

Completed acquisition by Ardonagh Group Limited of Bennetts Motorcycling Services Limited

Summary of the CMA's decision on relevant merger situation and substantial lessening of competition

ME/6882/20

1. On 7 August 2020, Ardonagh Group Limited (**Ardonagh**) acquired Bennetts Motorcycling Services Limited (**Bennetts**) via its majority owned and indirectly controlled subsidiaries Atlanta Investment Holdings C Limited and Atlanta Investment Holdings 2 Limited (the **Merger**). Ardonagh and Bennetts are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Ardonagh and Bennetts is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the share of supply test is met. The four-month period for a decision 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. Ardonagh is an insurance broker active in the distribution of insurance across a number of sectors in the UK, including motorcycle insurance through several different brands (including, in particular, *Carole Nash* and *Swinton*). Bennetts is an insurance broker active in the distribution of motorcycle insurance to private customers in the UK under the *Bennetts* brand.
4. The Parties overlap in the distribution of motorcycle insurance to private (non-commercial) customers in UK.
5. Customers can buy motorcycle insurance directly from distributors (**direct sales**) or by way of a 'click through' from a price comparison website (**PCW**). PCWs have made a significant contribution to increasing competition in the supply of motorcycle insurance by making prices more transparent. In its assessment of the Merger, the CMA therefore carefully considered the effect that PCWs have had on the competitive dynamics.
6. The CMA's assessment involves a comparison of the prospects for competition with the merger against the competitive situation without the merger. In this case, the CMA assessed the Merger against the pre-Merger

conditions of competition, finding that Bennetts is a strong competitor and would have continued to grow absent the Merger. The CMA found that, despite a recent decline of its business, Bennetts had plans to stabilise its business and grow, and that Ardonagh's valuation of the Bennetts' business, including the purchase price paid, was not consistent with the characterisation of Bennetts as a business in decline.

7. The CMA considered the impact of the Merger on the distribution of motorcycle insurance to private (non-commercial) customers in the UK.
8. There are obvious demand-side differences between motorcycle insurance and other types of motor vehicle insurance. On the supply-side, there are material differences in the conditions of competition between motorcycle and other motor vehicle insurance, and distributors of insurance for other motor vehicles do not have the ability and incentive to shift capacity quickly to start distributing motorcycle insurance. Similarly, the CMA distinguished between motorcycle insurance for private customers and commercial customers, given the lack of demand-side substitution and different conditions of competition.
9. The CMA did not consider it appropriate to segment the distribution of motorcycle insurance more narrowly, eg by type of customer or method of customer acquisition (PCW versus direct sales), but took differences in the distribution of motorcycle insurance to different types of customers into account in its competitive assessment.
10. The CMA has assessed the effects of the Merger on competition in the distribution of motorcycle insurance to private customers on a UK-wide basis, given that the conditions of competition in the UK are different from other jurisdictions.

Horizontal unilateral effects

11. The Parties are the two largest motorcycle insurance distributors in the UK, and the Merged Entity would be three times the size of its next largest competitor by number of policies. In this regard, share of supply estimates for 2019 show that the Parties are, by some distance, the two largest motorcycle insurance brokers, and would have a combined share of supply (by number of policies) of [30-40]%, with a significant increment, of [10-20]%, brought about by the Merger.
12. The Parties have a similar product offering, with a particular focus on older customers. Switching data obtained by the CMA from PCWs indicates that a significantly higher number of customers switch between the Parties than to

other competitors. The Parties' positioning on PCWs and in Google searches also shows a significant degree of competitive interaction between them in competing for customers. This is also consistent with the Parties' internal documents, which consistently indicate that they see each other as close competitors and monitor each other frequently (albeit while also monitoring other competitors to some extent). Evidence provided to the CMA by third parties was also overwhelmingly consistent with the position that the Parties are close competitors with very similar offerings, business models and customer strategies.

13. The available evidence also shows that both Parties hold a significant incumbency advantage. In particular, the majority of the Parties' total sales are direct sales (including direct sales to new customers and renewals). A large proportion of both of the Parties' sales to new customers are also direct sales and therefore they are less reliant on PCWs as a route to market than their competitors. Both Parties also have a higher retention rate than their competitors.
14. Accordingly, while PCWs have had a beneficial effect on competition by providing more price transparency, the CMA considers that the Parties are liable to be less exposed to price competition through PCWs than other suppliers. This is consistent with the evidence of recent market trends, which shows that the increased use of PCWs has not materially weakened the Parties' market position in recent years (or materially increased the market presence of smaller competitors).
15. Moreover, as higher revenues can be made from direct sales to new customers and sales to renewing customers than from PCW sales to new customers, this potentially provides the large incumbent distributors with an ability to cross-subsidise more competitive PCW prices that smaller rivals may be unable to replicate.
16. While the Parties submitted that PCWs will play a more prominent role in the market in future, the available evidence shows that PCWs are already widely used and that there is little basis to suggest that the scope for further growth is considerable. The CMA also found that Ardonagh's valuation of the Bennetts business, for the purposes of the Merger, does not suggest that the business is likely to be exposed to a materially higher degree of competition in future.
17. The CMA further found that the Merged Entity would face limited competition after the Merger. In general, given the Parties' size and incumbency advantage, the CMA believes that the tail of smaller motorcycle insurance

distributors that would remain post-Merger would find it difficult to compete closely with the Parties.

18. The position was reflected in the switching data, internal documents and third-party evidence in relation to specific competitors, which indicate that the Parties are only moderately constrained by three competitors, Bikesure, MCE and Hastings, at present, with other motorcycle insurance distributors an even more marginal constraint.
19. The CMA also found that entry and/or expansion would not be timely, likely or sufficient to counter any substantial lessening of competition (**SLC**) from arising. Third parties consistently told the CMA that entry was unattractive because of the economics of the market and the importance of having a strong brand. There is little history of recent successful entry and the Parties appear to pay little attention to potential entrants (the only internal document referencing potential entry was prepared for the purposes of the Merger and therefore can be given no material weight). Existing smaller suppliers noted that there were significant barriers to expansion, in particular from the cost of acquiring new customers through PCWs without the benefit of a significant existing customer base.

Decision

20. The CMA therefore believes that the Merger gives rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the distribution of motorcycle insurance to private customers in the UK.
21. The CMA is therefore considering whether to accept undertakings under section 73 of the Enterprise Act 2002 (**the Act**). Ardonagh has until 23 September 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.