CMA
Competition & Markets Authority

XCHANGING / AGENCYPORT SOFTWARE EUROPE MERGER INQUIRY

Summary of hearing with Athito on 27 January 2015

Background

1. Athito said it was set up around 2003 and provided a breadth of business consulting, along with advising on specific technology systems. It said it specialised in the Lloyd's and London Company market, and 90% of its work was UK-based. However, it also did work for international insurers, usually in the US or Bermuda, and had also done work in Europe and the Middle East.

The market

2. Athito said that the present trend within software houses was for a thorough modernisation of the core underwriting platforms into browser-based systems, but that insurers were still relatively happy with older-style products, even if they were attracted to what the new products could potentially offer them.

3. It said that insurers were quite risk averse regarding new technology but over the last couple of years software companies had started to make their solutions browser-based (as opposed to cloud-based as insurers remained concerned about data not being in their environment).

4. Athito said the insurance market was becoming more global, mainly because there had been a lot of mergers and acquisitions over the last ten years, so companies that were historically London-only now had more of a global reach, and vice versa.

5. Athito said that the policy administration systems (PAS) solutions that US carriers used were very rarely appropriate for use in London or across Europe, mainly because many historically transacted in US dollars and to make the functionality multi-currency required substantial investment. Also, the London market used bureau messaging, which was a very specific interface with a specific set of workflows and rules which enabled business to be processed. Therefore typically any US carrier would need to buy a local PAS if expanding operations to London. Athito said it would be easier for a London software package to be adapted to overseas than the other way

around. However, there would obviously be the need to consider multi-language functionality and the different local working practices.

6. Athito said there was a small insurer client base open to those software houses who wanted to enter or grow in the London market, so to grow their businesses, system vendors would often look outside London for a potential new market and open up branch offices in Bermuda or New York to have access to the US domestic markets, for example. Larger software companies tended to be global in nature and also very generalist. Athito said that it knew of at least one extremely large software company employing several thousand people working in many different industry verticals [✂], but whose insurance division was relatively small. Therefore to sell its product in different marketplaces, it had to assemble implementation teams from a number of offices and make them available. Hence even if the software company was a large organisation, the insurance practice was usually relatively small. Some of the global PAS suppliers did not think it was worthwhile opening up an office in their local markets. However, without a local presence and local industry knowledge, it made it difficult for software companies to convince managing agents to buy the products on offer.

7. Athito said that London was a very unique market, which ran on a subscription basis and had adopted unique business practices, ie the brokers would contact the underwriters, whereas elsewhere the insurer would approach the customer to market itself. Added to this, there was the need to be able to process the messaging from the bureau. Therefore to have a software package that could deliver what was needed by the London market, the vendor would need a team that understood the London market and had a package that had been developed to service London. Athito also said that the timing of IT support could also be a problem, depending on where the team was located. It could obviously be managed using infrastructure, but local skills were very important.

8. It said that every London-market software supplier had been founded in London and mainly serviced the London market, although they were now looking to expand globally. It mentioned a couple of large companies trying to get into the London market, but said they had large, very complex, extensive packages that they were not achieving great success with when trying to adapt them to fit the London market.

9. Athito said that the London market insurers might be global, but their approach was to set up a small branch office locally and to retain their core functions in the UK. In this way, they would service the local requirements by buying a localised PAS which had functionality that was specific to that market and they would not need to use the massive London-market transactional

system. This meant that the local staff would be familiar with using the PAS given to them, rather than a London market software package.

10. Athito said there were only a couple (perhaps three or four) managing agents where the parent company imposed an international solution and expected it to be adapted to local needs. Usually a local PAS was used because the corporate system would not have bureau messaging. Athito said this was why practically everyone at Lloyd's used a London-market system.

11. Athito said that instead of installing a global underwriting system, local underwriting systems would feed some high-level information into a central data warehouse. Therefore it was through centralisation of the management information, not through centralisation of the transactional processes that insurance companies got a global view of what was going on.

12. Athito said that companies often had a data warehouse that was aligned to their local PAS and there would also be a feed of much more aggregated information that would go to the head office for reporting purposes, and which would be stored and analysed centrally. Therefore it was not necessary to have one system to allow an insurer to operate in various markets. All that was needed was a central warehouse or some other reporting mechanism that would present head office with a holistic view of risk across the business.

13. Athito said there was little need for substantial document generation in a typical London market transaction, compared to general insurance or some other market places, with the broker issuing the policy documentation in London. If the insurer were issuing a quote from the system and the insurer wanted to automate the additions of subjectivities or conditions attached to the quote, this more complex documentation production would be where some of the less-mature systems would struggle to cope.

