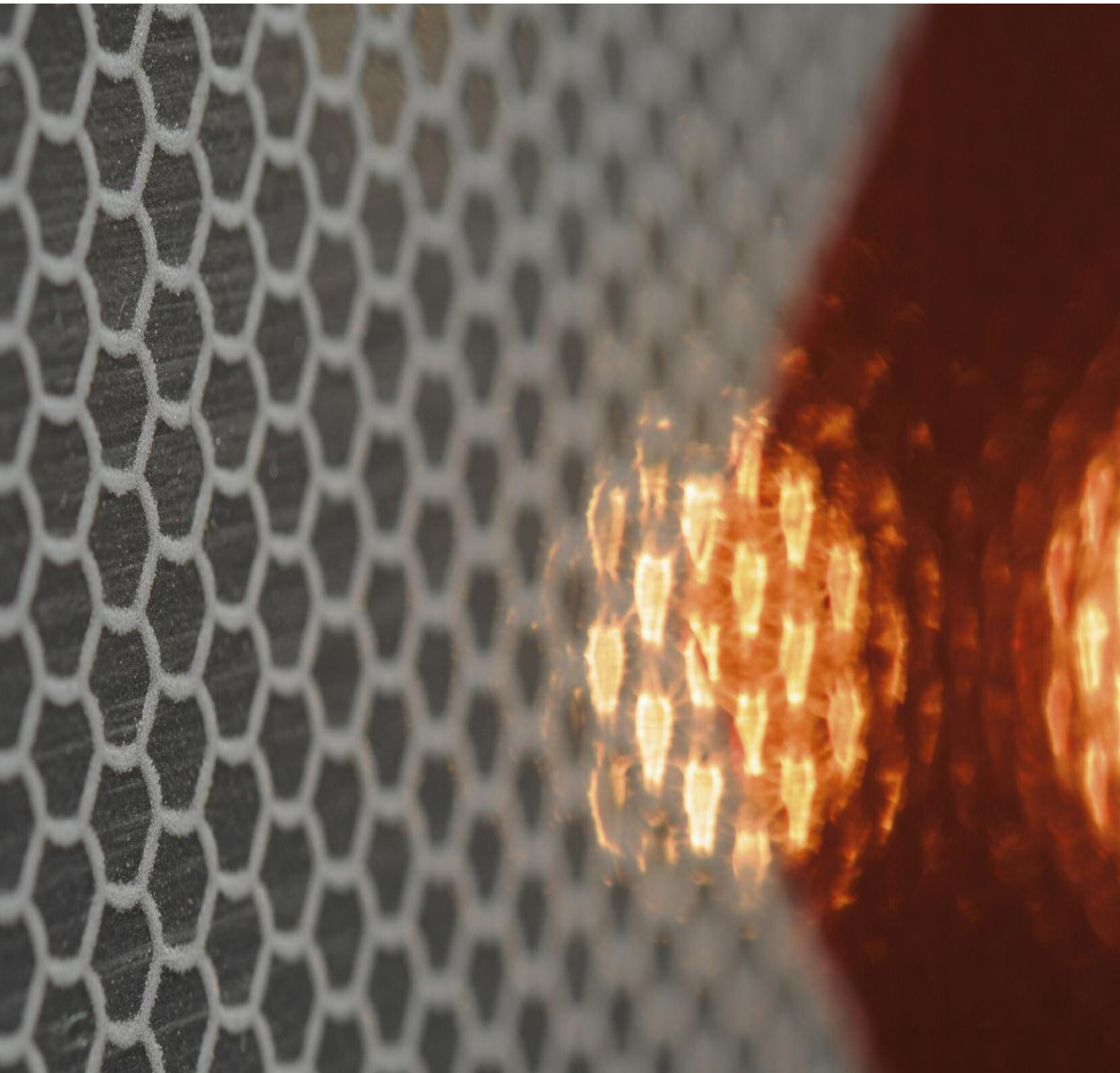
Institute of Insurance Economics

University of St.Gallen

Market survey on the potential and market acceptance of an electronic platform to facilitate (re)insurance administration

The "Rüschlikon Initiative"



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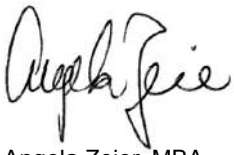
Preliminary Remarks

The data-intensive nature of the (re-)insurance industry, coupled with an ever-widening array of information granularity and data exchange requirements, accentuate the need for efficient digital communication in this industry, both within and between firms. Today, intercompany transactions are characterized by mostly unstandardized data exchange through point-to-point networks or the exchange of spreadsheets. The people- and paper-intensive character of reinsurance transactions has high potential for standardization and digitization.

The Rüschlikon Initiative is a joint industry project sponsored by ACORD, Aon-Benfield, Munich Re, Scor, SWIFT, Swiss Re, and Willis, all of which recognize the need for a platform to automate post-placement transactions. The project intends to move accounting and settlement communication processes onto the new SWIFT insurance services platform, using ACORD standards. The SWIFT service as thus conceived will validate structured ACORD messages against standards defined by the rulebook and also enable the exchange of unstructured document attachments. By transitioning post-placement reinsurance administration to a shared platform and using ACORD standards, the members of the Rüschlikon Initiative aim to achieve greater efficiency, process, and data certainty, as well as increased speed and quality, while simultaneously decreasing costs.

The founding members of the Rüschlikon Initiative gave the mandate of testing market acceptance of this platform to the Institute of Insurance Economics at the University of St. Gallen, Switzerland (I.VW-HSG). The study involved a standardized survey, along with phone interviews of managers of cedents, brokers, and reinsurers, most of whom in reinsurance functions, but respondents also included those engaged in underwriting, operations, and finance functions. The survey inquired about market participants' perspectives on feasibility, costs, and benefits, as well as overall strategic acceptance. The aim of the survey was not to provide a detailed technical analysis but to gauge how well the platform would be accepted at operational, financial, and strategic levels. Respondent opinions thus not only offer valuable insight into drivers and caveats of the Rüschlikon Initiative, but also allow drawing conclusions about the status of standardization and digitization in the industry in general.

We express our sincere appreciation to all participants of this study, particularly to the experts, who provided valuable insights through interviews.



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1. Management Summary

Survey findings illustrate that current intercompany reinsurance administration is both people- and paper-intensive. Although some electronic data exchange takes place, most communication is characterized by a low degree of standardization and digitization. Data are primarily exchanged by means of spreadsheets via electronic mail; reconciliation and payment are done manually. Within this context, market participants endorse the Rüschlikon Initiative's proposal on a strategic level by recognizing the long-term potential of digitization and standardization. The market also sees the cooperation between leading reinsurers and brokers as a specific strength of the Rüschlikon project.

Participants foresee a wide range of general benefits stemming from the project. Most agree that the service of providing electronic transmission of technical, financial, and claims data yields most potential. Thus, survey respondents confirm the validity of the focus and benefits of the Rüschlikon Initiative.

The main challenge the Initiative faces is to turn this strategic, theoretical acceptance into commitment and membership. Potential participants need to be convinced that the Initiative is not only technically feasible but that it will provide tangible savings through increased efficiency, speed, and reduced costs. The Initiative will therefore need to address questions related to operational complexity and proposed cost, make the benefits more obvious, and take into account differences on many fronts among cedents and geographic regions. Moreover, signing up enough members initially so as to create a critical mass as well as raising awareness of ACORD standards and SWIFT insurance services are challenges.

Perspectives, awareness, and technical characteristics vary among cedents in particular and among regions in general. Cedent perspectives are potentially more heterogeneous than those of brokers and carriers due to a wider range of transactional volume and operational characteristics. Certain broker markets, for example, the London market, are more aware of ACORD standards and intercompany data exchange than are the more direct continental European markets. In addition, software, standards, and banking transaction procedures in place differ by region due to different market characteristics.

The survey findings reveal a variety of operational issues. Many cedents' operating systems are the result of many years of evolution and changing them is viewed as difficult, even if desirable. Cedents thus consider infrastructure variety to be a major roadblock to electronic exchange. However, brokers and reinsurers are generally more confident in this regard, arguing that infrastructure variety can and should be overcome by agreeing to standards.

Respondents rate the present cost scheme as unattractive, for a number of reasons. Volume and initiation costs driven by operational complexity and a low degree of integration and standardization are the most important criteria for the evaluation of costs against benefits. The findings, however, also illustrate that financial attractiveness is significantly correlated with transactional volume and internal capability.

Although survey participants endorse general benefits and proposed services, the majority are critical of the overall feasibility and attractiveness of the Initiative. This view is driven by limited volume, other priorities, a lack of resources, and perceived operational complexity. In addition, most respondents perceive reinsurance carriers to benefit most from the proposed solution. However, the survey also shows signs of interest in the Initiative among cedents with considerable transactional reinsurance volumes or a strategic interest in standardization and electronic exchange.

