<sup>33</sup> with several of these customers considering GBST as their preferred alternative provider<sup>34</sup> to their current provider. In particular, it was noted that GBST is a good standalone business,<sup>35</sup> and that it has a "*strong reputation and a strong core offering*".<sup>36</sup> However, a small number of third parties noted the need for investment in GBST's Composer product to ensure that it was fully competitive.<sup>37</sup>
59. The CMA therefore believes that the available evidence, considered in the round, does not support FNZ's submission that, absent the Merger, GBST's viability as an independent market participant is uncertain or that GBST would have deteriorated as a result of financial difficulties. The CMA has further considered the evidence submitted in relation to GBST's financial viability, to the extent relevant, within its competitive assessment.

#### *Acquisition by an alternative provider*

60. Regarding the potential acquisition of GBST by an alternative provider such as Bravura or SS&C, the CMA considered whether there was a realistic prospect of such a counterfactual, and whether it would have been more competitive than the pre-Merger conditions of competition. Based on the available evidence, the CMA believes that even if the acquisition of GBST by an alternative provider of Retail Platform Solutions such as Bravura or SS&C were a realistic prospect, it is uncertain whether such an acquisition would be more competitive than the pre-Merger conditions of competition, as both

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<sup>30</sup> See [REDACTED]. Further information on investment into the E-volve programme is included in the competitive assessment at paragraphs 244-245.

<sup>31</sup> See GBST comments on CMA note of Issues Meeting.

<sup>32</sup> GBST's internal documents also indicate that it considers itself to be a viable competitor to FNZ. For example, [REDACTED].

<sup>33</sup> See, among others, [REDACTED].

<sup>34</sup> [REDACTED].

<sup>35</sup> [REDACTED].

<sup>36</sup> [REDACTED].

<sup>37</sup> See [REDACTED].

Bravura and SS&C are currently active in the supply of Retail Platform Solutions in the UK.<sup>38</sup> [redacted].<sup>39</sup>

### *Future developments*

61. The CMA also considered the broader market context of Platform Solutions. In particular, the available evidence indicates that some developments are expected in the foreseeable future,<sup>40</sup> with both Parties' internal documents demonstrating plans to grow and GBST in particular having plans to improve its existing offering.<sup>41</sup> FNZ also submitted that the supply of Platform Solutions is a dynamic industry.<sup>42</sup>
62. Given these expected developments, the CMA considers that the pre-Merger conditions of competition are not static and involve an environment in which the Parties would have continued to pursue growth opportunities and GBST in particular would have improved its existing offering, for example through further investment in its E-volve programme. The CMA has taken these expected future developments into account in its competitive assessment. In particular, the CMA has considered the implications for GBST's competitive position of its continued investment in its software and its ongoing use of the partnership model recently developed with Equiniti.

### ***Conclusion on the counterfactual***

63. Accordingly, the CMA believes the pre-Merger conditions of competition to be the relevant counterfactual in this case. As noted above, the CMA has considered foreseeable future developments in the Parties' competitive offering, in particular GBST's continued investment in its E-volve programme and ongoing use of its partnership model, within its competitive assessment.

## **Background**

64. The Parties are both active in the UK in the supply of Retail Platform Solutions to personal (non-institutional) investors.<sup>43</sup>

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<sup>38</sup> Further discussion of the competitive constraint provided by each of Bravura and SS&C is at paragraphs 167 to 175, below.

<sup>39</sup> Paragraph 5.21 of FNZ's Response to the Issues Letter.

<sup>40</sup> See paragraph 74 below on market evolution.

<sup>41</sup> [redacted]. For GBST see [redacted].

<sup>42</sup> Paragraphs 3.3 and 4 of FNZ's Response to the Issues Letter.

<sup>43</sup> In this context, investors are considered to not be institutional where the investment can be traced back to individual end-investors.

65. Investment platforms provide the services by which personal investors and their intermediaries are able to transact and obtain administrative and other services to support their investment activities. Platforms typically comprise services used by intermediaries and personal investors to invest money in a range of products, including funds, shares, bonds, structured products and other securities, from different asset managers and hold them together in one account. They typically offer a range of services, which enable the investor or intermediary to see and analyse an overall portfolio.<sup>44</sup> Platform providers comprise UK and global banks, insurers, asset managers and wealth managers.<sup>45</sup>
66. In broad terms, the platform technology solution (**software**) and investment transaction and custody services<sup>46</sup> (**servicing**)<sup>47</sup> are two of the four core elements of a Retail Platform that may be outsourced.<sup>48</sup> The CMA refers to these two components as Retail Platform Solutions and for the reasons set out below, these solutions are the focus of its investigation.
67. All platform operators need to combine the two components of a Retail Platform Solution – software and servicing – to form a complete solution in order to run their platforms. Each component may be provided in-house or outsourced to a third party.<sup>49,50</sup>
68. Software and servicing platform solutions are typically sourced by Retail Platforms through one of the following four delivery models:
- (a) A software-only platform solution sourced from a third party (referred to by the CMA as a **software-only Platform Solution**), which the customer combines with in-house servicing or servicing from a third party;<sup>51</sup>
  - (b) Software-only and servicing-only platform solutions provided in partnership by two (or more) third parties (a **partnership model**);

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<sup>44</sup> Paragraph 12.13 of the Merger Notice.

<sup>45</sup> Paragraph 12.11 of the Merger Notice.

<sup>46</sup> Investment administration, pension administration, trade execution, asset custody servicing, execution and other back-office administrative functions are FCA regulated activities which require a greater level of human involvement in the process (e.g. to deal with exceptions and problems with trades etc).

<sup>47</sup> 'Transaction and custody services' is commonly referred to as 'Servicing', 'Administration' and 'Business Process Outsourcing' (BPO), paragraph 12.23.2 of the Merger Notice.

<sup>48</sup> The other two elements are: asset management services and client services.

<sup>49</sup> Where both components are outsourced, the software and servicing may or may not be provided by the same third party.

<sup>50</sup> Some suppliers combine multiple third-party solutions, which they may then also combine with their own in-house solutions. [3<]. However, third parties have indicated that even if they use multiple software products, one of them will typically form their core back office technology solution.

<sup>51</sup> The CMA did not receive evidence of any platform providers which use in-house software but outsource their servicing.

- (c) An integrated software and servicing platform solution from a single third party provider (known as a **PaaS solution**); or
  - (d) Software and servicing provided in-house (a **full in-house solution**).
69. When referring to both the software and servicing elements supplied either via partnership model or via an PaaS solution, the CMA uses the term '**combined software and servicing Platform Solution**' or '**combined Platform Solution**'.
70. Both Parties are active in the supply of software-only platform solutions and combined platform solutions:
- (a) **Software-only Platform Solution:** GBST offers a software-only platform solution. FNZ also offers a software-only platform solution through its subsidiary, JHC. The CMA understands that JHC's software is more focused on supplying stockbroking platforms rather than Retail Platforms, which the CMA has considered further as part of its competitive assessment.
  - (b) **Combined software and servicing Platform Solution:** FNZ's primary delivery model is a PaaS solution. GBST also offers a combined solution via its partnership with Equiniti (formally established in 2018).
71. Although some Retail Platform operators have opted to outsource both the software and servicing components of their Platform Solutions, others have opted to retain the servicing component in-house as they see it as a key part of the service they provide to their customers and their value proposition relative to other platform operators.<sup>52</sup>
72. GBST and Bravura, for example, only have software capabilities, but they nevertheless compete with FNZ, either by giving customers the option of outsourcing only the software (and not the servicing), or by offering a combined software and servicing Platform Solution through a partnership (for example, with Equiniti and Genpact respectively). FNZ and GBST therefore compete directly through tenders for customers that are either (i) committed to outsource fully their Platform Solution or (ii) tendering for both options (ie standalone software or both software and servicing), and also indirectly for customers that are considering which model to adopt prior to starting a tender process.

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<sup>52</sup> See paragraph 104 onwards in the section on product frame of reference.

## **Pricing**

73. The pricing of Retail Platform Solutions typically falls into one of the following two pricing models:
- (a) Asset revenue: a service charge, calculated as a number of basis points (bps) on the supported platform's AUA value;<sup>53</sup> or
  - (b) Licence fee: a set for use of products or software.<sup>54</sup>

## **Market evolution**

74. Evidence from the Parties<sup>55</sup> and third parties<sup>56</sup> indicates that it is becoming increasingly common for retail investment platforms to use outsourced Retail Platform Solutions. This trend is driven by wider factors across the wealth management industry, including (i) increasing cost pressures<sup>57</sup> and (ii) regulatory and market developments.<sup>58</sup>
75. In particular, it appears that there is a move towards the increased outsourcing of both software and servicing solutions:<sup>59</sup>
- (a) a third party indicated that the outsourcing of solutions will continue to increase “*due to the cost factors of providers keeping such services compliant and current, combined with the fact of reducing revenues for these providers*”;<sup>60</sup> and
  - (b) some suppliers of software-only Platform Solutions have partnered with servicing suppliers to offer a combined software and servicing Platform Solution.<sup>61</sup>

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<sup>53</sup> FNZ's model includes [REDACTED].

<sup>54</sup> Additionally, fees may be charged for installation, implementation or enhancement of solutions. Software-only suppliers – [REDACTED] – may typically charge a licence fee paid for use of software, or a fee-per-transaction price structure, which do not vary according to AUA (Paragraph 14.21 of the Merger Notice). GBST's model is based on [REDACTED] (paragraph 15.55.2 of the Merger Notice).

<sup>55</sup> Paragraph 13 of the Merger Notice.

<sup>56</sup> [REDACTED].

<sup>57</sup> Due to more passive investing and regulatory initiatives aimed at increasing overall cost transparency, paragraph 15.3 of the Merger Notice.

<sup>58</sup> For example, MiFID II and workplace pension reporting requirements, paragraph 15.3 of the Merger Notice.

<sup>59</sup> [REDACTED].

<sup>60</sup> [REDACTED].

<sup>61</sup> GBST and Bravura have partnered with service providers such as Equiniti and GenPact respectively to offer a combined solution and [REDACTED].



## Frame of reference

76. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>62</sup>
77. The Parties overlap in the UK in the supply of Retail Platform Solutions.

## Product scope

78. The relevant frame of reference will include the most significant competitive alternatives available to customers of the Parties. The CMA's approach to assessing the product frame of reference is to begin with the overlapping products of the merger parties in the narrowest plausible candidate product frame of reference and then to see if this can be widened on the basis, primarily, of demand or supply-side considerations.<sup>63</sup>
79. As a starting point, the CMA considered the supply of Retail Platform Solutions. The CMA considered whether this frame of reference should be widened to include other types of Platform Solutions.
80. The CMA also considered whether it is appropriate within the supply of Retail Platform Solutions to distinguish between:
- (a) the supply of software-only Platform Solutions and combined software and servicing Platform Solutions; and
  - (b) the supply of the software and/or servicing elements of a Retail Platform Solution by a third party and the supply of each of these elements in-house.

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<sup>62</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

<sup>63</sup> [Merger Assessment Guidelines](#), section 5.2.

### *FNZ's submissions*

81. FNZ submitted that the narrowest candidate frame of reference that the CMA should consider is the supply of Platform Solutions for investment platforms,<sup>64</sup> which should include:
- (a) Platform Solutions provided to all types of non-institutional investment platforms;<sup>65</sup>
  - (b) Platform Solutions provided via all delivery models, including standalone software and combined software and servicing solutions;<sup>66</sup> and
  - (c) In-house supply for both software and servicing, which provide a real and credible alternative to third party solutions for platforms whatever their size, level of sophistication and possible customer focus.<sup>67</sup>

### *Retail Platform Solutions versus other Platform Solutions*

#### *FNZ's submissions*

82. FNZ submitted that there are virtually no substantive differences in the services provided by platforms using different retail channels or targeting different end-investor groups and all suppliers of Platform Solutions are able to support all platforms. In particular, FNZ submitted that:
- (a) The differentiation in the platform market being used by the CMA is out of date. It submitted that this differentiation did exist 10-15 years ago but is no longer applicable in the platforms market today as the offerings and Platform Solution requirements of 'Financial Planners' and 'Private Client Wealth Managers' have converged as a result of legal and regulatory changes;<sup>68</sup>
  - (b) There is no differentiation in terms of the type of end-investors served by different investment platforms, with the large majority serving mass retail investors, as well as high and ultra-high net worth end-investors.<sup>69</sup> All types of platforms can and do serve all investor groups. Any distinction between 'high-touch bespoke' versus 'low-touch commoditised' solutions

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<sup>64</sup> Paragraph 13.1 of the Merger Notice.

<sup>65</sup> In this context, investors are considered to be non-institutional investors where the investment can be traced back to individual end-customers

<sup>66</sup> Paragraph 7.8 of FNZ's Response to the Issues Letter.

<sup>67</sup> Paragraph 7.9 of FNZ's Response to the Issues Letter.

<sup>68</sup> FNZ's additional submission dated 21 March.

<sup>69</sup> Paragraph 7.11 of FNZ's Response to the Issues Letter.

has also long since ceased to exist and all the key competitors can provide high volume deployments;

- (c) There is homogeneity with respect to the range of assets and provision of tax wrappers offered by different investment platforms and the requirements of technology solutions that they use for that purpose, with the sole exception of a handful of private banks; and
- (d) While some investment platforms have pension wrappers administered through the same core technology provider that they use for their broader software requirements (an integrated **On-Platform Pension Wrapper**), many platforms do not. FNZ submitted that there is no advantage to consumers from an On-Platform Pension Wrapper as it is easy to integrate separate pensions and investment solutions so that there is no difference in the consumer proposition.<sup>70</sup>

#### *CMA's assessment*

- *Demand-side substitution*

83. The CMA considered whether:

- (a) there are significant differences between different types of Platform Solutions including between (i) Retail Platforms; (ii) stockbroker platforms; (iii) platforms operated by private-client investment managers; and (iv) platforms operated by private banks;<sup>71</sup> and
- (b) those differences drive the Platform Solutions that these platforms consider to be close substitutes.

84. GBST submitted that:<sup>72</sup>

- (a) Retail platforms focus on serving the retail mass affluent end-investors, and support a high volume of transactions with regard to the products that these customers commonly demand (eg pensions and other tax wrappers). They are also increasingly using an open architecture that widens the investment range to whole of market funds and equities.

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<sup>70</sup> FNZ's additional submission dated 21 March.