14. Data warehousing was sold separately from PAS and the ones provided by PAS vendors were not true 'enterprise' data warehouses, ie they were typically more normalised representations of the data that was within the vendor's underwriting system and that the systems marketed by the PAS vendors typically handled only underwriting data and not the wider data needs of an insurance company. Therefore they would not easily work with any other company's reinsurance or claims tools. Hence if the data warehousing was being sold by PAS vendors, it was not a true separate product, but just one that worked best with their own product. However, there were companies that purely sold data warehousing solutions, without offering PAS solutions.

15. Athito said that exposure modelling was a business activity that was not handled within PAS. It said the three main exposure modelling systems that

the majority of London market insurers used were Sequel Impact, Open Xposure (Agencyport) and Exact (NIIT Insurance Technologies). Beyond these, there were catastrophe modelling systems from the likes of RMS.

16. Athito said that there were a small number of bespoke claims stand-alone products in the market, offered by FINEOS, Guidewire and Sequel, and managing agents used them because of the type of business they transacted which was more suited to a dedicated claims management system beyond the capabilities of their legacy PAS.

17. To differentiate between the Lloyd's and the Company market, Athito said what mattered was whether transactions were processed through the bureau. It said that consumer insurance was not managed through the bureau. The insurer would use the bureau for low-volume, high-premium business. Athito said that the PAS products that were suitable for the type of business processed through the bureau were not appropriate for high-volume, low-premium business.

18. While Lloyd's managing agents must use bureau messaging (and thus have little choice in its selection of PAS if it wanted efficient and effective message processing and the automated business processes that messaging enables) other London market insurance companies made an active decision whether to participate in the bureau processing services; however, the majority of companies operating in the London market were bureau members. This was not true outside the London market, especially the more retail and personal lines business.

19. Certainly bureau processing is an advantage to insurers. Brokers prefer to place risks within the Lloyd's and/or company market bureau services. Once a broker has attracted a number of bureau market to a placement it would typically prefer to keep the placement within the bureau and not use market that are 'non-bureau' as this increases the broker's administration costs.

Product attributes

20. All London PAS suppliers had systems that recorded a quote and had the ability to provide some sort of documentation, although the better systems provided more tailored documentation. All also managed claims, but the complexity of the claims management process often made people decide to buy a stand-alone claims product. All PAS solutions dealt with technical accounting and bureau messaging and all would handle claims settlements. PAS systems managed proportional outwards reinsurance, but were not effective for managing complex outwards excess of loss reinsurance. Therefore managing agents who wanted to reduce manual activity and

spreadsheet use in outwards reinsurance management would typically buy a dedicated system which handled proportional and non-proportional reinsurance and probably switch off the proportional functionality that existed in the core PAS.

21. Athito said that when managing agents were choosing a system, they would look at how risky implementation would be and so whether the vendor had implemented a PAS solution in the London market before. Functionality was also important, but price on the whole was similar across suppliers.

Competitors

22. Direct competitors in the market that have an end-to-end system consisted of Northdoor, Sequel, Agencyport, Xchanging and NIIT with other vendors often attempting to gain a foothold in the market including CSC and Guidewire. Zov Solutions – or in the case of Eurobase – re-establish their position in the London market

23. Athito remained sceptical of end-to-end PAS providers claiming to have componentised solutions. In a number of demonstrations and sales meetings vendors had often cited the ability to segment the system into smaller parts and components; however in practice Athito had found this approach to be difficult unless the system had been specifically architected from the very beginning to support this. Often when vendors tried to sell a ‘component’ of a system they implemented the entire solution but did not enable the other areas. Alternatively where a vendor had taken a more correct technical approach to componentising an end-to-end solution, some issues still arose as the component actually required shared reference tables and shared system tables that worked effectively when the system was integrated and worked less well when the system had been componentised; this obviously ignored the fact that an end-to-end solution had been designed to interface with upstream and downstream parts of the same system.