2. Rüschlikon Initiative

The Rüschlikon Initiative is a joint industry project sponsored by ACORD, Aon-Benfield, Munich Re, Scor, SWIFT, Swiss Re, and Willis. The project found its genesis in an industry conference in September 2007 at the Center for Global Dialogue in Rüschlikon, Switzerland. Conference participants discussed that a joint messaging hub for electronic reinsurance administration is conceivably the most efficient way to implement common standards, as it guarantees central version management, harmonized processes, and a secure connection to all members. The Rüschlikon Initiative is a not-for-profit venture with the aim of introducing a common market standard for the benefit of all market players. SWIFT[1], the global banking platform, provides the secure network and the routing service, including quality checks. ACORD[2], the insurance standards organization, provides the standard forms (XML messages) for accounts and claims and for further data as needed.

The Initiative aims to achieve the following benefits for its members:

- Higher efficiency through the elimination of redundant data capturing and better data quality
- Process certainty through commonly agreed upon rules and performance standards
- Data certainty through the mapping to a single market standard (ACORD XML)
- Process acceleration through automation and reduction of exceptions
- Smoother cash flow and reduction of unallocated payments

The Initiative's goals are digitization, standardization, and acceleration of the administrative processes that occur after completion of reinsurance placing. (Reinsurance placing itself is outside the scope of the project.) The first phase of the project will involve setting up a central messaging hub through which reinsurance accounts and claims information can be transmitted and acknowledged; the hub will serve as a secure routing and validation device. Later phases of the project envision extending the service to other processes and data, including, for example, processing payments and exchange of contract details and risk data.

The Rüschlikon Initiative employs existing components where appropriate and works with established partners. Such an approach ensures that existing benefits of know-how and infrastructure are preserved to the greatest extent possible, while developing new solutions where necessary. The cornerstone of the Initiative is to foster industry standards that will facilitate electronic exchange through a shared hub.

The central messaging platform operated by SWIFT is in production and used by the founding members since September 2009. The platform is open to further market players even during the pilot phase which will last until April 2010.

Processes in scope of the Rüschlikon Initiative

The Rüschlikon Initiative is focusing on administrative processes which have the highest potential for standardization and are neither subject to strategic differentiation between market players nor in conflict with anti-trust laws. Currently, these are the process steps related to (re)insurance accounting and claims handling (Figure 1). If successful, an extension of the hub services to standardised policy and exposure data is conceivable.

1 Society for Worldwide Interbank Financial Telecommunication.
2 Association for Cooperative Operations Research and Development.

2. Rüschlikon Initiative

It is the conviction of the initiators, that the network of point-to-point connections would soon become unmanageable and the variety of standards and processes used would go against the goal of harmonization and efficiency if the transmission of electronic data is left to bilateral agreements between single market players (Figure 2). They believe that a good coverage of the market and efficiencies of scale can be better achieved by the establishment of one or a few central platforms run by the industry.

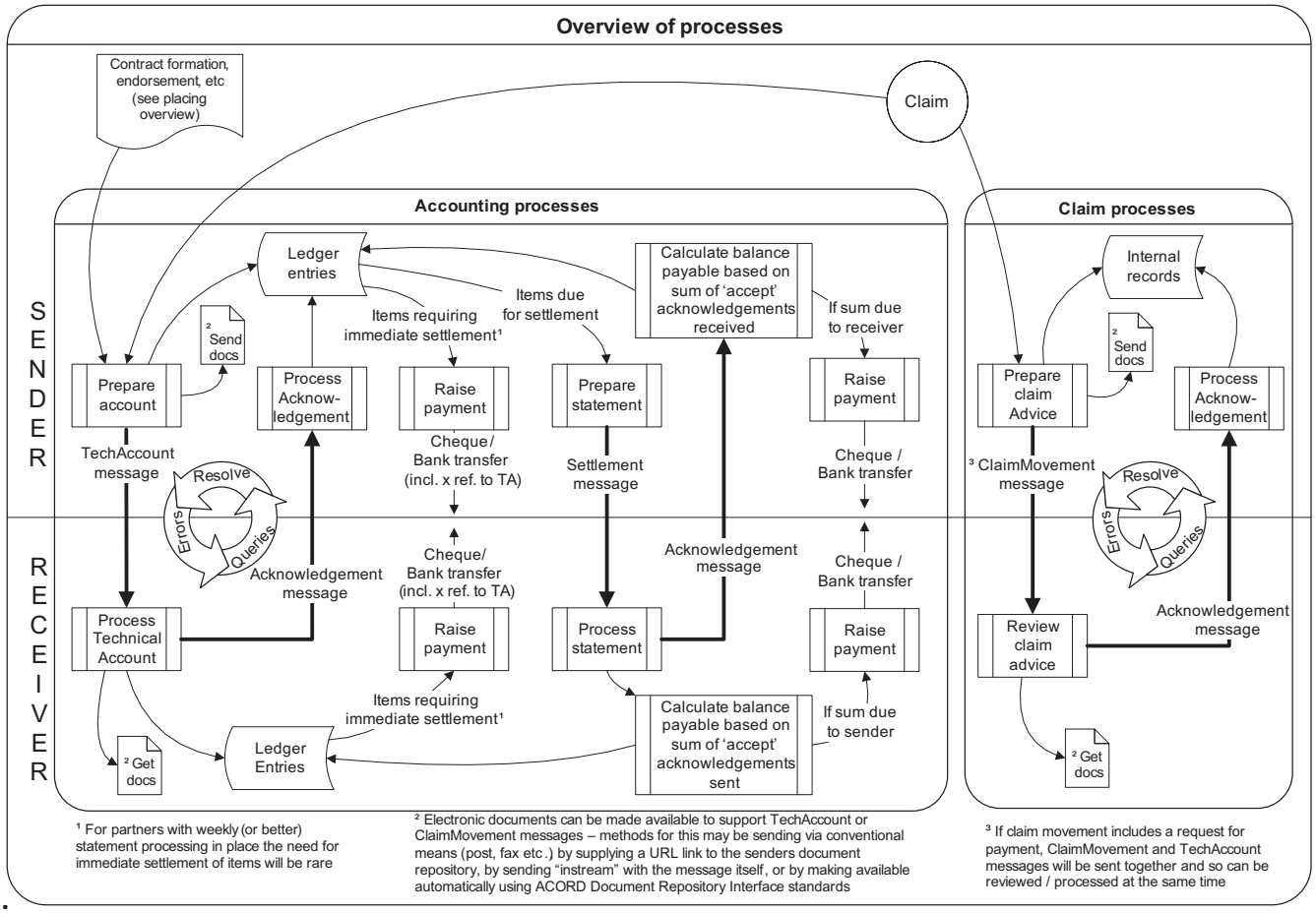


Figure 1: Processes in scope of the Rüschlikon Initiative; © Acord

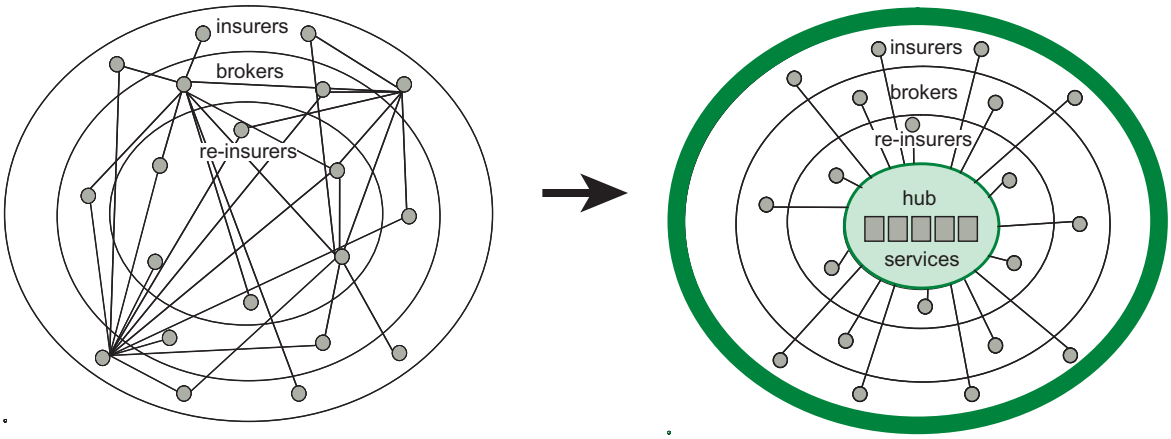


Figure 2: Undesirable versus target situation

3. Survey

3.1 Study design

The purpose of the survey was to test market acceptance of the Rüschlikon Initiative, and thus it was designed around three cornerstones (Figure 3). The first cornerstone is feasibility. We focused on discovering which tasks and processes currently involve considerable time and effort and hence yield most potential for the Initiative to encompass. The survey also covered what infrastructure systems market participants use, to what degree ACORD standards are known and implemented, and how banking transactions are organized. The second cornerstone of the survey has to do with how attractive financially, based on cost and benefit considerations, the project is perceived to be. Ultimately, being a long-term project, the Initiative needs to be accepted and understood on a strategic level; thus, strategy is the third cornerstone. Therefore, the survey also assessed the degree of general acceptance toward the idea of electronic exchange and industry data standards.