<sup>71</sup> There is no formal or consistent terminology used by market participants to refer to these segments identified by the CMA but the Parties' internal documents have used the terms retail/wealth management and mass affluent/high net worth to distinguish between Retail Platforms and private-client investment managers and private banks in a similar manner.

<sup>72</sup> GBST submission regarding Platform Categorisation.

- (b) Private client investment managers and private banks tend to deal with more bespoke wealth planning with a focus on managing money and investments to meet the complex needs and much larger investible assets of their clients.
  - (c) Retail stockbrokers either trade financial instruments on behalf of a consumer (advisory) or allow the consumer the ability to ‘Do-It-Yourself’. They are available to all investor types.
85. Third party views on the differentiation between Platform Solutions also indicate that there is some level of differentiation between these different types of Platform Solutions:
- (a) Some market participants submitted that as the range of asset types increases, the complexity of the platform technology and the costs of delivering the investments through the platform increase.<sup>73</sup> The business model of Retail Platforms is focused on keeping costs low through the efficient provision of simple assets at scale whereas for private-client investment managers and private banks, the focus is on a bespoke service offering made to a smaller client base with less focus on cost. In particular:
    - (i) Some third parties noted that the Platform Solutions available from different suppliers could meet the more basic requirements of all investment platforms. However, third-party evidence taken in the round indicated there are still capabilities that Retail Platforms consider to be more important compared to other types of platform.<sup>74</sup> Third parties submitted that there were material differences in the extent to which Platform Solutions are suited to meeting the needs of the different segments. In particular, Retail Platforms require Platform Solutions that give them the ability to process high volumes of transactions through a commoditised solution at low cost.
    - (ii) Some third-party submissions indicated that the investments in the retail segment are typically held in common pensions, tax-privileged investments (such as ISAs) or general investment accounts. Investment requirements for higher net worth customers may

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<sup>73</sup> See, for example, [redacted] response to the CMA’s Competitor Questionnaire, GBST’s response to the CMA’s request for information dated 5 March 2020 and the CMA’s call with the [redacted] – “*The technology provided in this [wealth management] space tends to be more expensive*”.

<sup>74</sup> See, for example, [redacted] response to the CMA’s Competitor Questionnaire - “*Retail investment platforms focus on high volume, low complexity products/transactions*”.

include these UK tax wrappers but also typically involve more complex investments (such as private equity assets) with more individualised holding requirements (such as family trusts) and requirements to deal with multiple jurisdictions/currencies.<sup>75</sup>

(b) Furthermore, a key specific area of differentiation between Retail Platforms and other types of platform that was supported by third party views related to the offer of an integrated On-Platform Pension Wrapper. Third party evidence indicates that Retail Platforms are particularly focused on pension administration as a core part of their proposition. They will therefore often wish to administer the pension in-house, using Platform Solutions that can support this in-house provision through an integrated technology solution. In contrast, private-client investment managers and private banks are more focused on managing the portfolio of investments and do not typically consider providing pension administration in-house to be a key part of their business model.<sup>76</sup>

86. FNZ<sup>77, i</sup> and GBST's<sup>78</sup> internal documents also highlight the differences between the types of investment platform and the available Platform Solutions. In particular, comparisons are made between the functionality provided by different Platform Solutions in the context of the differing requirements of investment platforms. For instance, an FNZ internal document sets out the different types of platform customers, noting that there is "[X]" and assesses the extent to which different Platform Solution suppliers can provide certain functionalities such as [X].<sup>79</sup>

87. FNZ's documents largely corroborate that it has the capability to supply a broad range of investment platforms, but GBST's documents show that it considers itself to operate in the Retail Platform segment<sup>80</sup> and that GBST's core business is not the supply of Platform Solutions for investment platforms

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<sup>75</sup> Call with [X]. A number of other third parties agree with this. For example, [X] explained to the CMA that high net worth individuals tend to trade also in foreign currencies, and therefore need to use more complex platforms (see note of the second call with [X]). In this regard, [X] confirmed that "*foreign currency assets tend to be part of larger portfolios, or for people who have personal interests outside UK. They are not supported by many platforms*" (see questionnaire response from [X]). Furthermore, [X] noted that high net worth clients typically desire "*to invest in a wider range of assets such as Commercial Property and Unquoted Shares*" (see questionnaire response from [X]).

<sup>76</sup> Non-retail platforms will sometimes partner with a specialist third party pension provider (off-platform provision) but this option is typically not considered to be suitable for Retail Platforms, which often seek solutions with integrated on-platform capability, as offered by FNZ, Bravura, GBST and SS&C.

<sup>77</sup> An FNZ internal document refers to suppliers not focused on Retail Platform Solutions as "[X]". Also, other FNZ internal documents, refer to different types of end-investor: [X]. See also the following GBST document: [X].

<sup>78</sup> GBST's internal documents also indicate that customers did not view GBST, in particular, as an appropriate platform for [X].

<sup>79</sup> See [X].

<sup>80</sup> For example, a GBST document shows that it has explored whether it is feasible for it to extend its capabilities beyond the retail market to enable it to also compete in the 'Wealth Manager market'.

outside of this segment.<sup>81</sup> This is further corroborated by third party evidence, tender data and the submissions of GBST.<sup>82</sup>

88. Based on the evidence described above, the CMA has found that investment platforms are differentiated in terms of the customers that they serve, the functionality available on their platforms and their ability to efficiently process a high volume of investments. In addition, the CMA has found that these differences have an impact on the Platform Solutions that investment platforms seek. The CMA considers that Retail Platforms, which the Parties overlap in serving,<sup>83</sup> typically provide relatively simple investments at scale, have a greater focus on pensions and will typically be focused on serving mass affluent end-investors (although their proposition may also appeal to some higher net worth investors).
89. There are no formal or other clear lines of delineation between these subsegments and the CMA considers that there is likely to be a degree of overlap where some platforms do not neatly fit into only one category. Nevertheless, on the demand-side, the CMA has assessed various aspects of the platforms' offerings and considers that they can be distinguished based on the following characteristics which have implications for the required Platform Solutions:<sup>84</sup>
- (a) The range and level of sophistication of the assets available on the platform, which in turn affects the regulatory requirements with which the platform must comply;<sup>85</sup>
  - (b) The investment platform's ability to process efficiently a high volume of transactions across a large number of customers at low cost and with limited manual intervention; and
  - (c) The availability of different tax wrappers and particularly the capability to provide an integrated On-Platform Pension Wrapper.
90. Further information on the differences between Platform Solution suppliers is provided within the competitive assessment.<sup>86</sup>

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<sup>81</sup> [X]. GBST document: [X].

<sup>82</sup> See in particular paragraphs 154, 163 and 200 below.

<sup>83</sup> The respective offerings of the Parties and the extent of overlap is set out in the competitive assessment.

<sup>84</sup> The CMA has also considered the channel by which investors interact with the investment platform (direct to consumer, horizontal advice, vertical advice and workplace) but has not found that this materially impacts the Platform Solutions required.

<sup>85</sup> When the range of asset types increases it increases the complexity of the platform technology.

<sup>86</sup> See paragraph 165 onwards in the competitive assessment. See also paragraph 275.

- *Supply-side substitution*

91. The boundaries of the relevant product market are generally determined by reference to demand-side substitution.<sup>87</sup> However, the CMA may aggregate several narrow relevant markets into one broader one when firms use the same assets to supply a range of different products that are not demand-side substitutes, and the firms have the ability and incentive quickly (generally within a year) to shift capacity between these different products; and the conditions of competition are similar.<sup>88</sup>
92. In this case, the Parties' internal documents referred to above (see paragraphs 86 and 87) and third party evidence does not indicate that the conditions of competition are similar between the supply of different types of Platform Solutions.
93. One competitor explained that technology suppliers may not be particularly willing to provide solutions more targeted to Retail Platforms because it would not be sufficiently profitable.<sup>89</sup> Evidence from the CMA's merger investigation indicates that some suppliers may not be willing to take on the increased regulatory responsibilities that offering certain tax wrappers and other products imply and do not see that as part of the core service that is important to their client base.<sup>90</sup>
94. In addition, despite some convergence (ie there are attempts of some Retail Platform Solutions, like FNZ, to expand into Private-client Platforms and attempts of some suppliers of other types of Platform Solutions to cater, to some extent, for Retail Platforms), third party submissions support that:
  - (a) Some entrants may not offer as part of their own Platform Solution some of the capabilities that are typically offered and important for Retail Platforms (eg pension tax wrappers), and may outsource these products to Retail Platform Suppliers, such as GBST and Bravura. It appears that Retail Platforms have a stronger preference for having these products integrated in their platform (eg having an integrated On-Platform Pension Wrapper).<sup>91</sup>

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<sup>87</sup> *Merger Assessment Guidelines*, paragraph 5.2.6.

<sup>88</sup> *Merger Assessment Guidelines*, paragraph 5.2.17.

<sup>89</sup> See note of the second call with [X].

<sup>90</sup> [X].

<sup>91</sup> GBST's response to the CMA's request for information dated 5 March 2020 explains that off-platforms pensions are typically "*more complicated, clunky and difficult to maintain and support*".

(b) Retail Platforms value experience and a proven track-record of providing the Retail Platform solution with the necessary functionality and at scale.<sup>92</sup>

95. There is evidence that the strength of Platform Solution suppliers varies depending on the type of platform. For example, some suppliers have not proven their ability to deliver the technology at scale on Retail Platforms, and some suppliers do not offer On-Platform Pension Wrappers.
96. Although some Private-client Platforms may have end-customers and perform transactions in the retail area, these customers are not the focus of these platforms and, therefore, the CMA has not considered them as Retail Platforms.
97. Further detail on the level of activity of different suppliers in different segments is provided within the competitive assessment.<sup>93</sup> The CMA also notes that there has been limited recent entry in the supply of Retail Platform Solutions.<sup>94</sup>

*Conclusion on widening the product frame of reference to include other Platform Solutions*

98. The CMA found that there is differentiation in the requirements of investment platforms and the capabilities of Platform Solution suppliers. Based on key differences in the business models of the platforms and their Platform Solution requirements the CMA found that it is appropriate to distinguish Retail Platforms Solutions from the solutions used by Private-client Platforms and stockbroking platforms. In particular, Retail Platforms, in contrast to other types of platform, tend to require their Platform Solution to have strong capabilities in supporting:
- (a) the processing of a high volume of mainstream investments and information for a large number of customers, offered at low cost with limited manual intervention; and
  - (b) a wide range of tax wrappers integrated into the, often for pension administration (ie On Platform Pension Wrappers).
99. The CMA also found that supply-side substitution is limited. The strength of suppliers' Platform Solutions varies among the different types of investment which each platform focusses on. For example, some suppliers have not

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<sup>92</sup> See [3<].

<sup>93</sup> See paragraphs 165 onwards.

<sup>94</sup> See paragraphs 265 onwards on barriers to entry and expansion below.



proven their ability to deliver the technology at scale on Retail Platforms, and some suppliers do not offer On Platform Pension Wrappers.

100. Therefore, the CMA believes that it is not appropriate to widen the product frame of reference to include Platform Solutions other than Retail Platform Solutions. However, the CMA has considered in the competitive assessment whether there is evidence to indicate if there are effective out-of-market constraints on the Parties from other types of Platform Solutions.

#### *Delivery model of Retail Platform Solutions*

101. As set out above, FNZ submitted that there should not be separate frames of reference for the supply of a combined software and servicing platform solution and the supply of the software and servicing components of a platform solution separately (eg a standalone software solution which is combined with an in-house servicing solution).<sup>95</sup>
102. The evidence that the CMA has received supports FNZ's submission that the product frame of reference should include solutions provided via all delivery models for the following reasons:
- (a) Retail Platforms require both the software and servicing solution components to operate their Retail Platform Solutions and the Parties (and other firms) compete to supply these solutions, whether alone or in combination with other suppliers. Platforms may choose to purchase a combined solution from a single provider (eg FNZ), a combined solution from a partnered software provider and services provider (eg GBST and Equiniti), or a standalone software solution that the customer then combines with their own in-house servicing or with a separate third-party services provider.<sup>96</sup> The CMA considers that these different options for customers create competitive tension between software-only Platform Solution providers such as GBST and Bravura, and suppliers of combined Platform Solutions such as FNZ and SS&C.
  - (b) Third party evidence, tender data and internal documents (as discussed below) show that customers will typically consider both standalone software and combined solutions (whether offered by a single firm or by a partnership of two firms). While some operators identify a required delivery model ahead of commencing a tender process, others issue requests for proposal (**RFPs**) which are open to different options, in

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<sup>95</sup> Paragraph 13.8 of the Merger Notice.

<sup>96</sup> See questionnaire responses from [X].

particular whether to keep servicing in-house or to outsource this function.<sup>97</sup>

103. The CMA therefore found that there is competition between providers of combined Platform Solutions and providers of standalone software (whether combined with third party or in-house servicing) and that it is appropriate to consider these as part of a single frame of reference. The CMA has taken into account differences in these delivery models where appropriate as part of the competitive assessment.

*In-house provision of software and/or servicing*

104. As set out above, FNZ submitted that customers have (and in some cases promote as a competitive advantage) a very credible alternative option of self-supply for all or part of the Platform Solution. FNZ submitted that self-supply is a real option for platforms of all sizes, levels of sophistication and in all possible customer groups.<sup>98</sup> In particular, FNZ submitted that:

- (a) Many platforms in practice self-supply some or all of the components of their Platform Solutions;
- (b) The barriers to switching to an in-house Platform Solution are broadly similar to those applicable to switching to a third-party provider;
- (c) Customers are able to, and in practice do, switch from in-house to third party provision and vice-versa in response to a range of commercial and strategic requirements; and
- (d) In-house supply is actively considered and wins in procurement processes.<sup>99</sup>

105. The evidence that the CMA has received does not support the inclusion of all in-house provision in the product frame of reference. As is set out below, Retail Platforms generally consider developing software in-house to be difficult and are more open to the servicing component of their Retail Platform Solution being supplied in-house than the software component.

106. Third parties indicated that self-supplying software would require the platform provider to possess sophisticated in-house IT team capabilities and developing an in-house software solution would not be cost-effective due to

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<sup>97</sup> Call with [§<].

<sup>98</sup> Paragraph 13.12 of the Merger Notice.

