

XCHANGING / AGENCYPORT SOFTWARE EUROPE MERGER INQUIRY

Composite summary of customer calls

Background

1. In January and February 2015, the CMA held hearings with 18 managing agents operating within the London Company market (Company market) and/or the Lloyd's market (together, the London market).¹ The purpose was to understand the competitive process leading to the purchase of policy administration systems (PAS) by those customers, the choices open to them and their views on the various suppliers seeking to sell PAS to customers operating in the Company market and/or the Lloyd's market. All the managing agents we talked to had either purchased a PAS or reviewed suppliers in the recent past. This note summarises the key points from the hearings.

Market definition

The specific functionality required for the London market

2. Customers said that the Lloyd's market is different from other markets due to the bureau system. Most customers said that PAS systems needed specific functionality in order to deal with the bureau messaging requirements. One customer said that there were few suppliers who could robustly deliver the Lloyd's messaging functionality. One customer added that what was insured was also more complex in the Lloyd's market and it therefore required bespoke functionality/systems outside of the normal underwriting systems.
3. One customer thought that the modernisation taking place in the Lloyd's market might make it easier for suppliers like Accenture Duck Creek and Guidewire to enter the market. However this customer emphasised that the pace of change was uncertain and that it might take three to five years for the modernisation to take hold.

¹ We spoke to one customer who said it did not operate within the London Market. We have not included this customer's views in this summary.

4. Two customers said that the bureau system in the Company market was different from in Lloyd's, as the Lloyd's market required managing agents to accept the Lloyd's message files on a mandatory basis, whereas a managing agent in the Company market could elect to take the message files or choose to process manually. Two customers said that they thought it would be relatively straightforward to set up messaging capabilities for the Company market.

Global vs local solutions

5. Three customers were looking to move to a single global platform. Another customer operating in the Lloyd's market said that if it were to change its PAS it would also consider outside players and US providers.
6. However, some customers said that a single supplier could not provide a system that worked in all markets, as every market had specific business and regulatory requirements and software systems needed to meet those requirements. These customers said that it was more appropriate for them to have several systems to ensure that each area had the functionality that it needed. One customer said that it could consider paying a supplier to develop the Lloyd's interfaces or it could develop a product in-house, although this was not its favoured option and two alternative solutions would be to buy a Lloyd's focused package or retain its legacy system for the Lloyd's market and buy new systems for its other locations.

Componentisation vs end-to-end platforms

7. One customer said that it thought the distinction between componentised and end-to-end platforms had no tangible relevance and described componentised solutions as 'smoke and mirror'. It thought that most customers would buy a whole PAS system and not just one component. Another customer said that a supplier suggested that componentised solutions were more suited to larger customers and end-to-end platforms were aimed at smaller customers. However this customer did not consider the two options to be substantially different and described the distinction made by the supplier as 'marketing spin'. Two customers said that an end-to-end platform had benefits: it was less complex because it required less passing over of data and making changes and maintenance would be cheaper.
8. Some customers said they preferred a componentised solution, as this gave the customer the opportunity to fit the best components together.

Web-based vs cloud vs installed solutions

9. One customer considered that whether a PAS was installed or web-based was not an important differentiation if its staff were mostly in the same location, however it said that it might be more important if a customer had many users in different locations. Another customer said that it would prefer it if the PAS supplier offered a hosted solution as an option it could consider. A third customer said that the whole system had to be integrated with web-based services and if it was not, it would not meet this customer's requirements.

In-house solutions

10. Most customers said that they would not consider developing an in-house solution, as it is expensive, time intensive, not within their core capabilities and/or difficult from an audit and regulatory perspective. Customers said that they did not use the possibility of developing an in-house solution in their negotiations with suppliers. Further, two customers said that they were looking to move away from their in-house system.
11. However, three customers said that they would consider the option. One in particular would, if there were no suitable packages available or if it would give it a unique differentiator, although this customer noted that in the past it had considered PAS to be a commodity and not a potential source of differentiation. Two of them expressed concern that they did not have a big IT operation.

