

Reinsurance trading on-line got off to a slow start but e-commerce is gradually tightening its hold on the market. **John Sanders** investigates how much reinsurance business is actually being done on-line.

# New tool finds

**O**nce upon a time, in a land that now seems faraway, people used to debate the merits of Betamax over VHS or of Microsoft Word over WordPerfect. The reinsurance market is at a similar stage in terms of adopting e-commerce. The argument for making greater use of the internet to save billions of dollars a year on transaction costs has been largely won. The questions now are which systems will predominate and just how far the market will be automated.

The past year has seen the arrival of half a dozen or more initiatives aimed at enabling the industry to benefit from e-commerce. True, many of these have yet to see much, if any, actual business transacted but interest from reinsurers, insurers and brokers is said to be strong.

Igor Best-Devereux, chief executive of Salt Lake City-based e-commerce platform Ereinsure, says he is talking to 30 potential clients and piloting his system with 11. He says that the evaluation stage is in full swing but he is under no illusion that some of the pilots will be running side by side with competitors. "If you look across the entire market, you probably won't find any platform that has done a significant volume of business," he says. "The way to measure activity at this early stage is to look at the number of companies that are either evaluating and piloting a system or are in serious discussions about how it could help them."

Germany-based Reway says it has signed up over 60 companies since its January launch and a number of enquiries has been placed on the system, although no trades have been completed. Swiss Re's Elrix is seeing some activity, but only a low double-digit million Swiss franc volume. Likewise, Inreon, in which Swiss Re is involved along with Munich Re, has seen little activity so far.

## Predictions of success

Nonetheless, Régis Delayat, head of information technology at French reinsurer Scor, an early supporter of Inreon, remains confident that this on-line marketplace will succeed: "We believe in Inreon. We have had just two or three offers submitted on this medium so far, which is of course nothing, but it will come."

Scor is optimistic that some of the other fledgling on-line platforms, such as City3K in the UK, will blossom too. "All these marketplaces are just starting and we would like to have more business going through these platforms, but it is coming," says Mr Delayat.

Experience has been more positive in the US, perhaps reflecting that country's lead in many areas of technology application. MyReinsurance.com, which was launched in the middle of last year by Employers Reinsurance (ERC), allows clients in the US and Canada to carry out facultative casualty



renewals on-line. ERC, part of GE, will not specify how many users it has but Robert Reader, e-business leader for property and casualty reinsurance in the Americas, comments: "I can say that it's a fairly large number."

E-commerce benefits both ERC and its clients, says Mr Reader. Underwriters are no longer chained to an office PC, so they can spend more time with clients and productivity has improved. Clients are able to deal with ERC outside office hours and can process straightforward renewals themselves. He adds that ERC was able to draw on the wider experience of e-commerce within the GE group while developing its platform: "A lot of our competitors don't have that sort of knowledge or best practice." Spurred on by its initial success, ERC plans to add more products and start handling new business on-line by the end of the year. It is also in discussion with reinsurance brokers in the US and Europe.