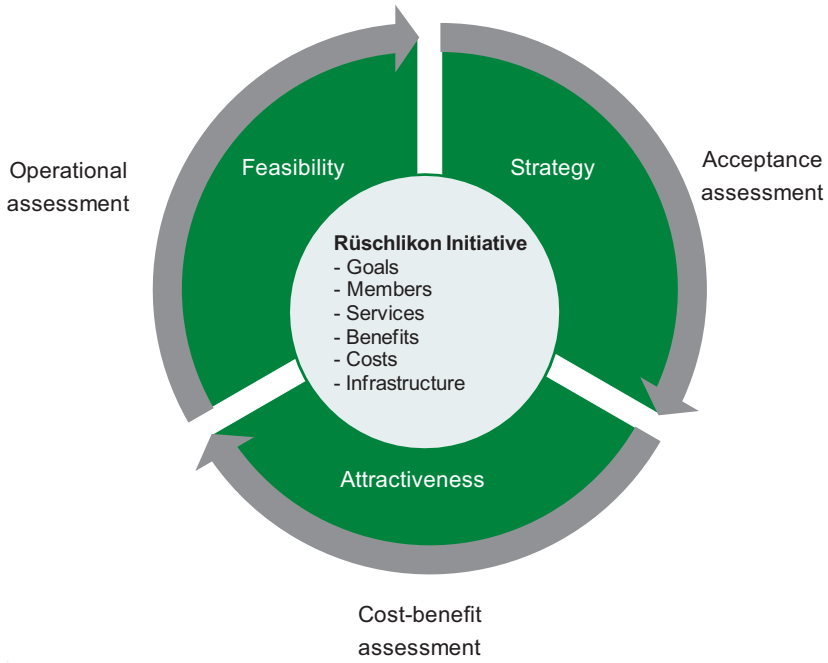


Figure 3: Structure of the study

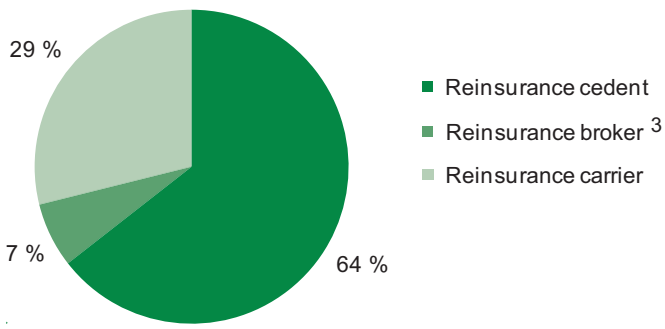


Figure 4: Respondent perspective

3 Broker respondent count is limited. However, the perspectives of the relatively few respondents account for a considerable market share of approximately 40-50 %.

A combination of a standardized survey and personal interviews was chosen so that the survey would collect not only the opinions of a broad spectrum of market participants, but also the views of experts, some of which are quoted below. An online survey was conducted from June 1 to July 3, 2009; the phone interviews took place between July 3 and August 14, 2009.

3.2 Participation

The findings represent the perspectives of participants from 39 companies. Respondent views represent insurance cedents, brokers, and reinsurance carriers, most of whom are active in reinsurance functions, but several of whom are engaged in accounting, underwriting, and other functions (Figure 4). Eleven telephone interviews were conducted to complement the findings from the standardized survey. The majority of participants are from Europe.

Figure 5 portrays the percentage of respondents by transactional volume. Although not statistically representative due to small sample size, it is characteristic that carriers and brokers on average transact larger reinsurance volumes than cedents. The survey also includes the views of some primary insurance companies offering reinsurance functions. The volume of run-off reinsurance covers are of interest due to the administrative transactions involved. As the Initiative targets administrative aspects of reinsurance transactions, the focus is on transactional rather than premium volume.

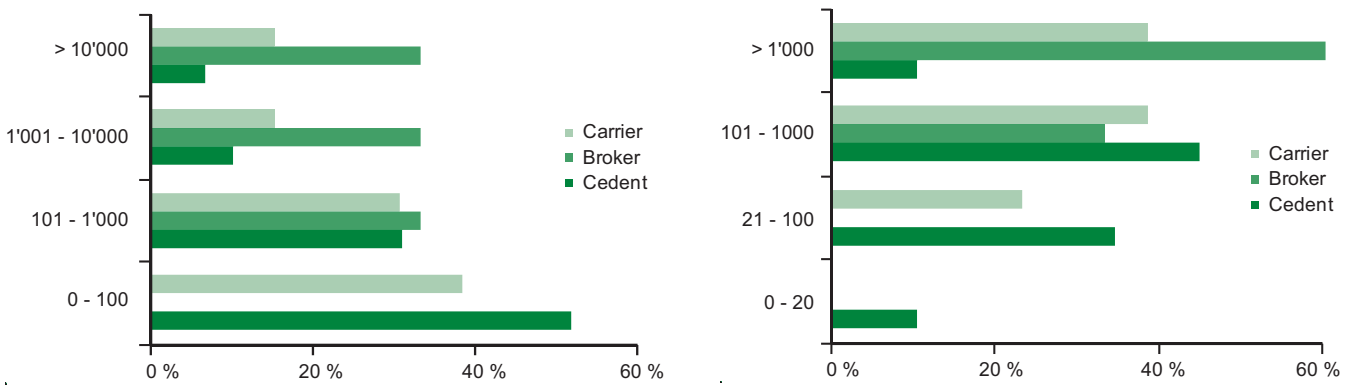


Figure 5: Number of reinsurance contracts by respondent perspective (in run-off left, current reinsurance covers right)

4. Findings

4.1 Feasibility

Reinsurance tasks that involve considerable time and cost

To identify processes with potential in the context of the Rüschlikon Initiative, survey participants were asked to name the most time- and cost-consuming tasks with regard to reinsurance administration. These were then sorted into the following categories.

- Technical and financial account processing involves tasks such as issuing and booking of accounts, payment matching, payment monitoring, payment collection, and other general settlement and closing activities.
- New business and renewal administration includes tasks such as preparation activities, wording issuance and administration, and endorsement handling, as well as negotiation and placement.
- Claims administration entails all claims-related tasks, such as administering loss notifications, loss reporting, and settling, paying, and collecting claims payments.
- General administration encompasses entering data, processing commutations, printing, scanning, filing, and handling correspondence, and reporting. General administration forms a separate category because it cannot always be attributed to one of the other categories.
- Other tasks mentioned by participants are meetings, catastrophe modeling, exposure management, merger and acquisition activities, budgeting, and controlling.

Thirty-two percent of the comments relate to technical and financial account processing, 23 % general administration, and 18 % new business and renewal administration. Claims administration and other tasks account for 13 % and 14 % of responses, respectively (Figure 6). The combined dominance of tasks related to technical and financial accounts processing as well as general administration confirms the appropriateness of the Rüschlikon Initiative's focus. By initially targeting technical and financial account processing, the Initiative concentrates on the processes in which market participants invest considerable time and effort. Also, the frequent mention of general administrative tasks indicates that these are people- and paper-intensive processes with great potential for efficiency gains by means of standardization and digitization. Discussions with industry experts show that current intercompany communication is relatively labor intensive due to a low degree of standardization and automation. Financial and technical account details, for instance, are exchanged primarily by sending spreadsheets via email or through point-to-point networks. Upon receipt, spreadsheets and respective payments are validated and initiated mostly by hand.

