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Electronic Trading Milestone as Aon Renews 80% of Re Treaties with RI3K

The London reinsurance market will never be the same following 2007's year-end reinsurance treaty renewals. Faced with a potential last minute logjam, as cedents held back their after renewals in the hope of achieving more favorable terms, Aon put RI3K's electronic trading platform to its toughest test yet, flooding the system with a backlog of processing.

Just like in the movies, RI3K came through. Aon announced that it had "completed as much as 80 percent of its 1/1 treaty reinsurance renewal placements electronically in December." The global broker indicated that it had "aimed to place as much as possible of its London book of treaty business electronically into the global markets, and achieved this goal, with more than 5000 lines placed electronically through the RI3K service, as well as several hundred endorsements."

RI3K's CEO, Alex Letts described 2007 as "London's first electronic trading year." Aon paid tribute to "the effort and support of the underwriter community, as well as Aon Re Global's brokers, declaring that the market has clearly demonstrated its support of this important program."

Aon's director of change strategy, Ian Summers, indicated that the Company's success was partly down to a "cultural shift in the market." Letts concurred: "It [electronic processing] won't go away; it's only going to get bigger, and eventually it will become the way people do business."

Summers noted "Our efforts to accelerate the transition from a paper-based market to a contract certain, data rich trading environment have really now taken root. We managed to distribute as much as 80 percent of our risks electronically via RI3K as well as some first streams of specialty fac and direct business."

It's been a long road, and a hard one. Following the demise of Lloyd's Kinnect project, smaller and more flexible companies, led by RI3K, stepped into the breach to provide the London market with they type of individualized data transfer systems brokers and underwriters wanted. However, the changeover from processing around four tons of paper daily to doing it on a screen was never going to be easy.

Aon saw the opportunity, however, and signed on to RI3K's program (See IJ web site: <http://www.insurancejournal.com/news/international/2004/09/30/46385.htm>). The question remained how well would such a system perform when really put to the test. That was answered last month.

Asked in a telephone interview if the breakthrough was the light at the end of the tunnel, Letts replied, "Oh no, we're well out of the tunnel, and the light's getting brighter." He predicted that within the next two years – and after a lot of hard work – most of the London market would be trading electronically.

Summers noted that up until now many people harbored doubts that the London market was really "ready, culturally, to change." However, he added that after December, "I think in time that people will reflect that 2007 was the year when the market really accepted the inevitable took the great leap into electronic trading. It has landed with a bit of bump and few bruises, but is actually in pretty good shape."

Letts explained that Summers "bumps and bruises" included the reluctance of the brokerage community to accept electronic trading, as well as the complicated process of integrating electronic processing into an individual broker's trading system. He acknowledged that RI3K is now in discussions with almost all of London's major brokers about implementing the system. He added, however, "we're not smug; we know the next six months will involve a lot of hard work."

Letts sees the RI3K system handling around 60,000 placements this year,' but "that's only the tip of the iceberg," he said. We are interested in expanding the system to include facultative reinsurance and ultimately direct placements. That's the way business will be done in the future."

For that goal to be reached will require the cooperation of all involved – brokers, carriers and underwriters. From Aon's experience that kind of cooperation looks possible. Charlie Cantlay, Chairman of Aon Re Global (UK) commented: "We are truly appreciative of the tremendous support we have received from the vast majority of our trading partners in the market. Without their commitment and patience in a very late renewal season, as well as the support and effort of our own staff, this major change initiative would not have succeeded."

Summers said Aon is fully committed to evaluating all the issues learned from this renewal season operation and the next step is to conduct a full review, seeking feedback from clients and markets with a view to continuous improvement and further development. "We now have to work with our partners to drive through the real benefits of electronic trading to all parties. This means the seamless transfer of data through the whole value chain to the underwriters' systems." Aon also confirmed that is now rolling out its electronic capabilities to other parts of its UK operations.

Most of the London market is doing the same thing. Aon's experience has "broken the back" of brokers' concerns about electronic placement, said Letts, reiterating that within two years the London market will be all electronic."