

## **XCHANGING / AGENCYPORT SOFTWARE EUROPE MERGER INQUIRY**

### **Summary of hearing with Sequel Business Solutions on 15 January 2015**

#### **Background**

1. Sequel Business Solutions (Sequel) was founded in 1993 and initially did not sell any software, but rather provided services to the insurance market. Therefore it supported companies that had legacy applications. In 2000 one of its clients [redacted] asked it to write a new software package as it was unable to find what it wanted in the marketplace. Sequel created Eclipse underwriting and after it had been implemented [redacted], Sequel sold it to other managing agents (MAs). In parallel, it also wrote Eclipse Broking for brokers.
2. Sequel said that initially it had started with around ten people, but now it had around 150 in its two offices in London and Malaga. Its development centre was based in Malaga. It had achieved rapid growth over the last few years and in 2014 had achieved revenues of £17.9 million.
3. Its core market was London and it had clients in the Lloyd's market and the London Company market. Its aim was to achieve a larger market share in London and also to grow internationally. It said that it had just won one client in Europe and one in the US for its new software package – Sequel Impact.
4. Sequel said that it had sold a share of its business to HG Capital in July 2014 to get some investment capital in order to increase its market share in London and internationally, and although it considered London to be its home and key market, it thought the boundaries between the London and the international market were blurred and it expected them to disappear in the future.
5. Sequel said that when it started building the software in 2000/01, it had focused on the two core end-to-end applications that it sold today. Presently it was focusing on areas of the business that were covered by its end-to-end applications and then expanding the functionality provided. [redacted]
6. It said people had bought from it initially because it was reliable and known in the market for being very good at delivery. However, over the years the functionality of its software had become better and more robust and it had started to innovate a lot more and create new applications. Sequel Impact

was one of its new products for exposure management and it had been extremely successful. [✂]

7. Sequel said that it had been winning new customers, but it had also been retaining clients that it had already won. Therefore it was not having to replace lost business, but rather adding business to its portfolio and this was what was allowing it to grow.

## **The market**

8. Sequel said that it was rare to buy software that would only support the activities involved in the administration of a policy and MAs would normally buy an insurance application which would include policy admin, claims, reinsurance, ledger and some workflow.
9. Sequel thought there were around ten to 20 suppliers who could serve global customers, but they would not necessarily be able to meet the needs of the London market.
10. Sequel said that although the London market could be described as small in terms of the number of companies, it was a £50 billion insurance market and globally it was very prestigious. Therefore from an insurance point of view, London was the most important hub in the world and was a market that suppliers would be attracted to because most of the big companies had something to do with the London market. Sequel said that as companies grew internationally and became more sophisticated technologically, they would look to use fewer local applications to save money and would look for a piece of software that could deal with the market both in London and outside of it.
11. Sequel said that people who provided solutions to the global market found it difficult to adapt their software to the London market because they were traditionally used to dealing with low-value, high-volume types of insurance. However, Sequel said that PAS solutions were fundamentally the same and it thought it was only a matter of time before everyone could deal with the more complex London market. It could not give a timeframe for this, but thought the next two to three years would be when the global insurance market would change significantly in terms of software providers.
12. [✂]
13. Sequel said it did not see a distinction between small and large clients as it considered its software to be appropriate for both, and it would target all sizes of customers, from start-ups to large companies. It said that two differences based on size would be that the smaller clients would not have large enough

IT budgets or departments to build their own software, and in terms of buying software, a large company would do business outside of London so would try to buy a solution that could deal with various markets, not just London. It speculated that of those in the Lloyd's and Company market, there were probably around 100 companies who operated in different countries.

## Switching

14. Sequel said that the PAS market was very stable because MAs found it hard to justify moving away from a core underwriting solution due to the cost and disruption. Therefore MAs needed to have an extremely good reason and this meant that they usually stayed with their supplier for five to ten years.
15. Sequel said that its competitors' strategy had been to launch a new product every few years and then ask their customers to move to the new software. In comparison, it had traditionally tried to innovate by upgrading its existing packages and hence it had created new applications that were compatible with the old applications. In this way, it was easier for its customers to migrate to the new applications without having to disrupt their business.
16. Sequel said that it was difficult for it to compare its software to other vendors because it didn't have an overview of their platforms. However, while from a functional perspective they all did the same thing, what differentiated the systems was how the vendors dealt with complex pieces of business and complex policies. Sequel said clients would consider how intuitive the application was, its robustness, and how the technology could deal with the scalability challenges (number of users and policies), as well as the volume of premium that the software could deal with and the financial stability of the company itself. In addition to this, clients would also consider the people who would be implementing the platform, supporting it and maintaining it.
17. [✂]
18. Sequel said that to encourage an MA to take a new untested platform, the vendor would probably have to do a deal with an existing customer and try to incentivise them by discounting the platform in some way. Alternatively it could target a small start-up/a new syndicate as it would not have any existing data that would need to be migrated.
19. Sequel said that due to the cost and disruption of moving to a new software application, a new entrant to the London market would also have to target start-ups, or potentially dissatisfied clients, along with those that had in-house applications. It also said that if an insurer were about to buy another company

