

# E-initiatives gather

The importance of cultivating a convincing presence on-line has been highlighted by the number of (re)insurers which have recently jumped on the internet bandwagon, says **David Fanning**.

**R**einsurers, long characterised as conservative in their approaches and resistant to major change in their trading patterns, are showing growing interest in initiatives exploiting the internet and web-based platforms.

It has taken reinsurance carriers and brokers a relatively long time to adopt these 'new' ways of thinking. "People in the industry are reluctant to change," says Richard Brindle, director of Risk2Risk, a freshly-launched internet trading exchange for facultative reinsurance. "They like the status quo. There's an industry-wide conservatism, but things are changing."

Mr Brindle, a former specialty underwriter, says that he became involved with Risk2Risk after growing frustrated by the lack of change in the reinsurance industry. Paul Henriod, president of eReinsure.com, a provider of e-commerce technology to the reinsurance industry, agrees that there is an underlying reluctance to change among reinsurers but says that the time is now right for a widespread adoption of internet and web-based technologies. "There has been a sea change over the past eight to 10 months — an acceptance that the internet is going to be here for a very long time."

Mr Henriod says that some larger reinsurers have been wavering: "The largest reinsurers have the most to lose, in terms of their giant infrastructures, but even they are building their own proprietary websites on the auction model." For smaller reinsurers, and for newcomers in particular, he sees the internet and electronic trading platforms as the best possible news.

## Big investors

The big players are now making their presence felt, with Swiss Re and Munich Re and investor partners launching inreon ('insurance meets reinsurance on-line'), a \$37.5m internet-based exchange platform. Swiss Re and Munich Re each hold 25%, with US-based Internet Capital Group (ICG) and management consultant Accenture (formerly Andersen Consulting) holding 25% and 5% respectively. The remaining 20% has been reserved for the management and (re)insurers.

Swiss Re and Munich Re, including the latter's US subsidiary American Re, will be offering capacity on the exchange, as will registered members. The first two are Bermuda-based PartnerRe, in which Swiss Re has a shareholding, and Scor.

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Discussions with other reinsurers are under way. Inreon will concentrate initially on facultative non-proportional property business in Europe and the US, but it will extend coverage to casualty and other lines of business as the market develops.

Interim chief executive Rob Bredahl says that the basis for successful on-line trading is standardisation. "Also, it is easier to get good feedback if you have something to show rather than having to ask customers what they want," he says. This, he explains, is why inreon began in a small way, with a special excess of loss product. It is now working on a property catastrophe product.

Mr Bredahl rejects completely any suggestion that inreon is a 'pre-emptive strike' designed to hamstring other European reinsurers and reports an extremely positive response from them. Emphasising that, despite its parentage, inreon is independent, he says that ICG and Accenture would not have invested otherwise. "Inreon can only be a success if many reinsurers sign up and we are talking to around 20 other reinsurers, a number of which have given verbal commitments to join," he says.

Mr Bredahl expects to return to ICG, where he was vice-president of operations, once a full-time chief executive at inreon has been appointed, but he emphasises that inreon is in the game on a long-term basis. "We plan a long ground war," he says, stressing the importance of being well-funded or having rich parents. "We have the staying power, as opposed to other ventures that are rather thinly capitalised."

Swiss Re's year-old, internet-based risk exchange, ELRIx, will be unaffected by the launch of inreon, says Christian Speiser, head of electronic risk exchanges at Swiss Re. ELRIx is directed primarily at smaller companies, he says.

French reinsurer Scor has also just introduced an internet venture, Sar@. It will under-

write substandard risks for life insurers and run alongside Astre, an on-line risk evaluation and rating service for small and medium-sized risks in the main property damage markets.

Sar@ is accessible via the Scor website and at its own site. Scor president Serge Osouf says that it represents a state-of-the-art development, with life insurers able to price their own business in a secure on-line environment. The death and disability underwriting facility covers 3500 diseases, and medical expenses and long-term care will be added shortly.

