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REINSURANCE TECHNOLOGY

Reinsurer-Driven Online Platforms Progress, But Not At Warp Speed

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Internet technology was once viewed as the next great revolutionary tool for the insurance industry—online trading between insurers and reinsurers was expected to improve efficiencies, reduce costs, and assist with management information processes.

As with many things related to e-commerce and Internet technology, the hype hasn't quite lived up to reality. Insurers and reinsurers are conducting business online, and digitization is transforming the industry, albeit slowly.

However, online trading volume is miniscule compared to traditional trading methods. Indeed, online trading for the most part has involved simple commodity-type lines such as single-line facultative risks, although more complex treaty products are starting to be seen online.


Christian Speiser

The use of Internet technology has been an evolutionary process, rather than revolutionary—logical for the insurance industry, which is generally notoriously slow to embrace change.

Some online trading initiatives have been driven by the sellers of reinsurance, while others have been driven by the buyers.

Prominent sellers' initiatives include inreon—a reinsurer-driven platform that provides reinsurance capacity for a specific list of products, and seller-driven proprietary platforms that provide online property-casualty facultative coverage. (The second part of this article, appearing in the Jan. 27, 2003, edition of *NU*, will examine buyer-driven platforms.)

The London-based inreon describes itself as providing "insurance companies with an online trading platform for reinsurance capacities and products." The company goes on to explain: "While using the techniques of an exchange (quote requesting and quoting), inreon enables insurance companies (buyers) to distribute a share of the risk to more than one reinsurer (sellers). The average time spent on each reinsurance transaction can be reduced considerably and thus allows a reduction in costs."

Seller-driven proprietary platforms include MyReinsurance (operated by GE Employers Reinsurance), smartfac (operated by CNA), Auto Fac (operated by American Re), and FacWorld (operated by General Reinsurance Company).

"I think these [different models] can co-exist because they have slightly different flavors and are aimed at different sectors of the market," said Tony Martin, manager of eFacRe, a new electronic trading platform developed by Royal & SunAlliance to request and purchase its facultative reinsurance business online in the Denmark, Ireland and the United Kingdom.


Mike Moncada

Stanley Kott, CEO of Wellington Underwriting Inc. in Hartford, Conn., subscribes to inreon and also uses eReinsure, which is an online system that helps manage the reinsurance buying process. "We endorse any measure to improve the efficiency of the process," he said. Wellington Underwriting Inc. is a managing general agent that is wholly owned by Wellington Underwriting plc. in London, which manages Syndicate 2020 at Lloyd's.

"I don't believe these [online] marketplaces can take over the whole trade of facultative business," insisted Jürgen Petzold, senior underwriter for Hannover Re and head of the company's Center of Competence Facultative E-Business.

"What drives adoption of these platforms is buyers of reinsurance making their business available online, rather than sellers just making capacity available," said Igor Best-Devereux, CEO of eReinsure, Salt Lake City, Utah.

"Buyers understandably don't want to go to five or six different places to get their reinsurance coverage," said Kathrine Huelster, chief operating officer for inreon. "If they can work through one channel that gives them access to all the capacity they're looking for, then that certainly makes it more efficient for them."

However, she acknowledged proprietary platforms also can be useful. For instance, in the United States, there are middle-size primary insurance companies that do 80-to-90 percent of their reinsurance with one reinsurance carrier, Ms. Huelster said. In such a case, the added value of a trading platform is significantly reduced, she added, noting the insurer might find it far more effective to use a proprietary portal in working with a single reinsurer.

Mike Moncada, North American casualty facultative leader with GE Employers Re Corp. in Overland Park, Kan., said his company's proprietary platform is used as an underwriting tool rather than as a potential format to bring all facultative business online. "We view some of these online platforms as [creating a danger to further commoditize] the product, and that's the exact opposite of what we're trying to do," he said.

"The online mechanisms address expense ratio issues; they don't address the loss ratio issues," he emphasized. For larger, more complex risks, more face-to-face negotiation is required, he said, noting the online mechanisms probably work better for the lighter hazard risks.

Most of those interviewed believe online trading platforms will be useful for certain types of business but will not supplant traditional underwriting. Indeed, the penetration of online trading mechanisms has been limited for both the buyers and sellers of reinsurance. For example, although inreon now represents 50 percent of large global reinsurance capacity, with 16 member reinsurers, its use by buyers has been slow.


