

To Be or Not to Be a B2B Actuary

AS ONE ACTUARY TO ANOTHER ACTUARY (A2A), WE'VE ALL BEEN EXPOSED to the hype and hysteria regarding the power of the Internet and how it would change our lives. Some of us may have been investors in the early stages of the Internet bubble when numerous initial public offerings excited and rewarded those souls brave enough to invest their hard-earned cash.

Some of us were directly affected when a number of insurance specialists (e.g., actuaries, underwriters, claims professionals) decided to join the innovative gold rush and develop insurance-related websites. Even if you didn't join the gold rush, recruiters offered you the chance to join five or six times.

Unfortunately, some of us were also exposed to the bursting of the Internet bubble when Internet portfolios dropped in excess of 90 percent.

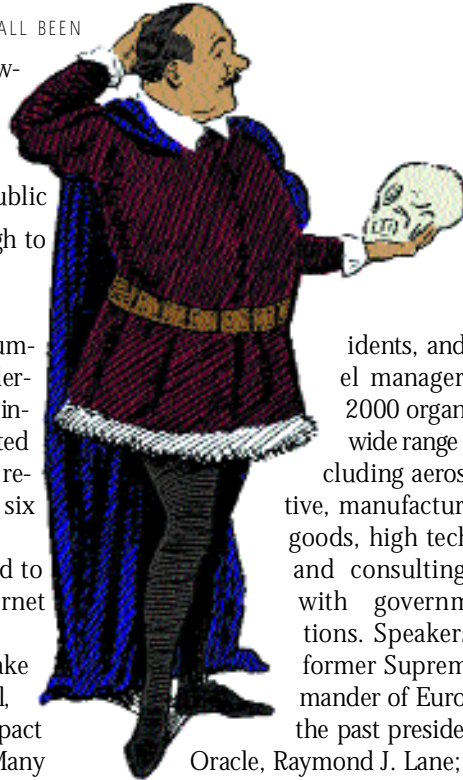
But even though Super Bowl commercials make fun of failed Internet companies, the Internet will, by all accounts, continue to have a significant impact on the way insurers and actuaries do business. Many actuaries already use the Internet to stay updated on recent news events (e.g., www.propertyandcasualty.com, www.ambest.com, www.casact.org, www.actuary.org, etc.).

We also use it to perform research, recruit college students and/or hire experienced professionals, advertise and communicate with customers, and control significant internal and external flows of insurance data such as losses, exposures, and broker submissions. Thanks to sources like CNBC, CNN_{FN}, and the *Wall Street Journal*, we have also become very familiar with Internet buzzwords such as application service provider (ASP), business-to-consumer (B2C), and business-to-business (B2B).

Although many property and casualty actuaries have limited exposure to the multiple facets of the Internet, we believe that we're in the early stages of a B2B revolution that will have a significant impact on our profession. Why else would actuaries be invited as panelists on the Supplier Advisory Council at EMarkets 2001?

EMarkets 2001 included hundreds of CEOs, pres-

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idents, and executive-level managers from Global 2000 organizations from a wide range of industries including aerospace, automotive, manufacturing, consumer goods, high technology, retail, and consulting firms, along with government organizations. Speakers included the former Supreme Allied Commander of Europe, Wes Clark; the past president and CFO of

Oracle, Raymond J. Lane; and executive-level managers from companies such as Dana Corp., Raytheon, Texas Instruments, Alcoa, and United Technologies.

Our experience with the Supplier Advisory Council leads us to believe that though the Internet and B2B commerce are still in their infancy, the actuarial professional should begin preparing now for its impact on the insurance industry.

According to recent estimates by Boston Consulting Group, B2B transactions will grow to \$2.8 billion in transaction value by 2003. In addition, one-fourth of all U.S. B2B purchasing will be done online by 2003. A number of other facts and projections further illustrate the power of the Internet:

- Four hundred million consumers are expected to be online by the end of 2001, up from 100 million in 1999. (Forrester Research)
- More than 80 percent of banks plan to sell insurance online by 2002. (Nextera Interactive)
- The insurance industry's e-business revenue as a share of total revenue was 9 percent for 2000 (*Information Week*), compared with 26 percent for the banking industry and 33 percent for other financial services. (eMarketer)
- The online insurance marketplace will grow from about \$1.9 billion (\$1.6 billion Net-influenced sales

and \$0.3 billion online sales) in premiums in 1999 to \$11.1 billion (\$7.0 billion Net-influenced sales and \$4.1 billion online sales) in premiums by 2003. (Forrester Research)