Initially, binding cover will not be available on-line, although Scor says that a fully transactional facility may be introduced in the future. At the same time, Scor has expanded its e-commerce operations by a further automation of reinsurance transactions between it and two of its principal clients. A member of Wise, the fledgling insurance e-commerce organisation, Scor says that it intends to introduce similar automated arrangements with other clients.

## Efficiency gains

Mr Henriod claims that eReinsure's on-line exchange is a neutral and secure negotiating platform, where insurers, reinsurers and brokers can make significant efficiency gains. The system's first pilot version has been released.

"The platform allows for fully-informed on-line negotiation and facilitates one-to-many distribution," says Mr Henriod. "The response from those that took part in the testing has been extremely positive and there are a lot of pilots under way."

In particular, he says, smaller players in the industry have welcomed the development. "The small insurers are very excited and we are extremely confident that there will be a wide adoption of our platform by insurers and reinsurers." However, he emphasises that eReinsure is not an auction process: "I don't think the

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industry is ready for anything like a full auction internet facility.”

Rainer Breck, managing director of reway, does not agree. Reway, a subsidiary of Gothaer Re, was launched in January as a one-stop electronic marketplace in which primary insurers and reinsurers can exchange information, negotiate risks and conclude binding contracts.

The key reway facility is a reverse auction, described by Mr Breck as a “tried and trusted instrument”. Insurers invite quotations for a package of risks from auction participants, selecting from an extensive pool of reinsurance companies. Reinsurers receive real-time feedback on whether or not their bid has been successful, giving them information by which to judge their pricing strategies and practices.

There are no participation charges at present, but successful reinsurance bidders will pay reway a fee, ranging from 0.5% to 2.5% of the premium. Reway is focusing initially on the European market, but plans to extend globally.

One of the strategies is to recruit additional shareholders, in order to emphasise reway’s neutrality and its effective independence from its parent Gothaer Re, which has subscribed €5m in capital.

## A crowded market

A further entrant to the field appeared last November, when GE’s subsidiary ERC launched MyReinsurance.com, a casualty facultative reinsurance website.

“MyReinsurance.com provides our clients with a faster renewal process and an on-line business management tool that is easy to use,” says Bill O’Donnell, senior vice-president, North American property and casualty, for ERC. “We spent an enormous amount of time with our customers and they helped our e-business team design MyReinsurance.com from scratch, so it’s focused on their requirements.”

The facility enables casualty underwriters to renew and manage facultative reinsurance business on-line, both more efficiently and more speedily than alternative traditional processes, says Mr O’Donnell. In many cases, contracts can be renewed in as little as five minutes, as against the five days that traditional methods could involve.

“Our customers are seeing excellent efficiencies and we are extending the system’s capabilities steadily,” says Mr O’Donnell. “For instance, we have recently completed a number of end-to-end transactions, with customers able to bind on-line.”

He explains that ERC sees MyReinsurance.com as a starting point for its property and casualty operation to expand its selling capability. “Eventually all our renewal business will flow through MyReinsurance.com. We’d like to extend it in time to include treaty business as well. This is the important element. We’ve established a platform for further e-enablement down

the road. We are setting the stage for the future.”

Wise is campaigning for internationally-agreed standards for the insurance industry, which is a growing issue around the world. Scor’s Robert Sawicki argues that reinsurance companies must adapt to a standard computer interchange language, preferably the flexible and globally acceptable XML tool. What is needed, he feels, is a one-language solution for the whole (re)insurance industry, rather than a variety of languages used by different companies.

“Buyers are being inundated with systems tying them into specific reinsurers,” says Mr Bredahl. “What they really want is one system, one protocol, one password.” However, he recognises that it will be a long time before that is achieved.

## Call for neutrality

Concern about proprietary platforms is also voiced by Mr Henriod, but from a competitive viewpoint. He regards the introduction of in-reon as a ‘squeeze’ operation on other European reinsurers and argues that the platform’s wide adoption is problematic. “It is all well and good to create portals to one reinsurer’s capacity, but it is no good for the primary insurers.” They are still left, he explains, with having to direct submissions to 10 different platforms if they want truly comparable rates.