<sup>99</sup> Paragraph 13.12.1 onwards of the Merger Notice.

the significant cost of maintaining the software in compliance with new legislation and regulations.<sup>100</sup>

107. Furthermore, some customers have decided against self-supply in light of the risks and costs associated with maintenance and development of the software.<sup>101</sup> For example, the CMA heard that “*any error with the underlying technology can easily damage the business and reputation and is financially very expensive*”.<sup>102</sup>
108. FNZ provided examples of third parties that brought the supply of their software in-house after having previously outsourced it.<sup>103</sup> However, the CMA considers that these examples are confined to large global institutions<sup>104</sup> which are unusually well positioned to supply software in-house due to their scale and existing strong investment solution capabilities.<sup>105</sup>
109. Bidding analysis indicates that FNZ [X]. [X] GBST’s bidding data shows that platform providers running tenders for the purchase of technology-only Retail Platform Solutions [X].<sup>106</sup>
110. With regard to the supply of the servicing component of a Retail Platform Solution, third parties explained that for servicing there is a greater degree of interaction with the end-investor and therefore for some platforms, outsourcing servicing would result in a loss of control over their business and the quality of service provided. For example, one customer told the CMA that it retained the service proposition in-house “*as that is where we can truly make a difference to our clients by providing a high-quality personal service*”.<sup>107</sup> Additionally, a third party noted that bringing servicing in-house would not be “*a trivial exercise*” but it would be feasible to do so, while developing an in-house software solution would be “*considerably more challenging*”.<sup>108</sup>
111. The CMA considers that the Parties may be able to discriminate between customers who do and do not have in-house servicing capabilities. For

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<sup>100</sup> See for example questionnaire responses from [X]. [X] also noted that “*having a provider who is providing software to a number of clients offers economies of scale when considering the software changes required for compliance with new legislation or regulations*” (the same observation was made by [X]). A number of competitors of the parties share the same view (see for example questionnaire responses from [X]).

<sup>101</sup> Internal response to the question: “*Was proprietary (in-house) supply a credible alternative?*”.

<sup>102</sup> Call note [X]. See also questionnaire responses from [X].

<sup>103</sup> Paragraphs 13.7, 13.11, 13.15.2 and 13.18 of the Merger Notice.

<sup>104</sup> Eg Credit Suisse, Close Brothers and HSBC.

<sup>105</sup> See questionnaire responses from [X] in which they explain that it has “*sufficient scale and capability to build and operate investment solutions in-house. It is able to leverage from its wide technology base, using proven technology that is already operational in its other global markets*”.

<sup>106</sup> Although some of FNZ’s internal documents include ‘proprietary’ solutions when estimating shares of supply (see, for instance [X]) there is limited evidence in the Parties’ internal documents that the Parties are constrained in their offering by self-supply of software.

<sup>107</sup> Questionnaire response from [X].

<sup>108</sup> Questionnaire response from [X].

example, the CMA has seen evidence in bidding data that the Parties are aware whether the customer has an in-house servicing option. The CMA has therefore reflected, where appropriate, the varying constraint from in-house supply of servicing in its competitive assessment. The CMA also notes that the constraint from in-house supply of servicing depends on the strength of the software that the in-house servicing can use.

112. In light of the above, the CMA has included the supply of in-house servicing as part of the product scope but excluded the supply of in-house software from the product scope.

### *Conclusion on product scope*

113. For the reasons set out above, the CMA has considered the impact of the Merger in the supply of Retail Platform Solutions. As part of this frame of reference the CMA includes all delivery models (third-party software provided in combination with either third party or in-house servicing), with the exception of in-house supply of software.
114. However, as there are no clear lines of delineation between Retail Platform Solutions and other types of Platform Solutions, the CMA, where appropriate, has considered the constraints from suppliers focusing on other Platform Solutions in the competitive assessment. The CMA has also taken into account differences in these delivery models and the extent to which in-house software and/or servicing as an option varies by customer.

### **Geographic scope**

#### *FNZ's submissions*

115. FNZ submitted that the appropriate geographic market is global in scope and certainly no narrower than the UK.<sup>109</sup>
116. FNZ submitted that customers do not choose suppliers based on their geographic location and are instead incentivised to consider offerings from a range of capable suppliers irrespective of their location. Customers may conduct tender processes for their UK business only or on a multi-country basis, often depending on whether the customer carries on a business solely in the UK or also internationally.<sup>110</sup> FNZ also submitted that all significant Platform Solutions suppliers originated abroad, and that most of the

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<sup>109</sup> Paragraph 13.49 of the Merger Notice.

<sup>110</sup> Paragraph 13.55 of the Merger Notice.

investment required to develop a Platform Solution is needed to develop the core parts of the technology, rather than to tailor the platform to local requirements.<sup>111</sup>

*Internal documents and third party views*

117. The available evidence indicates that a UK-wide market is the appropriate geographic frame of reference.
118. Firstly, the CMA notes that certain products that the Parties offer as part of their Retail Platform Solutions (for example, tax wrappers) are covered by UK regulation and are regulated by the UK Financial Conduct Authority (**FCA**), requiring suppliers to meet the necessary requirements to become authorised.<sup>112</sup>
119. Secondly, the Parties' internal documents support a UK-wide market as they often focus specifically on the UK.<sup>113</sup>
120. FNZ submitted<sup>114</sup> that the FNZ documents did not support a UK-only focus to the market.<sup>115</sup>
121. However, the CMA believes that the Parties' internal documents taken in the round support the finding of a UK-wide geographic market, particularly when considered alongside evidence from third parties and the regulatory landscape more generally. In particular:
  - (a) A number of FNZ and GBST documents, prepared over a wide time frame, focus on the UK, suggesting a consistent view of the market being UK-wide; though some documents may also refer to other geographies, the CMA considers that the fact that the UK is considered separately is consistent with a UK-wide market;

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<sup>111</sup> Paragraph 11.3 of FNZ's Response to the Issues Letter.

<sup>112</sup> FNZ's additional submission dated 21 March sets out a number of UK legal and regulatory changes which have had an impact on Platform Solutions.

<sup>113</sup> For example, GBST document: [redacted]; FNZ documents: [redacted].

<sup>114</sup> Paragraph 11.2 of FNZ's Response to the Issues Letter.

<sup>115</sup> FNZ noted that: (i) the document titled '[redacted]' reflected a historic view of the market and did not reflect FNZ's current geographic focus; (ii) in relation to, [redacted] only part of the documents focused on the UK, and the rest focused on other geographies, and this could be expected of a company headquartered and primarily active in the UK; (iii) [redacted] contained a number of serious flaws and therefore should not be relied upon and that FNZ currently operates in 10 countries, 9 of which FNZ has adapted its offering to local requirement means it is entirely possible for IMP Solutions suppliers operating internationally to exert competitive constraint in the UK; and (iv) in relation to [redacted], 50% of the US suppliers listed in another document are also active in the UK, suggesting that there is in fact a global market.

- (b) The CMA considers that the fact that FNZ has been required to adapt to local requirements in 9 out of 10 of the countries in which it operates, also suggests national market conditions; and
- (c) The CMA does not consider that the fact that a provider is present in more than one jurisdiction is necessarily conclusive that a worldwide geographic market is appropriate.

122. Thirdly, the views of third parties also indicate that a UK-wide frame of reference is appropriate:

- (a) Third parties have indicated that there are significant barriers which make it difficult for providers of Retail Platform Solutions to win business in the UK if they do not already have a significant track record within the UK.<sup>116</sup> In particular, the CMA has received evidence that retail savings products (such as pensions, ISAs, onshore and offshore bonds) are all specific to each country, and that the UK's tax and regulatory requirements are complex and different to other jurisdictions;<sup>117</sup> and
- (b) The CMA's investigation also revealed that external providers have invested significant sums to enter the UK market.<sup>118</sup> In particular, one third party noted that, while it was technically feasible to enter from other geographic markets, this would require a significant investment.<sup>119</sup> The CMA's investigation also revealed that providers have invested significant sums to enter the UK market.<sup>120</sup>

123. Finally, the CMA notes that FNZ submitted that [§<] suggesting a difference in market characteristics between the UK and Australia.<sup>121</sup>

### *Conclusion on geographic scope*

124. The evidence indicates that Retail Platform Solutions have to meet specific requirements resulting from the different tax and legal regimes in a country in different jurisdictions. Suppliers of Retail Platform Solutions cannot easily and quickly enter into a new country, given the need to adapt to these different requirements and the importance of experience and reputation in serving customers in a particular jurisdiction.

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<sup>116</sup> Call note with [§<]; See questionnaire responses from [§<].

<sup>117</sup> [§<].

<sup>118</sup> [§<].

<sup>119</sup> Call note with [§<].

<sup>120</sup> [§<].

<sup>121</sup> Page 13 of FNZ's additional submission on 21 March 2020.

125. Accordingly, the CMA has considered the impact of the Merger in the supply of the Retail Platform Solutions excluding in-house software at a UK-wide level, ie to customers based in the UK.

### ***Conclusion on frame of reference***

126. Accordingly, the CMA has included all delivery models within the frame of reference with the exception of in-house supply of software (ie the CMA includes third-party software provided in combination with either third party or in-house servicing).
127. For the reasons set out above, the CMA has considered the impact of the Merger in the following frame of reference: the supply of Retail Platform Solutions excluding in-house software in the UK.

### **Competitive assessment**

128. As GBST and FNZ compete in the supply of Retail Platform Solutions in the UK - either by giving customers the option of outsourcing only the software (and not the servicing),<sup>122</sup> or by offering a combined software and servicing Platform Solution (through a PaaS or partnership model), the CMA's theory of harm concerns the scope for horizontal unilateral effects in the supply of Retail Platform Solutions in the UK. The CMA has assessed whether and how the Merger may strengthen FNZ's market position and weaken the negotiating position of customers by reducing the alternative options available. As part of this assessment, the CMA has also considered whether and how the Merger may (i) weaken the Merged Entity's incentives to continue to offer, on competitive terms, GBST's software on a standalone basis and to continue to develop it to remain competitive.
129. Before considering this theory of harm, the CMA first explains the competitive dynamics in the supply of Retail Platform Solutions.

#### ***The competitive process: the role of negotiations***

130. The long-term nature of contracts, combined with high switching costs and infrequent switching of suppliers (see paragraphs 220 onwards), means that platform operators seek to create competitive tension through tender processes or by testing the market informally to ensure they are getting the best deal for any new purchase or renewal of Retail Platform Solutions. This

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<sup>122</sup> These include: (i) customers that are tendering for both options (ie standalone software or both software and servicing) and (ii) customers that are considering which model to adopt prior to starting a tender process.

competitive tension, in turn, incentivises the Parties to enhance their Retail Platform Solutions.

131. Platform providers typically run lengthy and sophisticated procurement processes involving a range of competing bidders to identify the solution that best meets their needs.<sup>123</sup>
132. FNZ submitted that these processes are almost always multi-stage and run on a competitive basis (ie based on engagement with multiple bidders in parallel) and typically comprise the following stages:<sup>124</sup>
- (a) Definition of the core requirements of the platform;
  - (b) Market sweep and initial request for information (**RFI**);
  - (c) RFPs and workshops;
  - (d) Commercial negotiations; and
  - (e) Appointment of a preferred supplier, final due diligence and contract negotiations.
133. The CMA considers that there is typically a significant degree of negotiation over and above the bidding that takes place during these tender processes<sup>125</sup>, and there may be further refinement of the terms of any offer before a contract is agreed.<sup>126</sup>
134. The contractual arrangements governing the provision of Retail Platform Solutions are typically detailed and specify the price and quality of the products and services to be supplied. However, these contractual obligations are unlikely to prevent the Parties from changing their offering during the contract in response to competitive constraints.<sup>127</sup> In addition, [redacted].<sup>128</sup>

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<sup>123</sup> Paragraph 13.2 of the Merger Notice.

<sup>124</sup> Paragraph 15.13 of the Merger Notice.

<sup>125</sup> Paragraph 15.5 of the Merger Notice.

<sup>126</sup> [redacted] confirmed that following the RFP stage there are further negotiations with the preferred supplier(s).

<sup>127</sup> FNZ submitted that the Parties' contractual arrangements and the competitive reality prevent the Parties (even after the Merger) from deteriorating their offer, in particular because : (i) [redacted]; and (ii) the Parties face from customers and significant competitive pressure. The CMA notes that it cannot exclude the possibility of the Parties' deteriorating their offer based on their existing contractual obligations, because these obligations only apply to the Parties' existing customers for the duration of the existing contracts. Furthermore, these agreements rely on behavioural obligations from the merging parties which are, by their nature, difficult to monitor and enforce. For the reasons explained in the CMA's competitive assessment further below, the CMA also considers that the Parties, after the Merger, will not be prevented from deteriorating their offer by the customers' negotiating strength or the competitive constraints from other suppliers of Platform Solutions.

<sup>128</sup> See, for example, [redacted].



### ***Horizontal unilateral effects***

135. Unilateral effects can arise in a horizontal merger when one firm merges with a competitor that previously provided a competitive constraint.<sup>129</sup> The concern under this theory of harm is that the removal of one party as a competitor could allow the Parties to increase prices or reduce quality.<sup>130</sup> In the context of the tenders and negotiations in this market (as discussed in paragraphs 130 onwards), this concern can arise when the merger strengthens the bargaining position of the Parties compared to their customers' bargaining position.
136. Where the parties are close competitors, the merger may significantly strengthen the bargaining position of the merged entity as customers can no longer benefit from the competitive tension between the parties in their procurement processes.
137. If customers are insensitive to changes in the price or quality of the merged entities' products, unilateral effects are more likely because the deterioration of the offering will not lead to many lost sales, making such a strategy less costly.<sup>131</sup> This can be the case where high switching costs reduce the threat of customers switching and weaken customers' bargaining positions.
138. In order to assess the likelihood of the Merger resulting in unilateral effects in light of the nature of competition in this market, the CMA considered:
- (a) shares of supply;
  - (b) closeness of competition between the Parties and competitive constraints from alternative suppliers, with reference to:
    - (i) the Parties' internal documents;
    - (ii) third party evidence;
    - (iii) evidence from tenders; and
    - (iv) out of market constraints
  - (c) additional factors impacting unilateral effects:
    - (i) switching costs;
    - (ii) customers' negotiating strength; and

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<sup>129</sup> [Merger Assessment Guidelines](#), paragraph 5.4.1.

<sup>130</sup> [Merger Assessment Guidelines](#), paragraph 5.4.8.

<sup>131</sup> [Merger Assessment Guidelines](#), paragraph 5.4.9 (c).

- (iii) competition in relation to product development; and
- (d) particular effects of the Merger for existing GBST customers.

