

Common Ground

Negotiations on facultative reinsurance have always been time consuming and labor intensive, but technology is making the process easier.

by Ron Panko

Negotiated one complicated risk at a time, facultative reinsurance has always involved a potential for lots of bargaining. Now some reinsurers and direct writers are finding the Internet to be a good place to meet, place coverage and build business.

Two major online reinsurance-exchange platforms, Inreon Ltd. and eReinsure, have sprouted in the past couple of years to offer convenience, speed and cost-saving efficiency to the property/casualty industry. A third is under construction for the life industry by the American Council of Life Insurers, an industry trade association. Reinsurers have also been improving their own online capabilities to serve customers.

Exchanges operated by third parties on the Internet have much to offer, said eReinsure President Paul Henriod, including the following:

- the power of neutrality;
- single-entry access to the marketplace;
- a collaborative online environment;
- process improvement and the resulting cost reductions; and
- "the huge power" of information management.

"We're giving them information that will permit them to look at facultative reinsurance on a portfolio basis, which we've never been able to do before," said Henriod.

New Beginnings

Business transacted at the two exchanges so far has been only a tiny percentage of the overall

market, but both Inreon and eReinsure report that business is growing fast and has lots of potential for expansion. Inreon spokesman Scott Farley said in November the London-based company had enrolled its 100th member and recorded its 1,500th online submission. Henriod said that eReinsure counted about 1,600 registered users, including facultative reinsurance underwriters for almost all direct writers in the United States along with primary facultative brokers. "They are almost all on and paying," he said. "That gives us a pretty good springboard. Based on what is going on client-wise, we see a very large expansion."

Inreon has a much larger global presence than eReinsure, which is based in New York. Two large Europe-

based reinsurers, Munich Re and Swiss Re, launched Inreon in December 2000. Last October, it became the first body within the global reinsurance market to be certified by the Association for Cooperative Operations Research and Development for data standards for facultative reinsurance placement.

eReinsure incorporated in autumn 1999 and began trading in October 2001.



► *Streamlining the Process: Chip Adams, managing director, Inreon USA, said trading partners input information once and others can access it.*

Technology

The first transactions trickled in, but from the beginning of 2002 to November, participants submitted some 17,000 proposals and bound 3,000, said Henriod. Bound premium exceeded \$50 million.

Both Inreon and eReinsure see themselves as different from each other and smaller competitors. Inreon offers active trading in Europe, the United Kingdom, Asia and Bermuda in addition to the United States. "We have a business model that offers services for the full support of these transactions, outside any trading partners' firewalls," said Chip Adams, managing director of Inreon USA. "No customization of software is needed." Trading partners enter their information one time onto an Inreon template, and other companies can access it. Adams said the process standardizes portions of the risk-placement process to provide better data and consistency, and it has the flexibility to handle unstructured data.

The system supports more than 50 "significant" global reinsurers, said Adams. Meanwhile, competitors that previously had an exchange component have increasingly moved into customization, he said. Inreon now envisions some joint-venture work with them, he added.

eReinsure used money from "angel investors" for its startup and has since received some industry money and venture capital, Henriod said. It thus sees itself as being a neutral medium. "Inreon is primarily owned by Swiss Re and Munich Re; in addi-

tion to the seller perspective that brings, it also has a model that emphasizes standardized contracts," he said. "It is less buy-side oriented."

Insurers in the United States, he said, are more buyer-driven than those in Europe, and the U.S. market is more fragmented.

Pricing Models

Inreon and eReinsure also differ in their pricing models, Henriod said. Inreon charges nothing up front to the buyer, but rather uses a commission-based system charged to the seller. "We charge both buyers and sellers based on what's going on," he said. He also maintained that eReinsure supports more negotiation and customization. "At the heart, we're about workflow and process, while Inreon is about providing capacity to the marketplace," said Henriod. "We provide human efficiency and capital efficiency, and we streamline the process."

Adams said the positives of Inreon are that no investment in information technology is required for users and that the company's revenue model is clear. "There are no transactional or other fees," he said. "Primary companies don't need to pay anything. Reinsurers pay a fee."

The process at eReinsure begins when a cedent underwriter wishing to buy reinsurance creates a submission by defining the underlying insurance on a particular insured. The underwriter states what he or she wants to buy, then chooses to whom the company will market the submis-

Reinsurance Glossary

Facultative reinsurance refers to the "faculty," or ability of the reinsurer to accept or reject each risk offered.

Treaty reinsurance refers to a general reinsurance agreement that obligates a reinsurer to accept certain risk from the cedent.

sion. "Unlike Inreon, we don't send the information to an exchange and market all the risks to everyone," said Henriod. The chosen parties then view the risk at a database level and can make an offer, ask for more information, or decline to write the business. Offers may fly back and forth on pricing, terms or modifications.

"It's private and completely secure," Henriod said. "What we're doing is taking an iterative process and making it far more convenient, manageable and auditable. There are records of the transaction forever."

