

# Completed acquisition by Ardonagh Group Limited of Bennetts Motorcycling Services Limited

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

**ME/6882/20**

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 16 September 2020. Full text of the decision published on 13 October 2020.

Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

### SUMMARY

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.

## ASSESSMENT

### Parties

22. Ardonagh is an insurance broker active in the distribution of insurance across a number of sectors in the UK.<sup>1</sup> Ardonagh operates several businesses and brands active in the distribution of motorcycle insurance mainly to private customers<sup>2</sup> (end consumers) in the UK, namely: *Carole Nash*, *Swinton*, *Autonet*, *Towergate* and *Footman James*.<sup>3</sup> Ardonagh had a turnover of £647 million worldwide in 2018, [REDACTED] million of which was generated in the UK, and [REDACTED] million of which was generated from the distribution of motorcycle insurance in the UK.
23. Bennetts is an insurance broker active in the distribution of motorcycle insurance to private customers in the UK under the *Bennetts* brand.<sup>4</sup> Bennetts is a [REDACTED] subsidiary of Saga Services Limited (**SSL**), [REDACTED] is wholly owned by Saga Plc (**Saga**). The turnover of Bennetts in the year ending January 2019 was approximately £[REDACTED] million, all of which was generated from the distribution of motorcycle insurance in the UK.

### Transaction

24. On 14 February 2020, Ardonagh and SSL entered into a share purchase agreement, pursuant to which Ardonagh - via its subsidiaries Atlanta Investment Holdings C Limited and Atlanta Investment Holdings 2 Limited - acquired the whole of the issued share capital of Bennetts for a consideration of £26 million.
25. The Merger completed on 7 August 2020 and completion was announced on the same day.<sup>5</sup>

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<sup>1</sup> MN, paragraph 3. Ardonagh is active across the distribution, wholesale and underwriting services. Ardonagh is a broker in the UK insurance markets active across a number of different life and non-life insurance risks, such as motor vehicles (including car, motorcycle, vans, caravans, etc.) as well as home and other business risks.

<sup>2</sup> Ardonagh has issued a minimum number of motorcycle insurance policies (ie [REDACTED] as at June 2019) for motorcycles used for business purposes, including commercial travelling. These policies relate primarily to self-employed policy holders that have specifically requested business use.

<sup>3</sup> MN, Table 1. The CMA notes that Ardonagh also acquired the Bravo Group (which operates eight motorcycle insurance brands in UK) and Arachas (mainly present in the Republic of Ireland) on 15 July 2020.

<sup>4</sup> MN, paragraph 6. Bennetts does not offer commercial insurance policies to commercial customers or individuals. Bennetts also has some minimal brokerage activities in relation to the sale of travel insurance services associated with its motorcycle insurance distribution activities.

<sup>5</sup> <https://www.ardonagh.com/media/announcements/the-ardonagh-group-completes-acquisition-of-bennetts-motorcycling-services-limited>.

## **Transaction rationale**

26. Ardonagh submitted that the rationale for the Merger is the addition of the *Bennetts* brand to the insurance brands that Ardonagh already holds, in order to increase efficiency and improve customer experience and satisfaction.<sup>6</sup> More generally, Ardonagh submitted that its growth strategy relies on acquisitions. In particular, Ardonagh expects that, with the Merger, it will be able to better understand customer risk profile and insurance needs and offer a greater range and scale of products to customers.<sup>7</sup> Ardonagh stated that it saw the Merger as an opportunity to improve the efficiency of the *Bennetts* business, and generate synergies. Ardonagh also submitted that it has the skill and expertise to support *Bennetts*' transformation, for example in relation to data, digital offerings, operational efficiency and insurer development.<sup>8</sup>
27. The evidence from Ardonagh's internal documents received by the CMA is broadly consistent with Ardonagh's stated rationale for the Merger. It also shows that Ardonagh is seeking to gain scale and increase its market share.<sup>9</sup>
28. Ardonagh's documents mention [REDACTED].<sup>10</sup> *Bennetts* expects [REDACTED].<sup>11</sup> In particular, *Bennetts* anticipates that [REDACTED].<sup>12 13</sup>
29. Saga submitted that its rationale behind the sale of *Bennetts* is its long-term strategic aim to concentrate on [REDACTED], which focuses on products for [REDACTED], and *Bennetts* does not fit in with this strategy.<sup>14</sup> Saga also submitted that Saga's rationale was to sell the *Bennetts*' business to [REDACTED].<sup>15</sup> The different relevant bids are considered further at paragraphs 44 – 50 below.

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<sup>6</sup> MN, paragraph 46.

<sup>7</sup> MN, paragraph 47. Ardonagh said that it views *Bennetts* as an excellent addition to the brands it already holds in the personal lines and SME space.

<sup>8</sup> The Parties' Presentation at the Issues Meeting dated 18 August 2020, slide 10.

<sup>9</sup> Ardonagh's document entitled Group Annual Report and Financial Statements for year ending 31 December 2018 [REDACTED] states that Ardonagh is aiming to be the UK's largest diversified and independent intermediary with scale, combining such scale to negotiate better deals with the underwriter counterparties and other suppliers. Ardonagh is seeking to achieve this through a 'disciplined acquisition strategy'. Ardonagh's Group Strategy Document for 2019 [REDACTED] provides that Ardonagh is targeting complementary businesses for purchase to maximise its customer reach and market share. The document also shows that Ardonagh's strategy has been to grow through acquisitions: Ardonagh has identified over [REDACTED] companies as acquisition targets, with [REDACTED] transactions in the [REDACTED].

<sup>10</sup> MN, Annex [REDACTED].

<sup>11</sup> MN, ANNEX [REDACTED].

<sup>12</sup> In particular, *Bennetts* submitted that would allow it to [REDACTED].

<sup>13</sup> Underwriters of the policies distributed by a particular insurance broker are collectively referred to as the 'panel'.

<sup>14</sup> MN, paragraph 48.

<sup>15</sup> *Bennetts*' response to s.109 Notice dated 12 June 2020, page 1. See also Annex [REDACTED], in which the price offered for sale by Ardonagh was described as a '[REDACTED] relative to the indicative offers of other bidders' in [REDACTED].

30. The evidence received by the CMA from Saga is broadly consistent with Saga's stated rationale.<sup>16</sup>
31. In addition, as discussed further at paragraph 32 below, the CMA notes that Ardonagh had provided [REDACTED] for the Bennetts' business against the competing bidders.

### ***Transaction valuation***

32. The CMA notes that Ardonagh's £26 million valuation of Bennetts appears to be broadly consistent with the evidence in its internal documents that it has high expectations in relation to Bennetts' strong performance and growth prospects in the future. Of the [REDACTED] bidders in the second round, the bid submitted by Ardonagh was £[REDACTED] than the [REDACTED] offer.
33. Evidence from Ardonagh's internal documents shows that its valuation of Bennett's is equivalent to an [REDACTED] EBITDA multiple,<sup>17</sup> which the CMA notes is similar to, or greater than, the EBITDA multiple paid in the previous acquisitions benchmarked by Ardonagh when considering the acquisition of Bennetts (as considered further in the CMA's competitive assessment below).

### **Procedure**

34. The Merger was considered at a Case Review Meeting.<sup>18</sup>

### **Jurisdiction**

35. Each of Ardonagh and Bennetts is an enterprise. As a result of the Merger, these enterprises have ceased to be distinct.
36. The Parties overlap in the distribution of motorcycle insurance to private customers in the UK, with a combined share of supply of [30-40]% by number of policies, with an increment of [10-20]% brought about by the Merger.<sup>19</sup> The

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<sup>16</sup> Saga's annual report and accounts for year ending 31 January 2019 [REDACTED] state that Saga has been refocusing its strategy to return to its heritage products. See also page 9 where the focus appears to be on Saga's cruise/tour operations. It should also be noted that on page 5 it states that Saga has experienced issues in the retail broking sector; however, there is no specific reference to how it is doing in the motorcycle insurance sector. An SSL board update in October 2019 [REDACTED] describes Bennetts as a [REDACTED] a good business.

<sup>17</sup> Several other Ardonagh's documents, including its email exchanges with its M&A advisers [REDACTED], indicate that it considered the multiple could be in the range of [REDACTED] EBITDA. Saga documents (prepared by [REDACTED] for Saga) show that Ardonagh submitted a bid of [REDACTED] for Bennetts in round two of the auction process. Ardonagh documents ([REDACTED]) show that they maintained their offer at [REDACTED] despite [REDACTED] the financial forecast provided by Bennetts management team and an EBITDA reduction in their model to include financial due diligence adjustments.

<sup>18</sup> See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

<sup>19</sup> CMA's estimates of the Parties' shares of supply as of June 2019, Table 1.

CMA therefore believes that the share of supply test in section 23 of the Act is met.

37. The Merger completed, and the CMA was informed about completion, on 7 August 2020. The four-month deadline for a decision under section 24 of the Act is 7 December 2020.
38. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
39. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 21 July 2020 and the statutory 40 working day deadline for a decision is therefore 16 September 2020.

## Counterfactual

40. 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 a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>20</sup>
41. The description of the counterfactual is affected by the extent to which events or circumstances and their consequences are foreseeable, enabling the CMA to predict with some confidence.<sup>21</sup> However, the CMA may still consider the effects of the merger in the context of an event or circumstance occurring even if that event or circumstance is not sufficiently certain to include in the counterfactual.<sup>22</sup>
42. Ardonagh submitted that the relevant counterfactual is one in which Bennetts competes independently against Ardonagh. It further submitted that Saga conducted an auction process for Bennetts which solicited a number of bids. Ardonagh submitted that if it did not purchase Bennetts, Saga would either

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<sup>20</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>21</sup> [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, paragraph 4.3.2.

<sup>22</sup> [Merger Assessment Guidelines](#) (OFT1254/CC2), September 2010, paragraph 4.3.2.



have sold Bennetts to another buyer, or would have continued to operate the Bennetts business itself.<sup>23</sup>

43. The CMA therefore considered whether there is a realistic prospect that absent the Merger, Bennetts would have been acquired by an alternative purchaser, and whether there is a realistic prospect that any such acquisition would have been more competitive than the pre-Merger conditions of competition (ie Bennetts, owned by Saga, competing with Ardonagh).

### ***The sale process for Bennetts***

44. Saga submitted that preparation for the formal auction process was commenced in February 2019. First round indicative bids had a deadline of Friday 12 July 2019. A round two process letter was sent to bidders on 15 August 2019.<sup>24</sup>
45. One internal document submitted by Saga<sup>25</sup> shows that Saga received round-two offers from several bidders: Ardonagh with an offer at £26 million, [REDACTED].
46. The evidence received by the CMA indicates that out of the [REDACTED] bidders who submitted round two offers in September 2020, [REDACTED].<sup>26</sup>
47. The CMA therefore believes that there is a realistic prospect that, absent the Merger, Bennetts would have been acquired by [REDACTED], rather than remained owned and operated by Saga.

### ***Acquisition by [REDACTED]***

48. The evidence available to the CMA indicates that [REDACTED] is not active in the distribution of motorcycle insurance to private customers in the UK.<sup>27</sup> The CMA therefore believes that that it is not realistic that an acquisition of Bennetts by [REDACTED] would have created an overlap in any plausible frame of reference or would otherwise give rise to competition concerns. There is, however, no basis to consider that the acquisition by [REDACTED] would have made Bennetts more competitive than under Ardonagh's ownership.
49. [REDACTED] is active in the distribution of motorcycle insurance in the UK, but, on the basis of the available evidence, the CMA also does not believe that there is a

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<sup>23</sup> MN, paragraph 79.

<sup>24</sup> The Parties' response to RFI 1 [REDACTED].

<sup>25</sup> [REDACTED].

<sup>26</sup> An email exchange within Saga on 14 October provides: [REDACTED]

<sup>27</sup> See: [REDACTED]

realistic prospect that the acquisition of Bennetts by [redacted] would have made Bennetts a more competitive proposition in the market.

50. The CMA therefore does not believe there is a realistic prospect that the acquisition of Bennetts by [redacted] or [redacted] would have been a more competitive counterfactual than the pre-Merger conditions of competition.

### ***Bennetts' plans***

51. As noted in paragraph 28, Bennetts intended to [redacted]. One Bennetts' management presentation provides that [redacted] one of the 'key pillars to Bennetts' business plan and continued growth.'<sup>28</sup> The CMA therefore believes that it is foreseeable that Bennetts will [redacted]<sup>29</sup> and that there is a realistic prospect that Bennetts [redacted] would pursue these strategies and stabilise and continue to grow its business (as described in more detail in paragraph 128 below).<sup>30</sup>

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

52. For the reasons set out above, the CMA does not believe that there is a realistic prospect that the acquisition of Bennetts by either [redacted] would have created a more competitive counterfactual than the pre-Merger conditions of competition. The CMA found that the relevant counterfactual is the pre-Merger conditions of competition, whereby Bennetts [redacted], stabilises its business and continues to grow.

## **Background**

### ***Supply chain***

53. The provision of motorcycle insurance can be split into underwriting and distribution by brokers:
- (a) Underwriters<sup>31</sup> are the underlying providers of insurance. They assess the risk of a given customer, set the premium, and cover the cost of any claims.

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<sup>28</sup> [redacted]

<sup>29</sup> Several brokers, including Bennetts, indicated that [redacted]. Specifically, for Bennetts, [redacted] represents a 'significant opportunity to 'accelerate Bennetts' long-term growth. potential by [redacted]'. One internal document indicates that Bennetts has been also considering [redacted]'. Ardonagh has had internal discussions about establishing a [redacted] does not have any specific plans to do so. [redacted]

<sup>30</sup> [redacted]

<sup>31</sup> Underwriters of motorcycle insurance include AXA, Aviva, LV=, Ageas and Marketstudy.

- (b) Brokers, including the Parties, sell insurance to customers and are responsible for marketing, sales and customer service.
54. As explained above in paragraph 28, the insurance supply chain also includes MGAs, which act as an intermediary between the underwriters and retail brokers, and have delegated underwriting functions.
55. Motorcycle insurance in the UK is usually distributed to private customers by brokers as opposed to directly by the underwriters.<sup>32</sup>
56. Motorcycle insurance brokers typically establish partnerships with several underwriters and may negotiate on the net premiums put forward by the underwriters. When a customer requests a quote from a broker, the broker will identify the underwriter that offers the lowest premium for this customer. The broker will then add its commission to reach the final price. Brokers also earn revenue from selling add-ons (eg helmet and leather cover, breakdown cover or personal injury cover) and from fees (eg for early cancellation).<sup>33</sup>
57. For the purposes of this decision, the sale of insurance policies to customers by brokers and underwriters is referred to as **distribution**, and brokers and underwriters that sell to customers are together referred to as the **distributors**.

### ***Procurement of motorcycle insurance***

58. Customers can buy insurance directly from distributors (direct sales<sup>34</sup>) or by way of a 'click through' from a PCW.<sup>35</sup>
59. Direct sales, in particular sales to existing customers, account for the majority of the Parties' sales. In 2019, direct sales accounted for [70-80]% of the sales of *Bennetts* and [70-80]% of the sales of *Carole Nash*.<sup>36</sup> For new customers, PCWs play a more significant role. In 2019, [50-60]% of the sales of *Carole Nash* to new customers, [60-70]% of the sales of *Swinton* to new customers and [60-70]% of the sales of *Bennetts* to new customers were made via a

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<sup>32</sup> While underwriters can sell direct to customers, the evidence available indicates that this is uncommon for motorcycle insurance. The CMA is aware of four underwriters active in the distribution of motorcycle insurance in the UK, namely MCE, Hastings, Aviva and LV=. While Aviva and LV= are significant car insurance distributors, their presence in motorcycle insurance distribution is small (see Table 1).

<sup>33</sup> Add-ons are typically provided by a third party (eg RAC provides breakdown cover) with the broker charging a commission.

<sup>34</sup> Direct sales from the distributors include new business and renewals of the customers' policies that came to an end.

<sup>35</sup> Compare the Market and Vast Visibility are the two largest providers of PCWs for motorcycle insurance. Both these PCWs cover the majority of the market including the eight largest distributors as listed in Table 1. Vast Visibility provides the motorcycle insurance comparison tool used by several PCWs including The Bike Insurer, MoneySupermarket, GoCompare and Confused.com.

<sup>36</sup> Parties' presentation at the Issues Meeting of 18 August 2020, slide 27, and Parties response to the CMA's questions following the Issues Meeting, Annex I.

PCW. Bennetts estimates that a further [30-40]% of its new customers who purchased directly from Bennetts checked prices on a PCW before doing so.<sup>37</sup>

60. The evidence available to the CMA indicates that the proportion of new customers purchasing via PCWs is significantly higher for many of the Parties' competitors compared to the Parties. For example, the proportion of new customers acquired via PCWs is [90-100]% for MCE, [80-90]% for Hastings, [80-90]% for Motorcycle Direct, [80-90]% for Devitt. Bikesure is [redacted] significant competitor that is less dependent on PCWs, with [30-40]% of new customers acquired via PCWs. This indicates that the Parties' reliance on PCWs to win new business is less significant compared to other distributors.