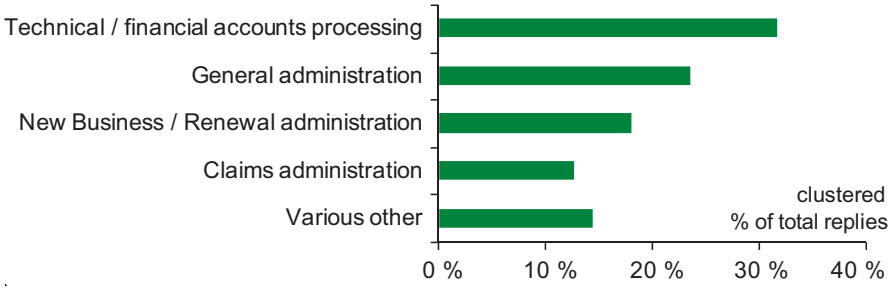


Figure 6: Which are the 3-5 most time- and cost-consuming tasks for your company with respect to reinsurance administration?

Primarily it was the cedents who indicated that reinsurance administration also entails considerable time spent on tasks related to new business and renewal administration. In other words, reinsurance administration is influenced by preceding steps in a cedent's operational value chain. Consequently, new business and renewal administration influence the organization of reinsurance administration. "Cedents operate a different business model with a focus on new business and renewal activities, usually with large administrative teams working in the background. Processes and infrastructure related to the handling of reinsurance only gradually developed over time. The degree of internal integration is therefore limited," explains a cedent. Overall, cedents consider a broader range of reinsurance tasks to be very time- and cost-consuming compared to carriers and brokers.

The time and effort spent on reinsurance claims administration vary by market participant, depending on the structure of reinsurance. Capacity strategy, deductibles, limits, and the nature of the portfolio influence the share of transactional volume that involves reinsurance claims administration. Experts point out that claims-related processes are similarly, if not more, labor-intensive than technical and financial account processes due to a greater volume of unstructured document attachments.

Which reinsurance tasks offer most potential within the framework of the Initiative?

- Survey results confirm the validity of the Initiative's initial focus on technical and financial account processes.
- The current process is people and paper-intensive and in turn has potential for improvement by means of standardization and digitization.

ACORD

What are XML messaging formats?

XML Extensible markup language that permits information systems to share structured data via the Internet.

What is ACORD Insurance XML Messaging?

ACORD Insurance XML (AIXML) is a system of consistent, standardized, and interoperable messages that supports specific business functions across all sectors of the insurance industry. This type of approach is commonly known as a service oriented architecture or SOA. Unified XML Messaging is the term used to describe the insurance standard that supports the messaging component of SOA.

Within ACORD there are three main noninteroperable business payload XML standards: Reinsurance and Large Commercial (RLC), Property & Casualty/Surety (PCS), and Life, Annuity & Health (LAH).

Frequently quoted standards

What is CRESTA?

CRESTA is an organization established by the insurance and reinsurance industry in 1977 as an independent body for the technical management of natural hazard coverage. CRESTA aims to establish a uniform and global system of electronically transferring aggregated exposure data for accumulation risk control and modeling among insurers and reinsurers. Source: http://www.cresta.org

What is ISO?

ISO, the International Organization for Standardization, is the world's largest developer and publisher of international standards. Source: www.iso.org.

What is RMS?

Risk Management Solutions, Inc. (RMS) provides products and services for managing catastrophe risk. Source: http://www.rms.com

Infrastructure systems

"The integration of internal infrastructure systems has only slowly progressed in recent years despite many efforts undertaken. It is therefore difficult to implement standards internally, let alone externally. On the other hand, if we look back 5–10 years, we have come a very long way."—Cedent

Market participants named a variety of different internal and external infrastructure systems for financial and operational reinsurance administration. Some companies use systems supplied by global or local vendors, while others developed proprietary systems. Variety is not only driven by different infrastructure systems, but also by different internal implementation strategies. This means that companies with the same infrastructure system do not necessarily operate alike. In addition, cedents in particular are prone to have operating systems that have evolved over many years, sometimes leading to difficulties in internal integration even such that, in the words of a cedent, the company "spent ages trying to find out whether a premium amount reported by one system actually reconciled with the premium amount reported by another system."

The impact of this variety is perceived differently by different market players. Cedents consider infrastructure diversity to be a major roadblock to electronic exchange; brokers and carriers are generally more confident arguing that the problem can be overcome by agreeing to standards and by mapping. In fact, standards are even more necessary in the absence of integrated internal systems. Standardization and mapping could thus deliver savings on both fronts, externally and internally.

Which infrastructure systems are currently used, how is variety perceived to impact electronic exchange?

- Market participants operate with a variety of different internal and external infrastructure systems.
- Cedents in particular operate with a legacy of historically evolved operating systems and more often highlight issues of internal integration.
- While cedents consider infrastructure variety to be a major roadblock to electronic exchange, brokers and reinsurers are generally more confident, arguing that variety can be overcome by agreeing to standards and by mapping.

Standards

One important key to successful implementation of the Initiative is the use of ACORD standards as well as the availability of a mapping service. A majority of carriers (77 %) and brokers (100 %) is familiar with ACORD standards; 31 % respectively 67 % of these already use them (Figure 7). Cedents are somewhat less familiar with the standards; 38 % are familiar with them, of which 17 % already use the standards. Among those respondents working with ACORD, RLC is the most commonly used standard. Thus, the survey revealed a fairly low degree of awareness (and adoption) of the ACORD standards among cedents. Moreover, awareness and usage vary by region, with the London and Scandinavian markets generally being more familiar with ACORD than survey participants from Continental Europe.

Although work is in place in creating a framework to ensure interoperability, adopting ACORD standards implies aligning internal data elements with the ACORD standard layout. This process, which aims at standardizing business-to-business communication, is referred to as mapping. The majority of survey participants consider the availability of external mapping services and advice to use ACORD messages as important (Figure 8). Carriers and brokers assign relatively more importance to the availability of external mapping services than do cedents.

Market participants use a variety of industry standards. Cresta, ISO, and RMS were frequently mentioned, along with a multitude of other standards such as proprietary standards or standards provided by local insurance associations or software system vendors.

Electronic data interchange

Members of the Rüschlikon Initiative will need to be able to produce XML messages. While 54 % of all respondents attest to having some capability or having implemented the capability to produce XML messages, 41 % of cedents answered “do not know” to this question (Figure 9). Cedent responses are more heterogeneous, implying a wider range of technical capability and know-how among this group. Carriers and brokers, on the other hand, although manifesting different degrees of implementation, seem more congruent in their awareness of these messaging formats.

The survey and expert interviews revealed that data exchange is still primarily paper-based, usually with spreadsheets exchanged via electronic mail. Aside from XML messaging, a majority (59 %) of cedents do not have any other electronic data interchange (EDI) processes for their reinsurance transactions. Twenty-seven percent do use other EDI, such as Xchanging, SWIFT Re, or broker-provided systems. Fourteen percent

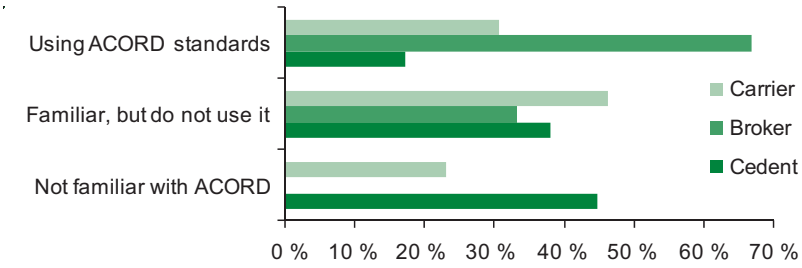


Figure 7: Have you ever considered using the primary or reinsurance data standards and forms by the ACORD insurance standards organisation? (Percentage by respondent perspective)

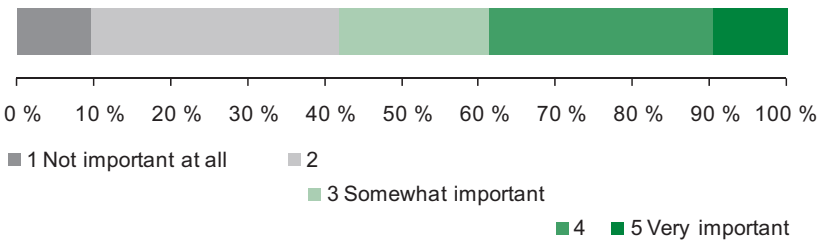


Figure 8: How important would you rate the availability of external mapping services and advice to use ACORD messages for your reinsurance transactions?

answered that they do not know. Similarly, 54 % of carriers do not use any other EDI; 46 % use the systems mentioned.

How is data currently exchanged?

Which messaging formats are known and used?

- While some electronic data exchange is in place, current intercompany communication is generally characterized by a low degree of standardization and digitization. Data is primarily exchanged by means of spreadsheets via electronic mail.
- Results imply a heterogeneous cedent market in terms of technical capability and know-how of XML messaging formats. Carriers and brokers although manifesting different degrees of implementation seem more congruent in their awareness of these messaging formats than cedents.

