

NATIONAL UNDERWRITER™

JANUARY 27, 2003 Volume 107, No. 4

www.NationalUnderwriter.com

TECHNOLOGY TRENDS

Custom(er) Made Re Platforms

By Lisa S. Howard

Reinsurance Editor

The notorious inefficiency of insurer-reinsurer transactions is starting to be addressed with online platforms driven by the buyers of facultative reinsurance.

In fact, some industry observers believe the needs of reinsurance buyers will push the models for e-commerce in the reinsurance arena.

One reason that buyer-driven platforms may dominate, they say, is the buyers' desire to develop a management information system. Buyers create their own platforms to gain control of their portfolios, says Jürgen Petzold, senior underwriter for Hanover Re and head of the company's Center of Competence Facultative E-Business. (See *NU*, Dec. 16, 2002, for the first part of this series.)

He pointed out that online platforms being developed by Royal & SunAlliance and AXA Group, for example, were initiated as management information systems. "They realize markets are changing, and they'd like to get control of their book of business," he said. As a result, these insurers and others are aiming to steer their facultative portfolios via such online platforms, which is also attractive for the sellers of reinsurance.

Mr. Petzold predicted the buyer-driven platforms will flourish because reinsurers go where the business is, especially since some insurers are placing their entire facultative books through the platforms. Seller-driven platforms, such as inreon, have a problem attracting customers to bring an entire portfolio onto those platforms, he said.

Seller-driven platforms are providing capacity, rather than management information systems, said Igor Best-Devereux,

CEO of eReinsure in Salt Lake City, Utah. eReinsure provides Internet technologies for online reinsurance negotiation and transactions, particularly in the facultative area. The buyer wants to see, analyze and control its entire purchase of facultative reinsurance, he said, which isn't possible with seller-driven platforms that limit placements to a specific number of policies.

Buyers will likely choose their own proprietary system over seller-driven systems because they want to be able to go to one place to access multiple markets, Mr. Best-Devereux added.

Significant process efficiencies and information benefits can be gained if the buyer uses one system to access multiple reinsurance markets, he asserted. "Our number-one customer is the buyer of reinsurance, either the direct buyer or the broker," said Mr. Best-Devereux, who describes eReinsure as a buyer-driven transaction/negotiation system.

The idea behind using Internet technology is to try to make the process easier for the client, according to Stanley Kott, CEO of Wellington Underwriting Inc., a managing general agency in Hartford, Conn., and part of Wellington Underwriting plc., which manages syndicate 2020 at Lloyd's. "I actually see the electronic platform as a tool to allow us to provide the type of service a 21st century customer deserves," he said.

When Mr. Kott began in the industry, people used to call each other on the telephone and details on the risk would be taken down longhand. "Then it became fax, and in the last five years or so, it's been mostly e-mail." He says the process is inefficient when a customer has to call five reinsurers to get five quotes. That's

why he's a fan of platforms, such as eReinsure, which allow the details of a risk to be entered once into the system and then be sent to as few or as many reinsurers as desired.

"Buyers need a more effective process of buying, and they need to have much better information on what's happening during the buying process, particularly when the buying is distributed around a branch network, and especially during a hard market," Mr. Best-Devereux said.

Traditional, paper-based transactions lead to potential errors and omissions problems, lack of visibility in pricing, and an inability to manage the process of buying, he said.

Indeed, several buyers of facultative reinsurance agree Internet technology is providing the facultative arena with improved management of the risk via better management information.

Kathleen S. Langner, senior vice president, Chubb Commercial Insurance, asserted her company's experience with the eReinsure platform has "exceeded expectations." Chubb Insurance Co. in Warren, N.J., is eReinsure's largest customer and major investor. "I would say less than five percent of our facultative placements now are what we call 'off platform,'" she noted.

Ms. Langner said eReinsure facilitates the exchange of information on a risk. "It condenses and consolidates the reinsurance transaction into a specific exchange of information."

Mr. Best-Devereux said eReinsure has facilitated close to 20,000 submissions for reinsurance among four major insurers and 14 reinsurers and brokers, mainly for U.S.-based business. Of those 20,000 submissions, at least 4,000 lines have been

TECHNOLOGY TRENDS

bound amounting to over \$60 million in premium, he said.

