

a special reprint from the

NATIONAL UNDERWRITER

Property & Casualty / Risk & Benefits Management Edition

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U.S. REINSURANCE REPORT

More Reinsurers Seek Online Platforms

By Lisa S. Howard

More and more reinsurers are developing online platforms to reduce transaction costs, at least initially, for products such as property-facultative and casualty-facultative coverage. Some of the models are different, but the ultimate goals are the same—saving costs and improving efficiencies.

It's the transaction costs and inefficiencies associated with facultative business that everybody wants to address, said Rory Cline, executive vice president of facultative for CNA Re in Chicago.

Internet exchanges are more efficient, he said, because they streamline the process and eliminate keystrokes, he said.

"Companies are very focused on getting their expenses down, whether they be a broker, an insurer or a reinsurer, and suddenly there is a convergence of technologies that's helping this happen," said Igor Best-Devereux, chief executive officer of the Salt Lake City-based eREINSURE.com Inc.

As premium rates increase in the reinsurance market, it will become more attractive to other sources of capital, such as the capital markets, he added.

"If reinsurers and insurers and the whole market is going to survive in its current form, some of these new technologies will have to be quickly adopted to drive costs down," he said.

Not only do transaction costs have to be driven down, but the industry needs to benefit from improved data management by "keeping structured information properly in a central data base," Mr. Best-Devereux said.

"Facultative is transaction oriented,

has relatively short cycle times and requires a quick response and turnaround, and so it's very conducive to an e-business application," said Robert Reader, the e-business leader for Property and Casualty Reinsurance Americas, at Employers Reinsurance Corp. in Overland Park, Kan.

Andrew Duxbury, head of marketing for "inreon" in London, said more complex risks would require a series of e-mails and eventually someone would have to pick up the phone, at which point the advantage of putting a product over the Internet would be lost.

"We are looking for the simpler products that can be transposed onto an Internet-style template and traded electronically," he said of inreon, an on-line platform formed in December 2000.

Currently, nine reinsurers are participating on the platform—Munich Re and Swiss Re, (which are inreon investors), American Reinsurance, PartnerRe, Hannover Re, SCOR, Wellington Underwriting (a Lloyd's managing agency), St. Paul Re and Zurich Re.

The platform recently went "live" and the reinsurers have begun to consider submissions, although none had yet been completed as of the end of June.

"We are not offering clients a 100 percent solution for all their reinsurance needs," Mr. Duxbury said.

The first product offered by inreon was non-proportional property-facultative, Mr. Duxbury said, and now it is offering a proportional property-facultative product.

He noted that by year-end the company intends to offer a catastrophe product.

Face-to-face negotiation will remain an integral part of reinsurance trading for the more complex risks, he said, "but that is not what inreon is focusing on," he noted.

"You can exchange data [for more complex risks], but whole-account protection for a major cedent is more than likely to require sitting around a table in a face-to-face meeting than trying to deal electronically at arm's length," Mr. Duxbury said.

"You're never going to want to stop people meeting face to face; you're never going to stop the phone calls; you just have to try to improve the process," Mr. Best-Devereux at eREINSURE.com agreed.

In February, eREINSURE.com launched a reinsurance negotiation platform designed to provide buyers, sellers and brokers in the global reinsurance marketplace with a neutral Web location from which to conduct reinsurance transactions. Since February, the platform has been involved in the testing phase and was expected to begin "live testing" in July. (Chubb Insurance has a minority shareholding in eREINSURE.)

"We're not trying to sell reinsurance; we're selling a technology platform that allows parties to collaborate online," said Mr. Best-Devereux.

CNA Re launched its online facultative platform called "smartfac" in January in an effort to reduce the frictional transaction costs of conducting facultative business, said Doug Thompson, assistant vice president and director of smartfac in Chicago.

The smartfac platform currently has over 1,000 registered users, which amounts to about 5-10 percent of the

company's facultative book, Mr. Cline said.

Mr. Cline estimated that smartfac is reducing transaction costs by 20-40 percent, depending on the company, but CNA Re doesn't intend for the system to replace interaction between the reinsurer and cedents.

"At the end of the day, we still want underwriters talking to underwriters negotiating the deal," he said.

Without some personal interaction, he said, the benefit and expertise of underwriters is devalued, he said.

The relationships in facultative reinsurance deals are very important, compared to the treaty side, "because that's what fac[ultative] is—it's a relationship business," said Mr. Cline.

The smartfac platform has been especially important in saving time for the underwriter, he said, because the underwriter is now able to devote more time to underwriting rather than an inordinate amount of

time putting numbers into a computer.

He explained that when a submission is entered into smartfac, "it downloads automatically into our underwriting work stations," thereby removing the necessity for re-keying the data.

"We want underwriters to focus on the main points of their job, which are decision making and client relationships, versus clerical and data entry," said Mr. Thompson.

Mr. Cline believes that online transactions will be limited to the more simple product lines. He said that about 20-25 percent of reinsurance business can be captured online, but the other "70-75 percent is too complex."

Treaty reinsurance is so complex that he questioned its ability to be conducted online, "except for the commodity side of treaty, which is more the cat[astrophe] side of the business," he said.

ERC started up its Web-based platform called MyReinsurance.com in June 2000 for the purposes of facilitating casu-

alty facultative business transactions, linking ERC underwriters "with our customers in the U.S. and Canada."

The platform has focused initially on facultative business, he said. "We're evaluating expansion both globally and also providing some service and treaty-based solutions down the road," he noted.

"The treaty relationships that we have in place with both our broker partners through GE Re and our direct partners through ERC can probably benefit from collaboration tools and services more easily than they can on transactions for treaty," he said, explaining that it takes a long time to negotiate a treaty between one or multiple reinsurers and a cedent.

"A number of customers participate on the Web site, and we also use the Web site for internal workflow and productivity for our underwriters to make them more mobile so that they can spend even more face time with their customers," he said. 