

NEW ERA

ELECTRONIC COMMERCE AND THE INSURANCE INDUSTRY

BY ANN DEERING
AND PATRICK VICE

As the information revolution roars ahead, demand is growing among risk management practitioners for electronic commerce—the ability to communicate and conduct business transactions online. This transition from paper-based business practices will require bold changes to “Insurance Jurassic Park,” where inhabitants will need to embrace new technologies, re-engineer legacy systems and assess the role of network computing, especially the Internet, in serving the risk management and insurance community—or risk extinction.

The Internet is bringing electronic commerce into the realm of possibility for risk managers. Even though many corporations remain concerned about security issues and the challenges of changing their existing information systems, a growing number are beginning to evaluate the Internet’s potential role as an electronic platform for risk management applications.

Participants in these efforts are learning that implementing electronic commerce requires interorganizational collaboration, selling the benefits to upper management and information technology departments, accepting some of the inherent limitations and, of course, managing the associated risks. ➤

ED WEXLER

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The Quest Begins

The idea of improving communications among businesses within the risk management community has been around for at least 30 years. In 1967, the Stanford Research Institute (SRI) was commissioned by what was to become the Independent Insurance Agents of America to review current trends in technology. SRI concluded that there was an unprecedented opportunity to take advantage of new computer technology and allow independent agents to communicate with the insurers they represented. All that was required was agreement among the parties on the standards for what SRI referred to as a "universal terminal" that allowed open access.

The search for a universal terminal continues to this day. According to a 1990 study by Perot & Associates, the insurance industry spends between \$550 million and \$870 million annually in an attempt to provide interface to agents. Perot Systems concluded that from the agents' viewpoint, "the benefits being gained from this very significant investment are not meeting expectations."

Although we are not aware of any similar studies in the risk management community,

our anecdotal experience at RIMS meetings as well as searching Internet sites such as RMISWeb (<http://www.rmisweb.com>) suggests a similar level of frustration. Risk managers have long sought electronic access to claims and policy information, and insurers, brokers and independent system vendors continue to attempt to offer solutions. However, the general satisfaction level among risk managers with whom we have spoken is not high.

So what's changing? Well, the Internet itself is now providing proof-positive that information seeks to be freely available, and many of the past roadblocks are crumbling under this pressure.

Becoming Strategic

As anyone who has been involved in electronic commerce or electronic data interchange (EDI) can attest, the support of senior management for interorganizational projects is both critical and elusive. However, because of its pervasiveness in the business, trade and popular press, the Internet is attracting the attention of nearly everyone—including CEOs.

We recently spoke at an Internet conference in Europe. One of the attendees was a board member from a major reinsurer who has been a supporter of an EDI initiative called RINET (Reinsurance and Insurance Network), an effort among major international insurers, reinsurers and affiliate organizations that has attempted to establish and implement EDI standards for various business transactions. When asked how the initiative was progressing, the response was typical: "Slow and disappointing." When we asked about the problem, the answer was illuminating: "EDI just doesn't 'look' strategic." Pointing to an overhead of a Netscape browser, he continued, "On the other hand, the Internet looks very strategic."

Our conclusion was simple. As important as EDI and electronic commerce are for the business being conducted, senior executives can better understand them if they are put into a "strategic" Internet context. The packaging of technology and the relinquishing of control to the user community has been facilitated by the Internet in ways that were unthinkable only a few years ago.

Forming a Partnership

An example that demonstrates the power of today's technology—and hints at the vast potential that lies ahead—can be seen in the burgeoning success of a risk management electronic commerce initiative involving Sun Microsystems, Chubb & Son, Inc. and

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Sedgwick James. The Net Partnership began with Sun's risk manager Carol Harrington looking at the world in which she worked. After concluding that everyone—risk managers, brokers and insurers—could benefit from, in her words, “seamless access to information,” she unilaterally began the process by establishing an intranet Web site for Sun employees. The site describes the department's functions, provides information on insurance and risk management (such as when to decline collision damage waivers or what to do in the event of a claim) and provides a form for ordering certificates of insurance online directly from Sedgwick.

