RI 3K

Food for thought

A lack of industry investment in implementing and developing eEndorsement services is threatening to take them off the menu, says **Robin Merttens**

Indulge me in an analogy. You live in a nice market town with a handful of restaurants – all family owned rather than branches of national pizza chains. You walk into one for the first time and ask for a menu. There is prix fixe menu, but you insist on ordering a la carte, you complain about slow service, eat three courses, have a bottle of wine and then leave without paying.

A week later you're brazen enough to return and the owner is good enough to serve you again. You make the same demands and again leave, this time paying just for service – and this goes on for several weeks. At some point, the restaurateur has to make a decision – probably to refuse you entry. If he doesn't, you should expect the consequences: poor service, indigestion, food poisoning, or worse – tofu.

It's a not a perfect analogy, but something like that is happening in the Electronic Endorsement space right now. The services required by the market to electronically endorse contracts are, with the exception of the Exchange itself, being provided by just a few small private businesses that are not getting the financial support required to cover the costs of implementation or to fund the additional development coming their way as the market identifies and refines its needs.

This financial squeeze is not just a simple case of penny-pinching by London brokers and carriers. It's caused by a combination of factors that are worth examining. If the situation continues for too much longer, it could provide a major risk to the success of the Endorsement initiative.

The London insurance market has such an acute fear of a technology revolution, or "Big Bang", that every initiative has to be called a "pilot" and proceed only in bite size chunks. History says that as soon as you position something this way, it suggests a trial or experiment entirely temporary in nature. This then defines the approach of those who participate in it – they treat it as "dipping a toe in the water". No one invests in, or pays significant fees for the provision of relevant technology and services in these circumstances.

This "pilot" is not positioned as part of anything strategic – there is nothing that defines in any detail what it is part of and where it might be headed. There is, of course, a sense that if it works for endorsements it will be extended into placements, but that's about it. The Future Process Model work suggested some requirements and characteristics of the technology and services required in the future. However, without any suggestions from the big brokers and carriers, Lloyd's, Xchanging or the market's representative bodies as to how they envision things in five years' time, the participants can't see it as part of a bigger picture and thereby cannot justify investment and costs.

There are also a lot of mouths

to feed, as endorsement messages pass through several pairs of hands. For instance, an Aon endorsement will pass through a gateway to RI3K's platform, where it is then passed to the Exchange, which in turn sends it on to another gateway or MMT at the carrier end. That's four providers and four sets of fees to pay – although the Exchange does not charge directly yet.

The problem of multiple suppliers is also the added complexity of handling and monitoring the messages. Four providers handling the messages means four potential points of failure and four organisations involved in remedying problems and re-sending messages.

Error handling and collaboration across multiple suppliers is difficult enough, but becomes even more complex when one has to co-operate with competitors. There is a history of sparring between proponents of peer to peer, application and hubs which, although dissipating, still remains as scar tissue.

While lip service is paid to the idea that there will be rigorous enforcement of ACORD standards, the truth is that some service providers have differing interpretations of the standards to others and rigidly enforce their interpretation on the rest of the market.

The experience of the Endorsement initiative has thrown up improvements, refinements and extensions that the practitioners have identified as necessary to facilitate usage and broaden adoption. These are designed by the Business Process Design Authority and prioritised by the Placing Support Steering Group, both of which are comprised of practitioners only and no suppliers. While all the best solutions are driven off the business requirements, insufficient weight is given to the voice of the Technology Standards Group, who have to deliver and fund solutions that are not always properly thought through, to timetables that they don't set.

The easy part is to set out the problems but it's less easy to identify the solution, let alone implement it. However, there are a few obvious steps that could be taken which would have far reaching benefits for all stakeholders.

> "Now that we have established a bridgehead we have to stop thinking in terms of pilots and baby steps"

Firstly, and most importantly, now that we have established a bridgehead, we have to stop thinking in terms of pilots and baby steps. The Electronic Endorsement initiative needs to be part of a coherent electronic distribution strategy for the market, and the leading players need to work on and publish such a strategy. It's just unrealistic to expect to sell the current pilot to the participants based on the almost imperceptible benefits that come without further investment or integration.

Relationships between suppliers are improving, not least because there is now more clarity around the roles that each service provides, reducing the potential for territorial dispute. Things would be even better if the strategic thinking referred to above could help frame the future requirement by identifying the role of central shared services and the technology that should remain proprietary.

Finally, I don't think the key suppliers to the Endorsement initiative want sympathy (we certainly don't), but we would appreciate greater sensitivity to the issues we face, and the resourcing and financing consequences of the decisions that are made, which would in turn create a much needed sense of collaboration rather than coercion.

Returning to our restaurant analogy – it would make me the maître d' at a smart modern restaurant in London with a sister branch in Doha, well trained staff and a rich proprietor to provide financial stability and the funds required to ensure we have the latest equipment and can scale to feed lots of mouths when we get busy. We are also lucky and grateful for the fact that all our customers pay our listed menu prices, even though they are more reflective of the high fixed cost of provision than the benefits of eating with us. But the restaurant needs more customers.

For those that do eat there it still lacks atmosphere. And the truth is that most potential customers won't even try it. While they see restaurants as an experiment, or a "pilot", they have no compelling reason to do anything but eat at home. If the status quo prevails for much longer, the restaurants will be replaced by a microwave and branch of Waitrose.

One final extension of the analogy – there may be more money to be made in reviewing restaurants than in owning them as witnessed by the fact that Ernst and Young (or should I call them Egon Ronay?) probably made more from providing a benefits report to the London Market Authority than any of the suppliers did for providing the technology for the initiative that was reviewed!

That's food for thought.

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