

XCHANGING / AGENCYPORT SOFTWARE EUROPE MERGER INQUIRY

Summary of hearing with Eurobase Insurance Solutions on 9 February 2015

Background

1. Eurobase Insurance Solutions (Eurobase) said that in the 1990s it had established a significant share of the Lloyd's market and had had a reasonable presence there. However, ten to fifteen years ago it had chosen to diversify its business as the Lloyd's market had shrunk through mergers and takeovers. It said that when Lloyd's had found itself in a financial crisis, Eurobase had moved into other insurance (both insurance and re-insurance) industries and into the banking sector.
2. Eurobase was now looking to expand its presence in the London market because it thought that its investment in the technology and functionality of its product was closely aligned to the market. It said that it had built a single release-based product that could work in all insurance markets. Eurobase said that to the best of its knowledge no other vendors had a single software solution that could cover both Lloyd's and the London Company market.
3. It said that it still had a couple of Lloyd's and London Company clients and it was looking to grow that business over the coming years. It said that it was presently implementing its synergy2 PAS for Newline, which was in both the Lloyd's and London Company markets. It was upgrading Newline from one of its legacy products onto the latest version of its software and it said that Newline was in the process of deploying it in Lloyd's, the London Company market and also Australia and Singapore.
4. Eurobase said that it was intending to engage with all the syndicates and the London Company market directly and that it had an established network of contacts. It thought that as it was a London-based organisation and was known in the marketplace, and that with a recently proven implementation of synergy2 product, Eurobase would be well positioned when organisations were considering changing their PAS.

The market and product attributes

5. Eurobase said that companies did not change their PAS very often as it was a big exercise, particularly in terms of data migration. Proven client implementation was the key to gaining credibility. It was hoping that when Newline completed the final phase of deployment in the summer, people would look to see how successful the implementation had been as this would be the most recent deployment of a new system and that this would provide it with the required credibility to grow its sales of synergy2. Eurobase was confident that the functionality and technical strength of its system would help it expand its presence in the London market.
6. Eurobase said that if a company had a fully functioning PAS solution, but no London market message processing, it would require an extremely large investment and Eurobase thought the functionality would cost at least [X] to develop. It said that it was not just a case of taking the existing PAS and bolting on messaging, rather the impact of putting messaging into a PAS and claims administration system changed the whole system. Hence this was not just a simple interface. Eurobase also said that it believed that any new entrant to the market would find the process of adding messaging was very test intensive because all the different types of messages that came through had to be checked to see that the messaging combination worked.
7. Due to this, Eurobase said that it was necessary to look at the investment that would be involved in relation to the size of the market and it stated that there was only a small number of high-value projects that came up every year. Therefore if a company was looking at whether or not to invest, it would need to be sure that it would win business. Eurobase said that looking at the size of the market, it did not think that it was realistic that a new software vendor would come into the London market, especially as it would not have the required level of credibility and it was unlikely that any managing agent would buy a solution from a software vendor that was unproven in that market space.
8. It said that the messaging was fundamental from the point of view of the dates of signing; the percentages written by the underwriters; and the calculation of the amounts that were done on those percentages. As the insurance risk was shared between a number of parties, it was essential to make sure that all participants had the same information so no mistakes were made.
9. Eurobase said that the difference between the Lloyd's and London Company messaging was the format. The actual layout of the message itself was different and they had different record types and different forms of filtering. Eurobase said the messages were never designed to be the same and had

always been kept separate. Therefore presently most companies had two separate engines to deal with the Company's message and another engine to deal with Lloyd's.

10. Eurobase said that it believed that at this time there was no effective way to innovate around the messaging itself; rather the only way to improve a system was to put both sets of messages through the same engine and so not have separate systems.
11. Eurobase said that everyone was trying to achieve the ACORD standard so that the data field would be the same across all messaging systems and this would provide benefits over time. However, to the best of its knowledge, this process had not been completed, so at the moment one just had to interact with the messaging protocol that was in place.
12. Eurobase did not think the development of ACORD standards would make it easier for companies to construct the messaging functionality because it said it was the interaction of the functionality of the messages and the PAS that had to be dealt with, so currently if a vendor did not have any messaging to start with, they would still have to start from scratch.
13. It could not think of any vendor that did not operate in both the Company and Lloyd's market, although not with a single product.
14. Eurobase said componentisation was when the product was segmented into different business functions and it thought it was a strength to have a componentised product. It said that customers might have self-built components that they would want to interface with and it said it had clients that only used certain of its components. Therefore having a componentised product allowed clients to operate their business processes flexibly and did give vendors wider coverage of the market. However, Eurobase stated that a componentised solution had the underlying risk of needing to interface and integrate various systems to ensure the integrity of the data and it thought there were drawbacks to having disparate systems and possibly multiple vendors.
15. Eurobase said its software was componentised but the real strength and cost-effectiveness of its solution was to be able to deal with all processing in a single system. It thought having an end-to-end PAS was better because of the consistency of data and processing.
16. Eurobase said it did not think web and cloud hosting was a critical requirement because it lent itself to software that did not require so much customisation for customers.