Banking transactions

Most market participants process payment instructions and statements to and from banks through a direct interface with the domestic banking system (49 %) and/or by using a bank-provided system (38 %). Some have an established SWIFT connection (21 %) and/or use other connections (13 %) (Figure 10).

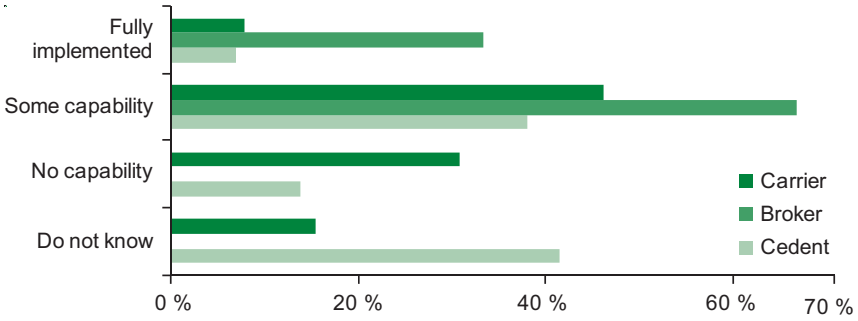


Figure 9: On a scale of 1-5 how would you describe your capability of producing XML messages for reinsurance transactions? (Percentage by respondent perspective)

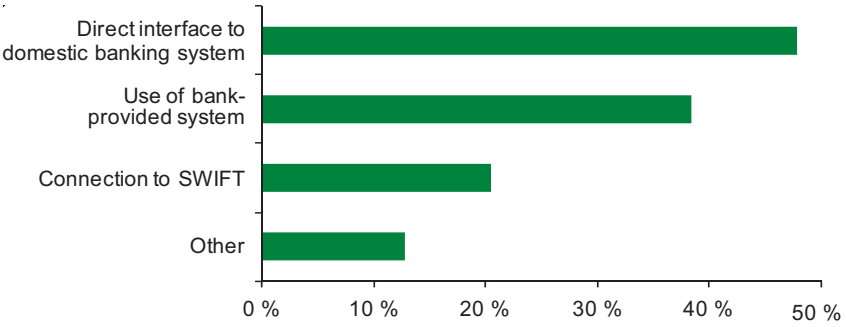


Figure 10: How does your company send and receive payment instructions and statements to/from your bank(s)? (Percentage of respondents)

How are banking transactions currently organized?

- Most market participants process payment instructions and statements to and from banks through a direct interface with the domestic banking system and/or by using a bank-provided system. Only some respondents have established a SWIFT connection.

Generic advantages and disadvantages of standardization

In the context of introducing standards and digitizing intercompany transactions, a number of survey respondents and experts raised some generic advantages and disadvantages of standardization. While decreased costs and redundancies along with improved speed and quality are widely accepted as major advantages, respondents simultaneously want to maintain flexibility and individuality. Some respondents were concerned about having to give up flexibility regarding internal process management as processes would have to follow a rulebook agreed upon with partners outside the organization. Some market participants raised reservations concerning the scope of information exchanged. One carrier argued, for instance, that primary insurers often forward more information than would be necessary by defined standards. Some survey participants also mentioned a potential sender-receiver problem where “two companies can both be ACORD compliant but still mean different things by the same set of data” (cedent).

Excursus: Standardization in the insurance industry is often discussed within the context of industrialization and, in fact, standardization has been identified as the essential requirement for further industrialization. Industrialization in this context means that processes are identically defined and performed throughout different steps of a value chain. Advantages of standardization in this context are increased routinization, interchangeability, and potential for automation, all of which facilitate both cost savings as well as exchanges with internal and external partners. Potential downsides of standardization can be an increase in bureaucracy, monotony, and a loss of flexibility. In other words, standardization comes with a tradeoff between cost and consistency on the one hand and flexibility and individuality on the other.

4.2 Cost-benefit considerations

"Defining and implementing standards is core to moving forward. Many realize that electronic exchange on the basis of standards technically works, but unfortunately, the benefits are not yet appreciated enough." —Carrier

Benefits that count most

Many survey respondents believe that the Rüschlikon Initiative promotes uniformity of processes (58 %) and easier and automated pairing of accounts, claims, and payments (53 %) (Figure 11). A significant share (44 %) also regard the reduction of paper-based processes to be a major benefit. Thirty-six percent appreciate that the Initiative supports faster cash flow; 28 % consider the implementation of one electronic connection and a general improvement of data quality to be specifically beneficial. An overall reduction of credit risk is expected by 19 % of respondents. Cedents attribute more benefit to a reduction of paper-based processes, while carriers consider easier and automated pairing, as well as a reduction of credit risk, to be relatively more beneficial. Overall, responses exhibit considerable variation, indicating a wide range of perceived benefits.

Pilot services providing most benefit

Although the participants recognize a relatively wide range of general benefits, their views on which initial pilot services would be most beneficial are more specific (Figure 12). A clear majority sees the highest benefit as the electronic transmission of technical and financial reinsurance accounts (67 %), as well as transmission of claims advices and movements (61 %). Thirty-three percent of the respondents regard the ser-

Benefits that count most	(% respondents)
Uniform reinsurance administration processes for all participating cedents, brokers, and reinsurers	(58 %)
Easier / automated pairing of accounts, claims, and payments through agreed upon referencing standards	(53 %)
Reduction of paper-based processes	(44 %)
Faster cashflow thanks to electronic response and automation	(36 %)
One electronic connection is sufficient to reach all participating market players	(28 %)
Improvement of data quality through reduction of manual data capturing	(28 %)
Reduction of credit risk through payment netting	(19 %)
Audit trail of reinsurance accounting transactions	(11 %)
Higher data granularity and information richness	(6 %)

Figure 11: Assuming the following benefits can be achieved through the SWIFT service, which three would count most? (1-3 answers possible)

Pilot services with most benefits	(% respondents)
Electronic transmission of technical and financial reinsurance accounts	(67 %)
Electronic transmission of claims advices / movements	(61 %)
Electronic response by message recipient (acknowledgments)	(33 %)
Electronic transmission of unstructured documents together with the payload (structured data in the message)	(28 %)
Validation of message header data by the SWIFT service	(6 %)
Reports on process performance (speed, number of queries)	(3 %)

Figure 12: Which SWIFT pilot services would provide the highest benefit? (1-3 answers possible)

vice of electronic response by the message recipient as beneficial. Twenty-eight percent, especially cedents, see benefits in the electronic transmission of unstructured documents. Overall, though, cedent, broker, and carrier perspectives do not differ significantly. The potential benefit expected from electronic transmission of technical, financial, and claims data confirms the appropriateness of the Rüschlikon Initiative's focus on this aspect.

Future services providing most benefit

Respondents were asked to evaluate which future services would provide the most benefit (Figure 13). The range of responses is relatively wide. Potential future services that many participants rate as particularly beneficial include electronic transmission of risk data (42 %) and initiation of payment and allocation through the same service as for accounts (39 %). Compared to carriers, more cedents are interested in the electronic transmission of closing and contract details, whereas more carriers rate the validation of message payload by SWIFT to be of future interest. Thirty-one percent of the survey participants also see potential in multilateral netting . Other services, such as similar services for co-insurance, a central industry repository for documents, and a mapping service between own data and ACORD standards or parallel offline message service for non-SWIFT members, were of comparably less interest. Although cedents, brokers, and carriers differ somewhat with regard to the degree of importance they attribute to individual services, overall their perspectives are very similar and do not appear to be related to company role.

Future services with most benefits	(% respondents)
Electronic transmission of risk data (policy profiles, cat exposure data etc.)	(42 %)
Initiation of payments and allocation of incoming amounts through same SWIFT service as for accounts	(39 %)
Electronic transmission of closing / contract details	(36 %)
Multilateral netting of debits and credits between SWIFT members	(31 %)
Validation of message payload (data content) by the SWIFT service	(19 %)
Similar services for co-insurance processes as for reinsurance	(17 %)
Central industry repository for shared documents	(17 %)
Mapping service between own data and ACORD standards	(14 %)
Parallel offline message service for non-SWIFT members	(8 %)

Figure 13: Which potential future SWIFT services would provide the highest benefit? (1-3 answers possible)

Costs

The annual cost of using SWIFT insurance services is estimated at EUR 20,000 for cedents, EUR 80,000 for brokers, and EUR 200,000 for carriers, assuming an approximate volume of 10,000 transactions by cedents and 250,000 transactions by brokers and carriers. A majority of survey participants find this cost scheme unattractive (Figure 14), for various reasons. Volume and, consequently, economies of scale are the most important criteria in evaluating cost. The survey clearly shows that transactional volume and financial attractiveness are positively correlated. One reason for this is that participants take into consideration not only the service cost, but also the considerable expense of initiation. Hence, volume and initiation costs significantly influence time to payoff. Cedents were especially prone to mention the substantial cost of initiation due to the complexity of internal processes and limited system integration, but they also brought up negative experiences from similar initiatives. The feedback from market participants clearly demonstrates that implementation and maintenance costs are important considerations in addition to service costs. Some interviewees said that they would not change their unfavorable opinion of the cost even if the service was free. Some participants were uncertain about the definition of "one transaction[4]."