The B2B marketplace has dramatically affected all businesses and will continue to in the future. Its effect on the insurance business model is somewhat less certain at this stage, given the relative difficulty in applying this technology to the complex business of insurance. But we know that actuaries will face numerous challenges to assess the impact of B2B Internet commerce on individual insurer profitability and future growth. Notwithstanding this overriding issue, we believe the major B2B impacts on the actuarial profession will arise from:

► **A REVOLUTIONARY CHANGE IN THE INSURANCE DATA DELIVERY MODEL.** Numerous organizations are contributing to the adoption of a standardized framework for information sharing (e.g., policy forms, XML (exten-

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sible markup language)). These organizations include the Association for Cooperative Operations Research and Development (ACORD), the National Council on Compensation Insurance (NCCI), and the Insurance Services Office (ISO), as well as major insurance carriers, consultants, and B2B exchanges. The use of the B2B Internet exchange significantly enhances the transactional and economic efficiency of the insurance supply chain. These effi-

ciencies are directly related to the actuary's ability to rapidly access standardized data and analyze trends on a real-time basis.

► **CUSTOMERS OF INSURANCE COMPANIES USING B2B EXCHANGES AS A WAY TO NEGOTIATE AND PURCHASE INSURANCE COVERAGES.** A good example of a company directly impacting insurance purchasing is the B2B Internet company IE-Engine (www.ie-engine.com). IE-Engine is an application service provider of web-based procurement applications that allow companies to market and purchase group benefits online by automating the procurement process and standardizing requests for proposals (RFPs).

Deloitte & Touche currently works with IE-Engine and clients to issue electronic RFPs and to host reverse auctions. This process is already helping to create easier access to company benefits data, more standardized RFPs, increased competition, and lower payer margins for insurance companies (i.e., savings to the client).

► **AN INCREASE IN THE NUMBER OF REVERSE AUCTIONS FOR CONSULTING ACTUARIAL SERVICES LED BY B2B EXCHANGES.** A good example of a company directly affecting the professional services industry (e.g., audit and assurance, actuarial, human capital) is the Internet company FreeMarkets (www.freemarkets.com).

FreeMarkets creates B2B online auctions for buyers of industrial parts, raw materials and commodities, and professional services. The actuarial profession has been exposed to the FreeMarkets reverse auction process in a number of different bidding events. These events usually involve multiple bidders who interactively compete for the contracts online (or by phone) by submitting competing bids until the time for the event expires (or is halted by the client).

Unlike bidding for machine parts or raw materials, where the lowest bidder usually wins, the bidding event for professional services helps to stratify the bidders into multiple layers (e.g., low end of range, middle of range, out to lunch). A winner is then chosen by considering the bidders' final offered prices *in combination*

with each bidder's ability to staff, execute, and deliver the services outlined in the RFP.

► **INCREASED B2B INTERNET COMMERCE CREATING NEW AND UNIQUE TYPES OF INSURANCE EXPOSURES FOR INSURANCE COMPANIES.** We're all familiar with costly events such as the "I Love You" virus and teenage hackers breaking into "secure" company websites and stealing confidential information. Given that B2B Internet commerce is heavily focused on assisting companies in purchasing items such as industrial parts, raw materials, and commodities, it isn't that big a leap to imagine that a dramatic interruption in a company's B2B supply chain may result in a business interruption claim.

This exposure, although relatively small currently, will likely grow exponentially as companies increase B2B purchasing activity and integrate B2B Internet commerce into their supply chain. Insurers will be offering professional liability coverage to many organizations that developed B2B exchanges for businesses, or for businesses that built their own exchanges. These liability issues are still in legally uncharted territory, and actuaries need to be following future developments and trends in liability.

Given the dramatic growth estimates for B2B Internet commerce and the anticipated size of B2B transactions by 2003 noted above, it's critical that our profession begin to anticipate the impact of B2B Internet commerce. We not only need to understand a new terminology—such as "next horse," regular vs. aggregate lots, and index vs. near commodity bidding—we also need to understand the impact on the insurance industry.

A2A, we believe "The New Actuary" (*Contingencies*, January/February 2001) who leads the charge in getting involved with B2B issues will likely be the same actuary who's shaking the hands of new clients or gaining the respect of insurance company management professionals. So, as the Internet folks would say, "www.good.luck.in.the.new.internet.economy.com."