Switching and supplier selection process

Switching costs

12. Generally, customers said that they would stay with a system for as long as possible due to high switching costs and because customers had very little to gain from switching.

To a new system (with a new supplier)

13. Some customers said that switching to a new system would take around one to two years. Some customers estimated the cost to be between £1 and 3 million. One customer estimated the cost to be between £7 and 10 million.

To a new system (with the same supplier)

14. Some customers said that it was as big a job to switch to a new system with the same supplier as it was to move to another supplier. One customer said that it would take around a year and would cost between £1 and 1.5 million.
15. Others said that there were some efficiencies in staying with the same supplier, saying that risks and costs of migration were lower than when moving to the system of another supplier.

What customers value

16. Many customers said that the functionality of a PAS was essential. Some said that they looked at functionality first and other considerations later.
17. Generally, customers said that reputation and the supplier's existing client base was also an important consideration. Several customers said that they would only choose a supplier that already had experience in the Lloyd's market. One customer said that it would not select a supplier that did not have a track record of servicing the Lloyd's market, even if that company was established in other markets. One customer said that for it to consider a supplier, that supplier would need to have around five managing agents or five London companies as customers.
18. A customer said that those with a proven track record in Lloyd's systems had an advantage and if it were to look for a new system, it would look for an established name. However, this customer also said that with newer technologies available, a standardised approach, and consistency of what people wanted to see outside the box, new companies might be able to enter the market more readily.
19. One customer said that it would not consider working with a PAS supplier to develop the functionality for the Lloyd's market. However, two customers said that they would consider this option. However, one of these customers thought it would not be big enough and thought it would need to work together with a few managing agents. The other customer said it would with caution consider a change to a non-Lloyd's supplier who said it could develop the Lloyd's functionality, but it would need to see a track record of delivery in the messaging field and a guarantee and commitment to develop the system.
20. Other criteria that customers said they considered were:
 - (a) implementation time;
 - (b) whether the customer could engage and work well with the supplier;

- (c) the size of the supplier (if it was too small it might be financially vulnerable and if it were too big, the customer might have no influence over development);
- (d) cost;
- (e) subject matter expertise;
- (f) investment in the product;
- (g) ease of use/intuitive system;
- (h) integration with workflow and claims system;
- (i) financial stability of the supplier;
- (j) number of staff; and
- (k) ongoing support.

Negotiation process

21. Many customers undertake periodic reviews of the market to ascertain whether their PAS is still up to date and/or if they should switch to a new PAS. Generally, customers said that when changing a system they would start with a long list of potential suppliers and then narrow it down on the basis of functionality. Customers tended to know each other and ask each other about the systems they had and their experiences with the product and the supplier.
22. A customer said that it had negotiated jointly with other customers to get an upgrade from their supplier.

Views on suppliers' products and services

Xchanging

23. One customer said that Xchanging's legacy products were outdated, while one said it valued the quality of Iris, and another customer valued Genius. Two customers did not consider Xuber to be a 'new offering'.
24. Several customers believed that Xuber was not finalised yet. Most of these customers said that they preferred a finished product that already had a track-record of successful implementation within the London market. In particular, one customer said that implementation of an unfinished product is more difficult. Another customer thought that the Xuber platform was stronger than Agencyport's, as it had been designed from the ground up, but that Xchanging

needed to work with a Lloyd's customer for 24 months in order to fully develop Xuber.

25. One customer stated that Xuber being unfinished might be positive, as it would give the customer the opportunity to influence the development of the software. This customer and another had a positive impression of Xuber. One customer said that Xuber was underdeveloped, but thought that it would be a good piece of software when it was fully functional.