### *Shares of supply*

139. FNZ submitted that shares of supply are not a reliable indicator of levels of competitiveness, as the supply of investment platform solutions is characterised by tender processes led by customers with bespoke requirements, negotiations between potential solutions suppliers and customers, long lead times for selection and implementation of a solution, and the prevalence of long-term contracts.<sup>132</sup>
140. In addition, FNZ submitted that shares of supply on the basis of AUA suffer from a number of shortcomings which prevent them from providing an accurate reflection of the market composition, primarily because the same AUA are attributed to both the supplier of the software and servicing solutions for a given investment platform which could result in ‘double-counting’.<sup>133</sup> As a result, FNZ submitted that estimated shares of recurring revenue would provide a more reliable indicator of shares of supply.<sup>134</sup>
141. Consistent with the frame of reference set out above, the CMA has calculated shares of supply<sup>135</sup> for Retail Platform Solutions in the UK.<sup>136,137</sup> The CMA’s focus on the overall Retail Platform Solution (rather than the underlying components) mitigates any issue related to double-counting of AUA and the CMA considers that using AUA as the basis for its share of supply calculations is the best available option.<sup>138</sup> Nevertheless, the CMA recognises that certain limitations remain when using this volume metric as platforms’ AUA can

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<sup>132</sup> Paragraph 14.1 of the Merger Notice.

<sup>133</sup> Paragraph 14.10 of the Merger Notice.

<sup>134</sup> Actual revenue figures are unavailable for the investment platform market and so FNZ estimated recurring revenues by applying pricing assumptions (based on its own pricing) to each platforms’ known AUA.

<sup>135</sup> Based on data provided by FNZ detailing the AUA and the software and servicing providers for each investment platform in the UK, Annex 14.1.

<sup>136</sup> The data provided by FNZ listed both an ‘investment accounting’ software provider and a ‘pensions administration’ software provider for each investment platform. In line with FNZ’ submissions, the CMA considered that the provider of the investment accounting software represents the core software solution used by the platform. However, the CMA notes that there is evidence that pensions administration software may also be important, especially for Retail Platforms and so the CMA also estimated the share of supply based on the provision of such software. The CMA did not find material differences between the shares of supply based on the provision of investment accounting software and the provision of pension administration software.

<sup>137</sup> In its response to the CMA’s estimates of shares of supply as provided in the Issues Letter, FNZ submitted that [redacted]. FNZ also submitted that [redacted] (FNZ Response to the Issues Letter, page 54-55). The CMA considered these submissions and notes that in the CMA’s share of supply estimates [redacted] but the CMA has not amended the [redacted] as it received a written submission from Aegon which clearly specifies that it considers GBST to be the core software provider for their retail platforms.

<sup>138</sup> For instance, the CMA notes that a share of supply estimate based on recurring revenue would still be based on AUA. Therefore, the use of estimated recurring revenues would not add anything to using AUA when shares are being considered for an overall Platform Solution. Furthermore, AUA figures tend to be publicly available and no further assumptions or manipulations of the data are needed.

fluctuate (relative to those of other platforms) over time and these movements may not reflect any change in the competitive dynamics within the supply of Retail Platform Solutions.

142. **Table 1** shows the shares of supply of Retail Platform Solutions in the UK excluding in-house software and including all instances where third party software is supplied to an investment platform (either in combination with third party or in-house servicing).
143. The CMA initially identified Retail Platforms based on submissions from GBST. The classification of investment platforms was then refined and validated through an assessment of the wider evidence received by the CMA and by gathering further specific evidence from a sample of platform operators to check that they had been appropriately classified.
144. The CMA does not consider FNZ’s submitted retail categorisation as appropriate, as this included Private-client Platforms, which, for the reasons explained in the Frame of Reference, the CMA considers are differentiated from Retail Platforms. However, the CMA notes that GBST’s categorisation was broadly consistent with FNZ’s classification of retail platforms based on ‘legacy financial planning firms’.

**Table 1: Shares in the supply of Retail Platform Solutions in the UK excluding in-house software (based on AUA) (2018)<sup>139</sup>**

Software + servicing supplier(s)	Share of supply (%)
FNZ	[20-30]%
FNZ + [X]	[5-10]%
JHC + in-house	[0-5]%
GBST + in-house	[10-20]%
GBST + Equiniti	[0-5]%
<b>Parties combined</b>	<b>[40-50]%</b>
Bravura + in-house	[20-30]%
Bravura + Genpact	[0-5]%

<sup>139</sup> The CMA excluded from the share of supply estimates the AUA of any platform operators where software is provided in-house and (on a conservative basis) platform operators where the software provider is unknown.

SS&C	[10-20]%
TCS BaNCS	[5-10]%
Others	[5-10]%

Source: CMA calculations based on the Parties' data (Annex 14.1)

145. The shares of supply set out in **Table 1** above indicate that FNZ and GBST are amongst the main suppliers of Retail Platform Solutions in the UK and that there is only a limited number of other suppliers with a significant presence in the UK (ie Bravura and SS&C). The share of supply estimates also show that Retail Platform Solutions using FNZ or GBST technology together comprise around half of the supply of these solutions in the UK, making the Merged Entity the largest supplier by a significant margin. Around a quarter of the remaining share of the supply is taken by Retail Platform Solutions using Bravura's software and SS&C's combined solution. All other suppliers have a share of supply of less than [5-10]%. The CMA notes that some of the Retail Suppliers with a lower share of supply (eg TCS) were not considered by some third parties as imposing a significant competitive constraint on the Parties.
146. In light of FNZ's focus on offering a combined software and servicing Platform solution and the increasing trend towards the outsourcing of both software and servicing solutions (see paragraph 75), the CMA has also estimated shares of supply for the provision of combined third-party software and third-party servicing in the product frame of reference (combined Retail Platform Solutions).
147. The shares of supply of combined Retail Platform Solutions indicate that FNZ has a strong position in this segment (around 50%) of the market with only PSL and Pershing showing as smaller players with meaningful shares. All other suppliers have a share of supply of less than [5-10]%. Although GBST [X], it had recently established a partnership with Equiniti to offer this solution and had started imposing competitive tension in the supply of these solutions to Retail Platforms.
148. The CMA considers that on their own shares of supply should be given limited weight in its competitive assessment due to the nature of competition in the market (ie a bidding market with differentiated products). In addition to the shares of supply, the CMA has considered all of the other available evidence in the round and notes, in this regard, that the strong market position indicated in the share of supply data above is consistent with the characterization of the Parties' position by the Parties' internal documents and third parties.

*Closeness of competition between the Parties and competitive constraint from alternative suppliers*

*FNZ's submissions and GBST's submissions*

149. FNZ submitted that the Parties are not each other's closest competitors and that significant parts of their offering are complementary to one another.<sup>140</sup> FNZ submitted that the Parties have different supply models and different pricing models.<sup>141</sup> FNZ also submitted that [§<]<sup>142</sup> for its UK customers or FNZ.<sup>143</sup> According to FNZ, [§<].<sup>144</sup>
150. FNZ also submitted that the absence of any meaningful competitive constraint from GBST on FNZ is demonstrated by [§<].<sup>145</sup>
151. Further, FNZ submitted that GBST and FNZ are subject to significant competitive constraint from multiple other competitors. As well as other suppliers of combined software and servicing Platform Solutions FNZ submitted that providers which offer software-only Platform Solutions are also credible alternatives for customers.<sup>146</sup>
152. FNZ listed the following 16 alternative suppliers of Platform Solutions: Avaloq, SS&C, Temenos, Pershing, Bravura, SEI, Platform Securities, IRESS, TCS BaNCS, 3i Infotech, Equiniti, ERI Bancaire, State Street, Broadridge, Objectway and PSL.<sup>147</sup>
153. As mentioned above in paragraph 104, FNZ also submitted that in-house supply of Platform Solutions is a competitive constraint and that self-supply is and will continue to be a credible alternative for customers.<sup>148</sup>
154. GBST submitted that it has a narrower focus than FNZ and its software is typically only targeted at Retail Platforms where it has a strong offering, due in part to the depth of its functionality around pensions. It considers itself to compete closely with FNZ in the supply of Retail Platform Solutions and submitted that it has also monitored the following alternative suppliers who are

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<sup>140</sup> Paragraph 15.54 of the Merger Notice.

<sup>141</sup> FNZ Response to the Issues Letter, paragraph 2.4.1. See also paragraph 15.55 of the Merger Notice.

<sup>142</sup> FNZ Response to the Issues Letter, paragraphs 15.29 – 15.33.

<sup>143</sup> Merger Notice, paragraph 14 of the Executive Summary.

<sup>144</sup> FNZ Response to the Issues Letter, paragraph 15.34.

<sup>145</sup> FNZ Response to the Issues Letter, paragraph 15.22.

<sup>146</sup> Paragraph 15.49 of the Merger Notice. See also FNZ Response to the Issues Letter, paragraph 15.47.

<sup>147</sup> Paragraph 15.51 of the Merger Notice.

<sup>148</sup> Paragraph 15.40 of the Merger Notice. See also FNZ Response to the Issues Letter, paragraph 15.57.

active in this segment: Bravura, SS&C, SECCL, Ophen, Sapiens, Hubwise and InvestCloud.<sup>149</sup>

### *CMA's assessment*

155. In assessing the closeness of competition between the Parties and the constraint imposed by third parties, the CMA has considered third party evidence received during its investigation, the Parties' internal documents and evidence from tenders. These elements are discussed below.

### *Evidence from third parties*

- *Customers have a good understanding of the market*

156. Third party evidence gathered during the CMA's merger investigation generated a range of responses with respect to the competitive landscape in the supply of Retail Platform Solutions in the UK.
157. With regard to third party comments, FNZ submitted that customers in this market are not best-placed to assess the range of available solution suppliers as they are unlikely to have up-to-date information. FNZ also submitted that customers typically appoint specialist external advisers to survey and choose between the wide range of available suppliers.<sup>150</sup>
158. In this regard, the CMA notes that a large proportion of customers or prospective customers who responded to the CMA's merger investigation have run tenders in the last few years. During their selection processes, these customers considered a variety of potential providers, taking into account their ability to meet the customer's specific requirements and comparing their offering against a number of factors, including for example, experience and scale in the UK market.<sup>151</sup>
159. Furthermore, most responses of other customers (that had not conducted tenders recently)<sup>152</sup> and competitors, included a detailed knowledge of suppliers of Platform Solutions and their offerings, the different supply models and recent market developments.
160. The CMA therefore considers that third parties responding to the CMA's investigation in general have a good understanding of the current competitive

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<sup>149</sup> See GBST Responses to CMA's RFI 3 and RFI 4.

<sup>150</sup> Paragraph 15.48 of FNZ's Response to the Issues Letter.

<sup>151</sup> See, among others, questionnaire responses from [X].

<sup>152</sup> A few of these customers have started or renewed a contract with a Platform Solution provider in the last 5 years without going through a formal tender process (see, for example, [X]).

landscape and are ‘well-informed’ such that material weight should be placed on their responses.

- *Closeness of competition between FNZ and GBST*

161. Evidence from third parties obtained during the CMA’s investigation supports a finding that the Parties are close competitors.
162. A large majority of third parties that responded to the CMA’s merger investigation considered FNZ and GBST (both alone and with GBST in partnership with Equiniti) to be close competitors. According to these third parties, the differences in their delivery models<sup>153</sup> has not prevented FNZ and GBST from competing directly with each other.<sup>154</sup> Third parties explained that although GBST only has capabilities in software, it competes with FNZ in the supply of Retail Platform Solutions through the combination of its software with in-house servicing or servicing provided by a partner such as Equiniti which creates a credible alternative to FNZ’s combined Platform Solution.<sup>155</sup> For example customers noted that both FNZ and GBST “*are likely to be considered during the course of an RFI/RFP process for platform solutions*”<sup>156</sup> and that GBST “*could be used to replace the FNZ offering to a very significant extent*”.<sup>157</sup>
163. Evidence from third parties showed the strength of both the FNZ’s and GBST’s offer:
- (a) Third parties noted that FNZ is in a particularly strong position in the supply of Retail Platform Solutions<sup>158</sup> in the UK given its broader capabilities in technology<sup>159</sup> and servicing than other competitors, and its integrated business model which is proven at scale.<sup>160</sup> One third party told the CMA that FNZ is currently the only credible player offering

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<sup>153</sup> GBST is a technology provider whereas FNZ offers both technology and outsourcing services. As explained above (paras 101-103) customers typically consider both standalone software Platform Solutions and combined software and servicing Platform Solutions (whether offered by a single firm or by a partnership of two firms). As explained above (paragraph 102(b)) there are customers who compare the PaaS model against a software-only solution before choosing their preferred delivery model.

<sup>154</sup> See, for example, questionnaire response from [redacted].

<sup>155</sup> See paragraph 163 below for further detail.

<sup>156</sup> See questionnaire response from [redacted]. Given that FNZ and GBST compete for the same customer base, a competitor ([redacted]) also noted that “*all GBST’s clients would be target prospects for FNZ*”.

<sup>157</sup> See questionnaire response from [redacted].

<sup>158</sup> A few third parties also noted that FNZ was increasingly seeking to win contracts to supply Private-Client Platforms and that FNZ’s acquisition of JHC enabled it also supply stockbroking platforms because JHC’s software provides particularly strong broking and equity execution capabilities.

<sup>159</sup> Including modern cloud-based technology, as noted by [redacted].

<sup>160</sup> [redacted].

a combined software and servicing solution<sup>161</sup> and another noted that it has a simpler more efficient operational model than other competitors.<sup>162</sup>

- (b) Some third parties indicated that GBST, with its scale and proven experience, is one of only a few rivals that exerts a competitive constraint on FNZ in the supply of Retail Platform Solutions.<sup>163</sup> GBST is seen by some customers as a credible competitor of FNZ also in the provision of a combined software and servicing solution, due primarily to its partnership with Equiniti<sup>164</sup> (with one customer considering GBST in partnership with Equiniti as the strongest alternative supplier to FNZ).<sup>165</sup>

164. The CMA notes that this is consistent with GBST's submission summarized above in paragraph 154.

- *Constraints from other competitors*

165. Third party evidence shows that, apart from FNZ and GBST, only a few other players are considered as suitable alternative providers of Retail Platform Solutions (whether provided with or without servicing), with Bravura and SS&C exerting the main competitive constraints on FNZ.