Rather than performing the administrative functions associated with issuing certificates internally, Ms. Harrington concluded that her department's most important role in the process was negotiating standards of practice with the broker and monitoring the firm's performance. Once the standards were established, the routine functions could be automated easily. A certificate request form is now filled out online and the information is submitted via an e-mail message to the broker (with a copy to Sun's risk management department), and a certificate is issued. Automating this process

reduced a significant amount of the department's administrative work.

Sedgwick and Sun determined quickly that there were several additional opportunities to improve the department's efficiency and enlisted Chubb in the initiative. ADVice, inc. became the external project manager and Software Technologies Corporation was engaged to provide EDI and electronic commerce solutions. Unlike past industry initiatives, the principle was to keep the group as small as possible but to use “open” standards—which can be implemented regardless of specific hardware or software platforms—for all functions. We also agreed on a rapid proof-of-concept phase.

In addition to streamlining the certificate effort further, the Net Partners agreed to share international contacts and loss control information openly. The partners also agreed to use industry standards when exchanging loss run information and to allow Sun's risk management department to access adjusters' notes. These latter functions were not provided over the Internet, although the intent is to move them to the Internet when the security concerns are satisfied. Finally, the partners agreed to make a “memorandum of insurance” available on the Internet to satisfy routine requests for confirmation of coverage.

The results of this effort, which began in January 1996, were reported at the RIMS Annual Conference in April. The project participants concluded that their initial efforts were successful. As an example, during a normal renewal cycle, Sedgwick would routinely provide some 400 certificates. By mounting the memorandum of insurance on the Internet, that volume dropped to less than 100—a 75 percent reduction.

The participants in this initiative are satisfied that it is meeting Sun's goals of reducing paperwork, increasing efficiency and improving the accurate and timely exchange of information. Achieving these goals required selling the project internally, resolving information control and access questions with Sun's information technology department, negotiating procedures with trading partners and addressing the internal and external risks of Internet security, communications standards and protocols. Because the needs of Sun's risk management department are not unique, its experience is a good example of what risk managers can expect as they become exposed to the Internet and the electronic commerce arena.

The Internet has also proven to be a catalyst as well as a facilitator. Meeting documentation is an example. Because the project participants

travel extensively, we could never hope to distribute meeting notices or minutes in a timely fashion using normal mail, courier or fax. However, with Internet e-mail, we don't worry about locations or schedules and we can assume that all participants will have equal access to the information.

We are aware of some other electronic commerce initiatives in the risk and insurance management community. For example, Alexander & Alexander is now offering "Access A&A," which allows risk managers of client companies to access public and private information over the Internet. In addition, a number of major vendors are offering risk and insurance solutions to customers.

Several conclusions can be drawn from these developments. First, the pace of change has increased and this new pace has forced systems to become considerably more open. Under the belief that developing proprietary solutions to customer needs offered competitive advantages, brokers and insurers have been offering loss and policy information to

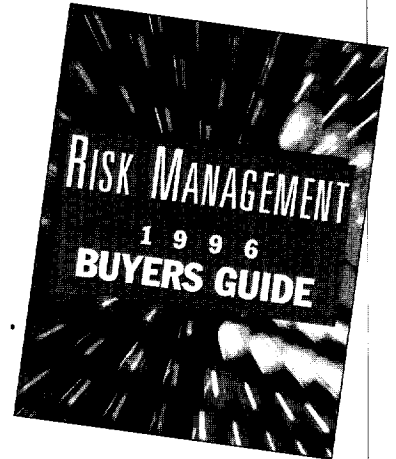
risk managers in exclusive formats. Similarly, a number of insurers have been providing dedicated terminals to agents for years. It is now clear that the future of such systems is extremely limited. What was once an advantage is rapidly turning into an impediment to doing business.

It is also clear that leading risk and insurance professionals are taking initiatives unilaterally, without waiting for industry bodies and others to provide solutions. This growing demand for electronic communications and commerce is a welcome change from the passivity of the past.

Finally, the Internet has allowed users at all levels—operational, managerial and executive—to understand that information can be readily available, with or without the support of systems professionals. Although issues such as security and data integrity are important, they can no longer be used as excuses for inaction by systems providers. Users recognize now, more than ever, that they have choices, and they will continue to exercise them. The difference now is that doing so looks strategic. And it is. RM

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