Adams said Inreon's ACORD certification will prove "very significant" as the company serves as a catalyst to the use of ACORD standards. Inreon was still in the implementation stage in November, however, and the benefits of ACORD standards would be "down the line," said Adams. Henriod said eReinsure is also working on ACORD certification and already uses extensible markup language in what it offers.

Making the Case

Adams acknowledged reluctance among direct writers to use the online exchange, but was not surprised. "In every organization, people see the merits of the business model and of bringing technology into the business world," he said. "In every company we've gone to, people see the merits. It's just that the industry takes a long time to change."

Through its first 13 months of operation, Inreon generated in different currencies the equivalent of about \$300 million—"right on plan for where we had hoped to be," said Adams. "We and others recognize Inreon expects to see significant

Online Reinsurance Marketplaces

Two major online reinsurance-exchange platforms have sprouted in the past couple of years to offer convenience, speed and cost-saving efficiency to the property/casualty industry.

Inreon	eReinsure
Web site: www.inreon.com	Web site: www.ereinsure.com
Activity: Has enrolled at least 100 reinsurance members; 1,500 online submissions. Has generated about \$300 million in revenue.	Activity: 1,600 registered users; 3,000 bound submissions with premium in excess of \$50 million.
Revenue model: Reinsurers pay a fee.	Revenue model: Buyers and sellers pay a fee based on the nature of the transaction.
Established: Launched by Swiss Re and Munich Re in December 2000.	Established: Began trading in October 2001 with funds provided by private investors.

Note: Figures as of November 2002

volume in the future. There's huge upside potential."

Inreon could branch out from its property/casualty and facultative focus, depending on commitments from its target trading partners, Adams said.

Farley said Inreon has a "critical mass" of members in different countries, including 16 reinsurance buyers in Spain and all of the major reinsurers in that country. "The amount of business you do online tends to increase when a company puts an entire book of business online rather than just individual risks," he

said. "It becomes easier for the reinsurers to respond to you, and you can do a large volume in a single-standard format."

Henriod said acceptance of online reinsurance exchanges is "clearly picking up steam. You have early adopters and late adopters," he said. "They've all had conversations with us, Inreon or both. Particularly over the last six months or so, interest is picking up. Thousands of risks have been found over the platform, and validation is heightening the interest."

Henriod doubted there is resistance per se. "I've yet to have a con-

versation with someone saying this is a stupid idea," he said. "Instead, they will say they don't do enough facultative, or they are currently installing a system, or that other system issues are in the queue, or they're in the process of some due diligence. Facultative has been so inefficient for so long, people don't argue against the value of the model."

He said that while eReinsure is completely Web-based at the first level, many organizations will choose to integrate his company's platform with their processors or their other information technology systems.

Rise of Exchanges Won't Mean End for Reinsurer Systems

Internet exchanges such as Inreon and eReinsure may be the newest, hottest trend in facultative reinsurance, but that doesn't mean the systems reinsurance companies have employed to make business easier for their direct writers have become obsolete or even less useful.

For 15 years, American Re-Insurance Co. has operated AutoFac, a program to underwrite facultative risks. It originally operated within a DOS (disk operating system) environment, but the company switched to a Windows environment in 1995-96 and moved onto the Internet about a year ago. Kevin Davidson, president of the facultative division, said gaining market share was a secondary consideration to reducing transactional costs.

During the DOS years, American Re actually installed dedicated personal computers in clients' offices and remotely downloaded information weekly from its Princeton, N.J., headquarters. Davidson said the system was expensive and required many different platforms talking to each other. "Moving to Windows helped us tremendously, but we still had heavy costs associated with maintaining the system," he said. In moving to the Internet, the company incurred significant upfront development costs that it expected to recoup in three years, but Davidson said he now expects to recoup those costs within the next few months. Maintenance costs are now only 42% of what they were in the Windows environment, and the system saves money in other ways. One is auditing from remote locations, drastically reducing plane fares and hotel bills. "That's a savings we hadn't anticipated," said Davidson. AutoFac also has a built-in system to catch accounting problems.

AutoFac is effective for American Re because it can package a lot of low-end certificate business by averaging the pricing of each kind of risk. "That low-end business can strangle an organization," said Davidson. "We had 80% of our business in items paying less than \$5,000 in annual premium, and it represented less than 10% of our premium overall." Davidson said that through packaging on Auto-

Fac, customers save on transactional placement costs while American Re saves on processing, administration and other services.

"We refuse to compete on risk pricing," he said. "Our strategic advantage is the cost element in the equation. That is where AutoFac differentiates for us. We feel we have a leg up on the ability to package business and hybrid underwriting skills, which are facultative but have elements of treaty."

In the life insurance arena, ING Re counts on its Electronic Commerce Distribution Center to interact with customers on their terms. It started working electronically with clients about two years ago, but the center's activities "really started to take off in the past six to 12 months," said Nate Johnson, vice president and chief underwriter. As of November, the company handled about half of its facultative cases electronically, he said. For 2002, the company was projecting about 40,000 facultative cases in all, or about 20,000 handled by the ECDC.

