Electronic trading

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The problem of human reluctance in embracing electronic transactions has two sides: on the one hand, those placing insurance face the risk of losing their jobs through increased use of electronic transactions, and on the other hand, if they do not adopt this new technology it is possible that in some cases the entire framework of the insurance agency could collapse.

Information Technology is playing an increasingly important part in our daily lives and the reinsurance industry is no exception.

Electronic trading of insurance and reinsurance is seen as this industry's equivalent to the London Stock Exchange's "Big Bang" embrace of screen based stock and share trading, leading to higher profits and lower backroom overheads.

The London Insurance Market is looking for similar benefits from electronic trading but is taking the process more slowly. This slower rate of progress may be attributed variously to:
• The complexities of the business - the contracts themselves are more difficult to express electronically than stocks and shares trading;
• The number of official bodies attempting to work together;
• Human resistance.

Firstly let us look at the main interested parties, starting by defining their role:
• London International Insurance and Reinsurance Market Association (LIRMA) - the major representative body for companies transacting international insurance and reinsurance, mainly non-marine, in the London market. LIRMA was also the pioneer of electronic trading in London;
• Lloyd's, as the oldest established insurance market place has thrived on innovation. It provides a full service of slip signing and accounting through its bureau, the Lloyd's Policy Signing Office (LPSO) and within its new building has a full IT communications network to which all syndicates are connected;
• Institute of London Underwriters (ILU) - the trade association for the majority of companies writing marine, aviation and transport classes within the London market. In January 1994 the ILU amalgamated its policy and claims processing bureau with the bureau operations of LIRMA to form the London Processing Centre (LPC);
• Lloyd's Insurance Brokers Committee (LIBC) - represents the interests of the majority of broking houses transacting business within the market- arguably the brokers have the most to gain in terms of administrative savings from electronic trading.

Then there are the networks:
• London Insurance Market Network (LIMET) - LIRMA, Lloyd's, ILU and the LIBC, under the banner of LIMET, utilise a computer network managed by IBM to provide IT services to their members.

In 1990 a pilot trading system initiated a great deal of discussion which resulted in publication of the Joint Market Initiative (JMI) to produce a data standard, the Common Core Record (CCR). LIMNET launched the Electronic Placement Support (EPS) system and infrastructure in March 1992, the first general placing system based on JMI. At the same time, Willis, Sedgwick and Datasure launched their own software to allow brokers to place risks via LIMNET. As LIRMA focus extends beyond the UK it is offering a potentially competitive service to "RINET", with LIMET now available to any member company anywhere in the world, other than the USA;
• Reinsurance and Insurance Network (RINET), is a non profit-making co-operative society which set up the first insurance specific computer network from its Brussels base in 1987. The eight founding partners' aim was to establish an Electronic Data Interchange (EDI) for the transfer of standard electronic messages between members and for placing risks;
• World Insurance Network (WIN) - With EPS usage apparently stagnating in 1995 and targets not being met, some brokers were becoming frustrated. Alexander & Alexander, Aon, Johnson & Higgins, Marsh & Mc Lennan, Sedgwick and Willis Corroon, the world's six largest broking houses, got together to develop the potential of modem computing hardware, software and high speed telecommunications infrastructures through their own communications structure - WIN. The first message between broker and underwriter was sent earlier this year;
• The INTERNET may in due course render the other networks irrelevant by adopting one of their data standards and selling on its global availability.

So how are these networks fairing?:

• Since the first version of EPS was produced, LIMNET has brought in an improved version, EPS2, which like its predecessor is based on mainframe technology, and LIRMA has developed a windows-based Graphical User Interface (GUI) to facilitate usage;

• Various targets were set by Lloyd's, LIRMA and the ILU for the volume of business placed via LIMNET with the ultimate aim of all risks being traded electronically by July 1996. As this date approached it became obvious that by trying to account for the diversities of all elements of the insurance market, the CCR was too complex, which in turn led to disenchantment with EPS;

• The latest move by the LIMNET partners is to produce a simpler system which reduces the input necessary for initial slip placement by using a building block approach to CCR and slip text completion. This recognises the fact that a fast response is an essential element of the placement process.