166. As part of its assessment, the CMA has considered the extent of the competitive constraints exerted on the Parties by providers that – on the basis of evidence received during its investigation – appear to be the main alternative suppliers of Retail Platform Solutions.

### Bravura

167. Bravura is an Australian firm active in the UK market and specialising in the provision of software-only Platform Solutions. Its key product is Sonata, which is usually sold as a software only solution. Sonata can also be combined with third party servicing (such as Genpact) to provide a fully outsourced solution. Bravura's main customers in the UK are Retail Platforms, such as [REDACTED].<sup>166</sup>

168. Bravura was the competitor that was mentioned more often than other competitors by the Parties' customers as an alternative provider of Retail

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<sup>161</sup> See note of the second call with [REDACTED].

<sup>162</sup> See questionnaire response from [REDACTED].

<sup>163</sup> For example, [REDACTED]. Among competitors, [REDACTED].

<sup>164</sup> The CMA has seen third party evidence confirming that the purpose of the GBST/Equiniti partnership, combining GBST's retail investment platform technology with Equiniti's servicing expertise, was to compete better with FNZ for the provision of fully outsourced solutions, including technology, asset administration and custody (see call notes with [REDACTED] and [REDACTED] response to the questionnaire and to the CMA's additional questions).

<sup>165</sup> See questionnaire response from [REDACTED].

<sup>166</sup> See questionnaire response from [REDACTED].



Platform Solutions, mainly because its offering is comparable to FNZ and GBST in terms of technology, experience in the UK market and reputation.<sup>167</sup>

169. Additionally, some customers named Bravura (in partnership with a BPO provider like Genpact) as an attractive choice should they opt for a combined software and servicing solution.<sup>168</sup>
170. However, a third party also noted that the partnership between Genpact and Bravura “has not been tested at scale in the UK market and is not as attractive as FNZ’s overall solution”.<sup>169</sup> Another third party told the CMA that Genpact “doesn’t have a real market presence anymore” and is “retreating from the market”.<sup>170</sup>
171. With respect to the provision of a combined software and servicing Platform Solution, Bravura indicated that [redacted].<sup>171</sup>
172. The CMA considers that the evidence from third parties is consistent with the view that Bravura is one of credible supplier of Retail Platform Solutions capable of exerting a competitive constraint on the Parties.

### SS&C

173. SS&C is a US firm competing most directly with FNZ in the provision of Platform Solutions and administration services (SS&C does not offer a software-only Platform Solution). Its main UK client is St James’s Place, the UK’s largest financial advisory business.<sup>172</sup>
174. A number of the Parties’ customers and prospective customers mentioned SS&C as a possible alternative provider of Retail Platform Solutions (though it was listed as the first-choice alternative by only two of them).<sup>173</sup> With respect to SS&C’s competitiveness, the CMA heard from a third party that SS&C can compete with FNZ in relation to the provision of “software, hosting and administration functions” and that it also offers “wider retail adviser and investor servicing capabilities”.<sup>174</sup>
175. The CMA considers that the evidence from third parties is consistent with the view that that SS&C exerts a competitive constraint on the Parties to some

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<sup>167</sup> See for example questionnaire response from [redacted].

<sup>168</sup> See questionnaire responses from [redacted].

<sup>169</sup> See questionnaire response from [redacted].

<sup>170</sup> Note of the second call with [redacted]. This was also confirmed by FNZ in the course of the Issues Meeting.

<sup>171</sup> See questionnaire response from [redacted]. See also note of the meeting with [redacted].

<sup>172</sup> See questionnaire response from [redacted].

<sup>173</sup> [redacted].

<sup>174</sup> See questionnaire response from [redacted].

degree. However, the CMA considers that SS&C's competitive constraint may be limited because evidence received by the CMA from third parties shows that SS&C may struggle to compete more closely with FNZ as its main UK platform system, Bluedoor, was either not considered to be competitive or presented implementation issues.<sup>175</sup>

### Pershing

176. Pershing is part of Bank of New York Mellon Corporation and is a software and administration services provider (Pershing does not offer software-only solutions). Pershing sees itself as a competitor of the Parties and some customers would consider it as an alternative provider.
177. However, third party evidence shows that Pershing has a very limited presence among UK customers and some third parties noted that it has an old technology, is expensive and unable to provide "*Digital Customer Facing capability*", which would require another third party solution or an integration with the customer's in-house solution.<sup>176</sup> The CMA's merger investigation also indicated that in the UK, Pershing's focus is on high net worth clients and not on Retail Platform Solutions.<sup>177</sup>
178. The CMA considers that the evidence from third parties is consistent with the view that Pershing imposes a less significant constraint on the Parties in the supply of Retail Platform Solutions.

### SEI

179. SEI is a US firm which provides a combined software and services solution (PaaS) through its 'Wealth Platform' division. Its largest market is the US, but it has also a long-standing presence in the UK.
180. Some customers confirmed that they see SEI as an alternative provider of Retail Platform Solutions. However, third party evidence shows that SEI is not a particularly strong competitor in the UK market. In particular, it was noted that SEI has a low market share, with its "*coverage in AUA terms fall[ing] well below that of GBST, Bravura and FNZ*".<sup>178</sup> Some customers also indicated

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<sup>175</sup> See questionnaire response from [X]. One third party said that Bluedoor was "*heavily tailored to meet the specific needs*" of its customers and therefore "*lacks certain functions to be truly substitutable*". Other third party [X] also noted that "*significant investment would be required on Bluedoor before it can be considered as a feasible alternative to FNZ*" (see questionnaire response). See questionnaire response from [X]. [X] also stated that that "*with [SS&C's] limited number of UK clients, [it] might not be able to demonstrate scale*". [X].

<sup>176</sup> See questionnaire response from [X].

<sup>177</sup> [X].

<sup>178</sup> See questionnaire response from [X]. See also data on AUA provided by [X].

that SEI does not offer the full product suite that they require.<sup>179</sup> In this regard, the CMA also notes that SEI does not support on-platform pension administration.<sup>180</sup>

181. Furthermore, only a few suppliers of Platform Solutions consider themselves as competing closely with SEI. From those suppliers, only one supplies Retail Platform Solutions. Furthermore, some of these respondents observed that SEI is not particularly successful in the UK and that its customers are smaller organizations.<sup>181</sup>
182. The CMA considers that the evidence from third parties is consistent with the view that SEI is capable of exerting only a limited constraint on the Parties.

#### TCS (Tata Consultancy Services)

183. TCS is an Indian firm that provides software and administration services in the Retail Platform Solutions space. The Parties' customers did not mention TCS as a suitable alternative provider. Among competitors, only [X] sees itself as competing with TCS. The CMA's market investigation also indicated that TCS does not compete in the supply of Retail Platform Solutions outside National Employment Savings Trust (NEST) whom it supplies a BPO offering.<sup>182</sup>
184. The CMA considers that the evidence from third parties is consistent with the view that TCS is a less effective competitor and therefore imposes a limited constraint on the Parties.
185. The CMA's finding regarding the limited number of Retail Platform suppliers with significant presence in this market is consistent with the FCA's statement in the "*Investment Platforms Market Study Terms of Reference*" that '*The technology market appears to be concentrated meaning that platforms may not have many providers to choose between when purchasing their underlying technology*' and that "*Bravura, FNZ and GBST are the three largest outsourced platform technology providers, with IFDS [SS&C] and JHC Figaro gaining popularity, based on Lang Cat April 2016*".<sup>183</sup>

#### *Internal documents*

186. The Parties' internal documents make reference to a range of competitors. However, there is strong evidence across multiple documents that indicates

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<sup>179</sup> See questionnaire response from [X].

<sup>180</sup> [X] response to the CMA's additional questions.

<sup>181</sup> See competitor responses from [X].

<sup>182</sup> [X].

<sup>183</sup> See [Terms of Reference for the Investment Platforms Market Study](#), July 2017 paragraph 4.21 and footnote 51.

that FNZ has a strong position in the provision of Retail Platform Solutions, that the Parties are close competitors and that the competitive constraint from other providers of Retail Platform Solutions is limited, with only a small number of competitors imposing any material constraint on the Parties.

187. The Parties' internal documents indicate that FNZ has a strong position in the provision of Retail Platform Solutions in the UK and GBST was seeking to challenge this through its software/services partnership with Equiniti:<sup>184</sup>

(a) [redacted].<sup>185</sup> [redacted].<sup>186</sup>

(b) [redacted].<sup>187</sup>

(c) [redacted].<sup>188</sup>

(d) [redacted].<sup>189,190</sup> [redacted].<sup>191</sup>

188. The Parties' internal documents show that they compare each other's R&D offerings:

(a) [redacted];

(b) [redacted].<sup>192, ii</sup>

189. The Parties' internal documents also indicate that the parties face only a limited number of significant competitors in Retail Platform Solutions, such as Bravura and SS&C:

(a) [redacted].<sup>193</sup>

(b) [redacted].<sup>194</sup>

(c) [redacted].<sup>195</sup> and

(d) [redacted].<sup>196</sup>

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<sup>184</sup> See section on 'competition in relation to product developments' below for further discussion.

<sup>185</sup> FNZ document: [redacted].

<sup>186</sup> FNZ document: [redacted].

<sup>187</sup> GBST document: [redacted].

<sup>188</sup> FNZ document: [redacted].

<sup>189</sup> [redacted].

<sup>190</sup> FNZ document: [redacted].

<sup>191</sup> FNZ [redacted].

<sup>192</sup> [redacted].

<sup>193</sup> [redacted].

<sup>194</sup> [redacted].

<sup>195</sup> [redacted].

<sup>196</sup> [redacted].

190. The CMA has also reviewed other [redacted]. [redacted] present a consistent picture with the internal documents discussed above, suggesting that the Parties are close competitors and face limited competitive constraints.<sup>197</sup> For instance:

(a) [redacted];<sup>198</sup> and

(b) [redacted]<sup>199</sup> [redacted]”.<sup>200</sup> [redacted].<sup>201</sup>

191. [redacted].<sup>202</sup> [redacted].<sup>203</sup>

192. The CMA has not placed significant weight on [redacted] but notes that they are largely in line with the Parties’ internal documents discussed above and that extracts of some of these documents were incorporated into subsequent FNZ management documents [redacted].

#### *Price evidence*

193. With respect to FNZ’s submission that [redacted].

#### *Evidence from tenders*

194. The Parties submitted tender data from UK tenders in investment platform solutions over the last 4 years where at least one of the Parties participated.<sup>204</sup> FNZ argued that this tender data demonstrated that the supply of Platform Solutions is characterised by intense competition and that FNZ and GBST are not close competitors. In particular, [redacted].<sup>205</sup>

195. FNZ also submitted tender pricing analysis and argued that this [redacted].<sup>206</sup>

196. The CMA focused its analysis of the Parties’ tender data on completed tenders from Retail Platforms, in line with the frame of reference (see paragraph 126).<sup>207</sup> This substantially reduced the number of tenders included in the analysis from [redacted] tenders (of which [redacted] had completed) down to [redacted]

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<sup>197</sup> [redacted].

<sup>198</sup> [redacted].

<sup>199</sup> [redacted].

<sup>200</sup> [redacted].

<sup>201</sup> [redacted].

<sup>202</sup> [redacted].

<sup>203</sup> [redacted].

<sup>204</sup> Although both Parties also submitted tender data from 2009 to 2015, the CMA has focused its analysis on tenders since 2016 since this data was less out of date, contained more information and could be supplemented with data from competing suppliers.

<sup>205</sup> Merger Notice, paragraphs, 15.72 and 16.5 to 16.8; and FNZ’s Response to the Issues Letter, paragraph 15.4

<sup>206</sup> FNZ’s Response to the Issues Letter, paragraph 15.23 and paragraph 3.3 of Annex 19.

<sup>207</sup> In a few cases, the CMA made minor refinements to the categorisations for the purposes of the tender analysis: where a single tender covered both Retail and non-Retail Platforms, the CMA excluded this from its analysis; the CMA also reclassified a tender from [redacted] from private-client investment manager to Retail as information from this customer indicated that the tender was for a Retail Platform proposition.

tenders. Most of the excluded tenders were those where FNZ had bid to provide a Platform Solution to a Private-Client Platform. This reflects FNZ's wider focus than GBST, which only bid (and lost) in [REDACTED] tenders with these types of investment platform.

197. The CMA supplemented information from the Parties' tender data with information from customers and competitors where available. In particular, the CMA added further bidders not known to the Parties that competed in the [REDACTED] tenders covered by the CMA's analysis.
198. There have only been a small number of completed tenders for Retail Platform Solutions (and for all types of Platform Solution) over the last five years. The CMA considers that any inferences that are made from a quantitative analysis of these tenders needs to take into account this limited number of tenders.
199. In this regard, the CMA considers that it is not possible to [REDACTED].<sup>208</sup>
200. While there have only been a few recent tenders from Retail Platforms (the [REDACTED] tenders included within the CMA's analysis), GBST and FNZ are two of only three competitors that regularly participated in these tenders. The three suppliers with by far the greatest participation in these tenders were FNZ ([REDACTED] tenders), Bravura or Bravura/Genpact ([REDACTED] tenders) and GBST or GBST/Equiniti ([REDACTED] tenders). In contrast, other competitors participated in no more than [REDACTED] of these tenders.
201. Despite SS&C participating in fewer tenders than FNZ, GBST and Bravura/Genpact, it has won [REDACTED] recent tenders from Retail Platforms ([REDACTED] against FNZ and [REDACTED]). This points to SS&C exerting some constraint on the Parties in addition to Bravura/Genpact.
202. Most other competitors have not won a recent tender against the Parties in Retail Platform Solutions, including TCS Bancs, SEI, Pershing, Temenos and Avaloq. In particular, FNZ (excluding JHC) has [REDACTED] to a third party competitor in the last 4 years in Retail Platform Solutions ([REDACTED]).
203. The tender data also shows that there may be some constraint from in-house supply, with this identified as an option by the Parties in [REDACTED] of the [REDACTED] recent tenders in Retail Platform Solutions. However, it is not clear from this tender evidence how credible in-house supply was as an option. Moreover, the

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<sup>208</sup> FNZ's analysis [REDACTED]. The CMA therefore considers that this pricing evidence is consistent with the other evidence (noted above) on the close competition between FNZ and GBST.