Stanley Kott

"We are participating on the inreon platform for the second year now," said Mr. Petzold. "We have paid $30,000 for the first year and are expecting to pay another $30,000 for the second year, but we have only five risks bound."

Swiss Re is an inreon shareholder along with Munich Re and Accenture. Christian Speiser, a member of the senior management and head of electronic risk exchanges for Swiss Reinsurance Co. in Zurich, admits inreon has had limited market penetration thus far.

Since its inception in December 2000, inreon has had over 2,000 submissions, which comes to over 100 bound transactions, an inreon representative said.

"The volumes are far below what it takes to make it economically viable at this point in time," Mr. Speiser said, noting that Swiss Re envisages a break-even for inreon in 2004.

Although cedents initially submit only a few risks to inreon to get their feet wet, Mr. Speiser expected they will start "to place entire books of risks [with inreon], so that the volumes will increase and eventually achieve levels that allow a revenue stream that covers cost."

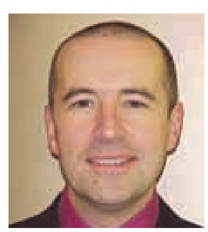
Ms. Huelster said the platform had submissions worth 250 million euros ($252.9 million in current exchange rates) since its 2000 startup, with 10 percent of that business bound, as of September 2002 (the latest figures available).

Ms. Huelster explained that inreon conducts facultative property, proportional and non-proportional, via its platform as well as non-proportional liability. It also handles treaty catastrophe excess-of-loss reinsurance, which is available only in Europe and Asia, and industry loss warranty (or original loss warranty), which is an indexed catastrophe cover available only in the United States.

"We certainly expect to see a lot of catastrophe excess of loss business being traded electronically again at this year-end renewal," she said.

Mr. Speiser went on to say that part of the reason the inreon platform has seen limited business is the industry is slow to embrace innovation. In addition, he said, a more efficient reinsurance process is not at the top of the list of cedents' problems: "They now seek coverage at an acceptable price for them. They're increasingly challenged with finding efficient capital solutions, now that the [industry's] surplus has been washed away."

Mr. Speiser acknowledged, though, given the platform was initiated by sellers, in the beginning it did look a bit self-serving "because it was simplifying the transaction process and simplifying the product description." This was unusual for cedents or brokers, who were accustomed to going to the reinsurer, presenting stacks of paper, and asking for help to solve a problem, he said.


Tony Martin

If inreon then proposes that the cedent or the broker structures the risk and boils it down to a few parameters and complies with specific wording provided by the exchange, it may look like the aim is to serve the seller, rather than the buyer, he affirmed.

Nevertheless, Mr. Speiser emphasized the inreon platform is an innovative model that will assist both buyers and sellers of reinsurance, and for certain risks "we are convinced [it] will eventually dominate."

"It just takes time" to convince the cedent that even though he may not see immediate payback with the first small transactions, he will see the payback going forward, he added.

The motivation to find more efficient and less expensive solutions is reduced during a hard market, but Mr. Speiser asserted the industry will probably continue to be cyclical, and sooner or later participants in the market will benefit from the inreon platform as margins are again squeezed. He is convinced that within a few years, a substantial part of facultative business and also part of treaty business will be conducted online because of the obvious benefits.

Mr. Speiser said it is difficult to assess which of the current exchanges or quasi-exchange models will prevail. "We would assume that there would be very, very few real exchanges, maybe only one."

An exchange is an organizer of a marketplace, he said. Like a stock exchange, he explained, it determines rules for the process and links the buyer and seller sides into existing legacy systems, so they have the benefit of end-to-end processing.

He predicted a large number of application software providers would maintain a place in the market, providing specialized products that allow buyers or sellers to organize their information and their legacy systems, so they can connect with an exchange or connect directly between buyer and seller.

Stephen Card, managing director of risk and reinsurance solutions for the London-based broker, Alexander Forbes, said any electronic trading platform will struggle for full acceptance until the industry is more comfortable with online methods.

