

# Making the network

Igor Best-Devereux asks if the internet is making a difference

There has been some confusion about how the internet fits into a traditional business like re/insurance. The short lived euphoria about it replacing everything that had come before transitioned into 'analyst-speak' about bricks and clicks – somehow implying that you can polish up the old company with a liberal helping of technology.

The truth is most re/insurers or brokers have an enormous investment in data processing infrastructure that has developed over many years. If a corporation has to replace its infrastructure to move forward, the cost and disruption may be prohibitive, the pace may be ponderously slow, and the real needs may have been something different all along.

Rather than being a universal panacea, the internet presents the re/insurance industry with new possibilities that can play to the strengths of a market that is a global network of experts and capital working together to manage risk. Among these possibilities are ease of improved communication, information management and the ease of adoption of technologies that have been woven into the modern computing environment.

## INFORMATION AND COLLABORATION

Ten years ago, the cost of point-to-point communications was a major financial consideration in the decision to implement systems that dealt with remote offices and distant customers. Today, the internet provides companies with worldwide interconnectivity at a fraction of previous costs. Browsers and search engines provide information from web sites all over the world. It is a natural next step to use the internet to build bridges between buyers and sellers of re/insurance – bridges that benefit all parties to a reinsurance transaction.

Using technology to improve results is much more powerful than simply supporting processes. Rather than a wholesale assault on established systems, greater value can come from identification of specific areas of business where improved availability of information has great leverage. Some opportunities are suited to the combination of communication and information management technologies enabled by the internet. A case in point is the buying of facultative reinsurance. For many insurers this has been a struggle over the need to allow underwriters to operate with some autonomy with multiple counterparties and the requirement to manage the risk adjusted rate of return for the corporation as a whole.

Insurers are not the only ones dealing with the challenge of managing facultative reinsurance. Reinsurers are

under pressure to produce business at a reasonable costs and maintain local relationships in markets where it is often difficult to service specialist needs. Similar challenges in facilitating deal flow face brokers who need to lower the cost of trading with often widely dispersed parties. Any technology solution must, at the same time, provide enough flexibility for a broker to structure and negotiate a deal for its client.

These interconnected needs can be reconciled in the case of reinsurance buying through a neutral platform accessed via the internet and designed to support the unique needs of the reinsurance buyer, seller and broker. For the insurer there is value in process consistency and, importantly, information management, enabling more active decision-making regarding reinsurance purchased. The system must be neutral if it is to be available to multiple parties and allow the buyer to maintain and build relationships without limitations.

For reinsurers the value is in managing scarce underwriting expertise to expand relationships and lower the cost of business acquisition. For the broker, value is in reducing the traditional 'grunt' work in canvassing markets, thereby focusing resources on negotiating solutions and providing client service.

## THE PROMISE OF XML

The point is that you do not have to change everything all at once to realise the possibilities. In the past it has been difficult, if not impossible, to combine a low cost communication network with centralised information management and simple, flexible user interfaces in a secure environment. Now these components are readily available and can form the basis for a collaborative system that can supplement existing business practices.

By expanding through internet technology, new systems can be supplemental to existing systems. Information generated can be funnelled back to the existing infrastructure where there are numerous middleware tools that aid corporations in interfacing the internet world with existing legacy systems.

A protocol that is becoming a common tool is XML – a method of packaging information that can be easily understood, easily transformed into back office systems or into management information systems – a way of bridging between two businesses without developing complicated technical solutions. It is becoming possible to introduce a negotiating service for one part of a re/insurer, a rating service for another part, a claims service to support another part. Each can be put in place semi-independently of other services, using XML to transfer information content. The existing internal systems that account for premiums and claims, provide statutory reports, manage documentation or provide management information useful for new business development are not replaced until, or unless, an improved service is available.

There is a unique combination of technologies and practices that can now offer systems where none existed before. A multi-party collaborative application is an exciting possibility for a business like reinsurance. Common information collected between parties to a transaction is a powerful tool in supporting agreements and reconciling accounts. For each party, the consummation of the deal is the logical start of the information flow that should link into other business processes, be they accounting, documentation, deal flow management or claims. The new paradigm is that these systems do not have to be built all at once. The true promise of internet technologies is that new collaborative and information components can work with existing systems – extending their lives but also being ready to work with new components as these become available.

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