

# Techno file

REINSURE NOW ALMOST UNRIVALLED IN ONLINE MARKET

## AIG deal cements eReinsure's online success

A milestone was reached in the online reinsurance marketplace in August with the announcement that member companies of American International Group (AIG) will place facultative reinsurance business on eReinsure, the online reinsurance trading platform.

The participation of AIG is a big step forward for eReinsure. Until now, two insurers – Chubb and Fireman's Fund – have been placing business on the platform. AIG's participation will give its online market a huge boost. AIG is the largest buyer of facultative reinsurance in the world.

And given the downfall of eReinsure's biggest rival Inreon in May this year, it would seem that the exchange now has an almost unrivalled market position. Inreon's backers pulled its funding.

AIG would not say how much facultative reinsurance it will place on the platform initially. But Chris Milton, senior vice-president for reinsurance at AIG, says the company plans to eventually place all its facultative reinsurance using the eReinsure exchange. This amounts to \$1bn of reinsurance annually.

The recognition of the merits of placing business online by the largest insurance company in the world is also a big leap forward for the entire online reinsurance world. "Online reinsurance has now arrived," says Igor Best-Devereux, chief executive of eReinsure. "The biggest players in the market are adopting it. This shows they have confidence that it is a secure and robust system."

Online reinsurance has come a long way since it was first conceived in the 1970s. In its early days, it failed to get off the ground because technology was not advanced enough to handle the complex processes needed for it to be successful.

Technology has progressed since then, however. Over the past four years, a number of online reinsurance platforms have sprung up. One of the most successful was Inreon, an online reinsurance exchange set up by Swiss Re and Munich Re in December 2000.

But the market appeared to face a setback in May this year when Inreon's backers pulled its funding. The platform had appeared to be doing very well. But its investors, which comprised Munich Re, Swiss Re, Internet Capital Group and Accenture, said there was a lack of trading on the platform and they were not getting an adequate return on their investment.

AIG's decision to place its facultative reinsurance using eReinsure shows there is life in online reinsurance after all.

Best-Devereux says eReinsure has attracted the biggest buyers in the marketplace because it is tailored to buyers' needs, rather than those of the reinsurers. He says online exchanges such as Inreon were designed more with the needs of reinsurers in mind.

"Our system is built from the buyers' perspective because buyers are the ones that drive transactions," says Best-Devereux.

Milton at AIG agrees that other exchanges have failed because they have been too focused on the needs of reinsurance sellers. He says he chose to do business with eReinsure because its systems fit AIG's buying needs better.

"Most online reinsurance activity has been tailored to the needs of reinsurers," he says. "That is why they haven't worked out. We like eReinsure because it allows us to have customised software for the products that we sell."

Milton says he had considered using Inreon as an alternative but decided it would have cost too much money to refine AIG's system to suit the platform.

One of the main advantages of the eReinsure platform is that it is much

easier for AIG to track the reinsurers it is buying coverage from and to keep a record of how much business it is placing with each company. The system provides a central database that allows it to review submissions, negotiations and the issuance of certificates.

Milton says placing business online is a lot more efficient than placing it in the traditional marketplace. He says it can take up to 180 days to finalise the placement of large risks when placing them conventionally.

He also likes the eReinsure platform because it conforms to Acord standards for reinsurance. This meant that the platform could easily be integrated into its own system.

An increased emphasis on corporate governance within insurers and reinsurers may further boost the online reinsurance world. Stricter regulations mean that insurers need to be able to accurately account for their reinsurance buying. The UK's Financial Services Authority (FSA) is one regulatory body that now requires insurers to give more detailed information about the placement of reinsurance. "The requirement to comply with the FSA is increasing interest in our system," says Best-Devereux.

He hopes that increased regulator scrutiny will encourage insurers to use his platform. "There is more scrutiny from regulators on the placement of reinsurance. Insurance regulators want to know how much insurers can recover from their reinsurers and which reinsurers they are ceding to," he says.



**"Online reinsurance has now arrived," says Igor Best-Devereux, chief executive of eReinsure**

## Technologies for Reinsurance

### eReinsure

- Manage **the Process** for Efficiency and Compliance
- Manage **the Information** for Reporting and Decision Support
- Manage **the Reinsurance Asset** for Return on Investment



come  
up  
for air  
and  
take  
control

eReinsure delivers leading edge, web hosted technologies for the negotiation and placement of reinsurance. eReinsure delivers technological advantages in a neutral environment, while supporting all parties to the reinsurance transaction process insurers, reinsurers and brokers. The eReinsure platform handled more than 20,000 submissions in 2002 establishing it as a market leader in the online reinsurance marketplace.

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