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A Swift solution

Insurers and brokers are in talks to use the established Swift financial transfer network in move to speed up the pace of electronic placement of risks. James Dean reports.

Electronic trading in the insurance industry is poised for a revolution. Last month, representatives from some of the world's largest reinsurers and reinsurance brokers met to discuss plugging the insurance industry into the international financial messaging network, Swift.

It was the first time the industry had met Swift – the Society for Worldwide Interbank Financial Telecommunication. The Brussels meeting, reported last week by Insurance Times, was hailed as the biggest step taken to date towards the global exchange of electronic data. It brought global electronic trading – from the initial placement of a risk right through to its conclusion – one step closer.

The project is led by reinsurance giant Swiss Re. Peter Arbenz, head of reinsurance information management at the reinsurer, says: "We thought, why risk creating a new platform like Kinnect when something in the banking world already exists?"

Kinnect was a failed attempt by Lloyd's to develop a platform for the transfer of risk data between market participants.

The main attraction of using Swift is the ability to plug straight into a tried and trusted network, says Arbenz.

Swift, a co-operative body established by financial institutions and based in Belgium, enables financial institutions to automate and standardise transactions. Swift says it allows companies to lower costs, reduce operational risk and eliminate inefficiencies from their business operations.

Over 8,000 financial institutions in 208 countries – including banks, broker-traders and investment managers – use the Swift network, which handles over 600 million messages a year, or 15 million a day.

Arbenz says: “Currently, the insurance industry’s costs are too high. But costs are far from the only reason we are looking for a solution. There is also too much paper, too much scanning of documents and too much data entry. Ultimately, we feel that this type of solution will bring better client service and improve the reputation of the industry as a whole.”

Put simply, the idea is that the entire insurance transaction – merging both placement and settlement spheres – would flow through Swift. However, this is a long-term goal and not envisaged for at least four years. Instead, a more measured roll-out is on the cards. “Ultimately, it would be natural to expand the project to risk placement in the interests of achieving end-to-end processing,” says Arbenz. “On the other hand, at the moment, we have to focus on non-competitive areas. The more you get into the placement side the more you have to make sure you comply with anti-trust laws. Maybe this goal [of electronic risk placement] is three or four years down the line.”

Swift’s main advantage is that it is an established, global network. It also has the ability to handle a huge number of transactions. But this would not, according to Alex Letts, chief executive of trading platform RI3K, be the main benefit to the insurance industry.

Letts says: “The number of financial transactions in the insurance marketplace is very small compared to most financial markets, for example, the derivatives market. You may transact the same number of insurance messages in a year that you would for an hour in the derivatives market. The main benefit of using the Swift network would be that it is an international network with internationally recognised standards.”

The talks in Brussels focused on the initial implementation of the Swift network for the settlement – rather than the placement – part of insurance transactions.

In theory, by connecting to Swift, certain settlement-related transactions, such as the payment of a premium from a broker’s bank into an insurer’s bank could be automated on a global scale.

Letts says that, should the insurance world use Swift for the settlement part of transactions, RI3K’s and other companies’ risk placement systems could also be integrated, in the same way as they currently are with the Xchanging system in the London market.

If a risk were placed via an electronic placement system, a message would automatically be sent to Swift, which would in turn trigger, for example, the payment of a premium from the insurer’s bank directly into the broker’s bank.

Such a link-up would bridge the gap between the placement and settlement spheres in the early stages of the project.

There was also talk in Brussels of developing a special application that would allow insurance companies to connect directly to Swift. Currently, insurers’ and brokers’ systems are incompatible with Swift because they do not use the same messaging standards as other financial institutions.

For example, if a company sent a normal email to the Swift network, it would not be recognised. The most likely solution would be the creation of a software application, to be installed on insurers' and brokers' IT systems, that would allow companies to send and receive electronic messages in the Swift format.

Arbenz says that 90% of the parties attending the meeting in Brussels agreed that the project should initially involve only non-life reinsurers and remain focused on the settlement side of the insurance transaction.

Claims processing may also be included in an initial pilot and, if successful, the scheme would be rolled out into other sectors – for example, a long-term goal is to extend the project to the life insurance sector.

“We will try to set up a project and agree a budget by the middle of this year,” adds Arbenz. “To achieve this, Swiss Re and Swift will first create a PDD [project definition document], then the nine parties involved in these talks will take this PDD to their senior management for approval.”

The discussions with Swift come as the Lloyd's and London insurance market is undergoing its own e-trading revolution. The market reform Group (MRG), set up to implement change in the Lloyd's market, has launched a number of initiatives (see boxes) to modernise the insurance transaction, bringing in electronic processes and reducing the amount of paper that circulates.