### ***PCWs and competitive dynamics***

61. The Parties submitted that the importance of PCWs in motorcycle insurance distribution has grown significantly in the recent past, and can be expected to continue in future. The Parties stated that PCWs drive significant price competition across motorcycle insurance distribution and that there is considerable scope for PCWs to grow further, which will drive even more competition in the market.<sup>38</sup> On this basis, the Parties submitted further that the Merged Entity will be constrained post-Merger by a wide variety of existing and expanding competitors that are capable of providing competing services to the Merged Entity and price-competitive quotes on PCWs.<sup>39</sup>
62. The CMA notes that previous reports by the CMA and FCA indicate that PCWs can increase competition by making prices more transparent,<sup>40</sup> and that such benefits have already been observed in other sectors, such as car insurance.<sup>41</sup> This is consistent with the position set out in one Ardonagh document (albeit one produced after the Merger was in contemplation), which notes that PCWs 'play an increasingly important role in the distribution of motorcycle insurance, increasing price transparency such that customers are highly responsive'.<sup>42</sup>
63. The CMA's competitive assessment, as set out below, includes an analysis of the shares of supply in the distribution of motorcycle insurance and of the constraints that the Parties face from other distributors. While this assessment is primarily based on data relating to competition in the market in the last three

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<sup>37</sup> The Parties' response to RFI 1, question 6.

<sup>38</sup> The Parties' response to the Issues Letter, paragraph 2.4.

<sup>39</sup> The Parties' response to the Issues Letter, paragraph 1.1.4.

<sup>40</sup> See paragraph 3.17 of the Financial Conduct Authority [Interim Report on General Insurance pricing practices](#) of October 2019.

<sup>41</sup> See the CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 8.6. The role of PCWs is discussed further in paragraph 104 below.

<sup>42</sup> Annex [10 (B)] \_ Project Blue Investment Memo.PDF, page 10.

years, the CMA believes that these data already reflect, to a large extent, the impact that PCWs have had on the distribution of motorcycle insurance. The CMA therefore considers that there is no basis to believe that the role of PCWs in motorcycle insurance distribution in future years (to the extent that there is further growth in the use of PCWs) will materially change the nature of the competitive constraints faced by the Parties. In particular:

- (a) In contrast to the Parties' submissions that the penetration of PCWs in motorcycle insurance lags behind that in other sectors, the available evidence indicates that the role of PCWs within the motorcycle insurance is already well-established. PCW penetration across different motorcycle insurance distributors is already high (see paragraph 60 above), and evidence from internal documents and third parties indicates that PCWs have been used by consumers looking for motorcycle insurance in the UK for a number of years. For example, one survey received by the CMA<sup>43</sup> suggested that, by June 2017, 81% of customers used online comparison sites when looking to purchase motorcycle insurance.
- (b) Similarly, third parties consistently told the CMA that PCWs play an important role in the consumer journey. For example, one third party said that 'PCW[s] have increased the price-sensitive nature [of customers]' and that many consumers buy from PCWs.<sup>44</sup> Several brokers told the CMA that at least 60% of customers buy their motorcycle insurance policy through PCWs. Overall, the CMA considers that the available evidence indicates that the penetration of PCWs in motorcycle insurance is not materially behind that in other sectors.
- (c) As described further below, the CMA found that the increased price transparency brought about by PCWs has not significantly affected the Parties' position in recent years or increased the competitive constraint offered by smaller competitors, whose market positions have remained largely static.
- (d) In any case, the majority of the Parties' total sales are direct sales and the Parties are less reliant on PCWs than their competitors (as explained in paragraph 142 below). More than [50-60]% of each of the Parties' revenues come from direct sales (including renewals), and the Parties earn considerably more through the direct sales channel per policy than through the PCW channel. While Ardonagh has recently increased its use

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<sup>43</sup> Bauer Media Group Insurance survey (2017).

<sup>44</sup> [REDACTED] response.

of PCWs, through the launch of *Carole Nash Select*, Bennetts is seeking to [REDACTED] and to move towards [REDACTED].<sup>45</sup>

64. The CMA therefore believes that, while PCWs play an important role in driving competition through price transparency, these changes in market dynamics would already be largely reflected in the evidence available to the CMA in this case.

### **Customer decision-making**

#### *Parties' submissions*

65. The Parties submitted that motorcycle insurance is largely undifferentiated, and that price is the key driver of customers' purchasing decisions, followed by brand and features of the policy.<sup>46</sup> In this respect, the Parties noted that PCWs rank offers by price, and consumers are extremely price-sensitive and make their purchasing decisions based on price.<sup>47</sup> Data submitted by the Parties shows that 94% of customers on a PCW choose one of the top five cheapest options and that 70% choose the cheapest.

#### *CMA's assessment*

66. The evidence received by the CMA broadly supports the Parties' position that price is the key driver in customer decision-making. The CMA notes, however, that this position is less clear for the Parties' customers who, as noted above, appear to be less likely to use PCWs.<sup>48</sup> The available evidence also indicates that other factors play a significant role in customer decision-making, as reflected in the Parties' internal documents and strategic decisions.
67. In this regard, the Parties' internal documents indicate that brand recognition is an important factor taken into account by customers:
- (a) One Bennetts' internal document notes: 'Majority of Bennetts' customers are passionate about biking and [REDACTED] focused on the brand [REDACTED].'<sup>49</sup>

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<sup>45</sup> ANNEX [REDACTED].

<sup>46</sup> MN, paragraphs 130, and 133 to 135.

<sup>47</sup> MN, paragraph 116.

<sup>48</sup> With respect to PCW sales, the CMA notes that, according to data submitted by the Parties (see paragraph 65) 30% of customers did not choose the cheapest option, which suggests that these customers took into account factors other than price.

<sup>49</sup> Parties' presentation at the Issues Meeting dated 18 August 2020.

(b) One Ardonagh's Group Strategy document provides that its strategy for its motorcycle insurance brands including Carole Nash and Swinton involves 'Continued brand investment to drive [sic] [REDACTED] [sic]'.<sup>50</sup>

68. The Parties' internal documents also indicate that they monitor their own brand recognition and/or familiarity, as well as that of their competitors,<sup>51</sup> and that brands with lower brand familiarity have more difficulties in winning customers than the Parties.<sup>52</sup>
69. This position is consistent with third-party evidence provided to the CMA during its investigation. Several brokers and one PCW told the CMA that brand is a factor considered by customers when choosing a motorcycle insurance provider and considered as a proxy for quality and trust for many customers.<sup>53</sup>
70. The CMA also notes that the Parties investment in brand development (eg by sponsoring motorcycle events) is material.<sup>54</sup>

## Frame of reference

71. 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>55</sup>
72. The Parties overlap in the distribution of motorcycle insurance to private (non-commercial) customers in the UK.

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<sup>50</sup> MN, Annex [REDACTED].

<sup>51</sup> For example, [REDACTED]

<sup>52</sup> For example, [REDACTED]

<sup>53</sup> One broker said that 'If price is cheap but the brand is unknown then there is often a lack of trust in the price.' Another broker said that 'Brand is a proxy for quality & trust for many customers.' Another broker said that brand is particularly important to certain categories of customers: 'In the "classic motorbikes" / "enthusiasts" area of the market, brand matters and there is a high degree of loyalty. Customers are unlikely to switch from a trusted brand that has a good understanding of bikes, even if they could save money.' One PCW told the CMA that 'price and brand recognition work [sic] in conjunction'.

<sup>54</sup> In 2019, Bennetts spent [REDACTED] on brand development, compared to [REDACTED] on direct marketing and [REDACTED] on PCW fees and. In 2019, Carole Nash spent [REDACTED] on brand development, compared to [REDACTED] on direct marketing and [REDACTED] on PCW fees.

<sup>55</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

## ***Product scope***

73. The CMA's starting point for the product frame of reference is the overlap between the Parties, ie the distribution of motorcycle insurance to private (non-commercial) customers.
74. The CMA considered whether it is appropriate to widen the product frame of reference to include the distribution of insurance of other motor vehicles (ie including motorcycle and other motor vehicle insurance). The CMA also considered whether the distribution of insurance of motorcycles should be further segmented.

### *Possible widening of the frame of reference to include the distribution of insurance of other motor vehicles*

#### *Parties' submissions*

75. The Parties submitted that the CMA should adopt a single frame of reference for the distribution of insurance<sup>56</sup> for all types of motor vehicle (ie including motorcycles and cars<sup>57</sup>) with no further segmentation. The Parties submitted that EU and UK legislation recognise motor insurance as a particular classification of insurance without subdividing it further by vehicle type. The Parties submitted that any authorisation for the provision of motor vehicle insurance allows the provider to offer insurance products for all types of vehicle, including cars and motorcycles.<sup>58</sup>
76. The Parties further stated that brokers and underwriters providing other types of private motor insurance (**PMI**) are well placed to enter the distribution of motorcycle insurance. Brokers can switch between different areas of insurance with relative ease and at low cost.<sup>59</sup>

#### *CMA's assessment*

- *Demand-side substitution*

77. The evidence received by the CMA indicates that there is no demand-side substitution between the distribution of motorcycle insurance and insurance of other types of motor vehicles insurance, eg cars. Riders of motorcycles are

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<sup>56</sup> MN, paragraphs 85 and 99.

<sup>57</sup> MN, paragraph 90.

<sup>58</sup> MN, paragraph 90.

<sup>59</sup> The Parties referred to precedents supporting this, including *Aon/Benfield*, *QBE/MBP* and *Catlin/Wellington*. MN, paragraphs 94 to 95.



required by law to purchase motorcycle insurance. Therefore, insurance for other types of motor vehicle would not meet this legal requirement.

- *Supply-side substitution*

78. While the boundaries of the relevant product market are generally determined by reference to demand-side substitution alone,<sup>60</sup> the CMA may widen the scope of the market where there is evidence of supply-side substitution.
79. The CMA may do so where there is evidence that suppliers have the ability and incentive quickly (generally within a year) to shift capacity between different products depending on demand for each; and the same firms compete to supply these different products and the conditions of competition between the firms are the same for each product.<sup>61</sup>
80. The evidence received by the CMA does not indicate that either of these conditions are met such that the product scope should be widened to include car insurance distribution (or any other product):<sup>62</sup>
- (a) The evidence received by the CMA indicates that conditions of competition differ between motorcycle and car insurance distribution, with many car insurance distributors not selling motorcycle insurance. Similarly, specialist motorcycle brokers (such as Bennetts and Motorcycle Direct) are not active in the distribution of car insurance.<sup>63</sup>
  - (b) As discussed in the entry and expansion section below, most car insurance distributors that responded to the CMA's investigation said that they have little interest in distributing motorcycle insurance; and, for those that did, it was regarded as entry into a specialised market with specific knowledge requirements requiring careful consideration and which may take longer than one year.
81. The Parties' internal documents support the CMA's view that it is not appropriate to widen the frame of reference for motorcycle insurance to include insurance for other types of motor vehicle. The Parties' internal documents consistently discuss the market and conditions of competition in the distribution of motorcycle insurance, as opposed to the wider motor

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<sup>60</sup> [Merger Assessment Guidelines](#), paragraph 5.2.17.

<sup>61</sup> [Merger Assessment Guidelines](#), paragraph 5.2.17.

<sup>62</sup> Both conditions would need to be met for the market to be widened due to supply-side substitution.

<sup>63</sup> See also the CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 4.8.

vehicle market.<sup>64</sup> The Parties' internal documents only rarely discuss the threat of entry from distributors of other types of motor vehicle into the distribution of motorcycle insurance.

82. Further, in its Final Report in the PMI Market Investigation (**PMI Report**), the CMA specifically excluded motorcycle insurance from the relevant frame of reference (ie the supply of PMI) on the basis that the conditions of competition for the distribution of motorcycle insurance were different to those for PMI.<sup>65</sup>
83. On the basis of this evidence, the CMA believes that distributors of insurance for other motor vehicles do not have the ability and incentive to shift capacity quickly (ie within a year) to start distributing motorcycle insurance. Therefore, the CMA considers that it is not appropriate to widen the product frame of reference to include car insurance distributors. The CMA has, however, considered whether entry by other motor vehicle insurance distributors (where there is evidence of such entry) into the distribution of motorcycle insurance would be likely, timely and sufficient to counter any competition concerns within its competitive assessment.

*Possible widening of the frame of reference to include the distribution of motorcycle insurance to commercial customers*

84. The CMA considered whether it is appropriate to widen the product frame of reference to include the supply of insurance to all types of customer, ie including insurance to commercial customers.<sup>66</sup>

*Demand-side substitution*

85. The evidence received by the CMA indicates that there is no demand-side substitution between commercial and private motorcycle insurance. Motorcycles used for commercial purposes are required by law to be covered by a different type of motorcycle insurance than motorcycles for private use. Therefore, private motorcycle insurance would not meet customers'

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<sup>64</sup> One Bennetts' internal document [redacted] refers specifically to the 'the UK motorcycle market', and to *Bennetts* being a 'motorcycling brand'. This document notes further that 'Bennetts' [redacted] is focused on [redacted] its bike specialism'. One Ardonagh's Group Strategy document [redacted], which provides a list of 'key sectors' in which Ardonagh has [redacted], lists 'motorcycle' separately from 'van', 'classic car' and 'specialist haulage' categories. More generally, the Parties' internal documents show that they mainly identify as their competitors other distributors of motorcycle insurance, not distributors of insurance other types of motor vehicle. Only rarely, the Parties' internal documents discuss the threat of entry of distributors of other types of motor vehicle into the distribution of motorcycle insurance.

<sup>65</sup> CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 4.8.

<sup>66</sup> By 'commercial insurance' the CMA refers to insurance issued to commercial customers and individuals for business purposes.

requirement to insure motorcycles used for commercial purposes and vice versa.

#### *Supply-side substitution*

86. The Parties did not make submissions on the supply-side substitution between providers of commercial motorcycle insurance and private motorcycle insurance.
87. The CMA has found that the competitor set is different in these two segments. While the CMA received evidence that MCE, Devitt, Lexham and Principal offer commercial motorcycle insurance alongside to motorcycle insurance to private customers, most distributors do not appear to do so. The CMA notes, in particular, that while the Parties are active in the distribution of motorcycle insurance to private customers, Ardonagh has only a small number of motorcycle insurance policies to commercial customers, while Bennetts does not offer insurance policies to commercial customers or individuals.<sup>67</sup>
88. This is also in line with the PMI Report, in which the CMA also excluded insurance for commercial vehicles from the market definition for PMI.<sup>68</sup>
89. In light of the above the CMA does not consider it is appropriate to widen the product frame of reference to include the supply of insurance to all types of customer. Therefore, the CMA has assessed the effects of the Merger by reference to the distribution of motorcycle insurance to private customers.<sup>69</sup>

#### ***Segmentation of the distribution of motorcycle insurance to private customers***

90. The CMA also considered whether it is appropriate to segment the distribution of motorcycle insurance to private customers further.

#### *Parties' submissions*

91. The Parties submitted that the market should not be segmented further either by (i) type of cover and add-ons, (ii) risk factors, (iii) type of seller (direct from the underwriter and/or via a broker) and/or (iv) by method of customer acquisition.<sup>70</sup>

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<sup>67</sup> MN, page 20, footnote 29.

<sup>68</sup> CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 4.8.

<sup>69</sup> However, the CMA notes that, in any event widening the product frame of reference to include the distribution of motorcycle insurance to commercial customers would not change the CMA's findings as to the competitive effect of the Merger, because there is a small number of commercial policies. The inclusion of commercial policies would not change the market size and the Parties' shares in any material way.

<sup>70</sup> MN, paragraphs 86 to 108.

### *CMA's assessment*

92. The CMA considered each of these possible grounds for segmentation in turn below. In addition, the CMA considered whether it is appropriate to segment the frame of reference further based on customer type.

#### *Segmentation by type of cover and add-ons*

93. In the PMI report, the CMA concluded that it was not appropriate to segment PMI narrowly based on the type of cover because providers competed across the range of cover types.<sup>71</sup>
94. On the demand-side, customers are required to have basic insurance but are free to purchase more comprehensive insurance with wider cover and with, or without, add-ons, according to their preferences. On the supply-side, third-party evidence received by the CMA indicates that many motorcycle insurance brokers cover a large majority of types of cover and add-ons, indicating that there is some degree of supply-side substitution amongst the different types of covers and add-ons.<sup>72</sup>
95. Therefore, the CMA believes that it is not appropriate in this case to segment the product frame of reference based on the type of cover offered by the different distributors of motorcycle insurance, and also that it is appropriate to include all type of cover and add-ons in the same relevant frame of reference.