## Home or away?

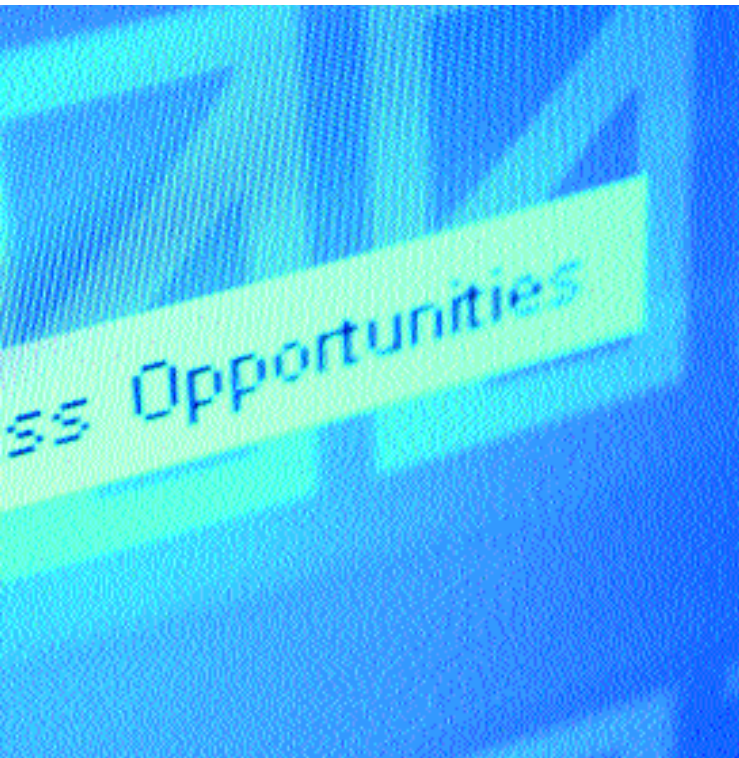
Whether the future lies with proprietary systems like MyReinsurance.com or third-party platforms is not yet clear. When it comes to third-party platforms neutrality is a key issue, as Inreon and Reway have acknowledged. Both are keen to attract a spread of backers to deflect any suggestion that they are partisan. Nonetheless, they still represent the sales side of the industry, which may be enough to cast doubts on their neutrality in some minds.

When the dust has settled, most participants predict that there will be a mix of independent on-line exchanges and proprietary service providers. Mr Reader believes that companies will sometimes use exchanges or buying platforms administered by a third party and other times deal direct: "There's room for both types of system. As to which one will have larger shares, I think it's too early to tell."

Scor, which has developed internet systems such as Sar@ for sub-standard risks in life reinsurance, is also involved in Inreon. Mr Delayat believes that this twin-track strategy is probably one that most companies will adopt. He points out that joining Inreon meant setting up a rapid response team within Scor to deal with queries generated through the on-line marketplace.

That would not have been possible, he argues, if Scor did not already have a sophisticated internal system for dealing with information. Scor's view is that third-party systems

# favour



will ultimately operate the trading environment, while companies will focus on developing bespoke on-line client tools. "We can't see the same offer being posted on 20 different systems because the ceding company wants to submit it to 20 companies."

Mr Best-Devereux takes the argument a step further, saying that just because it may be possible for cedants to offer a risk to many reinsurers it does not mean that they will do so. The internet is about process improvement and cost reduction, he maintains, not overturning long-standing relationships between trusted partners. "Relationships that existed between reinsurers, brokers and insurers are not going to be quickly brushed aside by some sort of free for all exchange."

These issues and the pace of change will be decided in the coming years. Technology may yet come up with answers to some of the challenges, suggests Mr Reader; XML (extensible mark-up language) will make information sharing even easier and could therefore facilitate rapid switching between different systems.

What now seems certain is that reinsurance will follow the rest of global commerce and find a way of comfortably integrating the internet into everyday dealings. That does not mean that reinsurance will cease to exist as we know it, says Mr Best-Devereux. "Anybody who says they're going to change the reinsurance market, which has been in existence for hundreds of years, because it involves some neat new technology is kidding themselves.

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But we can certainly substantially improve some of the processes."

Most, including Mr Reader, see the introduction of e-commerce as an evolutionary process that will gather momentum as confidence grows. "I look at it like a see-saw. At some point, you have just enough weight on one side to tip the scales and then everybody goes running to it. I don't think we've reached that point yet, but I think it's coming."

## Through the back door

This theory of evolution is borne out by the increased use of the internet throughout the industry, particularly in back-office applications where it is ideally suited to replace dreary tasks, speed up data transfer and cut costs.

However, e-commerce is gaining ground in the front office too. Mr Held points out that interest in on-line quoting tools and services such as CatNet is strong. At this stage in the development of e-commerce, Swiss Re is using these services to offer new value propositions to its clients.