Beyond Chubb, he would not disclose the three insurers that also are buying facultative business via eReinsure because they are still conducting trials. Nevertheless, market sources reveal that American International Group, Fireman's Fund and Zurich North America are the companies in question. Representatives from AIG and Fireman's Fund confirm their companies are conducting trials, while a Zurich representative said the company had no comment.

Ms. Langner affirms the biggest advantage of eReinsure is it provides the infrastructure to record what was purchased, what the terms and conditions are, and what the price is. These were often done verbally in the past. "With this platform, there's a lot less room for error in terms of misunderstandings on what the final deal was," she said.

Also, when a reinsurer wants to know more about a risk, it's easier to share information on the platform, she says, whether

it's loss information, exposure information, or the exchange of thoughts on underwriting a risk.

A critical issue is to make sure all the underwriters are following an established process that has been set by the company at its center, said Mr. Best-Devereux. The reinsurance buyer can ensure the issues have been covered, such as ascertaining whether documentation is in place to reconcile accounts quickly and accurately with the reinsurers. This has always been a problem for the industry, he said. "So the whole aspect of information consistency, accuracy and availability is very key," he asserted.

Effective use and control of management information was one of the principal reasons London-headquartered Royal & SunAlliance developed an electronic trading platform for purchasing facultative reinsurance, said Tony Martin, manager of eFacRe, a new electronic trading platform created by RS&A for its global facultative portfolio.

Although facultative reinsurance is a major area of expenditure for RS&A, the group historically didn't have a standardized approach to the purchase of the

what we're getting for it in return, what level of cover we've got, etc."

Given the fact that RS&A sometimes seeks coverage for long-tail business where claims can arise many years later, "we didn't want to rely too much on bits of paper distributed at various offices around the globe," he said. Further, regulators such as the Financial Services Authority in the United Kingdom "are taking a greater interest in expenditure on facultative reinsurance," Mr. Martin added.

So this was important not only from an internal compliance point of view, but also there are external pressures on insurers "to make sure that it is a controlled, auditable process," he said.

Although eFacRe was initially launched in the United Kingdom and Scandinavia, RS&A is currently rolling it out to other area, namely the United States, Canada, Latin America and Asia-Pacific.

The sellers of facultative reinsurance are also seeing advantages in the use of buyer-driven Internet trading platforms.

Mr. Kott of Wellington Underwriting said

his company joined eReinsure last year and has found it to be a tremendous advantage in providing superior management information to both the customer and the supplier.

"For every branch in my small company, I know how many submissions they had with the buyer, what was the quickest response time, what was the longest response time, how many pieces of business we didn't quote, how many we bound, and how much premium was generated," he said.

Mr. Martin believes reinsurers have an opportunity with online platforms to

Comparison of Online Reinsurance Platforms

| | Buyer-Driven | Seller-Driven |
|--|---|---|
| Benefits Cited By Participants: | <ul style="list-style-type: none"> • Support buyer management information systems and internal control processes • Enable buyers to access multiple markets for quotes • Insurers place entire fac books on these platforms • Reduces potential E&O problems of paper | <ul style="list-style-type: none"> • Provide needed capacity for property and liability fac business and some international cat excess treaties • Insurers can distribute shares of risk to more than one seller • Guaranteed response times during busy renewal season • Simplified product description transactions |
| Example: | eReinsure | inreon |
| Activity: | 20,000 submissions with 4,000 bound totaling \$60 million. Participants include four insurers, 12 reinsurers and brokers | Over 2,500 submissions as of Dec. 31, 2002, representing premium value of over \$320 million since 2000 inception. To end of 3rd quarter 2002, bound rate was 10%; 4th quarter bound rate was 20% from 1,365 submissions.* |
| Cost: | \$25,000 was disclosed by one reinsurance underwriter; prices vary according to a number of factors such as type of user (insurer or reinsurer) and user's volume | \$30,000 per year membership fee for free for insurers and brokers. |

*Figures updated from article that appeared in NU, Dec. 16, 2002.

coverage, he admitted, explaining this was largely due to the company's acquisitions of a number of firms within different markets around the world. As a result, a big driver behind the development of eFacRe was to start collecting that management information to help develop internal controls for this business and adhere to external corporate government pressures, he said.