#### *Segmentation by risk factor*

96. In the PMI report, the CMA concluded that it was not appropriate to segment PMI narrowly based on risk factor because providers competed across the different risk factors. In a previous decision, the Office of Fair Trading (**OFT**, the CMA's predecessor), found that brokers specialising in certain areas were able to switch with relative ease between the different types of risk.<sup>73</sup>
97. On the demand-side, the CMA found that there is limited demand-side substitution between motorcycle insurance covering different risk profiles. The risk profile of customers is assessed by the underwriter and/or broker and is a criterion that determines which motorcycle insurance product is appropriate

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<sup>71</sup> The CMA also concluded that the market for add-ons had some similarity with secondary, or aftermarket, products (ie products purchased only as a result of the purchase of a primary product) and therefore that add-ons should not be viewed as a separate market (see CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 4.12).

<sup>72</sup> MN, Annex 17.

<sup>73</sup> See the following OFT's decisions: (i) *Anticipated acquisition by Aon Corporation of Benfield Group Limited*, paragraph 19 (November 2008); and (ii) *Anticipated acquisition by Catlin Group Ltd of Wellington Underwriting plc.* (December 2006).

for certain customers. On the supply-side, third-party evidence received by the CMA indicates that a number of motorcycle insurance brokers cover a large majority of risk factors, indicating that there is some degree of supply-side substitution between the cover of different risk profiles.

98. Therefore, the CMA believes that it is not appropriate in this case to segment the product frame of reference based on the risk covered by the different distributors of motorcycle insurance. However, the CMA took evidence of supplier specialisation in relation to particular risk factors into account within its competitive assessment.

*Segmentation by type of seller (directly from the underwriter vs broker)*

99. In the PMI report, the CMA concluded that brokers operated similarly to the direct underwriters (with sales to customers through their own websites, PCWs and/or over the phone)<sup>74</sup> and should be therefore considered within the same product frame of reference.
100. On the supply-side, the third-party evidence received by the CMA indicates that both underwriters and brokers offer motorcycle insurance to customers, albeit that brokers tend to distribute a greater share of these policies and some underwriters, for example Ageas or AXA, do not sell directly to customers.<sup>59</sup>
101. Therefore, the CMA believes that it is not appropriate in this case to segment the product frame of reference based on the type of seller offering motorcycle insurance.

*Segmentation by method of customer acquisition*

102. In the PMI report, the CMA noted that it would be more difficult and time-consuming for customers to search across the individual websites of providers (direct to consumer) than using PCWs. The CMA notes that the starting point in the CMA's PMI market investigation was different to the present Merger investigation in that the CMA assessed whether direct suppliers of PMI exerted a sufficient competitive constraint on PCWs. On this basis, in its PMI Report the CMA found that PCWs facilitate the buying and selling of PMI, as a platform connecting PMI distributors and PMI customers and therefore represented a separate two-sided market. The CMA recognised that the emergence of PCWs had been a key factor in driving competition in the sector (being the largest source of new business for PMI retailers), leading to high

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<sup>74</sup> CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 4.15.

levels of price transparency. The CMA noted that it was important to take account of the increasing role of PCWs in facilitating access to the market for retailers of PMI and for customers to obtain competitive quotes.<sup>75</sup>

103. Third-party evidence received by the CMA in this case indicates that the vast majority of distributors acquire new business both directly through their website and through PCWs, albeit that the proportion of new business from each channel tends to vary for different distributors.
104. For these reasons, the CMA believes that it is not appropriate in this case to segment the product frame of reference based on the method of customer acquisition. However, the CMA took evidence of differences in relation to methods of customer acquisition into account within its competitive assessment.

#### *Segmentation by type of customer*

105. The evidence received by the CMA indicates that there are certain differences between different types of customers of motorcycle insurance. The Parties' internal documents show a number of distinctions, for example by age, bike type, engine size, method of customer acquisition and/or price sensitivity.<sup>76</sup>
106. The CMA therefore considered whether it would be appropriate to segment the frame of reference more narrowly by type of customer.
107. On the demand-side, based on the internal documents mentioned above and third-party evidence, the CMA considers that different customers have different legal requirements and preferences, which is reflected in the different types of policy each type of customer seeks and the price that the customer is willing to pay.
108. On the supply-side, the evidence received from third parties by the CMA indicates that distributors of motorcycle insurance generally cater to all types of customer. In particular, the CMA did not receive evidence indicating that there are material differences in the competitor sets targeting different types of customers based on any of the factors discussed in paragraph 105 above.

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<sup>75</sup> CMA's final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 8.6.

<sup>76</sup> One Bennetts' internal document notes that 'The motorcycle market comprises five main customer segments: [REDACTED]. Each of these five categories is defined based on factors including the customers' age, bike type and engine size. See [REDACTED].

Another Bennetts' internal document notes that '[REDACTED] allows Bennetts to [REDACTED] away from price comparison websites ('PCWs') whose customers tend to be very price sensitive'. The document notes further different customer retention rates based on the method of customer acquisition. This implies that customers can be distinguished based on the use of the distribution channel (ie those acquiring policy directly from the distributor, those using PCWs), their price sensitivity; and level of engagement on the moment of renewal (ie those that look for a better offer, often switching, and those that are disengaged. See [REDACTED]

Competitors (brokers) that responded to the CMA's investigation told the CMA that they supply motorcycle insurance to different types of customers. However, some distributors focus on or are stronger in relation to the sale of insurance policies targeted at a particular type of customer, which is reflected in their higher proportion of sales to that type of customer.

109. Therefore, the CMA believes that it is not appropriate in this case to segment the product frame of reference based on the type of customer purchasing motorcycle insurance. However, the CMA took evidence of differences in the different types of customers that distributors focus on into account within its competitive assessment.

*CMA's conclusion on segmentation of the distribution of motorcycle insurance*

110. In light of the evidence summarised above, the CMA does not believe that the market should be further segmented either by (i) type of cover and add-ons, (ii) risk factors, (iii) type of seller, (iv) by method of customer acquisition and/or (v) type of customer.

*Conclusion on product scope*

111. For the reasons set out above, the CMA has considered the impact of the Merger in the distribution of motorcycle insurance to private customers.

**Geographic scope**

112. The Parties submitted that the geographic frame of reference should be national in scope, as motorcycle owners are required to insure their motorcycle in the country of registration.
113. The CMA has not previously considered this issue in relation to the distribution of motorcycle insurance. However, in its PMI report, the CMA concluded that the appropriate geographic market for PMI was national.<sup>77</sup> In *QBE International Holdings Plc/MBP Holdings Ltd*, the OFT defined the UK as the relevant frame of reference at the vehicle insurance underwriting level.<sup>78</sup>
114. The evidence received by the CMA indicates that there is no demand-side substitutability for the purchase of motorcycle insurance between the UK

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<sup>77</sup> CMA's Final report of 24 September 2014 in [Private Motor Insurance market investigation](#), paragraph 4.22.

<sup>78</sup> OFT's decision of 14 November 2005 in completed acquisition by *QBE International Holdings (UK) plc of MBP Holdings Ltd*, paragraph 16.

and other countries due to the legal requirement that the insurance policy covers the country of registration of the motorcycle.

115. On the supply-side, the Parties' documents indicate that the Parties treat the UK separately to other jurisdictions.<sup>79</sup>
116. Third-party evidence also suggests that distributors of motorcycle insurance from other countries cannot easily and quickly enter into the UK, given, inter alia, the importance of brand awareness in the UK and the need of investing in marketing and PCWs targeted at the UK.
117. The CMA also found that the conditions of competition for the supply of private motorcycle insurance in the UK are different from other jurisdictions, ie there is a different competitor set. The Parties are mainly present in the UK and the wider competitor set in the UK is different to that in other countries.
118. For the reasons set out above, the CMA considers a UK-wide geographic frame of reference is appropriate.

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

119. The CMA has considered the impact of the Merger in the distribution of motorcycle insurance to private customers in the UK.

## **Competitive assessment**

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

120. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.<sup>80</sup> Horizontal unilateral effects are more likely when the merging parties are close competitors. The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the distribution of motorcycle insurance to private customers in the UK.

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<sup>79</sup> One document prepared by an external agency [redacted] for Ardonagh ([redacted]) provides: 'Carole Nash operates [...] in the UK and Ireland. It is the [redacted] motorcycle broker in both markets'. The document provides further that there are different competitor sets in the UK and Ireland (ie different brands) indicating that conditions of competition are different. One Bennetts' strategy document ([redacted]) is discussing the UK market specifically, noting that '[redacted], [Bennetts] will have a proposition that has the ability to target all UK motorcyclists'.

<sup>80</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.



121. In order to assess the likelihood of the Merger resulting in unilateral effects, the CMA considered:
- (a) Shares of supply;
  - (b) The closeness of competition between the Parties; and
  - (c) Competitive constraints from other suppliers.

### **Shares of supply**

122. The Parties submitted that they have a combined share of supply of [30-40]%, with an increment of [10-20]% (by number of live motorcycle insurance policies as of 30 June 2019) brought about by the Merger.<sup>81</sup> The Parties estimated that their share has decreased from [30-40]% in June 2018 and [40-50]% in 2017.<sup>82</sup>
123. The CMA produced its own share of supply estimates (by number of live policies)<sup>83</sup> based on data submitted by the Parties and their competitors. These estimates are shown in Table 1 below.<sup>84</sup>

**Table 1: CMA estimates of the shares of supply of the Parties and other distributors (by number of policies to private customers)<sup>85</sup>**

	June 2017	June 2018	June 2019
Ardonagh	[20-30]%	[20-30]%	[20-30]%
Bennetts	[20-30]%	[20-30]%	[10-20]%
Combined	[40-50]%	[40-50]%	[30-40]%
Bikesure	[10-20]%	[10-20]%	[10-20]%
MCE	[10-20]%	[10-20]%	[10-20]%
Hastings	[5-10]%	[10-20]%	[10-20]%
Devitt	[5-10]%	[5-10]%	[5-10]%
Motorcycle Direct	[5-10]%	[5-10]%	[5-10]%

<sup>81</sup> As of 30 June 2019.

<sup>82</sup> MN, Table [1a].

<sup>83</sup> The CMA also considered to estimate shares of supply based on gross written premium (GWP). However, it was challenging to produce consistent shares by GWP since GWP is calculated differently by different distributors (see MN, Annex 19, para 2.6 explains how the GWP calculations differ between each of the Parties' brands). Furthermore, share of supply estimates based on GWP might underestimate the market position of motorcycle insurance distributors that focus on relatively lower risk customers, such as the Parties (see paragraph 126). The CMA observes that the Parties also consider the number of live policies to be the best measure for estimating shares of supply (MN, paragraph 16).

<sup>84</sup> The CMA observes that the Parties' estimates assume that there was a total of 1.49 million motorcycles registered in the UK as of 30 June 2019 (see MN, Annex 19, Table 1) However, the vehicle licensing statistics obtained by the CMA from the Department for Transport indicated that the number of motorcycles registered in the UK on 30 June 2019 was 1.36 million, or 1.32 million excluding motorcycles registered to commercial owners (see Department for Transport, [Vehicle Licensing Statistics, VEH0301](#)).

<sup>85</sup> This table does not include live policies issued by the Bravo Group (now acquired by Ardonagh). The Parties submitted that the Bravo Group issued [§] live policies as of 30 June 2020. The inclusion of the Bravo group would therefore not have a material impact on the shares presented in Table 1.

Lexham	[0-5]%	[0-5]%	[0-5]%
Others	[5-10]%	[5-10]%	[5-10]%

Source: data provided by the Parties and by other motorcycle insurance distributors

124. The CMA's share of supply data shows that the Parties have a combined share of supply (by number of policies) of [30-40]% in 2019, with an increment of [10-20]% brought about by the Merger.<sup>86</sup> The share data also shows some recent decline in the Parties' combined position, from a combined share of [40-50]% in June 2017 to a combined share of [30-40]% in June 2019. The Parties are the two largest motorcycle insurance distributors, by some margin, and the Merged Entity would be three times the size of its next largest competitor (Bikesure, with a share of [10-20]%) by number of policies.
125. The Parties' internal documents are broadly consistent with the CMA's estimate of the Parties' shares of supply.<sup>87</sup>
126. The CMA also observes that the Parties have higher combined shares of supply in some categories. The Parties are particularly strong among older customers (with a combined share of supply of [50-60]% in 2019 for customers aged 60+ (increment of [10-20]%), and a combined share of [40-50]% in 2019 for customers aged 50-59 (increment of [20-30]%). The Parties are also particularly strong in the supply of insurance for motorcycles with medium to large engine capacities (with a combined share of [40-50]% in 2019 for motorcycles with an engine capacity of 300cc or above (increment of [20-30]%).
127. Furthermore, the Parties have a higher share of direct sales than PCW sales. The CMA estimates that in 2019, the Parties had combined share of approximately [40-50]% in direct sales, with an increment of [10-20]%<sup>88</sup>, while the Parties' combined share of sales through PCWs in 2019 was [30-40]%,<sup>89</sup> with a [10-20]% increment.
128. The Parties submitted that their historical market shares are not a meaningful measure of competition because the Parties' shares have already declined in

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<sup>86</sup> CMA's estimates of the Parties' shares of supply as of June 2019, Table 1.

<sup>87</sup> One Bennetts' document dated June 2019 provides that *Bennetts* has a share of supply of [20-30]%, followed by *Carole Nash* at [10-20]% and *Swinton* at [5-10]% (by number of policies), indicating that the Merged Entity would have a combined share of supply of [40-50]%. MN, [REDACTED].

Another Bennetts' document notes that 'Bennetts is an established and trusted market leader in [standard motorcycle insurance], with a current total of approximately 240,000 live policy holders which is circa. [20-30]% market share.' [REDACTED].

One Ardonagh's internal document which discusses the Merger refers to 'the competition risk (ie circa [40-50]% market share)'. [REDACTED]

<sup>88</sup> The other brokers with the most direct sales were: Bikesure ([30-40]%), Lexham ([5-10]%), Hastings ([0-5]%), Devitt ([0-5]%), Motorcycle Direct ([0-5]%), and BeMoto ([0-5]%).

<sup>89</sup> The other brokers with the most sales through PCWs were: MCE ([10-20]%), Hastings ([10-20]%), Bikesure ([5-10]%), Devitt ([5-10]%), Lexham ([5-10]%) and Motorcycle Direct ([5-10]%).

recent years and the impact of PCWs on competition in the distribution of motorcycle insurance is expected to grow in the future.<sup>90</sup> The evidence received by the CMA does not, however, support this view. In particular:

129. First, the decline in Ardonagh's motorcycle insurance policies between [redacted] does not appear to be a continued trend, as the number of policies stabilised [redacted] and then increased (by 3%) in [redacted].
130. Second, a Bennetts internal document attributes the decline in the number of its motorcycle policies [redacted] to changes in the Bennetts' [redacted].<sup>91</sup> The same document states that Bennetts can 'optimise' the model and grow its profit by [redacted].<sup>92</sup> Consistent with this position, other internal documents also indicate that Bennetts' number of policies is expected to increase from [redacted] onwards [redacted], as a result of Bennetts' plans to stabilise and grow its business.<sup>93</sup> In particular, a Bennetts management presentation<sup>94</sup> shows that, [redacted], the other [redacted] 'key pillars to Bennetts' business plan and continued growth' were plans to [redacted].<sup>95</sup> The document provides further that Bennetts expects to achieve [redacted]% [redacted] by [redacted] by moving away from [redacted] (ie 'profitability will be driven primarily through a [redacted] focus on [redacted] customers, [redacted]').<sup>96</sup>
131. Ardonagh also submitted that it expects Bennetts' sales to stabilise or to grow, albeit not as quickly as Bennetts forecasted.<sup>97</sup>
132. Third, the CMA considers Ardonagh's valuation of the Bennetts business is also consistent with the expectation that Bennetts' sales will stabilise and grow. In this regard, the CMA notes that:
  - (a) When Ardonagh acquired *Carole Nash* in 2017, it paid a purchase price of £[redacted], which represented a multiple of [redacted] EBITDA. While different considerations are liable to have influenced the purchase price for the two businesses, these are businesses of a similar scale operating in the same sector, and therefore a comparison between the two is likely to be of some relevance in assessing Ardonagh's expectation for the Bennetts business. One Ardonagh internal document provides a comparison of the financial performance of *Carole Nash* against *Bennetts*.<sup>98</sup> This document shows that in the financial years 2017-2019 *Carole Nash* and *Bennetts*

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<sup>90</sup> Parties' response to the CMA's Issues Letter, paragraphs 1.1.1 and 2.7.1.

<sup>91</sup> [redacted].

<sup>92</sup> Annex [redacted], and statement by Bennetts, Issues Meeting, 18 August 2020.

<sup>93</sup> MN, [redacted].

<sup>94</sup> [redacted].

<sup>95</sup> The strategy set out in this document was confirmed by one Bennetts' Managing Director.

<sup>96</sup> The strategy set out in this document was confirmed by one Bennetts' Managing Director, page 10.