How are costs against benefits evaluated?

- The proposed cost scheme is considered unattractive for various reasons. Transactional volume and initiation costs are the most important criteria for the evaluation of costs against benefits. Particularly cedents are concerned about initiation costs driven foremost by infrastructure variety and a low degree of standardization.
- The complexity to measure process improvement complicates an evaluation of costs against benefits.

Furthermore, several experts pointed out that in contrast to initiation costs, improvements in administrative speed and quality are difficult to track because savings from process improvements are less transparent and more long-term than investment costs. Hence, a lack of process performance measurement, often as a direct result of low internal system integration, additionally complicates an evaluation of costs against benefits.

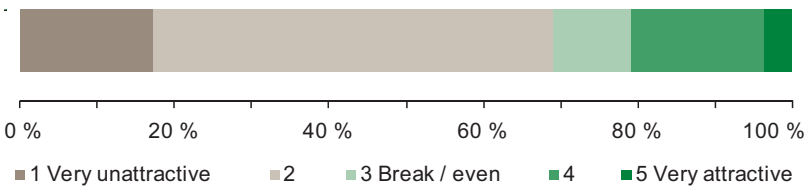


Figure 14: How would you rate your cost/benefit ratio on a scale from 1-5?

4 Refer to chapter 8 for a definition of one transaction.

4.3 Strategic acceptance

Overall rating of attractiveness

"Benefits clearly are uniformity and along with that cost savings."—Carrier
"Standards are definitely a must for companies to communicate with each other."
— Cedent

For many insurers, membership in the Rüschlikon Initiative would mean overcoming a number of operational issues, such as internal infrastructure variety, a low degree of process and data standards, and a lack of messaging capability. Ultimately, as one interviewee put it, "just transitioning existing paper-based processes into electronic databases will not work. A strategic view is crucial since digitization needs to be accompanied by recognizing the opportunities of integration and standardization" (broker). Moreover, as benefits are less transparent than costs, it is vital to the success of the Initiative that it be embraced on a strategic level. Many market participants (55 %) accept the core idea of the Initiative, which is to adopt uniform standards to enable electronic data exchange (Figure 15). Respondents recognize that uniformity would help reduce re-keying and errors and at the same time speed up administration. Overall, standardization and electronic exchange are considered promising ways of reducing costs. Twenty-six percent of the respondents consider the Initiative as something "nice to have," but not essential, as they believe that the market works well as is. For 16 % of the participants, the Initiative would provide no significant benefits; for one respondent, adopting standards is considered a step backwards.

Even though a majority of respondents believe that the Initiative's key goal is a worthy one or, at the very least, would be "nice to have," other priorities or a lack of resources pose considerable obstacles to actual membership in the Rüschlikon Initiative (Figure 16). In order to obtain the necessary internal resources, a very detailed and convinc-

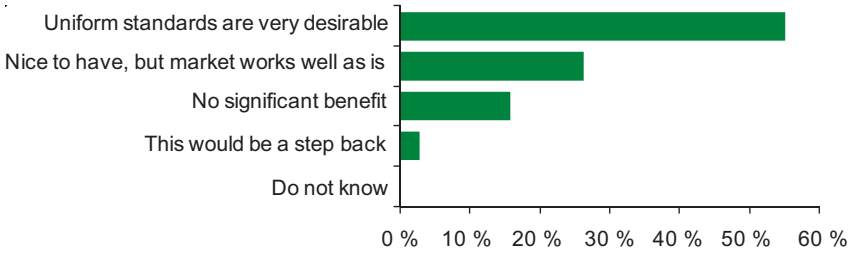


Figure 15: How would you rate your company's benefit if the reinsurance market agreed to use uniform data (and contract) standards worldwide?

Obstacles	(% respondents)
Other priorities / lack of resources	(56%)
Low reinsurance volume	(31%)
Past experience with failed initiatives	(25%)
Would wait until more members join the Initiative	(22%)
Lack of compatibility with other platforms in use	(19%)
Unclear or unattractive business case	(17%)
Lack of know-how to implement	(11%)
Solution not attractive without trading / placing function	(11%)
Other	(8%)

Figure 16: Which are the three biggest obstacles to join the Rüschlikon Initiative? (1-3 answers possible)

ing business case would have to be presented, says one cedent. The survey indicates that many respondents struggle to develop the necessary internal case with present information.

Reinsurance volume determines economies of scale and is a key criterion in evaluating the benefits of process improvement initiatives. Correspondingly, transactional reinsurance volume is closely correlated with participants' rating of the attractiveness of the Rüschlikon Initiative. Accordingly, for 31 % of respondents a low reinsurance volume constitutes a significant obstacle to membership.

Twenty-five percent of survey participants mentioned past experience from similar initiatives that failed as an obstacle. In the words of one participant, "the downside of the solution is all the necessary integration works to link internal systems and data with external ones. "Such mapping, however, has proven to be very difficult in the past" (carrier). In addition to complexity, respondents also point to previous technical difficulties and benefits that only materialize over the long term, in contrast to costs, which are incurred immediately. Yet, survey participants also emphasize scalable learning and capabilities derived from past experience. Hence, while for some survey participants experience with similar projects poses an obstacle, others rate the feasibility of the Initiative more positively due to know-how and capabilities gained internally.

One carrier noted that "60 - 70 % of the market needed to join for the Initiative to be attractive enough or even a must, especially from the perspective of smaller players." Similarly, 22 % of participants note that they would want to wait until more members join the Initiative. That same carrier as well as several other experts, however, rate the chances of success high, considering that the sponsors of the Initiative are among the leading reinsurers and brokers. On an operational level, reservations about joining early mainly stem from the desire to avoid initiation problems, but also are based on the fact that "a standard is only as good as its wide spread use" (cedent).

A lack of compatibility with other platforms, mentioned by 19 % of participants, is an obstacle chiefly due to the great variety of infrastructure systems and processes in place. Cedents in particular struggle with issues of compatibility. Hence, the mapping device and service are all the more important.

Some respondents, mainly cedents, refer to an unclear or unattractive business case (17 %) as well as to a lack of know-how (11 %). Consequently, these respondents have difficulties in assessing both the cost-benefit ratio and the technical implications of the Initiative. As expressed by one respondent, "the Initiative is not yet detailed enough to develop an internal business case and project plan. The Initiative should spell out in more detail which data, processes, and services are targeted" (cedent). Finally, 11 % say that the solution should include a trading and placing function.

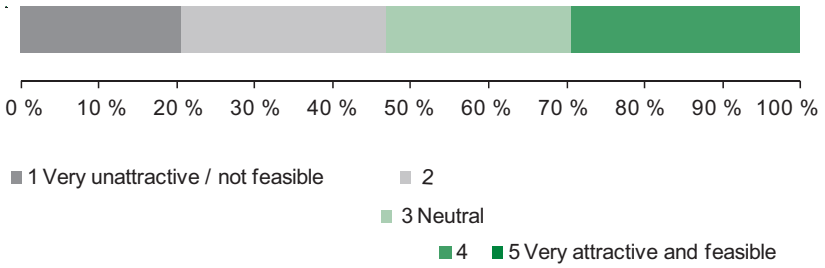


Figure 17: What is your opinion regarding feasibility and attractiveness of the Rüschlikon Initiative for your company on a scale of 1-5?

When asked for an overall rating, the majority of respondents are critical concerning the feasibility and attractiveness of the proposed solution (Figure 17). The overall rating is driven by transactional volume, operational and financial considerations. Similar to cost considerations, perceived attractiveness of the proposed solution is positively correlated with transactional volume. Overall, brokers and carriers rate the Initiative slightly more positively than do cedents. Furthermore, company internal technical capability have a positive influence on the evaluation of the Rüschlikon Initiative.

What is the overall acceptance of the Initiative?

