

XCHANGING / AGENCYPORT SOFTWARE EUROPE MERGER INQUIRY

Summary of hearing with CSC on 13 February 2015

Background

1. CSC said it was a \$12 billion organisation with a staff of around 72,000. It thought it probably owned the largest set of intellectual property rights in policy administration systems (PAS) in insurance globally, and this included insurance which covered life, general and personal, accident and health. [X] and that within the company's insurance sector there were a number of different business units for general, life, banking and reinsurance.
2. The reinsurance business for CSC was run as a global business servicing customers on every continent. It had over 80 customers worldwide, ranging from small start-ups to large companies and they all used SICS, its PAS.
3. The SICS reinsurance software business for CSC was worth [X] and this was generated mainly from maintenance and implementation services. Within the UK and London markets, the SICS insurance business was worth approximately [X] was split between licence, maintenance and consultancy implementation services.
4. CSC said its SICS product focused on high-value commercial lines and handled global reinsurance for large commercial risks. CSC said that its business heritage lay in reinsurance and when the product was first developed over 30 years ago, it had focused on reinsurance and had been sold in Europe. When the SICS product was introduced to the London market it became more aligned to PAS whereby SICS was capable of handling reinsurance in with business, as well as direct insurance – the latter too being a high-value business with the ability to insure vessels, large properties and large engineering projects. CSC said it was important with respect to the Lloyd's market that the system had the capability to handle reinsurance and direct insurance.

Product attributes

5. CSC said that what its system took as inwards business, it could also protect with outwards reinsurance, so SICS was a full front-to-back solution in terms

of policy administration. It handled business from a quotation stage to a firm policy through to technical accounting, plant administration and cash settlement.

6. Within the London market the product had evolved to handle the different types of messages that were provided by Xchanging. Historically there used to be three types of messages – LIRMA, a marine kind of bureau; ILU, a non-marine type, and Lloyd's. LIRMA and ILU evolved into the IUA and Lloyd's remained separate. Lloyd's and IUA came together to form a Lloyd's processing centre that was acquired by Xchanging. CSC said that each of the three types of messages had different data that needed to be recognised and different processes and functionality needed to be carried out on each.
7. CSC said that SICS could also take the necessary ACORD messages that came from Xchanging and could generate premiums and claims transactions automatically from those messages.
8. CSC said that Lloyd's had specific handling for any PAS due to its internal regulatory reporting requirements and the need to capture extra data outside the normal London market such as market codes, trust fund codes and risk codes that were central to the way that Lloyd's reported.
9. CSC had two customers who operated as Lloyd's syndicates – [REDACTED] had been a client for about three years [REDACTED] had been a client for a year. [REDACTED] was a client who wrote a mixture of syndicate business and London market business and it had been a client for over 20 years.
10. CSC serviced the London market from a London base and it had sales people dedicated to the selling of SICS in the London market and the UK. Its research and development department provided maintenance and support and it was based in Oslo and India.

Procurement

11. The bidding process took place in one of two ways. Companies either came with general enquiries, spoke to CSC in an informal way and then CSC provided some product demonstrations, or there would be a formal response process. [REDACTED]
12. Feedback when it had been unsuccessful in a bid depended upon who had been leading the process within an organisation. CSC said that the strength of the SICS product [REDACTED]. CSC believed SICS was very rich in functionality and supporting the regulatory reporting data. [REDACTED]

13. CSC said that feedback on pricing was more difficult to gauge as its charging mechanism appeared to be different to other suppliers. [✂], CSC believed it was competitive as SICS was a single product with a clear upgrade path. Therefore, when CSC delivered the SICS product it provided training and support to customers on the upgrade process. CSC said that after a period of time customers were able to do the upgrade themselves as the SICS product was a standard product. This was in comparison to CSC's understanding that other products where customers were either tied to their suppliers and constantly needed their support for the upgrade or were on a more bespoke solution. CSC supplied the SICS solution in object code only and were responsible for the maintenance and enhancement of the solution.