<sup>97</sup> Statement by Ardonagh, Issues Meeting, 18 August 2020.

<sup>98</sup> [redacted].

had a similar number of live policies in force in each financial year (within a [REDACTED]% variance), and that *Bennetts* had [REDACTED] since its acquisition by Ardonagh, the CMA considers that it is difficult to reconcile the value that Ardonagh has attached to *Bennetts* with its characterisation as a business in decline.

- (b) More broadly, the EBITDA multiple paid for *Bennetts* is at the high end of those paid by Ardonagh in recent acquisitions.<sup>99</sup> (Ardonagh's internal documents make clear that it sees acquisitions as a key part of its commercial strategy and it has made a significant number of acquisitions in recent years.) One Ardonagh internal document sets out the implied EBITDA of several recent previous acquisitions, which show a range of [REDACTED].
- (c) Ardonagh's valuation modelling for *Bennetts* forecasts [REDACTED].<sup>100</sup> While the extent of [REDACTED] growth accounted for within this estimate is not clear, the [REDACTED] has only grown by c.1% over the last five years.<sup>101</sup> This therefore suggests that Ardonagh's financial forecast for *Bennetts* after the Merger is above the expected [REDACTED] growth, a position which again does not appear to be consistent with Ardonagh's submission in relation to the decline of *Bennetts*' business and the expected [REDACTED] in the foreseeable future (see paragraph 128).<sup>102</sup>

133. Finally, for the reasons set out above (in paragraph 63), PCWs have already been used by consumers seeking to obtain a motorcycle insurance policy for some time, and there is no basis to believe that increased penetration of PCWs will materially alter the Parties' market position in future. The CMA considers that this is again consistent with Ardonagh's valuation of the *Bennetts* business, which appears to be subject to a higher EBITDA multiple than the prior acquisition of *Carole Nash* in 2017 (notwithstanding Ardonagh's position that an acquired business would face a more significant threat of customer loss, as a result of PCWs, within today's market than would have been the case in 2017).

134. Therefore, the CMA found that although the Parties' shares declined slightly between June 2017 and June 2019, the evidence available to the CMA does

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<sup>99</sup> [REDACTED]

<sup>100</sup> Ardonagh's documents do not reveal what proportion of this growth is expected to be volume growth versus yield or price increases.

<sup>101</sup> See Department for Transport (DfT) statistics on motorcycle licences.

<sup>102</sup> Ardonagh confirmed to the CMA during the Issues Meeting that it believes that it will be able to turn the *Bennetts*' business around and reverse any recent decline, but, as explained in paragraph 51 above, evidence from *Bennetts*' internal documents indicates that *Bennetts*' was expecting and had a clear plan to, in the short term, stabilise its market position and grow.

not support the Parties' position that their existing shares overstate their competitive significance.

135. Accordingly, the CMA believes that the Parties' combined share of supply is sufficiently high to raise *prima facie* competition concerns.

### ***Closeness of competition***

136. As discussed in paragraphs 105 to 108 above, the evidence received by the CMA indicates that some motorcycle insurance brokers may focus on specific customer segments and that brokers can differentiate themselves in a number of respects, including through marketing, brand awareness, and the features of their policies. The CMA has therefore examined the closeness of competition between the Parties by considering:

- (a) Similarities and differences in the Parties' product offerings;
- (b) Data on customers switching;
- (c) The position of the Parties on PCWs and other online marketing tools;
- (d) The Parties' analysis of conversion rates;
- (e) Evidence from internal documents;
- (f) Third party views.

### ***Similarities and differences in the Parties' product offerings***

137. The Parties submitted that they are not each other closest competitors and that they do not compete closely for similar customer segments.<sup>103</sup> The Parties submitted that they cover the majority of customer profiles ([80-90]% in case of Ardonagh, and [80-90]% in case of Bennetts) and do not focus on, or have a pricing advantage, in any specific segment.<sup>104</sup>
138. The CMA's analysis indicates that, while the Parties offer motorcycle insurance to the majority of customer profiles,<sup>105</sup> the Parties (and many of their competitors) are stronger in some segments of the market than in others. In addition, the evidence indicates that both Parties focus on similar

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<sup>103</sup> The Parties' Presentation at the Issues Meeting dated 18 August 2020, slides 20 and 21.

<sup>104</sup> The Parties' Response to RFI 1, paragraph 8.

<sup>105</sup> MN, Annex 20, Table 2 indicates that *Bennetts* and *Carole Nash* offer quotes via PCWs for approximately 80% of risk profiles. The Parties' response to the CMA's s109 notice of 12 June 2020 also confirms that the Parties make substantial sales across all age bands and engine capacities.

customers, specifically lower risk customers, including enthusiasts and older customers. For example:

- (a) One Bennetts' document refers to Bennetts, Ardonagh's *Carole Nash* and MCE as the '[redacted]' in the motorcycle insurance market, and indicates that both Bennetts' *Bennetts* and Ardonagh's *Carole Nash* are targeted at '[redacted]', whereas the focus of MCE is on '[redacted]' and '[redacted]' categories.<sup>106</sup>
  - (b) The vast majority of third parties who responded to the CMA's investigation said that both Parties were among the three strongest competitors in the 'enthusiasts' category. Moreover, a significant proportion identified both Parties as the leading competitors in the 'classic bikes' and 'high performance' motorcycle categories.
  - (c) The Parties' average GWP per policy are almost identical (both [redacted]), and significantly less than the average GWP for other brokers ([£200-£250]), indicating that the Parties both focus on relatively low risk customers.<sup>107</sup>
139. The Parties have very similar customer profiles.<sup>108</sup> Data provided by the Parties and third parties indicates that both Parties cater mainly to very similar customer profiles in terms of age and engine capacity, focussing on older customers (in particular the 50-59 segment, which accounts for around [40-50]% of policies for each Party) and mid-to-heavy capacity engines (500-999 cc accounting for around [40-50]% of policies for each Party. Both Parties have a significant share of supply in the distribution of motorcycle insurance to these customers (see paragraph 126 above), and together have a high combined share of supply.
140. The Parties submitted that any perceived focus on older riders or enthusiasts is purely historic, and that part of the rationale for the sale of Bennetts by Saga was because [redacted].<sup>109</sup>
141. The CMA notes, however, that this position is not consistent with the available evidence. In addition to the evidence set out in paragraph 138 above (which reflects current rather than historic market conditions), the position also appears to be inconsistent with the Parties' current marketing strategies, which include sponsoring bike events and offering a relatively high level of features (as discussed in paragraph 136) which appeal mainly to enthusiasts. Moreover, the Parties' assessment of Saga's rationale for the Merger is not

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<sup>106</sup> MN, [redacted].

<sup>107</sup> Data provided by third parties and MN, Annex [redacted].

<sup>108</sup> The Parties' response to the CMA's s.109 Notice of 12 June 2020.

<sup>109</sup> The Parties' Presentation at the Issues Meeting dated 18 August 2020, slide 21.

consistent with what Saga told the CMA – namely, that it wished to focus on [REDACTED].<sup>110</sup>

142. As mentioned above, the Parties are also close competitors to the extent they both have a high percentage of direct sales and rely on their strong brand recognition to that effect. The Parties both acquire a significant proportion of their new customers directly (rather than through a PCW). In 2019, [40-50]% of new customers of *Carole Nash*, [30-40]% of new customers of *Swinton* and [30-40]% of new customers of *Bennetts* were acquired directly.<sup>111</sup> Overall, more than [70-80]% of Parties' sales are direct sales (see paragraph 59). For most other brokers, the proportion of new customers accounted for by direct sales is significantly lower. The CMA estimates that in 2019, the Parties and Bikesure accounted for approximately [70-80]% of all direct sales of motorcycle insurance to new customers in the UK, including the Parties with a combined share of approximately [40-50%]. This means that both Parties are less reliant on PCWs than their competitors.
143. Finally, both Bennetts' *Bennetts* and Ardonagh's *Carole Nash* branded products have a 5-star Defaqto rating<sup>112</sup> (and are among only four brands with a 5-star rating<sup>113</sup>), indicating that their product offering is comparable and competing at the comprehensive end of the market.<sup>114</sup>
144. On the basis of the evidence summarised above, the CMA considers that the Parties' offerings are very similar.

#### *Data on customer switching*

145. The Parties provided the CMA with a survey of 260 motorcycle insurance customers showing information on customer switching behaviour.<sup>115</sup> The survey shows that:
- (a) Of the [REDACTED] customers that were previously with Bennetts and then switched, [REDACTED] switched to Ardonagh. Ardonagh was the most popular destination of Bennetts customers that switched;

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<sup>110</sup> MN, Annex [REDACTED].

<sup>111</sup> The Parties' Response to RFI 1, Table 2.

<sup>112</sup> Defaqto is a financial information business that compares different financial products and gives them a star rating based on the features and benefits they offer, with 5 stars being the top rating. See: <http://www.defaqto.com>.

<sup>113</sup> *Carole Nash, Bennetts, Hastings, MCE*. See: <https://www.defaqto.com/star-ratings/motorbike/motorbike-insurance>.

<sup>114</sup> MN, Annex [REDACTED].

<sup>115</sup> MN, Annex [REDACTED].

- (b) Of the [redacted] customers that were previously with Ardonagh and switched, [redacted]. Bennetts was the most popular destination of Ardonagh customers that switched.
146. The CMA has placed limited weight on this evidence, given that the survey sample size is low and there are indications that the sample may not be representative.<sup>116</sup> Nevertheless, to the extent that any weight can be placed on this survey evidence, it appears to be consistent with the other evidence considered below, including data on customer switching received from some PCWs, that the Parties are each other's closest competitors.
147. The CMA obtained data from two PCWs on the switching behaviour of customers that have used the same PCW to find a provider of motorcycle insurance in both 2018 and 2019. This data indicates that the Bennetts' closest competitor is Ardonagh and that Bennetts is a close competitor of Ardonagh. In particular:
- (a) Ardonagh was the most popular destination for Bennetts' switching customers on both PCWs, accounting for [30-40]% of Bennetts' switching customers across the two PCWs. The percentage of customers switching from Bennetts to Ardonagh was significantly higher than the percentage switching to the second most popular destination, which accounted for [10-20]% of Bennetts' switching customers.
- (b) Bennetts was the most popular destination for Ardonagh's switching customers on both PCWs, accounting for [20-30]% of Ardonagh's switching customers across the two PCWs. The second most popular destination accounted for [10-20]% of Ardonagh's switching customers.
148. The Parties submitted that switching data does not provide evidence on closeness and that the CMA should instead consider the range of comparable providers that are available to customers at the point of purchase and how the prices of these providers compare to those offered by the Parties.<sup>117</sup>
149. However, the CMA believes that switching data is useful for assessing closeness, and that this is consistent with the CMA's approach in previous decisions where both switching and search data on alternative suppliers was available.<sup>118</sup> This is because:

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<sup>116</sup> For example, AA and BMW insurance are the first and third most used providers among the sample, while MCE does not feature in the top ten, differing significantly from the shares of supply presented in Table 1 above.

<sup>117</sup> The Parties' response to the CMA's Issues Letter, paragraphs 4.3 - 4.4.

<sup>118</sup> For example, *SSE Retail and Npower: A report on the anticipated merger between the domestic retail energy business of SSE plc and Npower Group Limited*, October 2018, paragraphs 9.13 to 9.22.



- (a) Customers do not consider all brands that appear at the top of PCW search results to be equally attractive, for example because (as set out in paragraphs 65 and 67 above) brand recognition and features matter to customers as well as price. Switching data shows the brands that the Parties' customers consider to be most attractive, which is not necessarily reflected by the position of brands on a PCW.
- (b) Switching data reflects actual customer decision-making and therefore provides stronger evidence on customer preferences than surveys or evidence based on stated preferences.

150. The CMA therefore does not agree with the Parties' position that the switching data is not relevant in assessing closeness of competition.

#### *Position of the Parties on PCWs and other online search tools*

151. The Parties acquire the majority of their new customers via PCWs.<sup>119</sup> As regards direct sales, the position of motorcycle insurance brokers in Google searches is important. [50-60]% of Carole Nash's direct sales to new customers and [20-30]% of Bennetts' direct sales to new customers are sourced via Google.<sup>120</sup>

152. The CMA has therefore assessed:

- (a) The extent to which the Parties offer price competitive quotations for the same customer groups in PCWs; and
- (b) The Parties' position in Google searches.

#### *The ranking of quotations by the Parties on PCWs*

153. The Parties' submitted an analysis of the most price competitive brands on PCWs (**Parties' price ranking analysis**).<sup>121</sup> According to the Parties, this analysis shows that there are significant number of providers and brands that offer quotes for the majority of risk profiles.<sup>122</sup>

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<sup>119</sup> MN, [§]. In 2019, [60-70]% of Bennetts' new customers purchased via a PCW. The equivalent figure was [50-60]% for Carole Nash and [60-70]% for Swinton.

<sup>120</sup> Evidence submitted by the Parties in response to the CMA's post-Issues Meeting questions.

<sup>121</sup> This analysis, conducted by Consumer Intelligence, examined the prices offered by motorcycle insurance distributors for 500 different risk profiles across three PCWs (Compare the Market, MoneySuperMarket, and GoCompare) from 2016 to 2019.

<sup>122</sup> MN, paragraph 146.

154. This CMA considers that the analysis indicates that there is a material degree of competitive interaction between the Parties. Specifically, the analysis showed that:
- (a) The Parties are among the most price competitive distributors on PCWs. The Parties' brands (ie *Bennetts*, [X]) accounted for two of the five most price competitive brands in each year between 2016 – 2019.<sup>123</sup>
  - (b) For the risk profiles where [X] provided the cheapest quote on PCWs in 2019, the competing brands that were closest to the cheapest price on average were [X]. This analysis indicated that [X] brand was closest to [X] on average, with each of the other brands having a similar average ranking.<sup>124</sup>
  - (c) For the risk profiles where Bennetts [X] the cheapest quote on PCWs in 2019, the competing brands that [X] Ardonagh's [X] and Ardonagh's [X].<sup>125</sup>
155. In addition to the Parties' price ranking analysis, the CMA requested data from PCWs to conduct its own analysis of PCW pricing. The CMA's analysis examines pricing for the searches that were actually conducted by customers in 2019, and is therefore likely to be more representative of the population of PCW users than the Parties' analysis.
156. Data provided to the CMA by three PCWs indicates that, of all searches for motorcycle insurance conducted on these PCWs in 2019, Ardonagh appeared in the five cheapest quotations in [40-50]% of searches, and Bennetts appeared in the five cheapest quotations in [20-30]% of searches.<sup>126</sup>
157. The evidence received by the CMA from PCWs indicates that the Parties compete closely on PCWs for a significant proportion of customers, but also that other suppliers feature prominently on PCWs. In particular:
- (a) With respect to the searches conducted on these PCWs in 2019 in which one of the Parties was among the five cheapest quotations:
    - (i) Where Bennetts appears in the top five, Ardonagh competes in the top five in [40-50]% of these searches; and

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<sup>123</sup> MN, Table 5. The Parties' analysis ranks each brand by the proportion of risk profiles for which the brand's price is within the five cheapest prices offered on PCWs.

<sup>124</sup> The Parties' Presentation at the Issues Meeting dated 18 August 2020, slide 20.

<sup>125</sup> MN, Figure G.

<sup>126</sup> Data was provided by [X].

- (ii) Where Ardonagh appears in the top five, Bennetts competes in the top five in [20-30]% of these searches.
- (b) Of the searches where Bennetts appears in the top five:
- (i) On one PCW, [30-30]% of the top five places are accounted for by Ardonagh, more than any other competitor including Devitt ([10-20]% of top five places), MCE ([5-10]%) and Hastings ([5-10]%); and
  - (ii) On another PCW, Ardonagh appears in the top five in [30-40]% of these searches, behind Bikesure ([40-50]%) and MCE ([30-40]%).
- (c) Of the searches where Ardonagh appears in the top five:
- (i) On the first PCW, [5-10]% of the top five places are accounted for by Bennetts, behind Devitt ([10-20]%) and MCE ([5-10]%); and
  - (ii) On the second PCW, Bennetts appears in the top five in [20-30]% of these searches, behind Devitt ([30-40]%), MCE ([30-40]%) and Bikesure ([20-30]%).
- (d) In [10-20]% of searches conducted on these PCWs in 2019, both Parties were among the five cheapest quotations provided. In relation the searches in which both Parties were among the five cheapest quotations:
- (i) The Parties accounted for at least three of the five cheapest quotations in [70-80]% of searches;
  - (ii) On one of the PCWs, the Parties offered both the cheapest and second cheapest quotations in [20-30]% of searches and offered the three cheapest quotations in [10-20]% of searches;<sup>127</sup> and
  - (iii) Overall, [50-60]% of the top five places were accounted for by the Parties.

158. The above analysis of PCW rankings indicates that the Parties are close competitors and are both competitive on price.