ING Re currently supports encrypted e-mail, third-party application service providers and Web-based extranet solutions for purposes of facultative underwriting, administration and retrocession business. ING Re primarily reinsures individual life policies. Before going paperless, business partners had to copy documents and ship them overnight.

"At times, our clients encounter very complex medical cases and/or large face amounts," said Johnson. "That's when they come to us for facultative underwriting support. Our Web-services platform provides easy, flexible solutions for quick turnaround and cost savings."

Johnson said that even if the life industry were to develop an online reinsurance exchange, there are advantages to ING Re's system of "providing a real-time interface without an intermediary.

"Our strategy has been to accommodate clients' needs," he added. "If a client said to us they're working with another solution, we'd try to accommodate that. We need to be

Integration could lead to other services on the platform, including settlements or claims notification, Henriod said.

eReinsure employs close to 30 people, about 80% of whom are in either software development or quality assurance, Henriod said. The company has a small sales force, but Henriod does not expect it to grow much given that there are fewer than 10 facultative reinsurers that go direct, four or five brokers that do any significant volume of business, and maybe 300 to 400 buyers of facultative reinsurance.

Growth Markets

Henriod said eReinsure sees as much promise in its model for life insurance, accident insurance and health insurance as for property/casualty. Inefficiencies exist in all of those market segments, he said.

It is for that reason that the ACLI earlier last year unveiled plans for a data hub focused on the North American market. In its announcement, the council said the system will take in-force, treaty- and transaction-data files from direct writers and will map them appropriately through the hub. The system will then deliver files to rein-

surers and retrocessionaires in one standardized format that can be passed directly into their systems. Direct writers now use their own formats to submit data to reinsurers, which must then translate, cleanse and manipulate data, and even manually enter some data onto their own systems.

ACLI spokeswoman Sarah Bohn said in November the reinsurance data hub was still in its development stage and that the organization was not ready to address questions about it. At the time of its announcement, the ACLI said the data hub would be fully operational worldwide during this year's first quarter. **BR**

up to speed with solutions that are out there while at the same time, we need to show our clients what we can do in terms of flexibility and low cost."

Johnson said the current focus is to expand the company's electronic platform, and it stays abreast of new technology month by month. He said in building the distribution center, the company has incurred "soft costs" in that the main expense is leveraging people already dedicated to working with clients. Larry Erb, vice president and chief information officer, said ING Re employs two full-time technical staffers to handle the Web-services platform. "They help build the infrastructure, keep it going, and bring new clients on board, so it is a relatively modest expenditure," he said.

By having the information come in electronically, ING Re is able to save on expenses in another way: Underwriters in other parts of the country, not just those in its main office, are able to work on the cases, said Erb.

Johnson said that ING Re doesn't necessarily compete on the basis of its distribution center alone. Instead, the distribution center is part of the complete package the company offers in competing for facultative cases with other reinsurers. "We're just trying for a win-win with our clients," he said.

American Re's Davidson, too, thinks more in terms of customer service. He said American Re makes use of both Inreon and eReinsure and was involved with Chubb, a major customer, in supplying feedback on eReinsure, as well as with Munich Re in the development of Inreon. "We view them [Inreon and eReinsure] as we did fax machines 15 years ago," he said. "They are very efficient vehicles through which risk information can be communicated. They help us with transactional costs significantly."

While business is picking up at the online exchanges, Davidson said a lot of reinsurers still want to hedge their bets rather than committing fully. "We would have expected four years ago that e-commerce would be much further

along now. If we match up well underwritingwise, on an individual basis, and we can put a good template together, a system like AutoFac will excel. AutoFac picks up where Inreon and eReinsure leave off."

Employers Reinsurance Corp., a subsidiary of General Electric, launched a major effort in fall 2001 to move its claims processing from manual to digital. Now it is "making great strides" at automating its processes, from underwriting to claims to actuarial, through its Global Underwriting System, said Dean Davison, vice president in communications. Davison said the system streamlines the underwriting process, greatly reduces errors, and gives everyone access to the same data.

"Time is of the essence," said Davison. "We can't afford to delay because we're seeing the benefits of digitization, and it's become quite clear that the quicker we act, the more everyone stands to gain, from the actuary to the underwriter to the broker/wholesaler to the customer to the claims adjuster."

ERC uses the Internet to collect, store, access and analyze data. The Internet is also the medium for CyberComp, the company's exclusive workers' compensation tool for independent agents. Davison said it can quote and bind business in minutes. As of November, the company had written through the system more than \$70 million in premium for the year.

To handle claims, ERC has put into service its Global Claims Induction System, available to more than 400 associates. The Web-based system uses digital-imaging technology and automated tools to convert claims documents into images and to kick-off workflow tasks without human intervention. It automatically links claims to customer files, and claims examiners have materials in hand when they need them. "We've reduced turnaround times from days to minutes," said Davison. ERC said that in the year from the program's launch, it processed more than a million claims documents.