



# R@insurance administration

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some way, and paraphrasing IBM's slogan, an attempt is being made to answer this question: Does the future of reinsurance start with ?

As an initial point, it should be noted that throughout this article, the reinsurance administration process is referred to as RAP.

The starting premise of this article is that at present electronic commerce in reinsurance, with the exception of certain markets with a long tradition in this respect (see the

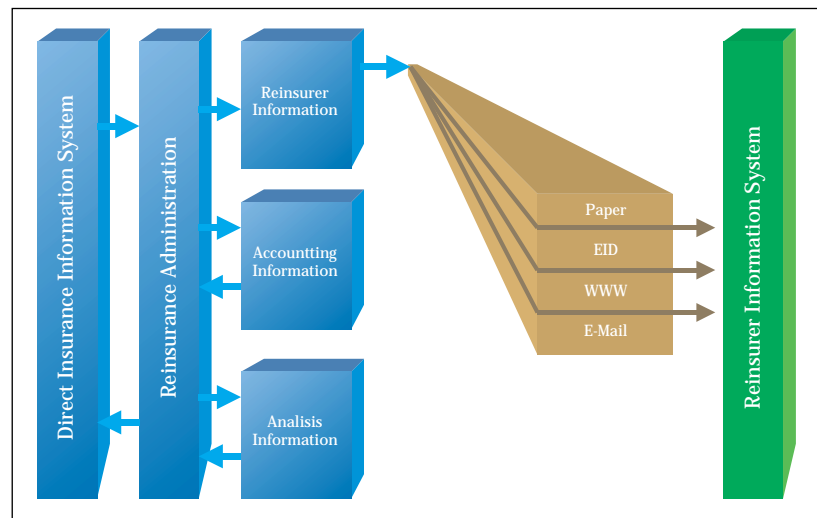
ber of relatively different practices depending on the market and its state of development.

- In addition to this, the insurance sector is not a market which is very technologically developed.

## CAUSES ARISING FROM THE RAP ITSELF

The diagram which accompanies this article shows a number of criti-

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Phases of the reinsurance administration process from the underwriting of a policy until its input into the reinsurer's information system.

article "Electronic Transactions" by T. Gasking and A. Manning in issue 4 of this magazine), is relatively undeveloped. The reasons for this are given below.

## GENERAL REASONS

Two reasons with regard to the nature of the business itself can be given amongst the general reasons:

- Even though reinsurance is an international activity, or precisely because this is so, it involves a num-

ber of relatively different practices depending on the market and its state of development.

Under ideal conditions, an insurance company should be able to automatically ascertain which business is to be ceded to reinsurance from information provided by its policy underwriting and claims handling systems. This is not always true, and quite often relatively untrue for certain types of business (facultative and XL). It is possible to give three profiles of companies:

- a) RAP completely linked with the origin of direct business.

As can be deduced from the title, this article concerns itself with the possibilities for electronic commerce in reinsurance, and more specifically in its administration. In

b) RAP partially linked, through a computer sub-system which receives and processes the information (in part automatically, and in part through manual inputting).

c) Manual RAP, or with the aid of spreadsheets, which processes the information arising from the business origin.

In a large percentage of cases these mentioned profiles are to a great extent connected with the business volume of the company, and it would seem clear that companies in profiles b) and c) do not include the electronic exchange of information among their immediate objectives.

#### THE INFORMATION MEDIUM AND MEANS OF TRANSMISSION

Once the information has been obtained, whatever the profile of the company, it must be sent to the reinsurers. It might be agreed that the most commonly used information exchange medium is paper, and the means of transmission is by mail. The following comments may be made according to the profiles of the described companies:

- Profile a companies. The RAP is normally carried out at the computer back-end level (mainframes or servers), through batch processes which are not controlled by the user. These processes produce abundant information on paper which is received by the user. The re-adaptation of these processes at back-end level in order to produce electronic output tends to be costly and slow to implement.

- Profile b and c companies. These tend to carry out the last stages of the RAP at the computer front-end, in other words at the desktop computer. Although it may sound paradoxical, these companies are in a position to send their information electronically (mainly by e-mail) probably in the form of a spreadsheet. Once it reaches the reinsurer however, there is little that can be done but to print the information out and key it in again.

#### ELECTRONIC EXCHANGE METHODS

EDI (Electronic Data Interchange) involves the exchange of information according to structures set by standards organisations. In reinsurance these standards are set by a joint undertaking composed of RINET, LIMNET, RAA and BRMA.

The process of EDI is influenced by at least the following factors:

- EDI culture at market (country) and sector level.
- The ease with which the standards are integrated within user computer systems, and the technological infrastructure which is necessary to do so (software, hardware and communication networks).

In practice, EDI is unevenly developed in reinsurance according to region. In addition to this, as in all cases of EDI in any business sector, it has achieved scarce penetration in medium and small-sized companies.

Another possible means of electronic exchange is the internet and its associated technologies such as the www and e-mail using public and private networks. It is certain that exchanges are being made by these means without any type of structuring.

One of the disadvantages which is often given with respect to the internet is its lack of security. This objection may be avoided by making use of embedded security technologies which are used in economic transactions, by using independent certifying bodies or by setting up secure TCP/IP gateways to traditional EDI private networks.

#### OTHER CAUSES

Another cause of the poor development of electronic commerce in insurance and reinsurance is the majority tendency towards using proprietary software solutions, this may be due to the low level of reliability of existing commercial software applications. This factor also obliges the use of proprietary solutions in order to provide RAPs with

electronic commerce capabilities. This involves additional costs, which insurers will probably not feel are justified.

#### WHAT IS THE ANSWER?

Considering this rather bleak picture, the reply to the question does the future of reinsurance begin with an @? Must be negative. However, common-sense would indicate an affirmative reply, since the ongoing growth of the internet will make this inevitable.

In order to bring this about there must be initiatives with regard to the following factors:

- A convergence of EDI and the internet, through the use and transmission of EDIFACT messages using certification procedures or through secure gateways to private networks, or some other type of future solution. It would seem rather unrealistic to think that the internet will not be the leading player in future electronic reinsurance interchanges.

- Development of third party PAR solutions which incorporate electronic commerce capabilities and produce a business spiral unknown of before. This last point may be helped by the technological re-conversion produced by the millennium effect once this has been overcome.

- Incorporation of a catalogue of reinsurer services of this type of solution for insurance companies, thought out so as to require no effort on the part of the insurance companies.

- Development of electronic commerce initiatives in geographical areas which have little EDI tradition.

- Bilateral initiatives between insurers and reinsurers who have solid relations.

In conclusion, MAPFRE RE has developed a computer product for the administration of reinsurance ceded from insurance companies called Read 21. This product aims to cover a gap in the companies which at the beginning of this article could be included in profiles b and c. ■