Parties have only lost to in-house supply from [redacted] ([redacted]), consistent with the constraint from in-house supply being weaker for smaller customers.<sup>209</sup>

204. The Parties overlapped in [redacted] ([redacted]) of the [redacted] recent tenders from Retail Platforms. This overlap is [redacted], however these [redacted] overlapping bids account for a significant proportion of each Party's bids ([redacted] of the [redacted] tenders where FNZ bid and [redacted] of the [redacted] tenders where GBST bid).
205. Qualitative evidence from customers' tender evaluations in which both Parties bid also indicates that customers consider their Platform Solutions to be similar, specifically FNZ's combined Platform Solution and GBST's partnership model:
- (a) [redacted];<sup>210</sup> and
  - (b) [redacted].
206. The CMA considers that both the qualitative and quantitative review of the tender evidence is consistent with the Parties being close competitors with few other significant competitive constraints. [redacted].<sup>211</sup> While the overlap in tenders is [redacted], the participation or wins from other competitors suggests that Bravura/Genpact and SS&C are the only alternatives to exert some meaningful degree of constraint on the Parties. Qualitative evidence from tender evaluations also indicates that Retail Platform customers consider the Parties to have similar offerings.

#### *Out of market constraints*

207. Based on the evidence set out in the discussion of the frame of reference<sup>212</sup> and from internal documents, bidding data and the CMA's merger investigation above,<sup>213</sup> the CMA considers that out of market constraints from non-retail Platform Solutions or in-house supply of software do not materially constrain the Parties.
208. The CMA's investigation found that suppliers of other Platform Solutions, ie those not focused on Retail Platform Solutions, compete with the Parties to a very limited extent in the supply of Retail Solutions. In particular, third party evidence shows that while FNZ may face significant competition from suppliers like Avaloq and Temenos in relation to Private-client Platforms and

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<sup>209</sup> Also see paragraph 108.

<sup>210</sup> [redacted].

<sup>211</sup> See paragraph 202.

<sup>212</sup> See paragraphs 76 onwards.

<sup>213</sup> See paragraphs 186 onwards (internal documents), 194 onwards (bidding data), and 156 onwards (market investigation).

stockbroking platform customers, these competitors are likely to exert a weaker constraint on the Parties in the supply of Retail Platform Solutions.

209. More specifically, the CMA notes that:

- (a) Third parties confirmed that Avaloq specialises in solutions for Private-clients segment.<sup>214</sup> Accordingly, the vast majority of customers did not mention Avaloq as a suitable alternative supplier of Retail Platform Solutions. Avaloq itself submitted [redacted] and that competition with FNZ occurs mostly in the wealth management and private banking space.<sup>215</sup>
- (b) Temenos submitted that [redacted].<sup>216</sup>
- (c) Suppliers focusing on Private-client Platforms have not competed with the Parties in tenders for Retail Platforms or have very rarely done so. For example, in the last 4 years Avaloq and Temenos have [redacted].<sup>217</sup>

210. Third party evidence also shows that the provision of software in-house is particularly difficult and unattractive for the vast majority of the Parties' customers (see paragraph 105 onwards for more detail).

*Conclusion on closeness of competition between the Parties and other competitive constraints*

211. The CMA found that FNZ and GBST are two of the largest suppliers of Retail Platform Solutions in terms of assets under administration (**AUA**). The CMA found that both Parties have strengths in the technology used in Retail Platform Solutions, including developing this technology in direct competition to each other (see paragraph 188).<sup>218</sup>

212. Third party views, the Parties' internal documents and evidence from recent tender evaluations indicated that GBST is one of only a few rivals that exerts a competitive constraint on FNZ in the supply of Retail Platform Solutions. While GBST only has capabilities in software, this does not significantly limit the extent to which it competes with FNZ. GBST's software, when combined with in-house servicing or servicing provided by a partner such as Equiniti, is a credible alternative to FNZ's combined software and servicing Platform Solution.

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<sup>214</sup> [redacted].

<sup>215</sup> See questionnaire response [redacted]. The CMA's merger investigation also indicated that in the UK, Avaloq and Temenos focus on high net worth clients, not in the supply of Retail Platform Solutions and that they do not have the functionality to administer pension tax wrappers, annuities, UK onshore and offshore bond ([redacted]).

<sup>216</sup> See questionnaire response [redacted].

<sup>217</sup> Also see paragraphs 200 and 202.

<sup>218</sup> Also see paragraph 247.



213. A significant majority of third parties indicated that they considered GBST and FNZ to be close competitors; and third parties noted that FNZ and GBST are two of only a few specialist technology competitors proven at scale, and that the differences in the Parties' delivery model have not stopped them from competing directly with each other.
214. The Parties' internal documents indicate that each Party views each other as a close competitor and compare each other's offer. This is particularly relevant in the context of a competitive landscape where there are only a limited number of competitors offering a Retail Platform Solution with similar capabilities to those of the Parties.
215. While there have only been a small number of recent tenders for Retail Platform Solutions, GBST and FNZ are two of only a few suppliers that regularly participate in these tenders. There is some overlap in the tenders that the Parties participate in and some customers' tender evaluations indicate that FNZ and GBST (when combined with a servicing partner) are considered to have similar offerings.
216. The same sources of evidence also indicate that the main other competitors in Retail Platform Solutions to the Parties are Bravura and SS&C:
- (a) Bravura was mentioned most often as a competitor by third parties, consistent with Bravura's greater participation in recent tenders in Retail Platform Solutions than other competitors.
  - (b) SS&C was mentioned less often by third parties but is the only notable competitor that has won a recent tender against FNZ in Retail Platform Solutions. As mentioned at paragraph 175 above, the CMA has seen evidence of a number of limitations to the constraint provided by SS&C, including the heavily tailored nature of its main UK platform system, Bluedoor, and third party comments that SS&C was not considered to be competitive and its product presented implementation issues.
  - (c) Other competitors had lower levels of participation in these recent tenders and were noted less often by third parties and in the Parties' internal documents.
217. The CMA therefore found that the main constraints on the Parties are Bravura and SS&C.
218. This is broadly consistent with shares of supply in Retail Platform Solutions where FNZ, GBST, Bravura, SS&C are the only competitors of significant scale.

219. The CMA found that Avaloq, SEI and Pershing exert a weak constraint on the Parties in Retail Platform Solutions.

*Additional factors impacting unilateral effects*

*Switching costs*

220. High switching costs can increase the likelihood of horizontal unilateral effects and will be relevant to the CMA's consideration of the level of competitive constraint provided by other supplier of Retail Platform Solutions, including new entrants to the market.<sup>219</sup>

- *FNZ's submissions*

221. FNZ submitted that costs of switching can vary significantly depending on the customer, and in particular: (i) the risk appetite of the customer (customers with a lower risk appetite will spend more time testing the end-to-end solution and ensuring that services are transitioned without any consumer disruption); (ii) whether the switch is from a relatively modern solution or an older solution where the data quality is lower; and (iii) [REDACTED].<sup>220</sup>

222. FNZ estimated that a reasonable range for switching costs was approximately [REDACTED], but that, even in the worst case, the switching costs were likely to be small in the context of the total revenue of a customer's business, and that switching provider can result in significant cost advantages and enhance the platform's ability to grow.<sup>221</sup> FNZ submitted that the time taken to switch solutions provider can also vary but estimated that FNZ-executed platform switches had taken between [REDACTED], and that non-FNZ-executed platform switches have taken longer, up to 5-6 years.<sup>222</sup>

223. FNZ also submitted that the following are risks in switching for customers and Platform Solution providers:

(a) [REDACTED],

(b) [REDACTED], and

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<sup>219</sup> [Merger Assessment Guidelines](#), paragraph 5.4.5.

<sup>220</sup> Paragraph 15.18 of the Merger Notice. This submission regarding switching costs applies to both the 'software only' solution and to the 'combined' software and servicing solution.

<sup>221</sup> Paragraphs 15.20-15.21 of the Merger Notice.

<sup>222</sup> Paragraph 15.22 of the Merger Notice.

(c) [REDACTED].<sup>223</sup>

224. FNZ submitted that the time and cost of re-platforming are not barriers to switching and that there is evidence of many customers switching in recent years, including St James's Place, Fidelity, Hargreaves Lansdown, Aviva, Quilter, Royal London, Rathbones, and Tilney.<sup>224</sup> FNZ also provided examples of [REDACTED] customers that had switched away from FNZ: [REDACTED].<sup>225</sup>

225. FNZ further submitted that there are no significant barriers to customers switching away or back from third party supply to an in-house solution (see the section above on product frame of reference for further discussion of in-house solutions).<sup>226</sup>

226. Finally, FNZ submitted that the Merger does not impact switching costs or lower the threat of switching as a competitive constraint.<sup>227</sup>

- *Evidence from third parties*

227. There is strong evidence from third parties indicating that switching Platform Solutions provider (or 're-platforming') is often a time-consuming, expensive and risky process and that there have been a number of high-profile examples where the transition has not gone smoothly and resulted in significant disruption for the platform provider and their end-investors.<sup>228</sup> This may result in reputational harm for the Retail Platform Solutions provider and the platform provider. As a result, there is a significant level of customer 'stickiness' due to the costs and risks involved in switching supplier.<sup>229,230</sup>

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<sup>223</sup> Paragraphs 15.23-15.24 of the Merger Notice.

<sup>224</sup> Paragraph 15.25 of the Merger Notice and paragraph 16.16-16.19 of FNZ's Response to the Issues Letter.

<sup>225</sup> Paragraph 15.26 of the Merger Notice.

<sup>226</sup> Paragraph 13.16 of the Merger Notice. In particular, FNZ submitted that: (a) platform providers have large and sophisticated IT teams, and use consultancies, meaning that they are capable of building and supporting a Platform Solution; (b) customers who do choose a third-party solution often retain part of their service requirement in-house meaning that they are better placed to expand their existing team; (c) customers have flexibility in terms of which elements of the overall solution to self-supply and could pair a software-only Platform Solution supplier with their own self-supply of services, for example; and (d) the example given of [REDACTED], took place within a timeframe which is analogous to a typical procurement process and the likely cost would be [REDACTED].

<sup>227</sup> Paragraph 16.22-16.23 of FNZ's Response to the Issues Letter.

<sup>228</sup> The example of Old Mutual / Quilter was given to the CMA by a number of third parties, including FNZ. For example, see paragraph 22.1.2 of the Merger Notice, call note with [REDACTED], call note with [REDACTED].

<sup>229</sup> It is noted that there have been quite a few instances of re-platforming in recent years, but third parties have indicated that this was primarily driven by necessity with platform providers having little choice but to upgrade (often proprietary) technology which was very dated or/and unable to cope with more recent regulatory changes.

<sup>230</sup> The *Merger Assessment Guidelines* note that unilateral effects are more likely if customers are insensitive to changes in the price of the merger firms' products (paragraph 5.4.9).

228. A number of third parties told the CMA about the difficulties of re-platforming:<sup>231</sup>
- (a) The vast majority of customers indicated that it was difficult to switch provider.<sup>232</sup> Customers noted the following reasons for the difficulty in switching:
    - (i) Software and services are intrinsically linked to the platform provider’s operating model, making it complex to unwind;<sup>233</sup>
    - (ii) There are inevitable differences between the underlying functionality and technologies between providers;<sup>234</sup>
    - (iii) Switching is a costly and long process;<sup>235</sup> and
    - (iv) It is a risky process with significant customer disruption. There have been many attempted and unsuccessful migrations in the past;<sup>236</sup>
  - (b) The vast majority of competitors also indicated that it was difficult to switch provider;<sup>237</sup> and
  - (c) More generally, the CMA’s investigation also found that switching from one provider to another is a significant task, involving extensive planning and execution.<sup>238</sup>

- *Internal documents*

229. The Parties’ internal documents also provide strong evidence of high switching costs:

- (a) [REDACTED];<sup>239</sup>
- (b) [REDACTED];<sup>240</sup>
- (c) [REDACTED];<sup>241</sup> and

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<sup>231</sup> These third-party views appear to apply equally to both the ‘software only’ solution and to the ‘combined’ software/servicing solution unless stated otherwise.

<sup>232</sup> See questionnaires responses from: [REDACTED].

<sup>233</sup> See questionnaire responses from [REDACTED].

<sup>234</sup> See questionnaire response from [REDACTED].

<sup>235</sup> See questionnaire responses from [REDACTED].

<sup>236</sup> See questionnaire responses from [REDACTED].

<sup>237</sup> See questionnaires responses from: [REDACTED].

<sup>238</sup> [REDACTED].

<sup>239</sup> FNZ [REDACTED].

<sup>240</sup> FNZ [REDACTED].

<sup>241</sup> FNZ [REDACTED].

(d) [redacted].<sup>242</sup>

230. The CMA also notes that the FCA has recently identified in a letter to investment platforms that “*planned and executed technology migrations*” are exacerbating risks to “*business continuity*”.<sup>243</sup> An article from the specialized press about this letter also notes that the “*cost of re-platforming using third party firms like FNZ, GBST, Bravura and IFDS [SS&C] has spiraled [sic] in recent years*”.<sup>244</sup>

- *Conclusion on switching costs*

231. Although re-platforming is possible (and has taken place previously), based on the evidence above, the CMA believes that the time, cost and complexity of re-platforming leaves customers in a weak bargaining position that increases the likelihood of horizontal unilateral effects.

232. The CMA further considers barriers to entry and expansion below at paragraph 265 onwards.

#### *Customer negotiating strength*

- *FNZ submissions*

233. FNZ submitted that customers have substantial power to constrain the Parties and will continue to do so for the foreseeable future. FNZ submitted that “*customers are typically very large, sophisticated entities, with significant commercial power, in-house IT expertise, and access to advice and assistance from one of several major consultancy firms*”.<sup>245</sup> FNZ gave the following reasons for customers’ substantial power to constrain the Parties:<sup>246</sup>

(a) Customers control the procurement process and use detailed and extensive selection processes to select suppliers. This results in intense competition and multiple opportunities for customers to apply pressure on potential suppliers;

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<sup>242</sup> [redacted].

<sup>243</sup> [www.fca.org.uk/publication/correspondence](http://www.fca.org.uk/publication/correspondence), 6 February 2020.

<sup>244</sup> <https://www.moneymarketing.co.uk/news/fca-replatforming-a-key-risk-for-platform-sector/>

<sup>245</sup> Paragraphs 23.1-23.3 of the Merger Notice.

<sup>246</sup> Paragraphs 23.1-23.3 of the Merger Notice. FNZ also submitted that the extensive tender processes, strong contractual protections for customers and frequent renegotiations of price are symptoms and causes of customers strong market power at paragraphs 16.8-16.13 of FNZ’s Response to the Issues Letter.