159. The Parties submitted that the evidence from the CMA's analysis of the Parties' position on PCWs does not support the view that the Parties are close competitors because there are other brands that have a closer proximity to the Parties in the rankings. While this is true in some cases (where other brands

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<sup>127</sup> This information was not provided by one PCW.

appear in the top five places with Ardonagh and/or Bennetts as often or more often than each of the Parties), the CMA also notes that:

- (a) Both Parties are less reliant on PCWs than other suppliers, factors other than pricing also have some bearing on customer decision-making. Accordingly, any analysis of positioning on PCWs, which provides only an analysis of pricing, provides only partial insight into closeness of competition;
- (b) The evidence received from PCWs is consistent with a significant degree of competitive interaction between the Parties on PCWs. Where one of the Parties appears in the top five cheapest quotations, the other Party also appears frequently in the top five (and, in some cases, more frequently than any other motorcycle insurance distributor).

#### *The Parties' position in Google searches*

160. The Parties' internal documents indicate that both Parties have significant marketing activities and compete for 'clicks' on Google. The CMA has therefore considered the position of the Parties relative to the other distributors in Google's search results for three terms, namely: 'motorbike insurance', 'motorcycle insurance' and 'bike insurance'.<sup>128</sup>
161. While the majority of the top 10 results on Google, when including both paid for and organic results, are for comparison websites,<sup>129</sup> the analysis shows that both Parties are among the top distributors listed on Google for all of these three search terms. More specifically:
- (a) Bennetts was the first distributor to appear on Google in response to all three search terms when only considering organic results. Bennetts was also among the top three distributors that appear on Google in response to all three search terms, when including both paid for and organic results; and
  - (b) An Ardonagh brand (either *Carole Nash* or *Swinton*) appeared as either the fifth or sixth distributor in response to the three search terms when considering organic results. *Carole Nash* appeared among the top three distributors on paid-for results for all the three search terms.

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<sup>128</sup> The CMA conducted this Google search on 9 September 2020. The CMA conducted the search on two devices using the browser's 'Incognito mode'. The CMA notes that external factors may affect search results.

<sup>129</sup> [REDACTED].

162. The Parties submitted that *Bennetts* does not rank highly on Google impressions and that *Carole Nash*'s main competitors on Google are PCWs. The Parties also observed that when *Carole Nash*'s adverts appear on Google, they are more likely to be accompanied by adverts for other brokers (Bikesure, Lexham and Devitt) than by adverts for Bennetts.<sup>130</sup>
163. The CMA considers, however, that this kind of analysis is likely to be artificially narrow and provides only partial insight into the closeness of competition between the Parties. In particular, these outcomes are likely, in practice, to be simply a reflection of the Parties' different strategies to appear near the top of Google search results: *Carole Nash*'s expenditure on Google pay per click is almost [X] that of Bennetts, which, in turn, has a greater focus on [X].<sup>131</sup> Therefore it is to be expected that *Carole Nash* has a stronger presence on paid-for Google advertisements, whereas Bennetts appears more prominently on organic search results. The CMA therefore notes that both Parties are prominent in Google search results, albeit that they use different strategies to achieve this.
164. The CMA considers that the evidence on the position of the Parties on PCWs and in Google searches indicates that:
- (a) Both Parties compete to a large extent for the same group of potential customers, featuring highly in the top 5 PCW quotes;<sup>132</sup> and.
  - (b) The Parties are also among the most prominent brands next to PCWs in Google searches and are competing closely for 'clicks' on Google UK.
165. The frequency and prominence of the Parties on Google searches are evidence of the importance of their brands and is consistent with their position as the two main motorcycle insurance distributors in the UK.

#### *Assessment of the Parties' analysis of conversion rates*

166. The Parties submitted that, when examining quotes provided on PCWs, there is almost no correlation between the change in price by one of the Parties (as measured by the mark-up) and the change in sales (as measured by conversion rate) of the other Party, indicating that they are not close

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<sup>130</sup> The Parties' response to the CMA's Issues Letter, paragraphs 3.13 - 3.14 and Figure 8.

<sup>131</sup> The Parties' Issues Meeting Presentation dated 18 August 2020, slide 14, and the Parties' response to the CMA's post-Issues Meeting questions, Annex I. Bennetts explained during the Issues Meeting that its [X] product is intended to boost their [X] on Google search results.

<sup>132</sup> Annex [X].

competitors.<sup>133</sup> The Parties submitted that in the period from January 2019 to February 2020, *Bennetts*' conversion rate was [REDACTED]%, *Carole Nash*'s conversion rate was [REDACTED] and *Swinton*'s conversion rate was [REDACTED].<sup>134</sup>

167. The CMA considers that only very limited weight can be placed on this analysis, in particular because:
- (a) The analysis does not control for or factor in the wide range of factors that are liable to affect short term variations in brokers' conversion rates, making it impossible to draw robust inferences from the lack of a simple correlation between mark-up and conversion rates.<sup>135</sup> In particular, the CMA notes that there is almost zero correlation between the change in [REDACTED]'s mark-up and the change in [REDACTED]'s conversion rate.<sup>136</sup>
  - (b) The methodology used to calculate Ardonagh's conversion rate is likely to significantly understate the actual conversion rate. For example, the total number of Ardonagh quotes (ie the denominator in the conversion rate) includes requests for quotes that were sent to Ardonagh but where Ardonagh declined to provide a price. In addition, no allowance appears to be made for the multiple brands marketed by Ardonagh: if, for example, five Ardonagh brands provided a quote for a customer and the customer selected one of these quotes, the conversion rate would be calculated as 20%, rather than 100%.<sup>137</sup>
168. In any case, the CMA notes that the analysis aggregates the Parties' mark-ups and conversion rates across a large number of risk profiles. Therefore, even if there is a weak correlation in aggregate, there may be stronger correlations for individual risk profiles where the Parties are competing closely (which the available evidence indicates is likely to be the case).
169. Similarly, the CMA observes that the conversion rate analysis only covers sales to new customers via PCWs, whereas the majority of the Parties' sales are to existing customers or are direct sales to new customers.

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<sup>133</sup> MN, paragraph 194 and Annex [REDACTED]. The mark-up refers to the Distributor's commission revenue as a percentage (%) of the net rate charged by the underwriter. The conversion rate refers to the total number of sales made via PCWs as a proportion of the total number of quotes provided to PCWs in response to customer searches.

<sup>134</sup> MN, Annex [REDACTED].

<sup>135</sup> For example, the analysis does not take into account changes in the mark-up offered by the other Party. If, for example, *Bennetts* increases its mark-up but *Ardonagh* also increases its mark-up, then we would not expect to see *Ardonagh*'s conversion rates increase.

<sup>136</sup> The R<sup>2</sup> for this correlation is [REDACTED].

<sup>137</sup> Annex [REDACTED].

## Internal documents

170. The CMA considered the extent to which the Parties view each other as close competitors based on their internal documents.
171. The Parties submitted that their internal documents clearly show that neither Bennetts nor Ardonagh monitor or benchmark each other's activities any more closely than they monitor other players in the sector. The Parties submitted further that, when any market or customer service assessments have been undertaken, a number of competitors have been equally weighted and assessed for these purposes.<sup>138</sup>
172. The CMA found that Ardonagh's internal documents generally provide limited insight into the competition that it faces. To the extent that internal documents do reference competitors, the CMA considers that these documents indicate that Ardonagh monitors a range of motorcycle insurance distributors to some extent, but also that Bennetts is viewed as a close competitor. Moreover, while the documents generally do not capture the Parties taking each other into account in setting their price and/or strategy, they clearly indicate that the Parties consistently monitor each other. For example:
- (a) An internal email exchange between Ardonagh's [REDACTED]<sup>139</sup> shows that Ardonagh monitored traffic to the websites for the brands of *Carole Nash* and *Bennetts* in the context of comparing its 'performance [REDACTED]. The response provided by [REDACTED] indicates that users who firstly went on the *Carole Nash* website most often proceeded to the Bennetts' website: [REDACTED].
  - (b) One presentation prepared for Ardonagh's *Carole Nash* by an external consultancy [REDACTED]<sup>140</sup> shows organic traffic estimates from keywords that rank on Google and that are recognised as having quantifiable search volumes. The analysis compares Ardonagh's *Carole Nash* with [REDACTED] competitors, namely Bennetts and [REDACTED]. Moreover, in this document [REDACTED] provides a number of articles as an example of the type of content for the outreach articles planned for Ardonagh's strategy.<sup>141</sup>
  - (c) Another presentation prepared for Ardonagh's *Carole Nash* by [REDACTED]<sup>142</sup> notes: 'We would not consider the majority of the aforementioned competitors [REDACTED] to be a threat to our ability to earn editorial coverage on

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<sup>138</sup> MN, paragraph 202.

<sup>139</sup> [REDACTED]

<sup>140</sup> [REDACTED]

<sup>141</sup> [REDACTED].

<sup>142</sup> [REDACTED].

high DA websites ... [REDACTED] competitor we'll consistently, proactively keep an eye on [REDACTED] is Bennetts.'

- (d) One Ardonagh's marketing report for *Carole Nash*,<sup>143</sup> which provides charts comparing the online marketing activity of Ardonagh's own brands and its competitors (including their performance, such as the [REDACTED] provides commentary which, [REDACTED] features Bennetts: 'the above charts highlight that Bennetts have had [REDACTED], compared to *Carole Nash*. However, the [REDACTED] that *Carole Nash* has achieved was [REDACTED]'

173. As with Ardonagh, Bennetts' internal documents generally provide limited insight into the competition that it faces. To the extent that internal documents do reference competitors, the CMA considers that they indicate that Bennetts views Ardonagh as a close competitor in the distribution of motorcycle insurance in the UK. Moreover, these documents show not only that Bennetts was closely monitoring Ardonagh, but also that it adjusted its offering in reaction to Ardonagh's activities. For example:

- (a) One internal Bennetts' document<sup>144</sup> notes: '[REDACTED], 7 brands under *Carole Nash* and *Swinton* [are] back in growth could be a concern ... [REDACTED]. Notwithstanding the reference to 'a lot of competitor activity', no other brand of motorcycle insurance distributors is mentioned in this document.
- (b) One Bennetts' board paper<sup>145</sup> states: 'We have seen more competition in the summer, as the [*Carole Nash*] brand is now present on aggregators.'
- (c) Another Bennetts' document<sup>146</sup> notes: '[REDACTED], seven brands are now in the Ardonagh Group (including *Carole Nash* and *Swinton*). [REDACTED]. No other brand of motorcycle insurance distributors is mentioned in this document.
- (d) Another Bennetts' document<sup>147</sup> names the *Carole Nash* brand as one of the Bennetts' two 'key competitors', alongside [REDACTED].

174. Overall, the CMA believes that the Parties' internal documents indicate that the Parties see each other as close competitors and that they frequently monitor each other (sometimes alongside some of the other motorcycle insurance distributors).

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<sup>143</sup> [REDACTED]

<sup>144</sup> [REDACTED]

<sup>145</sup> [REDACTED]

<sup>146</sup> [REDACTED]

<sup>147</sup> [REDACTED]



### *Third party views*

175. As part of its ongoing investigation, the CMA asked third parties about closeness of competition between the Parties in the distribution of motorcycle insurance to private customers in the UK. Almost all third parties who responded to the CMA's investigation considered that the Parties' offerings are similar or very similar. In particular:
- (a) Of the third parties that noted that the Parties have similar or very similar product offerings:
    - (i) One panel underwriter submitted that the Parties' 'product coverage is very similar [...] and both provide non-~~☒~~ owned, add-on products.'
    - (ii) One broker told the CMA that both Parties' 'insurance products are similar. Both have a similar footprint.'
    - (iii) Another broker told the CMA that both Parties 'have a broad competitive footprint and therefore attract business from all areas of the motorcycle insurance market'.
  - (b) Third parties also submitted that both Parties target similar customer profiles and focus on the same (lower premium) end of the market. For example:
    - (i) The vast majority of third parties who responded to the CMA's investigation said that both Parties were among the three strongest competitors in the 'enthusiasts' category. Moreover, a significant proportion identified both Parties as the leading competitors in the 'classic bikes' and 'high performance' motorcycle categories.
    - (ii) A broker submitted that both Parties 'feature heavily in the mature rider market at minimum and low premium.'
    - (iii) Another broker told the CMA that 'nowadays [Carole Nash and Bennetts are] becoming very similar competitors in their offering and pricing.'

(c) Third parties also noted that both Parties have strong brand recognition<sup>148</sup> and noted similarities in the Parties' business models and marketing strategies.<sup>149</sup>

176. Several third parties identified certain differences between the Parties. In particular, they commented that:

(a) Compared to the Bennetts' brands, Ardonagh's *Carole Nash* has a greater focus on direct sales rather than sales through PCWs.

(b) Ardonagh's *Carole Nash* has a greater focus on 'custom bikes' and 'multi-bike' policies.

(c) Ardonagh's partnerships with manufacturers (including their Harley Davidson product<sup>150</sup>) is an element of differentiation.

177. Therefore, the CMA believes that the third-party evidence shows that the Parties are close competitors with very similar offerings, business models and customer focus. The CMA notes, in this regard, that the differences highlighted between the Parties' offerings are relatively minor, particularly in comparison to the substantial similarities identified by third parties.<sup>151</sup>

#### *Conclusion on closeness of competition*

178. For the reasons set out above, the CMA believes that the Parties are close competitors in the distribution of motorcycle insurance to private customers in the UK.

179. 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

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<sup>148</sup> A broker submitted that '*Carole Nash* and [*Bennetts*] have in common stronger brand recognition within the bike market [compared to] a number of peers' and one panel underwriter submitted that '*Carole Nash* and Bennetts are similar as 'both brands [are] well known to bikers'.

<sup>149</sup> One broker noted that the Parties' 'distribution [sic] will be [sic] the same i.e. direct and through PCWs.' Another broker submitted that both Parties 'appear on PCW's ... and appear to have significant outlays on marketing cost.' A third broker submitted that the Parties are 'typically seen in the market as 'specialist' or 'bike focused' providers with focused bike content on websites, high profile at bike events.' A panel underwriter noted that both Parties 'operate call centres and distribute through comparison sites.' Another panel insurer noted that 'Both companies [are] active in bike social media ... bike shows etc ... Both companies focus on Defaqto 5\* product and have a similar claims service (same FNOL provider). Both companies ... [use] broadly the same panel of insurers.' A third panel underwriter submitted that both Parties 'have extensive web facilities to promote their respective businesses'.

<sup>150</sup> Ardonagh has an agreement with Harley Davidson under which *Carole Nash* offers Harley Davidson branded insurance policies, and Harley Davidson promotes *Carole Nash's* insurance through its network of dealerships. See the Parties' response to RFI 2, paragraph 4.2.

<sup>151</sup> For example, the CMA notes that the Harley Davidson brand accounts for [§] of Ardonagh's 2019 sales of motorcycle insurance and that both Parties acquire the majority of their new customers via PCWs (see response to RFI 1, Table 2 and response to RFI 2, paragraph 4.3).

from either of the Parties to the 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 is also overwhelmingly consistent with the position that the Parties are close competitors with very similar offerings, business models and customer strategies.

### ***Competitive constraints from alternative motorcycle insurance distributors***

180. Unilateral effects are more likely where customers have little choice of alternative supplier. The CMA considered whether there are alternative suppliers which, post-Merger, would provide a competitive constraint on the Merged Entity.<sup>152</sup>
181. The Parties submitted that there are over 20 main brokers active in the distribution of motorcycle insurance to private customers in the UK and that 30-40% of the Parties customers switch every year, which means that any attempt to raise prices would be counterproductive.<sup>153</sup>
182. The Parties submitted further that due to the price transparency created by PCWs, the key parameter of competition for all motorcycle insurance distribution business in the UK is price – and there are a wide variety of both well-established and recent and expanding players which are able to compete with the Parties on this basis. In addition, the Parties submitted that given that PCWs are expected to grow further, this will lead to fiercer competition in the future. The Parties submitted further that they are not better placed to compete on price than their competitors.<sup>154</sup>
183. As part of its assessment of competitive constraints from alternative motorcycle insurance distributors, the CMA considered:
  - (a) The ability of other motorcycle insurance distributors to closely compete with the Parties;
  - (b) Whether and to what extent (individually and overall) other distributors of motorcycle insurance will, post-Merger, provide a competitive constraint on the Merged Entity; and

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<sup>152</sup> *Merger Assessment Guidelines*, paragraph 5.4.5.

<sup>153</sup> MN, paragraphs 20 and 25.

<sup>154</sup> The Parties' response to the CMA's Issues Letter, paragraph 5.1.

- (c) The Parties' estimates of their own-price elasticity of demand.

*The ability of other motorcycle insurance distributors to closely compete with the Parties*

184. As part of its assessment of whether other motorcycle insurance distributors can closely compete with the Parties' offer, the CMA considered the evidence on whether other motorcycle insurance distributors can closely compete with the Parties' offering, in particular by considering the following factors:
- (a) Incumbency advantage; and
  - (b) Brand recognition.