In his — admittedly somewhat biased — judgement a neutral platform is the only sensible way forward, “one that has the cedant’s interests at heart”, where cases can be sent to multiple assumers and which enables reinsurers to direct business where they want.

“There is value on both sides,” says Mr Henriod. “From the insurer’s perspective, a neutral platform provides on-line negotiation facilities and streamlines the submission process, especially for facultative business. The reinsurer only receives the classes and types of business that he wants, reducing the level and rate of declarations and saving expense.”

Risk2Risk’s Mr Brindle puts the point more bluntly: “A non-aligned status is the only way forward. That’s our approach; we don’t want to line other brokers’ and insurers’ pockets.”

Risk2Risk claims to be the world’s first “genuinely non-aligned” trading exchange and Mr Brindle says that negotiations are well in hand with 15 major insurers which are “well-known multi-line concerns”. The initial focus will be on facultative satellite reinsurance business and he expects to add original loss warranty, aviation and marine business within the year.

Where he believes Risk2Risk will win out over any competitors is in its pricing structure: “We will charge a one-off fee of 3% of premium, rather than the 15% that many are used to paying and we can thus reduce transaction costs by between 75% and 80%.”

He is especially proud of the platform’s technology. “It allows users to view bids and offers and bind a transaction with just a few clicks on the site. Plus the security protocols will act to prevent the kinds of trading problems that beset the conventional markets.”

Limits will be specified for each trader and the site offers a ‘panic’ button whereby compliance officers can terminate trading and retract questionable or out-of-bounds offers. The system also provides a comprehensive audit trail for each transaction.

The price of all that? Mr Brindle says that the operating system was developed in-house for just £500 000, funded by brokers and underwriters.

While eReinsure’s Mr Henriod is confident about the future for electronic trading within reinsurance, he cautions that there is a fair way to go. “The principal barrier is that underwriters are very accustomed to working face-to-face, where they can cut deals quickly. They are not so great at adopting new technologies. Whatever is introduced must be user-friendly and offer the potential for reducing an underwriter’s workload.”

Risk2Risk’s Mr Brindle agrees, adding that the key component in electronic trading is its security and the strength of management control it brings. “We are not the sort of people who believe that the internet is the answer to everything,” he says, “but reinsurance is a labour-intensive business that can be handled more efficiently over the internet.”

This point, a more efficient use of resources, is driven home by every creator and promoter of an electronic trading facility. CNA Life Re launched AgoraRe.com, a facultative life trading vehicle, in May last year and has attracted a handful or two of direct writers and reinsurers to participate. Paul Buckley, technical services principal at AgoraRe.com, says that cases handled range from \$250 000 to \$1.5m.

The system gives direct writers the option of asking for proposals from all participating reinsurers or sending each case to a selected number of reinsurers. By moving the entire process on-line a facultative reinsurer that handles about 25 cases a week could save \$60 000 annually, claims AgoraRe.com.

## Time to take the plunge

The platforms and the software technologies are there, the business from direct writers and reinsurers is there and the time is right, say Mr Henriod and his competitors. What is needed, says Mr Brindle, is for the industry to take an “emotional jump”.

On the basis of the past few months, with big players pouring millions of dollars into the e-commerce basket, the stakes are extremely high — but so are the potential rewards.

As eReinsure.com’s Ian Waite argues, the power of the internet can be harnessed to “help insurers and reinsurers simplify and expedite complex transactions that unnecessarily consume vast amounts of time, effort and resources”. MyReinsurance.com’s Mr O’Donnell says that the challenge is “getting the right technology and applying the right focus”.

There is no doubt that the reinsurance industry needs, and can only benefit from, the so-called e-commerce revolution. Yet, how difficult will it be to get a traditional and often hide-bound industry to work on the web? Will the relationship-oriented approach of the reinsurers continue to treat hugely inefficient personal contact more favourably than speedy and more manageable electronic communication?

The reinsurers say that they are simply waiting for on-line technologies that really work as well as their designers and promoters promise. The present generation of on-line platforms appears to offer just that and the next generation should be even better, so reinsurers need to grasp the nettle now. re

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