- Overall, standardization and electronic exchange are considered to be promising opportunities to facilitate and digitize reinsurance administration and to reduce costs.
- However, the majority of respondents take a critical stance concerning the feasibility and attractiveness of the proposed solution. Limited transactional volume and financial considerations, other priorities, a lack of resources, and operational complexity are among the main criteria.
- Brokers and carriers rate the Initiative slightly more positively than cedents.
- Perceived attractiveness of the Initiative is positively correlated with transactional volume and technical capability.

4.4 Perspectives by company role and location

How the Rüschlikon Initiative is viewed depends significantly on company role and geographic location. However, respondent function is not an important determinant of participant views.

Company role has a significant influence on benefits attributed to the Rüschlikon Initiative. Most respondents agree that data aggregators of large volumes of currently unstructured data would be the main beneficiaries of the proposed solution. Reinsurers are therefore perceived as benefiting most, followed by brokers or carriers who process large reinsurance volumes. Cedents which typically process smaller reinsurance transactions are on average more critical. However, the survey not only shows signs of interest in the Initiative among cedents with considerable transactional reinsurance volumes but also among those with a strategic interest in standardization and electronic exchange. Also, the survey reveals that opinions among cedents are generally subject to greater variation than those of brokers and carriers, which is possibly explained by the wider range of transactional volume and internal technical capabilities among cedents compared to carriers and brokers.

Geographic location has an impact on exposure to both standardization and intercompany electronic communication. The London and Scandinavian markets, for example, are more familiar with intercompany data exchange. In these typical broker markets, the organization of intercompany communication, and hence standardization and data exchange, seems to have played a greater role. In contrast, although direct markets have also invested considerably in internal efficiency initiatives, intercompany commu-

nication has not yet been much emphasized. Consequently, infrastructure variety and EDI capability in the context of the Rüschlikon Initiative are a greater issue in such markets. These attribute more importance to infrastructure legacy and variety, the transmission of unstructured documents, and, in turn, internal integration tasks necessary to adopt the Rüschlikon Initiative.

Also, ACORD standards are more established in the London and Scandinavian markets, which can be explained by ACORD's stronger presence in these markets. Geographic location also influences what software packages are used, which standards are employed, and how banking transactions are organized. The survey shows, for instance, that payment instructions and statements are mainly sent through a direct interface to the domestic banking system and/or by using a bank-provided system.

How do perspectives differ by company role and location?

- Respondents widely agree that aggregators of large volumes of currently unstructured data would be the main beneficiaries of the proposed solution.
- The survey reveals that opinions among cedents are generally subject to greater variation than those of brokers and carriers, which is possibly explained by the wider range of transactional volume and internal technical capabilities among cedents compared to carriers and brokers.
- The survey shows a differentiation of perspectives, operational characteristics and awareness of ACORD standards based on geographic region.

5. Implications and major challenges

Based on information from our survey participants, we find that reinsurance administration is conducted by means of a variety of systems, processes, data formats, and standards. Data exchange is largely manual and paper-based, accompanied by a wide range of general administrative tasks such as printing, scanning, rekeying, filing, controlling, and reconciliation. This situation has a great deal of potential for improvement which the Rüschlikon Initiative aims to realize through the adoption of ACORD standards and electronic exchange supported by SWIFT. Respondents endorse the current scope of the Rüschlikon project because it offers promising solutions to their most pressing problems and time consuming processes. Participants see greatest potential of the Initiative in the electronic transmission of technical, financial, and claims data and the future possibility of electronically transmitting risk data, as well as the initiation of payments and allocation. Electronic exchange in regard to these processes based on standards is widely recognized as a promising long-term benefit. The market furthermore recognizes that the cooperation between leading reinsurers and brokers is a specific strength of the Rüschlikon proposal.

Time and cost savings are widely accepted as benefits of standardization and digitization and, hence, also of the Rüschlikon Initiative. Respondents widely agree that data aggregators, typically carriers and brokers, would be the main beneficiaries of the proposed solution. The Initiative therefore needs to make itself more attractive to market participants with limited volume in general and cedents in particular. Initiation costs also need to be addressed, as these are considered a major obstacle. However, the survey also shows signs of interest in the Initiative among cedents with considerable transactional reinsurance volumes or a strategic interest in standardization and electronic exchange.

The Initiative faces the following major challenges:

- addressing (perceived) operational complexity
- adapting the proposed cost scheme
- supporting potential partners to develop an attractive quantitative and qualitative internal business case
- attracting cedents to join
- reaching out to and communicating with stakeholders having different know-how, perspectives, and needs
- raising know-how and awareness of ACORD and SWIFT insurance services
- achieving a critical mass

The Initiative faces considerable competition for attention and resources from other projects being considered by respondents. The key to success, therefore, is to not only proving that the Initiative is technically feasible, but to go beyond and make its benefits transparent and tangible. As the survey confirms the validity of the Initiative's purpose and general benefits, the main challenge is to turn strategic, theoretical acceptance into commitment and membership. Potential participants need to be convinced that the solution is not only feasible, but that it will provide tangible savings through increased certainty, efficiency, speed, and reduced costs.

6. Management response by Rüschlikon Sponsors

The survey confirms the interest in electronic exchange and the validity of the Rüschlikon Initiative's purpose and strategic direction: to offer solutions to the most pressing challenges resulting from a largely manual and paper-based data exchange by a variety of systems, processes and data formats.

Key findings, which the Rüschlikon Initiative (the Initiative) will transform into concrete actions, include the need for promoting standards, addressing costs while highlighting benefits, and increasing attractiveness by functional enhancements going forward.

6.1 Promoting standards

The fact that over 50 % of respondents consider uniform data (and contract) standards in the reinsurance market as desirable is very encouraging and endorses the Initiative's collaboration with ACORD. However, the survey reveals a low degree of awareness and adoption of standards in some regions. The Initiative also seems to be on the right track with its focus on non-competitive, post-placement administration and information processes (closing, accounting and payments).

It is anticipated that marketing the Initiative will contribute to a broader understanding of ACORD standards and their value in continental Europe. Increased knowledge of the Initiative will also lead to a better understanding of ACORD data mapping and messaging formats, and recognition of the importance of data exchange in supporting reinsurance administration. This increased awareness is critical to assessing the operational capabilities and implications of the Initiative and estimating the business value of exchanging information via an industry hub.

6.2 Addressing the hub costs while highlighting benefits

The survey suggests that the current, proposed cost model is fairly unattractive to players, and that its financial attractiveness to new members closely correlates with expected transaction volumes. It is clear that the benefits of a messaging platform are more pronounced for players with large transaction volumes, e.g. high number of treaties and/or number of claims. The Initiative will therefore start to target main worldwide actors, i.e. major reinsurers, brokers and large multinationals, but also medium sized companies with large volumes of non-proportional claims with long settlement duration. It is recognized that first movers are also likely to be companies which already have some internal EDI capability.

In order to increase market penetration especially on the cedent side, the Initiative is working on the cost model. The Rüschlikon Group has agreed on a variable tariff with SWIFT with "per message costs" sinking in parallel to the overall market traffic on the network. In addition, SWIFT is considering opportunities for a reduction in start-up costs achieved by technical infrastructure hosted by so-called Service Bureaus, shared among several platform participants. This should contribute to relatively modest operational costs, comparable with similar networking services, and thus in line with expectations of parties interested to join the Initiative.

While the technical feasibility of the Initiative and the maturity of the ACORD standards are accepted by most respondents, the Initiative recognizes that tangible benefits need to be provided and explained in terms of anticipated improvements in process efficiency, speed, cost savings and overall management information. The survey shows that respondents are currently not able to give the Initiative priority over other projects com-

peting for resources – an indication that the Rüschlikon Group needs to strengthen its efforts to identify and sell the business benefits and to provide additional information which supports new players in their development of convincing business cases.

6.3 Increasing attractiveness by functional enhancements

Richness of functionality combined with market penetration and high volumes are key success factors for industry solutions. The Initiative intends to enhance the attractiveness of the Hub by adding services and functionality going forward. In this respect the efficient linking of accounting and payment processes will be the next step, leveraging SWIFT's historical role as the main payment platform for the banking industry.

The planned new ACORD Cat Exposure message standard could be another area to benefit from the capabilities of the Rüschlikon Hub in the near term.

7. Answers to frequently asked questions

What are the benefits for a ceding company?

- Same terminology, data standards and processes are used by all participating brokers and reinsurers, i.e. less need for clarification, inquiries and exceptions - Generally quicker responses from reinsurers for accounts, claims and settlements
- Reduction of paper management cost (less printing, mailing, filing and archiving)
- New workflow changes can be implemented internally (automated processes for bookings, payments, collection, monitoring)
- Easier/automatic reconciliation of reinsurance settlements and accounts in the cedent's business applications
- Technically, claims payments can be performed faster than with manual processes (effective payment date subject to contract terms)
- The SWIFT infrastructure and software can be used both for (re)insurance and banking processes
- One physical connection with the SWIFT hub connects you automatically to all participating companies in one go
- In principle, the same solution can be applied to in-house reinsurance with other entities or for co-insurance

What is different this time (compared to previous initatives)?