*Incumbency advantage*

185. The evidence received by the CMA indicates that the Parties have an incumbency advantage by virtue of their relatively large base of existing customers, that have been with the Parties for more than one year, and from the materially higher level of direct sales to new customers. The Parties generate higher revenues from sales to renewing customers, and from direct sales to new customers, than from PCW sales to new customers,<sup>155</sup> potentially providing an increased ability to cross-subsidise more competitive PCW prices than smaller rivals, that lack this revenue stream from existing and direct sales business, would be able to.
186. The CMA also considers that the large customer base of the Parties provides them with a further installed competitive advantage by virtue of the customer and claims data that they hold. In particular:
- (a) This data enables the Parties to have a detailed knowledge of customer preferences and risk profile which they use to tailor their offering and pricing more effectively.
  - (b) Third parties also told the CMA that access to data is an important input to a distributor's competitive offering. One broker said that 'without the proven expertise and historic underwriting performance data it is all too easy to get rates very wrong.'

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<sup>155</sup> *Carole Nash* earned [REDACTED] from each sale to existing customers and [REDACTED] from each direct sale to new customers in 2019, compared to just [REDACTED] from each PCW sale. *Bennetts* earned [REDACTED] from each sale to existing customers and [REDACTED] from each direct sale to new customers in 2019, compared to just [REDACTED] from each PCW sale. [REDACTED]

- (c) The Parties also use the data they collect from their large customer bases to ensure that the underwriters in their panel get a low loss ratio performance. As a result, the Parties are a 'preferred partner' for underwriters and are in a position to negotiate lower net rates than other motorcycle distributors. This advantage is referenced in the Parties' internal documents, with one Bennetts' internal document, [REDACTED]. The same document quotes one underwriter that states: [REDACTED].<sup>156</sup>

187. Internal documents of both Parties show that they consider themselves to have a high customer retention rate. For example:

- (a) One Bennetts' internal document<sup>157</sup> provides that Bennetts has '[REDACTED] customer retention', noting that '[REDACTED]% of Bennetts' live customer policies have renewed at least once'. The same document notes further that:

- (i) 'Bennetts' experience shows that retention improves as [REDACTED]';
- (ii) Bennetts believes that 'policyholder retention is key [REDACTED]'; and
- (iii) Bennetts notes that 'renewal sales typically generate [REDACTED] than new policy sales [REDACTED].'

- (b) One Ardonagh document<sup>158</sup> sets out that one of the reasons why it considers that it has a 'leading position' across its key sectors, including motorcycle insurance, is '[REDACTED] [customer] retention' [REDACTED],<sup>159</sup> with a [REDACTED] retention rate for motorcycle insurance brands.<sup>160</sup> The same document notes further that:

- (i) [REDACTED] of the policies sold by Ardonagh are 'renewals' rather than 'new business';<sup>161</sup>
- (ii) Within 'Insurance Broking', Ardonagh's [REDACTED] improving retention rates';<sup>162</sup> and
- (iii) One of Ardonagh's strategic initiatives for [REDACTED] includes further 'improv[ing] customer retention'.<sup>163</sup>

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<sup>156</sup> [REDACTED]  
<sup>157</sup> [REDACTED]  
<sup>158</sup> [REDACTED]  
<sup>159</sup> [REDACTED]  
<sup>160</sup> [REDACTED]  
<sup>161</sup> [REDACTED]  
<sup>162</sup> [REDACTED]  
<sup>163</sup> [REDACTED]

188. Evidence from the Parties' internal documents also broadly supports the position that their incumbency advantage, and more specifically the Parties' large customer base and established relationships with the panel underwriters, allows the Parties to offer more competitive prices than their competitors. For example:

- (a) One Ardonagh strategic internal document<sup>164</sup> provides that Ardonagh plans [REDACTED] to negotiate better deals [REDACTED]
- (b) Another Ardonagh internal document<sup>165</sup> provides that [REDACTED].
- (c) Another Ardonagh internal document<sup>166</sup> indicates that one of the 'income synergies' associated with the Merger will arise as a result of Ardonagh's ability to [REDACTED] (economies of scale).'
- (d) One Bennetts' internal document states that<sup>167</sup> 'Bennetts has strong relationships with all of the key insurers operating in the UK motorcycle market. [REDACTED].'

189. Third parties also told the CMA that the Parties have an incumbency advantage by virtue of their strong customer base and renewal rates. For example:

- (a) One broker said that 'the big players can rely on existing and future renewal revenues, the latter aided by a level of consumer inertia that still exists within the market.' This broker noted that increasing its share 'is a significant obstacle for [that broker], but not the big players who, with hundreds of thousands of policyholders, benefit from the cushion of renewal revenues.'
- (b) Another broker told the CMA that some customer categories in particular are more likely to renew, ie 'in the "classic motorbikes" / "enthusiasts" area of the market [...] there is a high degree of loyalty. Customers are unlikely to switch [...] even if they could save money.'

190. On the basis of the evidence described above, the CMA believes that the Parties' offering is particularly strong as a result of the strength of their brands and incumbency. The CMA therefore considers that smaller motorcycle insurance distributors cannot easily replicate these competitive advantages, thereby limiting the extent to which other motorcycle insurance distributors

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<sup>164</sup> [REDACTED]

<sup>165</sup> [REDACTED].

<sup>166</sup> [REDACTED].

<sup>167</sup> [REDACTED].

would be able, post-Merger, to exert a meaningful competitive constraint on the Merged Entity.

### *Brand recognition*

191. As described in paragraph 65 above, the Parties submitted that motorcycle insurance is largely undifferentiated, and that price is the key driver of customers' purchasing decisions. The Parties also stated that rival brokers have been able to expand despite a lack of pre-existing brand presence.
192. This position is not, however, consistent with the evidence received by the CMA, which indicates that the Parties' strong brand recognition makes it difficult for distributors without a strong brand to compete closely with the Parties.
193. First, the Parties' internal documents constantly reference the strong comparative advantage that the Parties' brands provide in competing for business. In particular:
- (a) One Bennetts document<sup>168</sup> provides that: 'Bennetts' iconic brand name and reputation for excellent customer service gives it an edge over peers when competing for [redacted] business, [redacted]'.
    - (i) Bennetts and Ardonagh are the first and second in terms of 'spontaneous awareness', with [redacted]% and [redacted]% respectively, followed by [redacted] with [redacted]%, and that [redacted] is the motorcycle insurance distributor with the highest total awareness;
    - (ii) Bennetts' [redacted] is a 'critical point of differentiation [...] between Bennetts and other brokers';<sup>171</sup> and
    - (iii) Bennetts' [redacted].
  - (b) Another Bennetts document<sup>169</sup> indicates further that Bennetts has [redacted] due to its extensive marketing, sponsorships, search engine optimisation and brand awareness.<sup>170</sup> The same document also indicates that:
    - (i) Bennetts and Ardonagh are the first and second in terms of 'spontaneous awareness', with [redacted]% and [redacted]% respectively, followed by [redacted] with [redacted]%, and that [redacted] is the motorcycle insurance distributor with the highest total awareness;
    - (ii) Bennetts' [redacted] is a 'critical point of differentiation [...] between Bennetts and other brokers';<sup>171</sup> and
    - (iii) Bennetts' [redacted].
  - (c) A [redacted] document produced for Bennetts by an external adviser called [redacted] (which compares motorcycle distributors' brands across a number of metrics) indicates that *Bennetts* and *Carole Nash* have the highest 'top of mind awareness' (ie the first spontaneous mention by respondents). It

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<sup>168</sup> [redacted]

<sup>169</sup> [redacted]

<sup>170</sup> [redacted]

<sup>171</sup> [redacted]

also notes that ‘the biggest issue’ for motorcycle brokers’ brands other than *Bennetts* and *Carole Nash* is ‘lack of familiarity’, explaining further that this is the main reason why customers are not considering purchasing insurance policies under these other brands.

194. This is consistent with the third-party evidence received by the CMA during its investigation, which indicated that Parties have very high brand awareness compared to the lower brand recognition of smaller motorcycle insurance distributors. In particular:

- (a) One broker told the CMA that ‘the Parties’ size made it difficult for smaller brokers to win sponsorships or match their brand awareness’.
- (b) Another broker told the CMA that distributors with a less recognised brand may find it harder to win customers, even if they offer a cheaper or comparable price. This may be because some customers are willing to select a well-known brand, even if it is more expensive.
- (c) Another broker said that if, post-Merger, ‘the major brands [are] consolidated under a single owner [...] the challenge in gaining an effective presence [for a new entrant] would be all but insurmountable.’ This broker said further that ‘the power that the [*Carole Nash*] and *Bennetts* brands already exercise over market rates, will be amplified, potentially driving other brokers out of the market.’

195. The importance of having a strong brand is also supported by evidence received by the CMA from PCWs, which indicates that the lowest cost suppliers do not always win business, potentially limiting the constraint which smaller and/or less established competitors would be able to exert on the Merged Entity. In particular:

- (a) The evidence received by the CMA from PCWs indicates that some competitors struggle to make sales even when offering the cheapest price. The conversion rate, when offering the lowest price, for these brokers can be less than half that of the top performing brokers.<sup>172</sup>
- (b) Ardonagh’s less recognised brand – *Swinton* - has only achieved a share of supply of [0-5]%, despite having ranked in the top four most price competitive suppliers on PCWs in 2016, 2017 and 2019 and featuring in the top five lowest price for 46.3% of risk profiles in 2019 (more than any other brand).<sup>173</sup>

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<sup>172</sup> [REDACTED].

<sup>173</sup> MN, [REDACTED].



196. Based on the evidence described above, the CMA considers that customers using a PCW are more likely to select a distributor with strong brand recognition over a similarly or closely priced alternative.

*Other distributors of motorcycle insurance to private customers in the UK*

197. There are five distributors with a share of supply of at least 5% in the distribution of motorcycle insurance to private customers in the UK, namely: Bikesure, MCE, Hastings, Devitt and Motorcycle Direct. The CMA has considered the constraint exerted by each of these competitors in turn. The CMA has also considered the constraint exerted by other smaller competitors, with a share of supply below 5%.
198. The CMA notes that all of these distributors would be materially smaller than the Merged Entity, with the share of supply data set out above indicating that, out of these five distributors, only three had a share of supply of over 10% in 2019 (Bikesure, MCE and Hastings) and that all are significantly smaller than the Merged Entity, with none having a share of supply of over 20%.

*Assessment of each of the other distributors of motorcycle insurance*

199. The CMA considered each of the other distributors listed in paragraph 197 (Bikesure, MCE, Hastings, Devitt and Motorcycle Direct) in turn further below, taking into consideration:
- (a) Shares of supply;
  - (b) Similarity of their service proposition;
  - (c) Third party views;
  - (d) Evidence from the Parties' internal documents; and
  - (e) Switching data.
- *Bikesure*
200. Bikesure is the motorcycle insurance brand of Adrian Flux insurance, which also offers car, van and home insurance. Adrian Flux generated revenues of £[REDACTED] in the most recent financial year. The CMA understands that members of the Motorcycle Action Group (**MAG**) are able to obtain a significant discount from Bikesure for their motorcycle insurance policies.

201. As the CMA's share of supply estimates illustrate (see Table 1 above), Bikesure's share of supply by number of private motorcycle insurance policies in the UK in 2019 was [10-20]%.
202. The CMA has identified some similarities between Bikesure's offering and the Parties' offerings:
- (a) Bikesure acquires a substantial proportion of its new customers directly. Bikesure and the Parties are the three distributors with the most direct sales.
  - (b) Bikesure has some presence in the 'older riders' category of [10-20]% in 2019, although this is considerably lower than the Parties' combined share of [40-50]%.
  - (c) Data provided to the CMA by PCWs indicates that Bikesure often appears alongside the Parties in the top five quotations on one PCW, albeit far less frequently on the other that provided data to the CMA:
    - (i) On the first PCW, only [0-5]% of the top five places, when Bennetts appears in the top five results, are accounted for by Bikesure. Similarly, only [0-5]% of the top five places when Ardonagh appears in the top five are accounted for by Bikesure.
    - (ii) On the second PCW, Bikesure appears in [40-50]% of searches where Bennetts appears in the top five results, more than any other distributor. Bikesure also appears in [30-40]% of searches where Ardonagh is in the top five, behind Devitt and MCE.
203. However, the evidence received by the CMA also indicates that there are some significant differences between Bikesure's offering and the Parties' offerings. In particular:
- (a) Bikesure's average GWP per policy in 2019 was [£250-£300], significantly higher than the Parties ([~~£~~]for Carole Nash and [~~£~~] for Bennetts), indicating that Bikesure focuses on higher risk customers than the Parties.
  - (b) The Parties' price ranking analysis (see paragraph 153) indicates that the highest that Bikesure has been ranked on PCWs since 2016 is number 10, while not making it to the Top 10 list in 2019. In comparison, Ardonagh had at least one brand in the top five in every year from 2016-2019 and Bennetts was ranked in the top five from 2016-2018, and was ranked sixth in 2019. The Parties' analysis also shows that, for the risk profiles where *Bennetts* or *Carole Nash Select* offered the cheapest price, Bikesure was not among the most price competitive brands.

204. The evidence received from third parties indicates that there are significant differences between the offerings of the Parties and Bikesure, and that Bikesure is liable to offer a more limited constraint on the Parties. For example:
- (a) Very few third parties identified Bikesure as a strong competitor for ‘enthusiasts’;
  - (b) Less than a third of third parties identified Bikesure as a strong competitor in the category ‘classic bikes’; and
  - (c) Less than half of third parties identified Bikesure as a strong competitor in the category ‘high performance bikes’.
205. As noted above, the CMA found that the Parties’ internal documents generally provide limited insight into the competition that they face. To the extent that internal documents do reference competitors, the CMA considers that these documents indicate that the Parties monitor a range of motorcycle insurance distributors to some extent. There are, however, also some indications in the internal documents that Bikesure exerts a weaker competitive constraint on the Parties compared to the competitive constraint which the Parties exert on each other. In particular:
- (a) Most significantly, Bikesure is not listed among the ‘main players’ in motorcycle insurance distribution in [REDACTED], which appears to be a key document intended to inform Saga about Bennetts’ [REDACTED] and future direction. This document contains an analysis of the motorcycle insurance distribution businesses (and cost models) of Bennetts, Ardonagh and [REDACTED].<sup>174</sup>
  - (b) While one Bennetts internal document does mention Bikesure as a competitor,<sup>175</sup> it is discussed in the context of ‘[REDACTED]’, suggesting that Bikesure’s focus (ie [REDACTED]) is considered to be different to that of Bennetts.
  - (c) A ‘Brand Health Check’ document produced for Bennetts by [REDACTED]<sup>176</sup> notes that *Bikesure* has the lowest brand awareness of all brands. In particular, [40-50]% of respondents said that the main reason for not having considered buying a policy was that they did not know enough about the *Bikesure* brand (compared to [20-30]% and [30-40]% in case of *Bennetts* and *Carole Nash*, respectively). As regards the spontaneous brand awareness, the same document indicated that [0-5]% of the respondents

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<sup>174</sup> [REDACTED].

<sup>175</sup> [REDACTED].

<sup>176</sup> [REDACTED].

knew *Bikesure* compared to [10-20]% who knew *Bennetts* and [5-10]% that knew *Carole Nash*.

206. Finally, customer switching data (based on the information provided by PCWs) indicates that only [5-10]% of Bennetts' switching customers switched to Bikesure, a much smaller number of Bennetts' customers compared to the proportion of those that switched to Ardonagh ([30-40]%). Only [5-10]% of Ardonagh's customers switched to Bikesure, which is again much smaller than the proportion of Ardonagh's customers that switched to Bennetts ([20-30]%).

207. Based on the available evidence, the CMA considers that Bikesure will only exert a moderate competitive constraint on the Merged Entity in the distribution of motorcycle insurance to private customers. Bikesure is a materially smaller distributor than the Merged Entity, with a significantly less well-known brand. Bikesure has a different customer focus to the Parties, as reflected in its significantly higher pricing. In practice, there appears to be limited switching to Bikesure from the Parties.

- *MCE*

208. MCE is an independently owned motorcycle insurance provider. MCE generated revenues of £38 million in financial year 2019. As the CMA's share of supply estimates illustrate (see Table 1 above), MCE's share of supply by number of private motorcycle insurance policies in the UK in 2019 was [10-20]%.

209. The CMA has identified some similarities between MCE and the Parties. In particular, data provided to the CMA by PCWs indicates that MCE often appears alongside the Parties in the top five quotations on one PCW, albeit far less frequently on the other that provided data:

(a) On the first PCW, only [5-10]% of the top five places, when Bennetts appears in the top five results, are accounted for by MCE, behind Ardonagh, Devitt and Hastings. [5-10]% of the top five places when Ardonagh appears in the top five are accounted for by MCE, behind Devitt.