or to launch some business internationally, it would also be a good opportunity as the company might reconsider its systems.

20. Sequel said it had been in discussions with an MA [✂] and had been told that initially there had been more than 40 other companies on the list before the MA had invited 20 to tender and then had whittled the list down to two. However, this was one extreme approach to the purchasing process: another MA might consider it had a good view of the market and only ask two or three suppliers to tender.

## **Product attributes**

21. Sequel said that several years ago there had been a move towards buying best of breed solutions for all the applications and then gluing them together, and clients liked the flexibility of having a modular solution. It said it was possible to buy from different suppliers, but there might be issues around integration. However, even if a client bought an end-to-end application, the vendor still had to integrate it with the other pieces of software that the client had.
22. [✂]
23. Sequel said that its exposure management system integrated with other PAS, not just its own.
24. Sequel said that data warehousing solutions had been modular for many years as clients typically liked to buy applications from one supplier and data warehousing from another. Often they liked to build their own, but for the last few years many had bought an enterprise data warehouse from More Stevens as this took lots of feeds from different areas and used them for regulatory reporting, unlike the syndicate data warehouse that just took the data from the core PAS.
25. Sequel did not think that whether a system was installed, web-based, or a cloud solution was a strong differentiator because, due to the technological developments, it was possible to make any application cloud- or web-based, even if the core application was not web-based.

## **Competitors**

26. Sequel said that one of its strongest competitors was the in-house IT departments of insurers that preferred to build their own solution and be completely different to everyone else.

- 27. [✂]
- 28. [✂]
- 29. [✂]
- 30. [✂]
- 31. [✂]
- 32. [✂]

## **Bespoke solutions**

- 33. Sequel said that about ten years ago MAs had moved towards building their own systems, but five years ago they had changed back to wanting to buy a packaged software solution. Sequel said that MAs building their own PAS tended not to be that successful and the initial move had been driven by the fact that there were not any good end-to-end solutions in the marketplace. However, now there were many good products available and the new innovative software was very specialised. Normal IT departments did not have the specialist skills required to build modern solutions.
- 34. [✂]

## **Procurement**

- 35. Sequel said that it might have some visibility that a bid was coming up and so could potentially have discussions with its clients before being invited to bid but, in its experience, a formal process (including RFIs, requests for proposals (RFPs), demonstrations and negotiations) was always carried out to compare the different vendors.
- 36. While the procurement process was slightly different depending on the size of the customer, even small companies would carry out a formal selection process and could outsource the process to a consultant if needed.
- 37. Sequel said that it tended to respond to all bids that came up in the London market as there were only a limited number every year. It also said that it did target competitors' customers to try and encourage them to go to market. It had never been successful with the latter, but was hopeful that it could trigger an internal process that would evaluate the other options available.
- 38. [✂]

39. Sequel said that reputation was key for being invited to tender. If a client had had any bad experience in the past, either with the company or those working in the company, that supplier would be eliminated from the bid.
40. [✂]

## **Barriers to entry**

41. Sequel said that to enter the London market it was necessary to have bureau messaging, and this was true for Lloyd's and the London Company market as both provided electronic messages that the software needed to deal with to be able to operate in the market. It said the software was very specific and technically complex. In addition to this, it highlighted the complex insurance risks that the London market dealt with and said that the software needed to be advanced to handle all the different scenarios associated with that.
42. Sequel said that apart from building the messaging component, other barriers included the need to build relationships and understand the nature of the London Company market as there were elements that were done in a particular way which meant you had to understand the differences that were specific to how things were run in London as opposed to the rest of the world. It said suppliers had to speak 'the language' of the London customers to be able to operate in this insurance market.
43. Sequel said that in the US there were different regulations in the different states, different tax treatments and different terminology. [✂]

## **The merger**

44. [✂]
45. Sequel thought that if Xchanging had not bought Agencyport, the competition would not have changed because it had only ever competed with Agencyport, not Xuber.