- The maturity of standards and technical solutions (internet!) is higher than during the times of, for example RINET
- We focus on non-competitive administration and information processes
- Exclusion of all quoting, placing and trading components which are by nature competitive and potentially in conflict with anti-trust law
- Avoidance of big startup investments – use existing data standards, message forms, interfaces and platform
- Choice of an experienced non-profit partner from the banking side: SWIFT
- Possibility for synergies between accounting processes and payments (leveraging of SWIFT infrastructure and software)
- Inclusion of leading brokers in the pilot team (Aon-Benfield, Willis)
- Structuring as open market initiative without access or exit restrictions and no hidden agenda

7. Answers to frequently asked questions

What is "one transaction"?

In the context of the pay-per-message business model of the SWIFT insurance services solution, a transaction is the same as an electronic business message. A business message can be a Technical Account (statement), a Financial Account (settlement), a Claims Movement or an Acknowledgment. The first three are usually sent by a ceding company or a broker, whereas the latter is a reply by the reinsurer.

It very much depends on the scope of a reinsurance contract (number of classes, number of currencies) and the type and size of incurred claims to determine the number of messages per calendar year that such a contract will require. For a typical proportional contract with one currency and two main lines, the cedent will have to produce 8 technical accounts (assuming quarterly statements) and for example 1 claims message in the first year. The reinsurer will send the same number of “business” acknowledgments. Financial accounts are not linked to specific contracts, and one message is sent for all payments due for each settlement period.

It should be noted that "application level” (or “level 3”) acknowledgement messages described within the ACORD ebot guide will not exist as such in Rüschlikon/SWIFT implementations, and will be replaced by automated responses from the SWIFT network, therefore these would not be chargeable.

Impact of internal infrastructure variety on adopting the Rüschlikon Initiative?

The exchange standard used by the Initiative (ACORD Reinsurance & Large Commercial standard) for the transmission of data is nowadays not widely used in (re)insurers' business applications. One of the initial tasks required for newcomers is to map their reinsurance accounts and claims advices to the standard ACORD accounting and claims movement data schemas. This is normally a one-off effort with only minor adjustments from year to year. If the data sender is sourcing the information from several systems with differing data standards, the mapping work would have to be repeated for each source. On the other hand, the familiarity with ACORD would allow to use this standard also for internal data exchanges and warehousing.

The Rüschlikon Initiative is working with several software vendors and service providers to develop and offer standard interfaces for ACORD messaging services (examples: SICSnt from CSC, FS-RI from SAP). Customers of such firms will therefore be partly relieved from integration efforts.

What is the advantage of being an early adopter as opposed to a late joiner?

- Stronger say in the shaping of the future development of the solution
- Special support by SWIFT and pilot members due to the small number of pioneers
- Possibility to use SWIFT infrastructure for other cost-saving processes (payments, securities trading etc.)
- Being part of an innovative pioneer group (hopefully fostering a positive image)
- Ability to choose best point in time for joining instead of being forced by the market later

Benefits for companies with limited volume?

First, it has to be noted that volume is not only a function of reinsurance premium and of number of reinsurance contracts, but also of claims frequency, which can be higher for small companies with low deductibles in their non-proportional reinsurance treaties. The benefits of the Rüschlikon Initiative are not fundamentally different for small volumes, but the proportion of one-off setup and integration costs against recurring benefits is of course less favourable. However, especially the potential benefit of getting a (claims) payment faster through the SWIFT hub than through traditional processes is at least as attractive for small companies as for large players.

What are the technical capabilities required?

The participant needs an ACORD compliant messaging gateway that can send and receive XML messages. Sometimes this capability is directly built into business applications. He must also be capable of transforming his internal data into an ACORD message, unless his vendor software does it automatically. These capabilities are nowadays widespread among insurance and reinsurance companies.

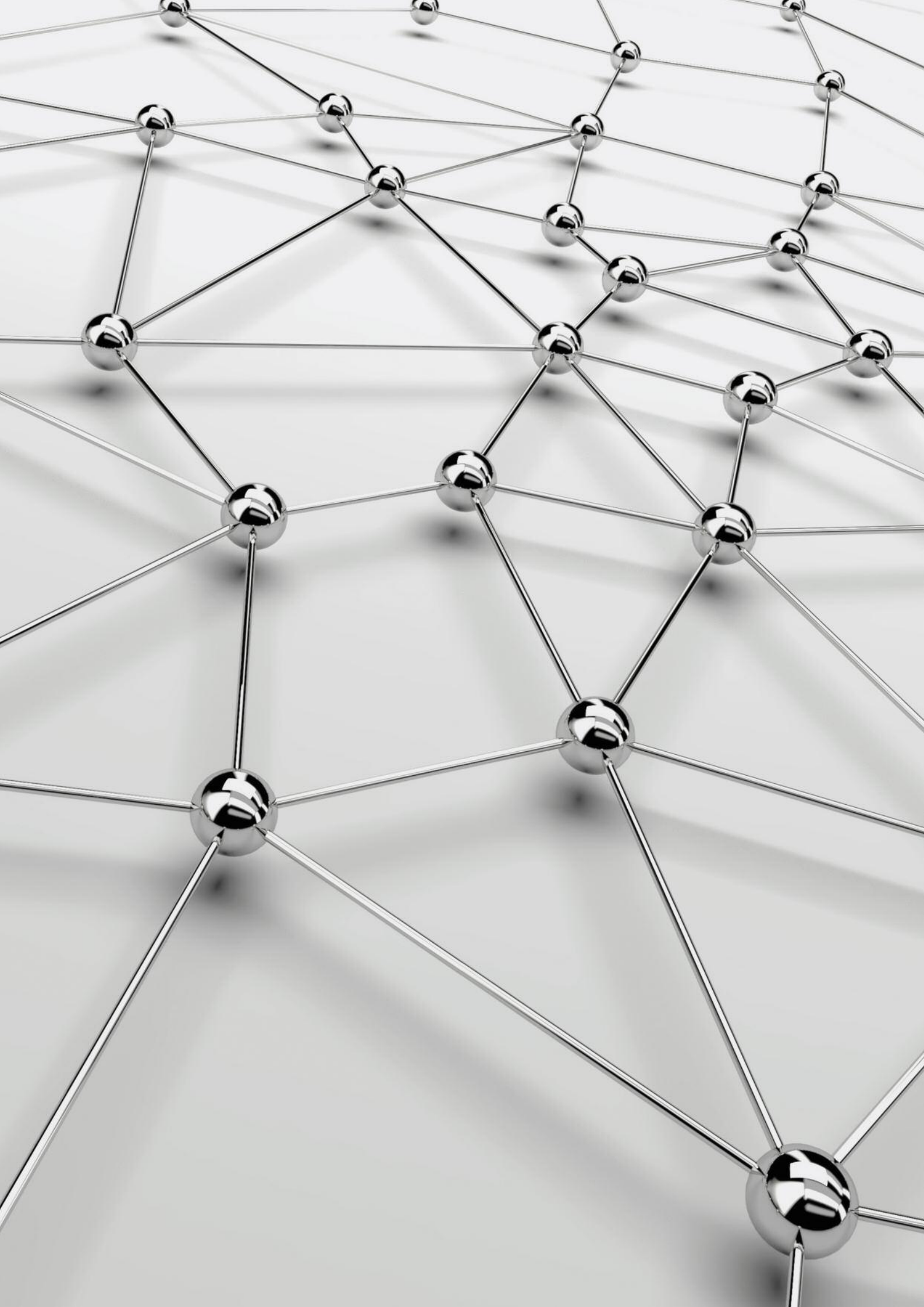
What is the experience of others who have adopted the Rüschlikon solution?

The Rüschlikon solution is in a pilot phase since May 2009 until April 2010 it is therefore premature to draw final conclusions. What can be said of companies that have used electronic ACORD XML messages with their partners on a bilateral basis is, that

- the need for pairing and reconciliation of accounts, claims and acknowledments has significantly decreased thanks to clear referencing and automated linking
- the number of queries and unallocated messages/payments has also clearly gone down due to the same reason and thanks to a common data language and standard
- the possibility to track and document reinsurance administration processes has been greatly enhanced due to the elimination of manual and paper-based process steps

Where can we obtain more information?

Information material can be downloaded from the website http://www.swift.com/solutions/industry_initiatives/insurance/index.page or queries can be made directly to the contact persons listed under chapter 8.



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