This year will see the MRG focus heavily on electronic processing of endorsements, which it views as key to achieving full electronic placement of risks. It is also starting to monitor the number of risks placed electronically.

The majority of risk placement still involves a huge amount of paper – vital for unusual or complex risks, as detailed discussions between client, broker and underwriter will be necessary to satisfy all parties.

But there are a growing number of risks that can be placed electronically – for example, certain binder business, or other uncomplicated, high-volume risks.

Ian Summers, director of change strategy at Aon, says that around 80% of Aon's treaty book is now processed via electronic trading platform RI3K, and the system is currently being trialled by many of Aon's divisions. “Almost every division of Aon is now using RI3K at least in part,” he adds.

Other big brokers are also experimenting with their own risk placement systems. Marsh is thought to be testing its own system, Broker 21, while Willis is expected to implement the RI3K system at some stage.

The MRG is keen to get the ball rolling for electronic risk placement, but realises its hands are somewhat tied. The creation of market-wide trading platform failed with Kinnect, and private companies instead moved in to fill the gap with their own offerings.

There has been an encouraging uptake of these systems, but encouragement is about as far as it gets.

“There are cultural problems, ones that you find anywhere where computers and technology are involved,” says Peter Matson, director of underwriting at Novae. “You get the 40 to 50-year-olds who are apprehensive about changes in areas they may not understand. But under them, the 20 to 30-year-olds can’t understand why changes haven’t already been made.

“While I’m 100% behind electronic reform, I have strong doubts about whether it can be rolled out successfully across the whole market until the 20 to 30-year-olds become the 30 to 40-year-olds and are in sufficiently senior positions to insist on it.”

But the reinsurers’ project with Swift could be the catalyst for action. The main goal of London market reform is to increase the market’s competitiveness. Being left outside of the Swift plan will hand any competitive advantage straight to those who embrace it.

Electronic claims files (ECF)

The market has responded well, albeit slowly, to processing new in scope claims through the ECF repository. The MRG wants all new claims to be processed electronically by the end of 2009. However, the processing of older claims does not figure as highly on the agenda. Also, the definition of what claims are in scope means many are still being processed in paper format. A market source says: “All aviation business is out of scope effectively, as are co-lead binders for new claims. Also, there are tails of claims that go back 10 to 15 years, which will probably take 10 years to convert electronically.”

Electronic placement of risks

To date, market reformers have taken a hands-off approach to the electronic placement of risks, but now the MRG is becoming more proactive. It wants to see wholly electronic trading for some simple risks with no manual intervention, but face-to-face trading would remain for large and complex risk when required. The group has also started monitoring the number of risks placed electronically although the only data available at present comes from the companies placing the risks. The electronic placing steering group has yet to decide on how best to monitor the uptake of e-placing systems.

Endorsements

The MRGs biggest drive of the year will be on policy endorsements. Christopher Croft, programme manager at the MRG, points to a sudden spike in interest for all things electronic. Six hundred people turned up to hear an endorsements talk at the Willis building. Reform is now very much at the forefront of firms minds, he says.

According to Croft, half a million endorsements are traded in the market every year. At the moment, a broker waits in a queue and then gives [the endorsement] to the underwriter. The new system allows for better allocation of time, he says. A pilot project led by Willis, using email, has already proved a success, but Croft adds: We will be moving towards more technical

solutions.

Croft also believes that success with the endorsements drive will move the market closer to electronic placement of risks. When we win the battle with endorsements, we have a bridgehead into electronic placing, he adds.

Accounting and settlement (A&S)

Reform has progressed, but is still in its early stages. Currently, submissions to the A&S repository consist of a scanned document effectively, a digital photograph of the paper document. Reformers are looking to go one step further than the submission of document images and require that A&S data is transmitted instead making records easier to store, access and transmit. Obviously, this goal is tied to the implementation of electronic messaging standards and effective electronic messaging hubs.

Who's who in electronic reform?

Peter Arbenz, head of reinsurance information management at Swiss Re
Arbenz, on behalf of Swiss Re, is leading the project to connect global insurance companies to the Swift network.

Sue Langley, director of market operations & North America at Lloyds
Langley, brought in by Lloyds last year, has been personally visiting managing agents and brokers in a bid to bring the Lloyds markets electronic systems into the 21st century.

Ian Summers, director of change strategy at Aon
Summers has been pioneering the use of the RI3K electronic trading platform for Aon, while also sitting on London Market Brokers Committee reform groups.

Peter Harmer, chairman of the Market Reform Group
Recently replacing Stephen Matanle, Harmer, also chief executive of Aon UK, must ensure the whole market is moving in the right direction.