Growth in the London market

14. In the past five years, CSC said it had seen more of a need for its type of product in the London market. As syndicates had become part of larger organisations, and so more global, a product like SICS had become more attractive and affordable because of its capabilities and it satisfied more of the larger Group's requirements, rather than focusing only on the needs of the London market.
15. CSC said the SICS' product strength was seen when a comprehensive decision was made through a whole cross spectrum of users in an organisation – from underwriters through to claims and technical accountants. CSC said that the underwriters at the front end just wanted to capture their data quickly and move on, but SICS provided a balance of use and functionality that also responded to the business' future needs. For example, as Lloyd's had become more regulatory focused and demanded a breakdown of data and that a higher standard be maintained, SICS' strengths had become more obvious.
16. CSC said it believed that in today's marketplace companies were looking for more comprehensive solutions. It said that customers were often not just looking for a PAS, but rather they were looking for a range of capabilities including document management, workflow and exposure system capability etc. Hence companies were often not issuing requests for information that just focused on a PAS, but were looking at their whole business and a range of services and applications that they needed. CSC said that a smaller company might look to have more than one component with a single supplier, whereas a larger organisation with an IT department might want to choose 'best of breed' products and so have a blend of different applications that could be interfaced to provide a comprehensive solution. CSC said that SICS was

useful in this regard as it had the ability to provide web services for interfacing.

17. CSC said that to cope with increasing stringent standards imposed by Lloyd's, customers ended up building out and adding bolt-on parts to its infrastructure. However at a certain point customers needed to look at a new solution and it was for this reason that [redacted] had selected SICS. It had a complex infrastructure that had become difficult to maintain and therefore it had decided that it needed a new solution.

New bids

18. [redacted]
19. [redacted]
20. [redacted]. In comparison, CSC said that it was able to run workshops demonstrating how its SICS product worked.

Future growth

21. [redacted]
22. [redacted]
23. CSC said a company that provided a comprehensive worldwide solution that covered Lloyd's, the London Company market and overseas was attractive to London players. [redacted]. It believed Lloyd's was evolving through SICS, rather than the other way around. CSC said that companies were acquiring Lloyd's syndicates and they wanted one solution to manage all their business. It said SICS was capable of having various companies, syndicates and service companies operating overseas, all in a single product. Therefore SICS' strength was that it was a multi-company, multi-currency and could encompass multiple businesses.
24. [redacted] overall it was competitive in every overseas market.

Entry

25. CSC said that it would likely be difficult for a company who supplied PAS internationally, but not in the London market, to adapt its software to cope with the various requirements of the London Company and Lloyd's market. A company would need to appreciate some of the nuances of the messaging system and it would have to make a considerable investment in terms of

personnel in London, as well as in software development, to accommodate the necessary changes. Of the global insurance software markets, CSC thought the London market was a difficult market to enter.

26. CSC said that ACORD messaging was a worldwide message format, but for Lloyd's there were extensions to the message and these included risk codes, field codes, trust funds etc. It said there was a lot of conditional data that existed in the London market and it required different system functionality.
27. [✂]

Switching

28. CSC said customers decided when they came to market and it was not a process that it could influence too much. Even if CSC were successful in persuading a customer to consider switching, it would usually put the tender to a number of suppliers so it would be a competitive process.
29. Even if a customer were upgrading from a host system to a newer version, it was quite likely the customer would take the opportunity to see what else was available in the market. CSC said that migrations tended to be bespoke because of customers having data in different places.
30. The SICS product had gone through three versions. SICS COBOL was the original version. A newer version came out in the mid-1990s written in Smalltalk. This was then upgraded in the mid-2000s with a Java version. CSC's approach was that as customers had invested a lot of money in the system and did not want to lose functionality or disrupt the business, there was a clear migration path to get from the Smalltalk version to the Java version. CSC said that if a company were to rewrite a solution from scratch, it would create big problems for existing customers who would probably choose to go and see what else was available in the market.

Competitors

31. CSC said that its competitors varied at different times. It said it was aware of Guidewire and Duck Creek, but it did not see either as a competitor to SICS as they were more in the insurance space.
32. It had come across Sequel, at various times and thought [✂].
33. [✂]
34. [✂]

35. [✂]

36. [✂]

37. [✂]

38. [✂]

39. [✂]

40. CSC said that in a bidding process, it was generally not able to confirm who its competitors were. It usually only found out who the other main competitor was at a later stage in the sales cycle.