- (b) Customers can, and do, [redacted]<sup>247</sup> to ensure that customers are on the most advantageous pricing available;
  - (c) Customers' control of the procurement process gives them practical advantages from information asymmetries (such as information gained from competing bidders);
  - (d) Individual contracts are not tendered very frequently so the onus is on suppliers to compete fully for every opportunity; and
  - (e) There have been numerous examples of platform providers migrating to new suppliers in recent years.
234. FNZ further submitted that the Parties have strong incentives to reach an agreement with any individual customer, as failing to win a new contract presents a significant lost opportunity to achieve revenue that will contribute to the recovery of fixed costs.<sup>248</sup> FNZ submitted that [redacted].<sup>249</sup>
- *CMA's assessment*
235. Even in circumstances where the market is characterised by large customers, this is not in itself sufficient to conclude that such customers have buyer power.<sup>250</sup> In order to constrain effectively the merged entity from exercising its market power, these customers also need to have a choice as to whether to continue buying from the merged entity. Hence, customers' negotiating strength is determined by the availability of alternatives.
236. The available evidence indicates that customers do not have a strong negotiating position, including the Parties' high combined share of supply and third party views indicating that customers do not have many credible alternatives to choose from.<sup>251</sup> As noted in the assessment of switching costs, the length of contracts and the fact that re-platforming is time-consuming, resource intensive and complex also reduces the negotiating strength of customers.
237. This weak position of customers is consistent with the CMA's market investigation, which indicated that platform providers rarely threaten to switch suppliers.<sup>252</sup>

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<sup>247</sup> See FNZ's response to RFI 3. [redacted].

<sup>248</sup> Paragraphs 16.2-16.3 of FNZ's Response to the Issues Letter.

<sup>249</sup> Paragraph 16.4 of FNZ's Response to the Issues Letter.

<sup>250</sup> [Merger Assessment Guidelines](#) (OFT1254/CC2), paragraph 5.9.4.

<sup>251</sup> See customer questionnaire responses from [redacted]. See also competitor questionnaire responses from [redacted].

<sup>252</sup> [redacted].

- *Conclusion on customer negotiating strength*

238. Given the evidence above, the CMA believes that customers do not have a strong negotiating position due to the limited credible alternative options available. The negotiating position of customers is weakened further by the Merger given the evidence above on the Parties being close alternatives to each other and the limited competitive constraints from other suppliers.
239. In addition, the CMA considers that the negotiating position of the Parties' existing customers may be particularly weak. The Parties are likely to already have a degree of market power over these existing customers due to the high switching costs outlined above and so the Merger may be particularly concerning for them.
240. The CMA has further considered countervailing buyer power in the section on countervailing factors below.

*Competition in relation to product development*

241. Given the developments that are expected in the foreseeable future in the supply of Retail Platform Solutions, the CMA considered the extent to which the Merger may result in a loss of competition in product development. In particular, the CMA considered the extent to which the constraint from GBST's product development on FNZ may have been weakened as a result of the Merger. This product development includes GBST's R&D in its software and GBST's plans in combined software and servicing, specifically its recent partnership with Equiniti.
242. As outlined in the counterfactual section, [redacted].<sup>253</sup>
243. FNZ submitted that the partnership that GBST announced with Equiniti in July 2018 [redacted], noting that that [redacted] and the lack of success of similar partnership models. FNZ considers that partnership models are a weak option when compared with the combined supply of Platform Solutions.<sup>254</sup>

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<sup>253</sup> Paragraph 20.3 of FNZ's Response to the Issues Letter. In particular, FNZ submitted that [redacted].

<sup>254</sup> FNZ's Response to the Issues Letter, paragraphs 2.6 and 5.16.3.

- *Investment in GBST's offering*

244. The CMA has not seen evidence to support FNZ's submission [§<].<sup>255</sup> Instead the CMA has seen evidence that GBST was investing in its E-volve R&D programme.<sup>256</sup>
245. Regardless of whether GBST's R&D programme [§<], the CMA considers that product development was motivated by competition between GBST and FNZ and was valued by customers. Following the Merger, GBST customers may be worse off if they no longer benefit from GBST's planned improvements under project E-volve, such as the move to more up-to-date technology and being cloud hosted, which would have reduced their operating costs.<sup>257</sup>
246. This concern about the loss of competition in relation to product development is supported by the wider evidence above on the closeness of competition between the Parties, and the limited other constraints that they face. This includes evidence from the Parties' internal documents and concerns raised by third parties.<sup>258</sup>
247. In particular, [§<].<sup>259</sup> [§<].<sup>260, 261, 262</sup>

- *GBST's partnership model*

248. was seeking to win new customers, including through its recent formal partnership with Equiniti.<sup>263</sup> GBST's internal documents indicate that GBST was committed to developing a partnership model. As there was only a limited period of time between the establishment of the GBST's formal partnership with Equiniti in July 2018 and the Merger, the CMA considers that this period may not be indicative of the success of the partnership absent the Merger. Third party evidence indicates that customers consider the partnership model as an alternative to a combined software and servicing Platform Solution.
249. Third party constraints on the Merged Entity from partnership models are limited due to the lack of alternative established software-only Platform

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<sup>255</sup> See paragraph 55 onwards.

<sup>256</sup> See paragraph 56.

<sup>257</sup> FNZ document: [§<].

<sup>258</sup> See paragraphs 186 onwards (internal documents) and paragraphs 156 onwards (market investigation). See also paragraph 284.

<sup>259</sup> FNZ document: [§<].

<sup>260</sup> FNZ email: [§<].

<sup>261</sup> See also - FNZ [§<].

<sup>262</sup> FNZ submitted [§<].

<sup>263</sup> The CMA also cannot exclude that GBST could develop a partnership model with other servicing providers.



Solution providers. As outlined above, Bravura is the only other established software provider of any significant scale in Retail Platform Solutions.

250. In addition, the barriers to entry outlined below indicate that it will be difficult for a new player to establish itself as a combined software and servicing supplier without leveraging the software of an existing established supplier.
251. As a result, the CMA considers that the Merger will reduce the number of combined software and servicing Retail Platform Solution options available to customers now and lower the threat of new partnership models developing in the future, therefore, reducing the competitive constraint that could have been imposed on FNZ absent the Merger.
- *Conclusion on competition in product developments*
252. As a result of the above consideration of future developments, the CMA considers that the Merger may further reduce the competitive threat to FNZ's strong market position in UK Retail Platform Solutions due to the loss of competitive pressure from GBST's product development and partnership model.

#### *Effects of the Merger for existing GBST customers*

253. On the basis of the evidence above, horizontal unilateral effects arising from the Merger could result in higher prices, lower quality and/or customers being offered a reduced range of Retail Platform Solutions. The CMA assessed whether this harm may be particularly strong with respect to existing GBST customers given that the Merged Entity could seek to exploit its greater market power as part of a strategy to apply pressure on these customers to take a combined software and servicing Platform Solution from the Merged Entity. The Merged Entity could apply this pressure by scaling back GBST's development of this software or otherwise not offering this software on competitive terms unless existing GBST customers take a combined software and servicing solution.
254. FNZ submitted that [redacted].<sup>264</sup>
255. The CMA considers that the Merger may weaken the incentives that the Merged Entity would otherwise have to invest in GBST's software and offer it on competitive terms. Prior to the Merger, GBST had incentives to maintain the competitiveness of GBST standalone software in part due to competition from FNZ. Whereas the Merged Entity would have incentives to reduce the

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<sup>264</sup> Paragraph 2.16.2 of the Merger Notice.

competitiveness of GBST's standalone software given the higher margins the Merged Entity could earn from supplying GBST's existing customers a combined solution.<sup>265</sup> The Merged Entity would be in a strong position to do this given that switching to other suppliers would be costly for customers. As explained further below, the CMA is therefore concerned that the unilateral effects of the Merger may be particularly acute with respect to existing GBST customers.

- *Benefits of reducing the competitiveness of GBST standalone software*

256. Combined software and servicing platform solutions generate significantly higher revenues relative to the software alone<sup>266</sup> and the [REDACTED].<sup>267</sup> Therefore there may be significant benefits of transitioning GBST's existing standalone software customers to a combined platform solution as a result of reducing the competitiveness of GBST's standalone software.

257. This is supported by FNZ's internal documents which illustrate its incentive to transfer existing customers of GBST ([REDACTED]) to its servicing solution. [REDACTED].<sup>268</sup>

- *Costs of reducing the competitiveness of GBST standalone software*

258. At the same time, the costs (in the form of lost GBST software customers that switch to alternative providers rather than purchasing a combined solution from the Merged Entity) may be low given the reluctance of customers to re-platform, FNZ's strength in combined software and servicing and the limited competing Retail Platform Solutions available.

259. At the end of their contract, or when their contract is coming up for renewal,<sup>269</sup> GBST software may only be available on a competitive basis (in terms of price and continued enhancement) if GBST's existing customers buy this software as part of a combined software and servicing solution.

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<sup>265</sup> The CMA has considered this concern as part of horizontal unilateral effects (and not in a separate theory of harm) as these concerns are brought about by the increased market power of the Merged Entity arising from a loss of competition between FNZ and GBST. FNZ has also submitted that these concerns are a variant on horizontal unilateral effects (FNZ's Issues Meeting Presentation, slide 29).

<sup>266</sup> For example, the Parties' assumptions used for calculating recurring revenues (Annex 14.1) assumes that suppliers of combined software and servicing Platform Solutions would earn [REDACTED] against the AUA while suppliers of software-only Platform Solutions would earn [REDACTED] (assumes that the suppliers provide both the Investment Accounting and Pensions Administration software).

<sup>267</sup> Within the Merger Notice, FNZ submitted that it earns a [REDACTED]. The Parties have subsequently submitted (response to RF15) that FNZ's and GBST's gross margins are [REDACTED]. The CMA has reservations over these revised margin figures ([REDACTED]), particularly with respect to some of the costs attributed to Cost of Goods Sold and the extent to which these costs fall when supplying large customers with high AUA.

<sup>268</sup> FNZ document: [REDACTED].

<sup>269</sup> The CMA notes that [REDACTED].

260. [REDACTED]<sup>270</sup> [REDACTED].

- *Other relevant evidence on FNZ exploiting its greater market power*

261. [REDACTED] also support FNZ's incentive to scale back investment in GBST's software (see paragraph 247 and accompanying footnotes). Such a strategy is consistent with degrading (or not improving) GBST's software offering (in terms of pricing and/or quality) in order to apply pressure on these customers to take a combined software and servicing Platform Solution to GBST's existing customers. [REDACTED].<sup>271</sup>

262. While the CMA has seen some letters [REDACTED],<sup>272</sup> the CMA placed limited weight on these [REDACTED], as these were written to [REDACTED] and are not legally binding or enforceable. The CMA placed greater weight on FNZ's internal documents that express the position as submitted to FNZ's board and shared amongst its senior management (as discussed above). These internal documents [REDACTED].

263. Furthermore, existing customers of GBST and prospective customers have expressed concerns with respect to their ability to continue to use GBST's software alongside their existing in-house servicing offering following the Merger.<sup>273</sup> [REDACTED].<sup>274</sup> One third party, in particular, submitted "*we want the freedom of having a software only solution. While we have received assurances that this will remain the solution for GBST, the requirement to invest heavily in updating this ageing system provides leverage for FNZ to move GBST clients across to FNZ and to full service. This would be bad for us and is bad for the industry*".<sup>275</sup>

### **Conclusion on horizontal unilateral effects**

264. For the reasons set out above, the CMA believes that FNZ has a strong market position, GBST provides a substantial constraint on FNZ and there are limited constraints from other suppliers of Retail Platform solutions. Accordingly, the CMA found that the Merger raises significant competition

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<sup>270</sup> For example: [REDACTED].

<sup>271</sup> See FNZ's document [REDACTED].

<sup>272</sup> See: [REDACTED].

<sup>273</sup> In particular, [REDACTED] submitted that "*it would be unfortunate for us if we were forced to migrate through either the decommissioning of GBST technology or through the failure of the GBST technology to keep pace with the market and the needs of our customers or because the cost of supply became prohibitive*" (see questionnaire response and call note). In this respect, see also call note with [REDACTED]; questionnaire responses from [REDACTED].

<sup>274</sup> The CMA understands that FNZ [REDACTED]. However, the CMA notes that [REDACTED] not legally enforceable. Furthermore, in light of the documentary evidence discussed the that FNZ's commitment is non-binding, the CMA does not consider that the [REDACTED] would effectively frustrate FNZ's ability to implement the strategy described above.

<sup>275</sup> See questionnaire response from [REDACTED].

concerns as a result of horizontal unilateral effects in relation to the supply of Retail Platform Solutions excluding in-house software in the UK.

## Countervailing factors

### *Barriers to entry and expansion*

265. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition, and in some cases may mean that there is no SLC. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.<sup>276</sup> In terms of timeliness, the CMA's guidelines indicate that the CMA will look for entry to occur within two years.<sup>277</sup> Conversely, the merger may also increase barriers to entry and/or expansion.<sup>278</sup>

### *FNZ's submissions*

266. FNZ submitted that the Parties continue to face the very real threat of entry, that barriers to entry and expansion are not such to discourage any credible competitor and are further reducing as a result of regulatory convergence.<sup>279</sup>

267. FNZ suggested that the following types of entry and expansion may take place:

- (a) Entry by players outside of the UK, particularly due to the international standardisation of regulations;<sup>280</sup>
- (b) Expansion across sub-segments of different platform categories;<sup>281</sup>
- (c) Entry by new suppliers and start-ups;<sup>282</sup> and

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<sup>276</sup> [Merger Assessment Guidelines](#), from paragraph 5.8.1.

<sup>277</sup> [Merger Assessment Guidelines](#), paragraph 5.8.11.

<sup>278</sup> [Merger Assessment Guidelines](#), paragraph 5.8.13.

<sup>279</sup> Paragraph 21.1 of the Merger Notice. FNZ noted that ten of the twelve largest suppliers active in the UK are both headquartered outside of and generate the majority of their business from outside the UK, in countries with substantially the same requirements as the UK, which opens up a larger pool of potential suppliers. This submission regarding barriers to entry and expansion applies both to the 'software only' solution or to the 'combined' software/servicing solution.

<sup>280</sup> Paragraphs 21.2-21.3 of the Merger Notice.

<sup>281</sup> Paragraph 21.4 of the Merger Notice.