"Despite our best efforts to the contrary, we're still a pretty archaic marketplace. We're not as well developed in IT as we should be," Mr. Card said, noting that it is a generational issue and changing slowly. "I still know a lot of brokers who cannot use a computer."

Meanwhile, Mr. Card said, inreon is just one of the tools in a broker's armory, in addition to traditional broking methods. Not only does inreon offer a simple product with clear and concise wording that everyone knows and understands, he asserted, but it also offers capacity dedicated to the online facility and guaranteed response times.

"Those are quite important factors because during a busy renewal season, which is when these things are going to be at their most frantic, the toughest thing you find as a client is getting responses from people," Mr. Card said. Then when you get a response, reinsurers will come back and say they've exhausted their aggregate in a certain geographic area. Additional capacity is available through inreon that is not available in the open marketplace, he noted, because this is seen as a way to encourage buyers to use the platform.

Less of a fan of inreon is Mr. Petzold, who believes the business seen by inreon's reinsurer members is "a bit anti-selective." Risks come to inreon when they can't be placed anywhere else, he asserted, adding that inreon suffers from a lack of ceding company participants. "They have well-reputed reinsurers, which are prepared to write business on that platform, but it seems they don't have many insurers or brokers that like to trade their whole books of business over the platform," he said.

"You can really see where they're doing their marketing," he added. "When you see two offers coming in from Belgium, for example, we know the inreon marketing people are in Belgium. You can also see when they're leaving Belgium because no more Belgium risks are offered."

Other seller-driven initiatives are the reinsurer-owned proprietary platforms. Some observers say these initiatives have had and will continue to have limited use by buyers because buyers have to contact each reinsurer's platform separately, which requires more work. Others believe proprietary platforms will prevail over other online exchange models when software is developed that connects a buyer or broker with many propriety networks with one click of a mouse.

Mr. Petzold at Hannover Re said his company is working hard to develop a proprietary platform and expects to bring its first pilot online in the first half of next year. He believes developing XML standards for data transmission of online reinsurance submissions will end the extra work for buyers and brokers that deal with online platforms.

"I think we can easily overcome the problem if we can say to our clients, 'As soon as you've entered your offer on our platform, you can use [this] data to offer this risk to anybody else you'd like—to the marketplace,'" Mr. Petzold said.

"For me, it's not a question of having one marketplace, but it's a question of talking one language [such as XML] protected by ACORD standards," he said, emphasizing, however, they must be more developed with regard to reinsurance standards. He predicted brokers and buyers will one day have the ability to get online and distribute a risk around the marketplace.

Mr. Moncada of GE Employers Re also believes the proprietary networks run by reinsurers ultimately have the flexibility to provide the most benefit to customers. GE ERC runs MyReinsurance, which currently provides umbrella liability coverage. He admitted GE ERC's platform has had limited usage, mainly for select customers with homogenous risks, namely, umbrella programs for mainstreet types of risks in the "not terribly hazardous middle market."

Mr. Moncada asserted that it's one of GE ERC's challenges to determine how much business would be generated through this online tool that the company would not otherwise generate via traditional distribution channels. He noted MyReinsurance does not handle property coverages, although the company may consider expansion into other areas "if we perceive the demand is there and the opportunity is there for profit."

"We're taking a different approach to online platforms. We gather the 'voice of the customer,' and determine what they need and tailor our approach to them," Mr. Moncada said. He believes some online platforms create the potential to further commoditize certain reinsurance products, which is not the path that GE ERC wants to pursue. GE ERC tries to help clients succeed in their business "by trying to create a more efficient reinsurance transaction process for them," he said.

If customers have a homogenous book of business for which they are seeking facultative reinsurance, then GE ERC can establish an automatic online facility for the client, he explained. This, however, will not be appropriate for all clients, which may not have online capability to set up such a facility. "Each customer is at a different evolution. So it's whatever feels right for the customer is how we structure it," he said.

Mr. Moncada noted that MyReinsurance provides an underwriting tool but is not a replacement for underwriting. "GE ERC is committed to digitizing our underwriting processes to make them more efficient, to make us more effective in making our underwriting decisions, to enhance our ability to gather data and have access to data," he said. "So we're using digitization to really improve our internal processes."

"To the extent we can help our external customers improve their processes," he said, we'll bring those tools to them, too."

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