Scor has already made progress with shifting back-office processing on-line. Ultimately, it aims to exchange all contract documentation electronically and has been working with several major brokers to this effect. "In the last six months, we've processed electronically 4800 accounts. These have been uploaded directly into our internal system without any re-keying," says Mr Delayat.

Management consultancy Navigant has been active in helping the London market streamline its back-office operations and clients are already seeing benefits, says London managing director Tim Woods. "There is tremendous cost-saving potential there, which our clients have experienced directly in the last two years. The processing of the back end is definitely susceptible to this and a number of clients we've spoken to seem increasingly interested in doing something along those lines."

As yet, there is no consensus on the best way to proceed but the flexibility of web-based technology allows different approaches to be tried out comparatively quickly. This is in stark contrast to previous technology-heavy, top-down approaches, such as EPS and Rinet. The technology has come a long way from the clunky green screens of the past, while organisations such as Wise have worked to develop industry standards.

## Growing confidence

The evidence suggests that earlier reluctance to adopt new technology is on the wane. Not everyone is rushing to embrace e-commerce but cautious evaluation has generally replaced outright opposition to change.

As Mr Best-Devereux points out: "It's still a conservative business, but now there's a generation of people who go home and buy books on-line. They're much more computer-friendly and the computers are much more friendly too."

Reway managing director Rainer Breck agrees that it will take time to convince reinsurers that moving to a digital way of trading will bring advantages for all users: "As one of the oldest existing industries, it seems obvious that changes should take longer than in other

branches." Attitudes to change are often most cautious in some of the older, more established reinsurance markets, notes Mr Held. "In certain markets there is no reluctance at all. We observed that in Israel, where they are very open-minded, and in some eastern European markets. Whereas in some western European markets it is much less accepted."

In contrast, many brokers — who will see some of the biggest changes to the way they work — are keen to apply internet technology. Both Inreon and Reway were pleasantly surprised at the interest shown by brokers in their platforms, while Swiss Re has found intermediaries very well informed about internet developments and eager to become involved.

This is despite the fact that Navigant sees a time when the brokers' role will be honed down to selling and negotiating risk cover, removing them from the processing loop almost entirely. Mr Woods points out that reinsurers value brokers primarily for their ability to find relationships and bring them business. "Everything else — putting together the policy, the cover notes, transmitting that to insurers and policyholders, the claims etc — is well suited to some sort of internet workflow and sharing of data."

## Facing the future

Two factors in particular are helping to overcome the doubts of the cynics and undermine any lingering opposition to change: one, of course, is the financial argument; and the other is the growing realisation that reinsurance will stay very much a face-to-face business.

Few deny that the process of placing reinsurance can be made hugely more efficient. Numerous reports have called for an end to the labyrinthine maze of paperwork and repetitive re-keying of data that burden the industry. "Almost 40-45% of the original premium is lost on its way. Maybe only 55% is used to pay losses," says Mr Held. "We are convinced that the new technology will be able to improve efficiency and increase the portion of premium used to pay losses."

Despite all the talk of change and streamlining processes, even e-commerce evangelists acknowledge that reinsurance is based on long-term relationships and trust. They accept that face-to-face negotiations remain vital. The goal shared by most who support greater use of e-commerce is to use technology to remove the drudgery that dominates so many processes and to free up people to focus on value-added activities.

"This is a relationship business," asserts Ereinsure's Mr Best-Devereux. "Those relationships aren't going away any time soon. People have trusted trading partners they want to deal with and who they hope will be there in good times as well as bad."

Spending more time with clients has already been the experience of MyReinsurance.com, says Mr Reader. "Everything we do in terms of having our underwriters in the field, having them mobile, dealing with customers, is all the same. Anything that adds value, we'll retain. Anything that doesn't add value to the process and delivery of that reinsurance contract, we're looking to take out of the system to make it easier for our customers to do business with GE/ERC." re