"We needed to make sure we had the necessary controls and compliance and audit procedures in place," Mr. Martin continued. "We have to make sure we're clear on what we're spending, with whom,

TECHNOLOGY TRENDS

manage their risks better by ensuring they are collecting appropriate information to make decisions on a specific facultative risk and therefore make more informed decisions down the line.

Mr. Kott said, "the eReinsure system is very comprehensive, so we get all the information we would normally get in an electronic, fax or a telephone submission, yet we get it all online."

Mr. Kott likes the system because it is quick and efficient and provides an audit trail for a transaction. "Everything is saved, all the transactions and communications are recorded, so we can keep track of how a risk has progressed from the initial submission to the final binding," he said, noting that Wellington Underwriting Inc. has become one of the leading reinsurers using eReinsure.

Further, he noted, it tracks response time, which is good for companies that are trying to differentiate themselves in terms of service. "Our organization is built on differentiating ourselves by virtue of service, not price," he said.

Mr. Kott explained his company has taken the eReinsure system one step further. "We've put our IT people in London together with the eReinsure system designers, and we are about to introduce our own internal processing system that will be fed automatically when we open a submission," he said. "So we're going to eliminate all the key strokes an underwriter or a support person has to do on eReinsure accounts," he continued. "It's going to feed our clearance system, it's going to feed our data product delivery

system so all the fields are filled in once the underwriters send a binding notice to our system."

Mr. Kott noted his company pays \$25,000 to be a registered user of eReinsure and is spending about an equal amount to integrate completely so the data flows directly into the company's system. "So for a nominal sum, I have the availability of a first-class electronic platform to receive submissions, track response time, and improve my efficiency."

It is still too early to gauge how much cost savings are provided by the system, Mr. Kott said, but certainly underwriters' efficiency is improved because they don't have to re-key data. "So we end up being even more efficient, and now we're starting to get a competitive advantage in terms of improving data flow," he said. Facultative transactions are basically a commodity market, and most carriers sell it for about the same price, he added. "So in my mind, the only way you can differentiate is with service and with efficiency on the cost side."

Some market practitioners believe online platforms will lead to disintermediation of brokers. While RS&A also developed eFacRe with an aim of reducing frictional costs and administrative costs, Mr. Martin emphasized there is no intention to remove the broker from the value chain.


"We wanted eFacRe to facilitate our existing business partnerships, so in terms of development we've taken a collaborative approach by working with reinsurers and brokers," he explained.

"We wanted something that gave us access to the full panel of reinsurers and brokers we deal with at the moment. When we've been out to speak to brokers, we've been quite pleased with the feedback they've given to us," he said, noting these brokers acknowledge the platform will "reduce their frictional costs as well."

Mr. Martin noted eFacRe provides brokers with a consistent set of standard information. With the old way of doing business, the brokers would have to pick up the phone if some information was missing, such as the claims history or the survey report. "If they know they're going to get a standard set of information every time, that's going to help them and it's going to help us," he said.

Mr. Kott acknowledged many people fear electronic platforms will transform the way facultative business is conducted. "I think there are elements of fear in all forms of distribution—brokers, direct reinsurers and broker markets," he said.

Chubb's Ms. Langner added that some reinsurers are concerned online platforms will lead to bidding wars. "Frankly, in the last market there were bidding wars, and that was long before technology came on the scene," she said.

"If you can only differentiate because you do it my way or no way, then this is not going to be something you will embrace," said Mr. Kott. "However, if you differentiate based on service and solutions and attention to the needs of customers, this is only going to make you better able to differentiate yourself. It wouldn't bother me to see as many people as we could using electronic platforms." 



Technologies for Reinsurance

Salt Lake City

424 East 500 South
Suite 104
Salt Lake City, Utah 84111
USA

Main: +1.801.521.0600
Fax: +1.801.521.0601

sales@eReinsure.com
www.eReinsure.com

New York

1251 Avenue of the Americas
19th Floor
New York, NY 10020
USA

Main: +1.212.474.9482
Fax: +1.212.474.9401

London

Suite 820, Lloyds Building
1 Lime Street
London, EC3M 7HA
England

Main: +44(0)20.7327.3555
Fax: +44(0)20.7327.3556