(b) On the second PCW, MCE appears in [30-40]% of searches where Bennetts appears in the top five results, behind Bikesure. MCE also appears in [30-40]% of searches where Ardonagh is in the top five, behind Devitt.

210. However, the evidence received by the CMA indicates that there are also some significant differences between MCE's offering and the Parties' offerings. In particular:
- (a) MCE's share in the 'older riders' category is low.<sup>177</sup>
  - (b) MCE's average GWP per policy in 2019 was [£250-300], significantly higher than that for the Parties ([redacted]for *Carole Nash* and [redacted]for *Bennetts*), indicating that MCE focusses on high risk customers than the Parties.
  - (c) The Parties' price ranking analysis (see paragraph 153) indicates that the MCE has not been ranked within the top five from 2016-2019 and was only ranked eighth in 2019. The Parties' analysis also shows that, for the risk profiles where *Bennetts* or *Carole Nash Select* offered the cheapest price, MCE was not among the most price competitive brands.
211. The evidence received from third parties indicates that there are significant differences between the offerings of the Parties and MCE, and that MCE is liable to offer a more limited constraint to the Parties, in particular in relation to some of the customer categories in which the Parties have a strong position:
- (a) All third parties that responded to the CMA's investigation identified MCE as a strong competitor in the 'younger riders' category in which the Parties are not particularly strong.
  - (b) While around half of the third parties identified MCE as a strong competitor for 'enthusiasts,' the vast majority of these respondents also noted that MCE is not as strong as either of the Parties in this category.
  - (c) Very few third parties considered MCE to be a strong competitor in the 'classic bikes' category in which the Parties are particularly strong.
212. As noted above, the CMA found that the Parties' internal documents generally provide limited insight into the competition that they face. To the extent that internal documents do reference competitors, the CMA considers that these documents indicate that the Parties monitor a range of motorcycle insurance distributors to some extent. There are, however, also some indications in the internal documents that MCE exerts a weaker competitive constraint on the Parties compared to the competitive constraint which the Parties exert on each other. In particular:

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

- (a) MCE is listed among the competitors which Ardonagh monitors and amongst the ‘main players’ in the key Bennetts’ document intended to inform Saga about Bennetts’ [REDACTED].<sup>178</sup> However, this document also shows that MCE focusses on a different segment ([REDACTED]) from the Parties, and suggests that MCE’s [REDACTED] is targeted at the [REDACTED] of the market, in comparison with the premium band of Bennetts (and Ardonagh) being targeted at the [REDACTED] segment of the market, respectively. This comparison indicates that the positioning of the *Bennetts* brand is closer to Ardonagh’s brands than to MCE.
- (b) The ‘Brand Health Check’<sup>179</sup> mentioned above, notes that MCE has a low brand familiarity, with [40-50]% of respondents having said that the main reason for non-consideration is that they do not know enough about the brand (compared to [20-30]% and [30-40]% for *Bennetts* and *Carole Nash*, respectively). As regards first spontaneous awareness the same document indicated that only [0-5]% of the respondents recognised MCE compared to [10-20]% who recognised *Bennetts* and [5-10]% that recognised *Carole Nash*.

213. Finally, customer switching data (based on the information provided by PCWs) indicates that only [10-20]% of Bennetts’ switching customers switched to MCE, a significantly smaller proportion of Bennetts’ customers than those that switched to Ardonagh ([30-40]%). [10-20]% of Ardonagh’s switching customers switched to MCE, which is again significantly smaller than the number of Ardonagh’s customers that switched to Bennetts ([20-30]%).
214. Based on the available evidence, the CMA considers that MCE will only exert a moderate competitive constraint on the Merged Entity in the distribution of motorcycle insurance to private customers in the UK. MCE is a materially smaller distributor than the Merged Entity, with a significantly less well-known brand. MCE has a different customer focus to the Parties, as reflected in its significantly higher pricing. In practice, there appears to be limited switching to MCE from the Parties.
- *Hastings*
215. Hastings is the motorcycle insurance brand of the Hastings Group, a general insurance provider that generated revenues of £745 million in 2019. As the CMA’s share of supply estimates illustrate (see Table 1 above), Hastings’

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<sup>178</sup> [REDACTED].

<sup>179</sup> [REDACTED].

share of supply by number of private motorcycle insurance policies in the UK in 2019 is [10-20]%.

216. The CMA notes that Hastings's average GWP per policy (£150-£200) is similar to the Parties, indicating that Hastings focuses on customers with a similar risk profile.
217. However, the evidence received by the CMA also indicates that there are some significant differences between Hastings' offering and the Parties' offerings. In particular:
- (a) Hastings only has a limited presence, with a [10-20]% share in 2019, in the 'older' riders category in which the Parties are particularly strong.
  - (b) The Parties submitted rankings of the most price competitive brands on PCWs (see paragraph 158).<sup>180</sup> The rankings indicate that Hastings has not been ranked within the top five from 2016-2019 and is only ranked 10<sup>th</sup> in 2019. The Parties' analysis also shows that, for the risk profiles where *Bennetts* or *Carole Nash Select* offered the cheapest price, Hastings was not among the most price competitive brands.
  - (c) Data provided to the CMA by PCWs indicates that Hastings often appears alongside the Parties in the top five quotations on one PCW, albeit far less frequently on the other that provided data:
    - (i) On the first PCW, only [5-10]% of the top five places, when Bennetts appears in the top five results, are accounted for by Hastings, behind Ardonagh and Devitt. [5-10]% of the top five places when Ardonagh appears in the top five are accounted for by Hastings, behind Devitt, Bennetts and MCE.
    - (ii) On the second PCW, Hastings appears in [20-30]% of searches where Bennetts appears in the top five results, behind Bikesure, MCE, Ardonagh and Devitt. Hastings does not feature in the top five alternatives when Ardonagh is in the top five.
218. The evidence received from third parties indicates that there are significant differences between the offerings of the Parties and Hastings, and that Hastings is liable to offer a more limited constraint on the Parties in the segments where the Parties are stronger. In particular:

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<sup>180</sup> As measured by the proportion of risk profiles that the brand offers a price within the five cheapest. See MN, [30]. The analysis covers three PCWs (Compare the Market, MoneySupermarket, and Go Compare) over the period from 2016 to 2019. The analysis identifies the brands offering the cheapest quotations for 500 different risk profiles.

- (a) Very few third parties identified Hastings as a strong competitor for ‘enthusiasts’;
- (b) Very few third parties identified Hastings as a strong competitor in the ‘classic bike’ category; and
- (c) No third party identified Hastings as strong competitor in the ‘high-performance bikes’ category.
- (d) One broker said that [REDACTED].

219. As noted above, the CMA found that the Parties’ internal documents generally provide limited insight into the competition that they face. To the extent that internal documents do reference competitors, the CMA considers that these documents indicate that the Parties monitor a range of motorcycle insurance distributors to some extent. There are, however, also some indications in the internal documents that Hastings exerts a weaker competitive constraint on the Parties compared to the competitive constraint which the Parties exert on each other. In particular:

- (a) While Hastings is listed among the competitors which Ardonagh monitors, it is not listed by Bennetts among the ‘main players’.<sup>181</sup> As mentioned above, this is a key document intended to inform Bennetts’ decision making strategy and its future direction.
- (b) The ‘Brand Health Check’<sup>182</sup> mentioned above, notes that Hastings has a broadly comparable brand familiarity to the Parties, with [30-40]% of respondents having said that the main reason for non-consideration is that they do not know enough about the brand (compared to [20-30]% and [30-40]% for *Bennetts* and *Carole Nash*, respectively). The level of first spontaneous awareness the same document indicated for MCE, at [5-10]%, is similar to that of *Carole Nash*, while materially lower than that for Bennetts, which is [10-20]%.

220. Finally, customer switching data (based on the information provided by PCWs) indicates that [10-20]% of Bennetts’ switching customers switched to Hastings, a much smaller number of Bennetts’ customers compared to the proportion of those that switched to Ardonagh ([30-40]%). [10-20]% of Ardonagh’s switching customers switched to Hastings, which is again much smaller than the number of Ardonagh’s customers that switched to Bennetts ([20-30]%).

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<sup>181</sup> [REDACTED].

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



221. Based on the available evidence, the CMA considers that Hastings will only exert a moderate competitive constraint on the Merged Entity in the distribution of motorcycle insurance to private customers in the UK. While Hastings is part of a larger group, and appears to have been able to establish some brand presence, it appears to have offered only limited competition to the Parties to date (as evidenced by its limited market position and low rate of customer switching), and has a different customer focus.

- *Devitt*

222. Devitt is an independently owned motorcycle insurance provider. Devitt generated revenues of £13 million in 2018. As the CMA's share of supply estimates illustrate (see Table 1 above), Devitt's share of supply by number of private motorcycle insurance policies in the UK in 2019 was [5-10]%.

223. The CMA notes that there are some similarities between Devitt's offering and the Parties' offerings. In particular:

(a) Devitt's average GWP per policy ([£150-£200]) is similar to the Parties, indicating that Devitt focuses on customers with a similar risk profile.

(b) The Parties' price ranking analysis (see paragraph 153) indicates that Devitt has ranked on the PCWs within the top three from 2016-2019 and its brands are ranked 2<sup>nd</sup> and 3<sup>rd</sup> in 2019. The Parties' analysis also shows that, for the risk profiles where *Bennetts* or *Carole Nash Select* offered the cheapest price, Devitt was among the most price competitive brands.

(c) Data provided to the CMA by PCWs indicates that Devitt often appears alongside the Parties in the top five quotations:

(i) On the first PCW, [10-20]% of the top five places, when Bennetts appears in the top five results, are accounted for by Devitt, behind Ardonagh. [10-20]% of the top five places when Ardonagh appears in the top five are accounted for by Devitt, which is more than any other distributor.

(ii) On the second PCW, Devitt appears in [20-30]% of searches where Bennetts appears in the top five results, behind Bikesure, MCE and Ardonagh. Devitt also appears in [30-40]% of searches where Ardonagh is in the top five, which is more than any other distributor.

224. However, the evidence received by the CMA also indicates that there are some significant differences between Devitt and the Parties' offerings. In particular:

- (a) Devitt has a limited presence, with a share of less than 10% in 2019, within the ‘older’ motorcycle users customer category in which the Parties are particularly strong;
  - (b) Devitt appears to be significantly more dependent on PCWs to generate new business, acquiring [80-90]% of its new customers via PCWs, compared to [50-60]% for *Carole Nash* and [60-70]% for *Bennetts*.
225. The evidence received from third parties indicates that Devitt’s offering is materially different to that of the Parties, and that Devitt is a weak constraint on the Parties in the segments where the Parties are strongest. In particular:
- (a) Very few third parties identified Devitt as a strong competitor in the category ‘enthusiasts’.
  - (b) Very few third parties identified Devitt as a strong competitor in the ‘classic bike’ category.
  - (c) Very few third parties identified Devitt as a strong competitor in the ‘high performance bikes’ category.
226. As noted above, the CMA found that the Parties’ internal documents generally provide limited insight into the competition that they face. To the extent that internal documents do reference competitors, the CMA considers that these documents indicate that the Parties monitor a range of motorcycle insurance distributors to some extent. There are, however, also some indications in the internal documents that Devitt exerts a weaker competitive constraint on the Parties compared to the competitive constraint which the Parties exert on each other. In particular:
- (a) Devitt is listed among the competitors which Ardonagh monitors. However, it is not within the motorcycle insurance distributors listed in one *Bennetts*’ internal document as ‘main players’.<sup>183</sup> As mentioned above, this is a key document intended to inform *Bennett*’s [REDACTED].
  - (b) The ‘Brand Health Check’<sup>184</sup> cited above notes that Devitt has lower brand familiarity than the Parties, with [40-50]% of respondents having said that the main reason for not considering Devitt is that they do not know enough about the brand (compared to [20-30]% and [30-40]% for *Bennetts* and *Carole Nash*, respectively). As regards first spontaneous awareness, the same document indicated that [0-5]% of the respondents

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<sup>183</sup> [REDACTED].

<sup>184</sup> [REDACTED].

knew Devitt compared to [10-20]% who knew *Bennetts* and [5-10]% that knew *Carole Nash*.

227. Finally, customer switching data (based on the information provided by PCWs) indicates that Devitt is not a close competitor to the Parties. Only [5-10]% of Bennetts' switching customers switched to Devitt (compared to [30-40]% that switched to Ardonagh). [10-20]% of Ardonagh's switching customers switched to Devitt. This is significantly smaller than the number of Ardonagh's customers that switched to Bennetts ([20-30]%).
228. Based on the available evidence, the CMA considers that Devitt will only exert a weak competitive constraint on the Merged Entity in the distribution of motorcycle insurance to private customers in the UK. In particular, Devitt is a materially smaller distributor compared to the Merged Entity, with a significantly less well-known brand. In practice, there appears to be limited switching to Devitt from the Parties.

- *Motorcycle Direct*

229. Motorcycle Direct is the motorcycle insurance distribution brand of the Europa Group. The Europa Group generated revenues of £10 million in 2018. As the CMA's share of supply estimates illustrate (see Table 1 above), Motorcycle Direct's share of supply by number of private motorcycle insurance policies in the UK in 2019 was [5-10]%.
230. The CMA notes that Motorcycle Direct's average GWP per policy ([£150-£200]) is similar to the Parties' average GWP policy, indicating that Motorcycle Direct focuses on customers with a similar risk profile.
231. However, the evidence received by the CMA indicates that there are some significant differences between Motorcycle Direct's offering and the Parties' offerings. In particular:
- (a) The Parties' price ranking analysis (see paragraph 153) indicates that Motorcycle Direct has ranked within the top five from 2016-2019 and is ranked 5<sup>th</sup> in 2019. However, for the risk profiles where *Bennetts* or *Carole Nash Select* offered the cheapest price on PCWs, Motorcycle Direct is not within the top five on average.
  - (b) Data provided to the CMA by PCWs indicates that Motorcycle Direct does not often appear alongside the Parties in the top five quotations:
    - (i) On the first PCW, only [0-5]% of the top five places, when Bennetts appears in the top five results, are accounted for by Motorcycle Direct, behind Ardonagh, Devitt, MCE and Hastings. Similarly, only [0-5]% of

the top five places when Ardonagh appears in the top five are accounted for by Motorcycle Direct, behind Devitt, Bennetts, MCE and Hastings.

(ii) On the second PCW, Motorcycle Direct does not feature in the top five alternatives when either Ardonagh or Bennetts appears is in the top five cheapest results.

(c) Motorcycle Direct has a low share of under 10% in the 'older riders' category.

232. The evidence received by third parties indicates that Motorcycle Direct's offer is different from the Parties' offer and that it is liable to offer a limited constraint on the Parties in the segments where the Parties are stronger. In particular:

(a) Very few third parties identified Motorcycle Direct as a strong competitor for 'enthusiasts'.

(b) No third party identified Motorcycle Direct as a strong competitor in the 'classic bikes' category.

(c) No third party identified Motorcycle Direct as a strong competitor in the 'high performance bikes' category

233. Customer switching data (based on the information provided by PCWs) indicates that Motorcycle Direct is not a close competitor to the Parties. Only [5-10]% of Bennetts' switching customers switched to Motorcycle Direct (compared to [30-40]% that switched to Ardonagh). Similarly, only [5-10]% of Ardonagh's switching customers switched to Motorcycle Direct. This is smaller than the number of Ardonagh's customers that switched to Bennetts ([20-30]%).

234. As noted above, the CMA found that the Parties' internal documents generally provide limited insight into the competition that they face. To the extent that internal documents do reference competitors, the CMA considers that these documents indicate that the Parties monitor a range of motorcycle insurance distributors to some extent. There are, however, also some indications in the internal documents that Motorcycle Direct exerts a weaker competitive constraint on the Parties compared to the competitive constraint which the Parties exert on each other. In particular:

(a) Motorcycle Direct is listed among the competitors which Ardonagh monitors. However, Motorcycle Direct is not within the motorcycle insurance distributors listed in one Bennetts' internal document as 'main

players'<sup>185</sup> Further, Motorcycle Direct is not mentioned in the broader set of competitors considered in this document.<sup>186</sup> As mentioned above, this is a key document intended to inform Bennetts' [REDACTED].

- (b) The 'Brand Health Check'<sup>187</sup> mentioned above, notes that Motorcycle Direct has lower brand familiarity than the Parties, with [40-50]% of respondents having said that the main reason for not considering Motorcycle Direct is that they do not know enough about the brand (compared to [20-30]% and [30-40]% for Bennetts and Carole Nash, respectively). As regards first spontaneous awareness the same document indicated that none of the respondents knew Motorcycle Direct compared to [10-20]% who knew Bennetts and [5-10]% that knew Carole Nash.