Agencyport

26. One customer was very positive about the level of service provided by Agencyport. Two customers said that they liked Agencyport's PAS system. One of these customers had tested Agencyport's PAS system, Xchanging's Xuber and Sequel's system and found Agencyport's software to be the slickest and most mature offering. This customer stated that Agencyport had a good understanding of the Lloyd's market. However, another customer said that Agencyport's PAS systems were outdated and one customer mentioned that there had been a history of implementation problems.

NIIT

27. Two customers said that some elements were out of support. One customer said that NIIT had implementation problems in the past. However, another customer said it had had a good implementation and customer relationship experience with NIIT. One customer said that NIIT offered one of the best solutions.
28. Two customers considered that NIIT's latest product might not yet be finished and one of these customers said that it had not been tested enough. One customer said that NIIT's system was Lloyd's-driven and not suited to the Company market.

Sequel

29. Generally, customers perceived Sequel as currently having the best offer. Sequel's product was said to be modern, priced appropriately and hard to fault.
30. A customer indicated that Sequel had in the past offered a more basic product. Another said that Sequel had failed an implementation in the past, but that it had improved its product considerably since then, although it still needed to further improve its product.

Eurobase

31. Several customers said that they thought Eurobase's products were out of date. Others considered Eurobase's products to be good and hard to fault, and one customer said that synergy2 was a very modern platform. However, another customer felt that the new platform did not yet have all the required functionality and it considered that Eurobase's system was not user-friendly, as its platform was built for operations where data entry was done in the back office.

Northdoor

32. Several customers considered Northdoor to be a less strong competitor in the London market. Some said that Northdoor's product was different to other offerings, as it was more modular and Northdoor would develop the product with the customer and have shared ownership. One customer said that Northdoor's 'build-it-yourself solution' meant you would end up with a nice system but this customer considered this route to be more risky. However, two customers considered having access to the source code to be a benefit. Another customer also said that there was a greater risk in developing a PAS in this way.

Guidewire

33. Guidewire was said to be a large respected supplier globally, but not yet a strong competitor for the supply of PAS to the London market.
34. Guidewire was said to have a reputation for being expensive. Several customers said that its solution would best suit an insurer with high volume, low value transactions.
35. One customer stated that Guidewire's solution did not have London messaging capability.

Other suppliers

36. CSC was perceived to be a less strong competitor in the London market. One customer said it thought CSC sold a solution rather than a product, ie other suppliers had a packaged system to sell, whereas CSC asked what a customer wanted and would then build the system. Some customers thought that the product would generally best suit high volume, low value transactions. One customer considered CSC to be expensive.

37. Ebaotech was not perceived to be a competitor in this market. Some customers had not heard of Ebaotech at all and one said it did not know much about them.
38. One customer said that Websure had a good PAS system but that it did not have the functionality for the Lloyd's and/or Company market.

Views on the merger

39. To the extent that customers expressed a view, five customers voiced concerns about the merger: Concerns included that: there was now one less choice in the market; that Agencyport's offering would not be supported going forward; and that Agencyport's products would not be further developed. One customer thought that the merger would be detrimental to investment and innovation and that if products were to be developed or updated, it would be the customer who would pay for it. This customer also said that Xchanging was a significant supplier of software and services to the London insurance market, and it saw the anticipated acquisition as expanding Xchanging's already dominant position. Another customer said that in theory one way in which Xchanging could take advantage of its position in central-processing would be by changing the messaging system to one that only its software could handle and that the more products Xchanging had, the more likely it was that it would do so. One customer thought that if Xchanging had access to Agencyport's products, it would be able to transfer Agencyport's clients to Xuber on a technical level and that this would give Xchanging a strong advantage over its competitors.
40. Seven customers were not concerned about the merger. Two customers considered that there were still enough options left, including writing a PAS in-house. One customer said that it thought the merger was even a positive thing as it aligned with its own operational needs.
41. One customer said that if Xchanging invested in its technology it would support the merger, however, if it did not plan to make such investment, the customer did not see any advantages to the acquisition.