This new system, known as "EPS Support", is expected to be available in the second quarter of 1997. As an alternative to EPS2, renamed "EPS Electronic", EPS Support retains the paper slip on which the underwriter records his participation as the legal contract as opposed to the exclusively computer-generated record of EPS Electronic. In the current test version of the software the underwriters note their lines both physically and electronically, and having placed the whole slip, the broker then updates the EPS record to reflect the full text and CCR. In the finished version, the CCR could then be downloaded to the participating underwriters' databases to form the nucleus of their risk record;

• One of the main reasons for the LIMNET partners pushing for acceptance of EPS is the need for their policy signing and accounting bureaux to have a fully structured core record of all risks written by their members. This is a fundamental requirement for the next major London Market IT project, Electronic

Closing and Accounting (ECA). ECA will bring greater automation to the slip signing and accounting process, both technical and financial, improving cash flow and credit control whilst also drastically reducing the number of payments held up by queries, as the bureaux would have a full electronic record of the slip. With the fact that LPC now passes all its closing information to members electronically via LIMNET, this innovation should bring about virtual transparency to the closing process and mean that less checking will need to be undertaken by the underwriters as their records should hold the same information as the bureaux;

• WIN is still a relatively new concept and development continues. The aim is to form a large capacity communication network across 35 countries utilising the facilities of various strategic alliances with the likes of British Telecom (BT), US communications company MCI, Hewlett Packard, Anderson Consulting and Control Data Corporation. The network will be accessed from any subscriber's desktop computer via an interface known as WINconnect. This software will allow a simple mouse click and point action to send the kind of insurance presentations currently printed from proprietary software such as Word, Excel, Lotus 123 and WordPerfect to be sent to underwriters electronically. The network software is compatible with the major electronic mail systems, thus allowing communication between cc:Mail, MS-mail and Lotus Notes Mail users. Trials are currently being undertaken by Cigna, CU, Generali, Royal Sun Alliance, Gerling, XL and the WIN broker partners. In the short term it appears that the majority of traffic over this new network will be the larger commercial insurance risks. The fact that WIN is not constrained by a data structure and is being broker driven by the major firms means that it probably stands a reasonable chance of acceptance. WIN has not ignored the advantages of sending structured messages and although no such messaging system are currently being developed it is a member of a joint venture with

RINET, LIMNETT and other interested parties developing EDI standards for the industry.

Finally, the human element:

• The next step is to see whether the dual approach to EPS will produce greater utilisation. The problem of human resistance applies on both sides - placing brokers fear putting themselves out of work by promoting electronic trading and yet if they do not embrace the new technology then in some cases the whole broking house may fail. This then is a management problem for the broking house to address;

• The underwriter resistance is not universal but at present there is little perceived benefit to the underwriting fraternity. The benefits to underwriters are more altruistic in nature in that if electronic trading works well it will contribute to the general health of the London Market and beyond.

So where do things go from here?:

• The real problem is to convince both halves of the market of the necessity for electronic trading, which ironically has not produced the savings in time and expense which were expected of it. In practice, in this highly volatile market, business will be placed by the most effective method available which at the present moment is not electronic. There are many who feel it may take another turn in the market cycle and pressure on margins to bring the optimum power balance to make electronic trading a reality;

• Looking forward, it is certain that the industry can achieve cost and efficiency savings from the utilisation of computer trading systems. What appear to be the essential ingredients are modular placing systems based on globally standardised class-specific slip structures with the added flexibility in presentation of narrative and visual supporting information to allow brokers to distinguish their differing broking styles. I.T. and telecommunications have a proven track record. All that is required now is a group of dedicated people to turn this potential into reality.