<sup>282</sup> Paragraphs 21.5-21.6 of the Merger Notice. FNZ submitted that new entry and expansion are also fuelled by the broader savings industry as a large number of global financial and 'big tech' institutions are entering downstream markets and seeking to offer wealth management services (eg Vanguard, Alibaba and Amazon). FNZ also submitted that market entry at scale may be more complex, but is nevertheless plausible and achievable as evidenced by the recent entry of Hubwise and Seccl.

- (d) Entry by providers of broader technology for banking, insurance, and asset management in the supply of solutions for advised platforms.<sup>283</sup>
268. FNZ submitted that barriers to entry for start-ups are modest and very unlikely to deter a meaningful entrant. FNZ submitted that the following contribute to accessibility of the market:<sup>284</sup>
- (a) Well-described and clear regulations;
  - (b) Only modest capex required for development of Platform Solutions;
  - (c) Support from the FCA for new entrants, through its ‘Innovate’ programme; and
  - (d) Access to expertise through the hiring of ex-employees or contracting with industry and technology experts.
269. FNZ also submitted that the Parties are constrained by the threat of new entry from competitors located both inside and outside the UK and that potential entrants include very large financial and technology institutions likely to have an immediate and significant effect on the sector.<sup>285</sup> FNZ submitted that the following are examples of likely entry and expansion:<sup>286</sup>
- (a) Avaloq and Temenos are actively bidding for supply of Platform Solutions for advised platforms in the ‘open’ advice sector in Australia;
  - (b) SS&C/IFDS are actively looking to win business in the supply of Platform Solutions to retail platforms and have already won two large customers (St James’ Place and Quilter – though it subsequently lost Quilter);
  - (c) Hubwise and Seccl, which are examples of recent entry by start-up companies;
  - (d) BlackRock, expanding ‘Aladdin for Wealth’ into a Platform Solution to directly compete with FNZ; and

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<sup>283</sup> Paragraphs 21.7 of the Merger Notice. FNZ submitted that there are limited barriers to entry for companies already supplying broader technology for banking, insurance and asset management, giving the examples of Avaloq and Temenos who were originally banking software solution providers. Similarly, Equiniti was formerly a life insurance technology company.

<sup>284</sup> Paragraphs 21.8 of FNZ’s Response to the Issues Letter.

<sup>285</sup> Paragraphs 21.2-21.5 of FNZ’s Response to the Issues Letter.

<sup>286</sup> Paragraphs 22.1 of the Merger Notice and paragraph 21.2 of FNZ’s Response to the Issues Letter.

- (e) GPP Wealth Solutions, who expanded in 2017 by adapting their existing offering from an adjacent sector.

270. Finally, FNZ also provided examples of platform providers self-supplying who have then gone on to offer Platform Solutions to third parties, namely Hubwise, AJ Bell, and UBS.<sup>287</sup> However, GBST stated that it was not aware of any providers who had built their own software solution and subsequently sold it to other third parties.<sup>288</sup>

### *Internal documents*

271. The CMA has seen evidence from the Parties' internal documents indicating that barriers to entry and expansion are high for both 'software only' solutions and 'combined' software/servicing Retail Platform Solutions:

- (a) An FNZ management presentation from June 2019 stated that “[s]tate-of-the-art technology combined with regulatory processing scale creates high barriers to entry and limited competition”;<sup>289</sup>
- (b) [REDACTED];<sup>290</sup>
- (c) [REDACTED];<sup>291</sup>
- (d) [REDACTED];<sup>292</sup> and
- (e) [REDACTED].<sup>293</sup>

272. Although, for the reasons explained above, the CMA is placing limited weight on it, the CMA also notes that [REDACTED].<sup>294,295</sup>

### *Evidence from third parties*

273. Third parties have also indicated that there are significant barriers which make it difficult for Retail Platform Solutions providers to win business in the UK if

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<sup>287</sup> Paragraph 13.22 of the Merger Notice.

<sup>288</sup> GBST response to RFI 3, 6 February 2020.

<sup>289</sup> FNZ document: [REDACTED].

<sup>290</sup> FNZ document: [REDACTED].

<sup>291</sup> FNZ document: [REDACTED].

<sup>292</sup> FNZ document: [REDACTED].

<sup>293</sup> [REDACTED].

<sup>294</sup> Slide 32 of Annex 10.1 of the Merger Notice (Market Overview Due Diligence Report (FNZ) – May 2018).

<sup>295</sup> Following a question in RFI1 regarding this statement, FNZ submitted that the barriers to entry described in [REDACTED] were one-dimensional and did not distinguish between different provider segments. FNZ also submitted that [REDACTED] “significantly over-states the complexity for global or domestic providers of technology or software, particularly for those that already operate in this space in a sophisticated Western economy” (Paragraph 21.8 of the Merger Notice).

they do not already have a significant track record within the UK (including the UK's tax and regulatory requirements, which are complex and different to other jurisdictions).<sup>296</sup> One third party commented that there are some local market requirements that would take some work to adapt to,<sup>297</sup> and a customer noted that they would have concerns working with a new player, as it takes many years to develop the functionality and track record that they require.<sup>298</sup> Another market participant indicated that entry into the UK market can require investment of “*significant sums*”.<sup>299</sup>

### *CMA's assessment*

274. As set out above at paragraph 220 onwards, the available evidence indicates that switching costs are high. If switching costs are high, and customers are therefore less likely to switch, entry and expansion by new (or smaller) competitors will be more difficult to achieve.
275. In relation to the examples of likely entry and expansion provided by FNZ (see paragraph 269 above), the evidence received by the CMA does not indicate that entry or expansion will be timely, likely or sufficient to mitigate any SLC arising from the Merger:
- (a) Avaloq and Temenos: the CMA understands that both Avaloq and Temenos' Platform Solutions are focused on Private-Client Platforms in the UK, and has received evidence that [redacted];<sup>300</sup>
  - (b) SS&C/IFDS: as a current competitor to the Parties, the constraint provided by SS&C is discussed further in the competitive assessment at paragraphs 173 to 175 above;
  - (c) Hubwise and SECCL: although the CMA has seen evidence of Hubwise and SECCL's entry into the market,<sup>301</sup> evidence received during the CMA's merger investigation does not indicate that they are a sufficient constraint on the Parties to mitigate any SLC:
    - (i) [redacted];

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<sup>296</sup> See for example, call note with [redacted] and [redacted] questionnaire response.

<sup>297</sup> Call note with [redacted].

<sup>298</sup> Call note with [redacted].

<sup>299</sup> [redacted].

<sup>300</sup> [redacted].

<sup>301</sup> See questionnaire responses from [redacted]. See also questionnaire response from [redacted].

- (ii) Hubwise and SECCL have not been mentioned by customers as viable alternative providers; and
  - (iii) a customer told the CMA that SECCL's breadth/depth of functionality is not yet comparable to that of other major players.<sup>302</sup>
- (d) The CMA understands that BlackRock's Aladdin For Wealth is not a Retail Platform Solution, but rather an investment trading solution, and therefore will not directly compete with the Parties;<sup>303</sup> and
- (e) The CMA understands from third-party evidence that GPP Wealth Solutions is a smaller player without sufficient scale to significantly constrain the Parties.<sup>304</sup>
276. For the reasons set out above and, in particular, third party views and the Parties' internal documents which indicate that barriers to entry and expansion are high, the CMA believes that entry or expansion would not be sufficient, timely and likely to prevent a realistic prospect of an SLC as a result of the Merger.

### ***Countervailing buyer power***

277. In some circumstances, an individual customer may be able to use its negotiating strength to limit the ability of a merged entity to raise prices. The CMA refers to this as countervailing buyer power.<sup>305</sup>
278. FNZ submitted that its customers have substantial power to constrain the Parties and will continue to do so for the foreseeable future, providing details of [§<].<sup>306</sup>
279. The CMA has considered this as part of the competitive assessment above (in relation to customers' negotiating strength). For the reasons set out at paragraphs 235 to 239 above, the CMA considers that customers do not currently have, nor will they have post-Merger, a sufficient degree of countervailing buyer power to constrain the Merged Entity from exercising its market power.

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<sup>302</sup> This customer thinks that SECL will take many years to build up that breath of functionality – it would therefore have concern about working with SECCL and instead prefers bigger and better resourced companies with a proven software solution (see questionnaire response from [§<]).

<sup>303</sup> [§<].

<sup>304</sup> See questionnaire response from [§<].

<sup>305</sup> [Merger Assessment Guidelines](#), paragraph 5.9.1.

<sup>306</sup> Paragraphs 23.1-23.6 of the Merger Notice, and paragraphs 16.8-16.14 and 22.1 of FNZ's Response to the Issues Letter.



## **Efficiencies**

280. While mergers can harm competition, they can also give rise to efficiencies. Efficiencies arising from the merger may enhance rivalry, with the result that the merger does not give rise to an SLC. For example, a merger of two of the smaller firms in a market resulting in efficiency gains might allow the merged entity to compete more effectively with the larger firms. Efficiencies may also be taken into account in the form of relevant customer benefits.<sup>307</sup>
281. FNZ submitted that the Merger will offer significant benefits to GBST customers in the UK.<sup>308</sup>
282. FNZ also submitted that FNZ had estimated potential [~~£~~], although it had not yet estimated fully the ability to realise these cost savings or how this benefit could be shared with customers.<sup>309</sup>
283. The CMA considers that it has not received sufficiently compelling evidence to indicate that any rivalry-enhancing efficiencies would be timely, likely or sufficient to prevent an SLC. In particular:
- (a) evidence provided by the Parties to support their submissions on efficiencies is not of the standard needed at phase 1 to meet the compelling evidence threshold;
  - (b) the efficiencies that may result from the Merger do not appear to be rivalry enhancing;
  - (c) it is uncertain whether the efficiencies arising from the Merger would be sufficient, particularly because the evidence available does not support that those efficiencies will be passed through to the consumer; and
  - (d) while there may be benefits to GBST customers, there is insufficient evidence that such benefits would exceed the potential anticompetitive effects of the Merger.

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<sup>307</sup> *Merger Assessment Guidelines*, paragraphs 5.7.1 to 5.7.4.

<sup>308</sup> Paragraph 24.1 of the Merger Notice. For instance, FNZ submitted that the Merger will: (i) provide GBST's UK customers additional opportunities to substantially lower their cost structure by transitioning from an on-site software model to a fully outsourced, PaaS model; (ii) lower costs to the end-consumer through long-term customer partnerships based on a PaaS business and operating model is part of FNZ's core mission of helping people achieve their financial goals; and (iii) enhance the end-consumer and financial adviser proposition for GBST's customers by supplementing existing GBST capability with core FNZ technology.

<sup>309</sup> Paragraph 24.2 of the Merger Notice.

## Views expressed during the CMA's merger investigation

284. The CMA contacted customers, prospective customers and competitors of the Parties. A number of these third parties raised concerns regarding the Merger, referencing, for example, a reduction in the options available to customers, less competition in the market and worse outcomes for end-investors in the form of higher prices, lower quality and less innovation. In particular:
- (a) Some competitors noted that the Merger gives FNZ a particularly strong position in the Platform Solutions market and submitted that it would make it more difficult to compete;<sup>310</sup>
  - (b) Some competitors also pointed out that as a result of the Merger there will be less choice for buyers in the market and, ultimately, a reduced range of options that can be delivered to end-investors;<sup>311</sup>
  - (c) Some customers considered that the Merger represented a market concentration risk due to the reduction of the viable Retail Platform Solutions alternatives;<sup>312</sup> and
  - (d) Another customer observed that post-Merger *“with increased limited choice in the market for technology platforms offered by the likes of GBST, Bravura, and FNZ, it is possible FNZ could seek to increase prices for its clients”*.<sup>313</sup>
285. Third party comments have been taken into account where appropriate in the competitive assessment above.

## Conclusion on substantial lessening of competition

286. Based on the evidence set out above, the CMA believes that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC as a result of horizontal unilateral effects in relation to the supply of Retail Platform Solutions excluding in-house software in the UK.

## Decision

287. Consequently, the CMA believes that it is or may be the case that (i) a relevant merger situation has been created; and (ii) the creation of that

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<sup>310</sup> See, for example, questionnaire responses from [redacted].

<sup>311</sup> See questionnaire responses from [redacted].

<sup>312</sup> Questionnaire responses from [redacted].

<sup>313</sup> See questionnaire response from [redacted].

situation has resulted, or may be expected to result, in an SLC within a market or markets in the United Kingdom.

288. The CMA therefore believes that it is under a duty to refer under section 22(1) of the Act. However, the duty to refer is not exercised whilst the CMA is considering whether to accept undertakings under section 73 of the Act instead of making such a reference.<sup>314</sup> FNZ has until 6 April 2020<sup>315</sup> to offer an undertaking to the CMA.<sup>316</sup> The CMA will refer the Merger for a phase 2 investigation<sup>317</sup> if FNZ does not offer an undertaking by this date; if FNZ indicates before this date that it does not wish to offer an undertaking; or if the CMA decides<sup>318</sup> by 15 April 2020 that there are no reasonable grounds for believing that it might accept the undertaking offered by FNZ, or a modified version of it.
289. The statutory four-month period mentioned in section 24 of the Act in which the CMA must reach a decision on reference in this case currently expires on 14 April 2020. For the avoidance of doubt, the CMA hereby gives FNZ notice pursuant to section 25(4) of the Act that it is extending the four-month period mentioned in section 24 of the Act. This extension comes into force on the date of receipt of this notice by FNZ and will end with the earliest of the following events: the giving of the undertakings concerned; the expiry of the period of 10 working days beginning with the first day after the receipt by the CMA of a notice from FNZ stating that it does not intend to give the undertakings; or the cancellation by the CMA of the extension.

**Joel Bamford**  
**Senior Director**  
**Competition and Markets Authority**  
**30 March 2020**

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<sup>i</sup> Document procured by current FNZ shareholder prior to it acquiring a majority shareholding in FNZ.

<sup>ii</sup> Parties' internal documents in this context should be taken to mean a GBST document and a document produced by KPMG, commissioned by an FNZ shareholder prior to it acquiring a majority shareholding in FNZ.

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<sup>314</sup> Section 22(3)(b) of the Act.

<sup>315</sup> Section 73A(1) of the Act.

<sup>316</sup> Section 73(2) of the Act.

<sup>317</sup> Sections 22(1) and 34ZA(2) of the Act.

<sup>318</sup> Section 73A(2) of the Act.