235. Based on the available evidence, the CMA considers that Motorcycle Direct will only exert a weak competitive constraint on the Merged Entity in the distribution of motorcycle insurance to private customers in the UK. Motorcycle Direct is a materially smaller distributor than the Merged Entity, with a significantly less well-known brand. Motorcycle Direct has a different customer focus to the Parties, as reflected in its significantly higher pricing. In practice, there appears to be limited switching to Motorcycle Direct from the Parties.

#### *Other competitors*

236. Both the Parties and their customers mentioned a number of other distributors of motorcycle insurance to private customers in the UK. The CMA considers that these alternatives offer only a very limited constraint on the Parties, for the reasons set out below:

- (a) Lexham has a very small share of supply of [0-5]% and focuses on younger riders and bikes with low engine capacities, rather than the categories where the Parties are strongest. No third parties identified Lexham as a strong competitor for 'enthusiasts' or 'classic bikes' and there was no other evidence provided to the CMA to suggest that Lexham is a material constraint on the Parties.
- (b) Principal has a very small share of supply of [0-5]%, was not considered to be a strong competitor by third parties in any category. Evidence from PCWs indicates that only a very small proportion of the Parties' customers

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<sup>185</sup> [REDACTED].

<sup>186</sup> [REDACTED].

<sup>187</sup> [REDACTED].

([0-5]% of all switching customers) switched to Principal in 2019, and there was no other evidence provided to the CMA to suggest that Principal is a material constraint on the Parties.

- (c) BeMoto started as a motorcycle insurance broker four years ago and has a very small share of supply of [0-5]%. BeMoto was not considered to be a strong competitor by third parties in any category. Evidence from PCWs indicates only a very small proportion of the Parties' customers ([0-5]% of all switching customers) switched to BeMoto in 2019, and there was no other evidence provided to the CMA to suggest that BeMoto is a material constraint on the Parties.
- (d) Other minor competitors mentioned by the Parties all have negligible share of supply such that they could not be considered full competitors, and there was no other evidence provided to the CMA to suggest that any of these suppliers are a material constraint on the Parties.

237. In addition, other evidence indicates that smaller motorcycle distributors generally impose a limited constraint on the Parties. In particular:

- (a) Switching from each of the Parties to other distributors is limited (as described further below for each individual motorcycle insurance distributors);
- (b) There is little evidence in the Parties' internal documents to suggest that other distributors provide a meaningful competitive constraint.

#### *Parties' estimates of own-price elasticity of demand*

238. The Parties submitted that their own-price elasticity of demand in relation to the distribution of motorcycle insurance is high, and so any attempt to raise prices post-Merger would result in a significant reduction in sales.<sup>188</sup>

239. The CMA considers that the Parties' own-price elasticities reflect the current state of competition in the market, and are not necessarily indicative of the Merged Entity's ability to raise price, especially since there is currently a significant amount of customer switching between the Parties. In addition, the Parties' estimate that price elasticities are substantially lower for direct sales to new customers and sales to existing customers than for sales via PCWs to new customers.<sup>189</sup> This indicates that existing customers and direct customers, which account for the majority of the Parties' sales, are far less

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<sup>188</sup> The Parties' response to the CMA's Issues Letter, paragraph 3.3.

<sup>189</sup> Bennetts estimate that in the year to August 2020, the average price elasticity of demand for PCW sales was - [X]% compared to [X]% for direct sales and [X]% for renewals.

price sensitive than new customers acquired via PCWs, and therefore that the Parties may lose relatively few customers via these sales channels in response to a price increase.

*Conclusion on competitive constraint from alternative distributors*

240. The CMA 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.
241. 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.
242. The CMA therefore believes that the competitive constraint from other motorcycle insurance distributors, considered individually and collectively, will not sufficiently constrain the Merged Entity.

***Conclusion on horizontal unilateral effects in the distribution of motorcycle insurance to private customers in the UK***

243. On the basis of the evidence assessed on this section above, the CMA found that:
- (a) The Parties have a high combined share of supply in the distribution of motorcycle insurance to private customers in the UK, and that the Merger will bring about a material increment in the share of supply;
  - (b) The Parties are close competitors and the Merger would therefore eliminate a significant competitive constraint;
  - (c) Both Parties hold strong brands and a significant incumbency advantage. In particular, the majority of the Parties' sales are 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; and
  - (d) Other smaller motorcycle distributors will not be able to closely compete with the Parties, in particular because of the Parties' strong brands and incumbency advantage.

244. Accordingly, the CMA found that the Merger raises significant competition concerns as a result of horizontal unilateral effects in relation to the distribution of motorcycle insurance to private customers in the UK.

## **Barriers to entry and expansion**

245. 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>190</sup>

### **Entry**

#### *Parties' submissions*

246. The Parties submitted that there are few, if any, barriers to entry, particularly for brokers or underwriters active in motor insurance (ie cars and vehicles other than motorcycles). This is on the basis that:

- (a) They would already have established relationships with underwriters (or have underwriting capacity themselves) and PCWs;<sup>191</sup>
- (b) Motor insurers already have a strong brand, and there is little brand loyalty in motorcycle insurance in any case;<sup>192</sup>
- (c) Brokers often switch positions on PCWs from year to year, showing the dynamic nature of the sector<sup>193</sup>; and
- (d) EU and domestic legislation recognise motor insurance as a single classification of insurance and do not subdivide by class of vehicle. Therefore, providers of car insurance do not need to seek any further regulatory approvals to provide motorcycle insurance.<sup>194</sup>

247. The Parties submitted that the threat of entry from motor insurers that have strong brands, poses a significant constraint on the Parties.<sup>195</sup>

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<sup>190</sup> [Merger Assessment Guidelines](#), from paragraph 5.8.1.

<sup>191</sup> MN, paragraphs 221 and 222.

<sup>192</sup> MN, paragraph 225.

<sup>193</sup> MN, paragraph 24.

<sup>194</sup> MN, paragraph 226.

<sup>195</sup> MN, paragraph 32.



### *CMA's assessment*

248. In assessing whether entry would be timely, likely and sufficient, the CMA considered:
- (a) Third party evidence on the likelihood of entry; and
  - (b) Evidence from the Parties' internal documents on the threat of entry.

#### *Third party evidence*

249. The evidence received by the CMA indicates that entry from motor insurers or underwriters of motorcycle insurance is unlikely. In particular:
- (a) All of the motor vehicle insurers that responded to the CMA's investigation said that they do not have any plans to enter motorcycle insurance.
  - (b) All of the motorcycle panel insurers that provided evidence to the CMA, (excluding those that currently sell motorcycle insurance directly to customers) confirmed that they do not have any plans to start selling motorcycle insurance directly to customers.
250. Third parties indicated that the lack of entry plans could be attributed to the following features of the market:
- (a) Several third parties stated that the relatively high level of acquisition costs<sup>196</sup> on PCWs, compared to the level of premiums in the motorcycle insurance market, and the importance of brand awareness (as discussed in paragraph 67) make entry undesirable.
  - (b) One PCW told the CMA 'A new entrant [underwriter or broker] does not have any certainty of being profitable within the first 36 months in the motorcycle insurance market.'
  - (c) Several motor insurers and motorcycle panel insurers told the CMA that the motorcycle insurance market is too small with too low margins to be considered a priority for them.
251. In addition, while the CMA is aware of three instances of entry into motorcycle insurance in the past five years (BeMoto, Entire Cover and One Call Insurance), none of these providers has been able to attain a share of supply

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<sup>196</sup> Third parties referred to the cost of securing distribution (particularly through PCWs) and the level of initial discounting to acquire new businesses needed to sustain the volume growth as the main acquisition costs.

over 5%,<sup>197</sup> indicating that new entry would likely not be sufficient to offset the effects of the Merger. In line with this, one of these new entrants told the CMA that it is 'not a disruptor yet'.<sup>198</sup>

#### *Parties' internal documents*

252. The CMA considers that the Parties' internal documents do not support the position that the Parties perceive the entry of distributors of insurance for other motor vehicles as a significant threat. While one Ardonagh internal document dated December 2018 cites BeMoto,<sup>199</sup> which started distributing motorcycle insurance in 2016, as a threat to Ardonagh's *Carole Nash*, the CMA notes that BeMoto has not grown significantly since its entry (see below in paragraph 236).
253. One Ardonagh internal document does refer to the possibility of motor insurance distributors entering the distribution of motorcycle insurance, and also notes that there is no basis to believe that existing motorcycle insurance brokers could not expand.<sup>200</sup> The CMA notes, however, that this internal document was prepared for the purpose of the Merger and, moreover, that these threats (which the CMA has not otherwise found evidence of in the Parties' internal documents prepared before the Merger was in contemplation) are cited within the context of justifying why the Merger should not raise competition concerns. The CMA therefore puts no weight on this internal document.

### **Expansion**

#### *Parties' submissions*

254. The Parties submitted that growth can be achieved by new entrants who are able to grow without any incumbency advantages, existing scale, or brand. The Parties cited One Call, BeMoto and Principal Insurance as examples of motorcycle insurance distributors that would be readily able to expand.<sup>201</sup>

#### *CMA's assessment*

255. In assessing whether expansion would be timely, likely and sufficient, the CMA considered:

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

<sup>198</sup> The CMA's note of call with [REDACTED] of 19 May 2020.

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

<sup>200</sup> Annex [10 (B)] \_ Project Blue Investment Memo.PDF.

<sup>201</sup> The Parties' Presentation at the Issues Meeting dated 18 August 2020, page 24.

- (a) Evidence from third parties on expansion plans and barriers to expansion;
- (b) Evidence from the Parties' internal documents on barriers to expansion;  
and
- (c) Other sources of evidence relevant for the assessment of the likelihood of expansion.

*Third party evidence*

- 256. The CMA requested information from distributors of motorcycle insurance on their expansion plans for the next two years. This evidence indicates that expansion by existing smaller motorcycle insurance distributors is not likely to occur in a timely and sufficient manner.
- 257. While the majority of distributors that responded to the CMA's investigation reported that they plan to grow in the next two years, several indicated that any growth would be limited and/or would depend on the actions of competitors. No distributors indicated that they had substantial expansion plans.
- 258. Evidence from third parties indicated that there are significant barriers to expansion:
  - (a) Several brokers noted that the cost of acquisition via PCWs as a barrier to expansion. For instance, several third parties noted that small distributors rely on PCWs to acquire customers and that they lack the funds required to significantly grow their customer base via this channel (which would require setting a very low or negative commission). For example:
    - (i) One broker submitted that 'Cost of acquisition via comparison sites is the main barrier between us and increasing our market share of motorbike consumers. Our average commission for motorbike sales is circa 80% less than car insurance for example yet the acquisition costs with aggregators is around 20% less meaning we are often unable to price as competitively as we would like.'
    - (ii) Another broker said that 'We could secure much greater growth were it not for the cost of acquiring new business. This is a significant obstacle for us, but not [for] the big players who, with hundreds of thousands of policyholders, benefit from the cushion of renewal revenues.'
    - (iii) Another broker noted that it is 'not expecting a significant uplift in market share' because 'the economics of it make it difficult to grow'.

- (iv) Another broker stated that 'limited funding to invest in marketing and distribution which is typically an up-front cost with multi-year payback; this is where the larger players have clear advantage.'
  - (b) Several third parties told the CMA that the Parties can leverage their scale to negotiate more favourable commission rates with underwriters<sup>202</sup> and indicated that an important barrier to expansion is the need of scale to be able to negotiate lower premiums with underwriters and be competitive on price. For example:
    - (i) One broker noted that insurers determine commission rates on volume and that this naturally favours larger players;
    - (ii) Another broker said that it does not 'currently benefit from the [...] scale discounts with underwriters' and it needs to subsidise business' with its other businesses to be competitive;
    - (iii) Another broker said that 'most insurers have a standard set of rates for motorcycle insurance which they will then tailor and adjust based on the size and underwriting performance of a brokers' account. The larger the account, generally the more influence a broker has to command higher commissions or keener rates.'
  - (c) Several distributors observed that the small size of the market makes it less likely for them to be willing to expand. For instance, one distributor noted, in response to the question about the factors limiting the number of policies it can sell, that its 'business model is setup for large demand, motorbike is a very small policy count compared to [its] other core lines.'
259. Third party evidence also shows that the incumbency of the main motorcycle insurance distributors (such as the Parties) makes it difficult for other distributors to gain customers and grow, given the significant customers retention rate of the incumbents. For instance, one broker noted that 'the big players can rely on existing and future renewal revenues, the latter aided by a level of consumer inertia that still exists within the market.'

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<sup>202</sup> For example, one broker told the CMA that 'Dominant players can offer free add-ons, such as helmets and leather or excess protection cover as marketing bait. [...] Through their scale and buying power, major players may also "bake in" such benefits within their offer. Smaller brokers may need to offer these as add ons.'

### *Parties' internal documents*

260. Evidence from the Parties' internal documents indicates that the need to develop strong brand awareness to win customers (see paragraphs 67) is a significant barrier to entry, given the time and investment required.

### *Other evidence*

261. Other sources of evidence are consistent with the existence of significant barriers to expansion:
- (a) As outlined in the section on entry above, the three most recent entrants to the motorcycle insurance sector have so far been unable to expand significantly and attain a significant share of supply. Share of supply evidence indicates that the position of the largest distributors in motorcycle insurance have remained unchanged for several years. No smaller brokers have expanded to reach a similar scale to these distributors. As outlined in the section on entry above, the three most recent entrants to the motorcycle insurance sector have so far been unable to expand significantly and attain a significant share of supply.
  - (b) Evidence from PCWs indicates that smaller brokers are less likely to offer the lowest price on PCWs, and when they do offer the lowest price, they are less likely to secure a sale.<sup>203</sup>

### ***Conclusion on barriers to entry and expansion***

262. The CMA has found that evidence from internal documents and third-party evidence indicate that there are significant barriers to entry and expansion, such as: (i) the need to develop a strong brand and the marketing costs involved; (ii) the importance of scale to be able to negotiate lower premiums with underwriters; (iii) the cost of acquisition via PCWs. Furthermore, the CMA did not find evidence that distributors of other insurance, for example car insurance, were interested in entering the distribution of motorcycle and recent entrants have been unable to expand significantly.
263. For these reasons, the CMA does not believe that entry or expansion would be sufficient, timely or likely to prevent a realistic prospect of an SLC as a result of the Merger.

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

## Third party views

264. The CMA contacted the suppliers (panel insurers and PCWs and competitors (brokers) of the Parties. Half of the third parties that responded to the CMA's investigation expressed concerns about the Merger's impact on competition and/or the market.
265. In particular, all but one panel insurers expressed concerns, primarily in relation to the Parties' high combined share and loss of choice to customers resulting from the Merger. Half of the brokers expressed concerns, including in relation to the Parties' high share and/or a reduction in choice, and the Parties bargaining power over panel insurers. One third party representing consumers voiced concerns about the Merger, saying that the Merger would lead to higher prices and reduced choice.<sup>204</sup>
266. Third party comments have been taken into account where appropriate in the competitive assessment above.

## Conclusion on substantial lessening of competition

267. 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 distribution of motorcycle insurance to private customers in the UK.

## Decision

268. Consequently, the CMA believes that it is or may be the case that (i) a relevant merger situation has been created; and (iii) the creation of that situation has resulted, or may be expected to result, in an SLC within a market or markets in the United Kingdom.
269. 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>205</sup> Ardonagh has until 23 September 2020<sup>206</sup> to offer an undertaking to the CMA.<sup>207</sup> The CMA will refer the Merger

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<sup>204</sup> One panel insurer, one PCW, one third party representing consumers and a number of brokers also highlighted the risk of brand stacking, ie that the Merged Entity would control a large number of brands and could position them together at the top of PCW search results, to make it harder for customers to view the prices offered by rivals.

<sup>205</sup> Section 22(3)(b) of the Act.

<sup>206</sup> Section 73A(1) of the Act.

<sup>207</sup> Section 73(2) of the Act.

for a phase 2 investigation<sup>208</sup> if Ardonagh does not offer an undertaking by this date; if Ardonagh indicates before this date that it does not wish to offer an undertaking; or if the CMA decides<sup>209</sup> by 30 September 2020 that there are no reasonable grounds for believing that it might accept the undertaking offered by Ardonagh, or a modified version of it.

270. 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 expires on 7 December 2020. For the avoidance of doubt, the CMA hereby gives Ardonagh 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 Ardonagh 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 Ardonagh stating that it does not intend to give the undertakings; or the cancellation by the CMA of the extension.

**Colin Raftery**  
**Senior Director, Mergers**  
**Competition and Markets Authority**  
**16 September 2020**

#### ENDNOTES:

Paragraph 23: “Bennetts is a [X] subsidiary of Saga Services Limited (SSL), [X] is [X]by Saga Plc (Saga)” should be read as “Prior to completion, Bennetts was an indirect, [X] subsidiary of Saga Plc (Saga)”.

Footnote 93: all references to Saga should be read as Bennetts, except the ones in brackets.

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<sup>208</sup> Sections 22(1) and 34ZA(2) of the Act.

<sup>209</sup> Section 73A(2) of the Act.