24. When looking at PAS systems there was actually very little to componentise. While the systems were large and complex their complexity was around the fact that they were integrated and strived to provide a total solution. If one were to look at the components that could be derived from the various PAS offerings these were quickly distilled into policy management, recording risk details, premiums and the like, and claim management as two distinct components. Outside of that the other functions that a PAS performed were not easily represented as a componentised solution. For example while bureau messaging could be componentised from ‘product A’ it would be difficult to integrate it into ‘product B’. By way of illustration – bureau messages would ‘sign down’ an insurer’s share of a policy from a commitment

of 10% to an actual share of 5%. While manually this might be done by overtyping values if the process was triggered by a bureau message then product B would need an interface and an automated system process to take in the message and make the changes to the policy and trigger downstream changes such as reducing expected premiums. Standalone policy management systems, such as Duck Creek, were available, but not often used by London market insurers. Similarly Guidewire and Fineos had proven standalone claims systems. Implementing both these systems required significant integration work.

25. PAS systems also included functionality to manage receiving expected premiums and paying claims for inwards and outwards contracts. A standalone system providing this functionality would need substantial integration with policy and claim inputs/outputs and processing (especially when including complexities of bureau processing); which was ultimately why technical accounting was provided within end-to-end solutions.

26. Outwards reinsurance functionality within the majority of end-to-end PAS was typically limited to proportional contracts, although some vendors could also process excess of loss. Only a componentised solution that processed both proportional and non-proportional reinsurance would appear logical if one were implementing a componentised approach. There were vendors that provided standalone systems currently for outwards reinsurance due to its complexity and these were established products in the marketplace.

27. Looking at differentiating systems, Athito said that the Agencyport system was one of the purely browser-based systems, which had some advantages, for example it could be delivered to a wide variety of devices and the underlying architecture was more open to integration.

28. From a function perspective Athito did not believe that Agencyport would be more attractive to smaller customers and Xuber to larger ones. However, it said that from a cost perspective this might be true as the Xuber price point appeared high in comparison to Agencyport and other vendors.

29. The ability to provide componentised solutions might be interesting to some managing agents; however, the implementation of a new component would not necessarily mean the decommissioning of existing legacy systems; some implementations of components were in conjunction with legacy systems, with the new component managing a specific business activity such as claims or rating, but using a feed from the legacy system, managing the process, then feeding data back into the legacy at certain points to maintain the underlying system of record.

30. Managing bureau messaging could be dealt with in a similar fashion with a legacy system receiving and translating the message with a componentised system reading the translation and initiating workflows, while the message remained in the legacy system and flowed into downstream reporting and regulatory returns. This approach had benefits in that reporting and interfaces need not change to maintain regulatory reporting and key inputs into downstream systems such as the general ledger, but the end user could use the enriched functionality within the componentised software – while the legacy continued processing in the background. In short it was possible (and might be preferred due to the reduced risk and fewer changes to some downstream activities) that when a module was implemented the underlying system with the Lloyd's/bureau functionality would remain, therefore the module itself did not really require messaging capability in itself (as long as it could 'read' a suitable trigger from within the legacy system or warehouse) and thus in this implementation approach the component would fail to displace those who had the legacy, Lloyd's compliant PAS installed.

31. Athito said that Agencyport had been bought and sold several times over the last six years and each time the management team had changed. It thought the current management had invested a lot in the product and had go the commercials right.

32. Athito said that Northdoor's PAS was different as, instead of buying a system with a licence of ongoing updates, a customer would buy a one-off instance of the offering and the cost of ownership then fell on the client to maintain. In the long run, with no licence fee, it made things a lot cheaper, but then there would be the internal cost of maintaining the system.

Barriers to entry

33. Athito said that the development of ACORD XML messaging had lowered the barrier to entry slightly from a technology perspective, but it was not aware of many clients that had transitioned to the new messaging without a wider change in their environment eg a new PAS.

34. Athito said the Lloyd's market was relatively small in size and there was a low frequency of clients requiring a new PAS system – it was aware of three, potentially four start-ups next year in the Lloyd's market. However, because of the unique way that Lloyd's worked, this did not mean that there would then be 59 managing agents instead of 55 as the new syndicates would be working under the existing managing agents. It would be a couple of years before they would be considered separate syndicates. Athito emphasised that the regulatory process took a minimum of 12 months, if not longer.

35. Athito said the main barrier to entry in the Lloyd's market was not just the complexity of developing a system that could cope with the messaging and the Lloyd's regulatory requirements, it was also that the market was too small and managing agents wouldn't be likely to buy a new system from a new untried software provider.

36. In the last five years there had not been any new entrants coming in to provide PAS software to the Lloyd's or London Company market, and Athito did not expect any in the next few years. In fact, it did not expect any at all as it thought the market was too small. It said that there might be two to three new start-ups every year, but they would not take a risk on a brand new PAS entrant and in the existing market, the managing agents did not change their PAS often.