17. Eurobase said that business intelligence data, warehousing products and exposure modelling software would be sold separately from the PAS. Often a client might already have an existing data warehouse, so it would want an interface to it instead of having to buy a new one.
18. Eurobase said previously the Lloyd's market had been separate from the London Company market, but today those insurers in the Company market were often also in Lloyd's, so changes had occurred. It also thought that more London market insurers were going global. This development would affect what software would be bought and it gave Newline as an example of a managing agent that wanted one system that could be implemented as a solution for its entire business worldwide.

Competitors

19. Eurobase said it thought [X] was too far detached from the London market to come in and replace the incumbents. It highlighted that it believed [X] had no experience of messaging and therefore would need to start from scratch. It thought any company considering [X] for a PAS solution would see this as too great a risk, but Eurobase said that if a company were using [X] for claims, it might be prepared to take the risk if it were comfortable with the service it had received from [X] in this area. However, Eurobase suggested that [X] would have to suggest very good commercial terms to convince someone to give it such an opportunity.
20. Eurobase said it saw its competitors as [X]. It said that as far as it knew [X] was only used in the Lloyd's market, not in the London Company market, and did not have a great presence.
21. Looking at the history of [X] over the last ten years, Eurobase said it had both been quite predominant in the market, but that this did not mean that it would necessarily be the case in the future. Eurobase said while [X] had an established client base, it did not see them as a strong player in the future. It said that it viewed the client bases of both as strong targets and thought that as it had a new platform with new technology, and soon to be proved functionality, it would be in a good position to challenge them.
22. Eurobase, to the best of its knowledge, did not believe that the [X] system was particularly good and its understanding was that [X] product had not had sufficient investment in it for a number of years, and therefore would not have the technology that would be relevant for the next ten to fifteen years.
23. Eurobase saw its main competitor as Xchanging and said it thought Xchanging had the upper hand when it came to targeting start-ups because

anyone new to the market would have to go through the Lloyd's process which would include Xchanging establishing that any new entrant had a PAS system planned or in place; in this way Xchanging would always have the opportunity to engage early on.

24. Eurobase said that Xchanging would always be aware of all movements in the market, particularly new entrants, because it managed the bureau. It believed this gave Xchanging a competitive advantage in knowing who to target and it said that it thought the first vendor to consult with a new player, or someone looking to upgrade, could influence the selection process quite significantly. Eurobase said that even established managing agents didn't buy a new PAS solution often and so speculated that they would be more comfortable buying from someone that they had engaged with for a longer time.
25. Eurobase said it had not come across [X] much and thought they had an old system and had not invested much.
26. It thought [X] had left the London market as it might have found it almost too boutique to invest in; [X] had a claims handling system and so was not in the PAS space; and it had never heard of [X].

The merger

27. Eurobase said that Agencyport had an established presence, so if the merger were to go ahead, it would give Xchanging leverage over Agencyport's clients to encourage them to take Xchanging's new, unproven product.
28. Eurobase said that Agencyport had eight or nine clients and now instead of going to market for a new PAS, they could in theory just take an 'upgrade' from Xchanging. However, Eurobase stated that it would not actually be an upgrade, but a completely new product. Even if Agencyport's clients did go to market, Eurobase said that Xchanging would still be the incumbent, and it would have contracts and relationships in place. Hence Xchanging would have a lot of knowledge about the clients' business and Eurobase thought this would create comfort. To support this view, it said that the reason it had convinced Newline to take its new PAS was that it had established credibility in place with the organisation.
29. Eurobase said the migration of data was key and changing to any new system was always significant. It speculated that with Agencyport working for Xchanging, it might make the migration look simpler if a managing agent went with Xchanging. This would make the sales pitch stronger and give Xchanging a competitive advantage. Eurobase also speculated that if a managing agent were migrating to a PAS from Xchanging, Agencyport could involve its best

people, whereas if the migration was to another vendor, it could put less experienced people on it.

30. If the merger did not take place, Eurobase said it would expect Agencyport's clients to come to market as it had heard concerns about Agencyport's commercial strength and so had not been surprised when its owners had decided to sell. It thought Xchanging had bought Agencyport for its client base, not for its software.
31. Eurobase said it had discussed buying Agencyport, but it would have purely been for the client base and therefore to migrate them onto its own software. It had not been interested in Agencyport's software. Eurobase said it had discounted this strategy because it believed clients would choose its software by natural selection and it thought some clients might refuse to be forced down a route for new software where it was a false upgrade.