

# The growth of insurance and re insurance business commerce essay

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In ancient times, the fact that Malta has a strategic position at the centre of the Mediterranean has played a crucial role and nowadays, it is still playing a very important part in the development of economical, political and cultural aspects. When compared with the countries that joined the European Union in 2004, Malta has the most open economy and is regarded as an appealing country for the setting up of insurance and reinsurance businesses. Four years after joining the European Union, the Malta Financial Services Authority in its newsletter stated that, 'Not only have we emerged as a leading captive insurance domicile, underpinned by the best names in the insurance management business, but we are well on the way to becoming an insurance and reinsurance hub.' (Malta Financial Services Authority, 2008) One of the main factors which encouraged the growth of insurance and re-insurance business is the onslaught of technology. The effect of Information Technology in the business of insurance and reinsurance is being felt in an expedite way. Insurance Companies are employing various concepts of technology that would give them marked advantage over other competitors, help them expand their business operations and increase efficiency by using more qualitative gains rather than quantitative such as customer service improvement and customisation of the insurance product. However, the real progress in the use of Information Technology within the Insurance Industry has arisen from the Internet boom. During the week of 11th October through 15th October of year 1999, AFP which were known as the Treasury Management Association, conducted a survey in United States in order to analyse and examine what is the role of the internet in supplying financial information, goods and services. The results from a follow-up survey

conducted in March supported the result of the October survey by saying that only 12 percent of the participants used the Internet to purchase business insurance however 49 percent said that they will make use of the internet to buy property insurance in that following year and 64 percent planned to do so in 2001 and 2002. (Partnen, 2009) The survey conducted by Ernest and Young in 2012, is a strong proof that internet is now playing a more important role in the relationship between customers and insurance companies when compared with the findings of AFP Survey in 2000. As stated in the Global Overview, Voice of the Customer Time for insurers to rethink their relationships, Global Consumer Insurance Survey 2012,' The internet is transforming consumer offerings in other retail industries and setting a new benchmark for how businesses interact with consumers. In most consumer sectors, there is now far more information available to allow customers to compare products and prices and to obtain independent opinions before purchasing.' (Ernest & Young, 2012)Therefore the internet has created a new distribution channel for insurance companies which is referred to as e-commerce or online insurance. Different insurance companies and insurance brokers are using more online marketing techniques than traditional ones which allow insurers to reap several benefits. This chapter is going to evaluate the role that e-commerce and online marketing techniques played within the Insurance industry in the past and how presently insurance companies and brokers are emerging more of this technology within their operations. Furthermore, this chapter is going to make a reference to certain legal implications and security requirements that insurance companies and brokers need to keep into consideration when

employing e-commerce and online marketing techniques. This will provide us with a theoretical framework of how these two aspects are applied within the insurance industry in which then, the following chapter will analyse how this framework is adapted in reality.

## **2. 2 The use of online marketing techniques and e-commerce within the Insurance Industry : Past and Present Situation**

Nowadays, behind the growth of several industries, there is a strategic plan that is carried out through Information Technology. Technology was and is still playing a gigantic role in the way how industries execute their operations. The financial services industry is no exception. Organisations are able to achieve more with less people, financial information is analysed more precisely and communication is done more effectively. Before the 1980s, in the financial services industry, information technology was mainly used for information processing of data collected from paper-based documents with the aim of converting them into an electronic format. This limited role of IT was more essential with the introduction of telecom protocols and mainframe terminals in which as time passed they were replaced by personal computers which made a huge difference in the financial services industry. The early years of personal computer use presented only cost reduction benefits to the industry however as software programs like word processing and spreadsheets were established, benefits grew and operational tasks were carried out more efficiently. Through the 90s, the investment in technology within the industry was evolving at an accelerated pace especially when the Internet wave shocked the Industry as big changes took place. With the internet emerged the concepts of e-commerce and

online marketing techniques. Today, we can make online payments, transferring money to different accounts and opening new accounts, negotiating contracts, trade securities, taking online insurance quotes and purchasing online insurance amongst various other services. (Fonseca, 2004)The first appearance of Online Insurance was in 1995 when an insurance agent, Tim McTavish of Colorado, USA came up with the idea of developing his own website with the intention of generating leads for his business of insurance. This gave his customers the opportunity of finding and making contacts with agents geographically close by to their location more efficiently and conveniently. Tim McTavish declared that, " As an agent, I'd tried every marketing scheme under the sun, and none of them proved to be all that effective. Most of the time there just wasn't any response. I knew online leads would be different." (Foster, 2012)The history of online marketing is not long in years but holds many innovations that are still being changed. First, insurance companies and brokers made use of websites from which contact details of customers could be collected so as e-newsletters could be sent. Later on, search engine optimisation was born which was used in the Insurance Industry as well since the number of insurance companies and brokers which owned a website grew tremendously and they wanted to push their own website further up in the search engine lists. Youtube, Facebook, Flickr, Twitter and Blogs are few methods that continued to revolutionise the online marketing of the Insurance companies throughout the recent years and Information Technology professionals are promising more online marketing developments to come therefore insurance companies need to be proactive towards these changes if they want to maintain their

market share. (Marketing Tenerife, 2010) Thirty years ago, the phenomena of e-commerce had a different meaning from what we now think of as the purchasing of goods and services over the internet. At that time, people referred to e-commerce as the activity of commercial transactions by the use of Electronic Data Interchange which allowed organisations to send copies of bills and orders electronically. It was in 1999, when companies started to make use of e-commerce as we know it today after the invention of security protocols and in the first years of the twentieth first century, the activity of e-commerce was spread across the majority of the companies worldwide. (Gib, n. d.) In the old days, the insurance industry engagement with electronic commerce lagged behind when compared with the banking financial services sector however presently, e-commerce within the insurance sector is applied extensively. Even here in Malta, although it is one of the newest concepts, it is adapted in the majority of insurance companies and brokers and which resulted in huge improvements in the business of insurance. (Garven, 2000) Today's circumstances proved Tim Mc Tavish right since there are thousands of insurance brokers, agents and companies abroad using online marketing techniques through the internet such as advertising and websites which give customers the ability to find information about the majority of classes of insurance and the opportunity to ask for online quotes and make purchases of insurance online. In comparison with abroad, the Maltese Insurance Industry is not moving at a slower pace in adopting this concept since it flourished throughout the past years.

## 2.3 Online Marketing Techniques

The main aim behind the establishment of a business is to have the highest returns on investment one could possibly get and be successful. In order to reach this goal, a plan of action is designed so as the company would make the utmost use of various strategies of selling goods and services they offer to their customers effectively and efficiently. The concept of marketing is one of the most powerful approaches that an organisation takes to lead its business into profitable terms. The cruciality of the subject is the type of marketing to be used for the different products and services one has to offer in furtherance of having a strong brand, highest sale rates and ultimate share of the market. (Shima Alfa, 2008)

2.3.1 Traditional Marketing Techniques vs Online Marketing Techniques

Marketing has changed throughout the years as a result of developments in information technology and the evolution of the internet. Traditional Marketing Techniques are past... Online Marketing Techniques are future. This is today's reality since the majority of the people around the world are not using old-fashioned methods of getting information anymore like newspapers, television, radio, direct mail, brochures and magazines but they are searching for more convenience through obtaining knowledge about companies, goods and services online. This does not mean that traditional tactics aren't to be used anymore however they should be combined with online marketing.

Nevertheless, organisation should reallocate the reserved amount of money for marketing to invest in the new online marketing techniques since they are more efficacious when compared with traditional ones. Although traditional marketing strategies allow face to face advertising, variety of

mediums to use and some people are still sceptical about online marketing and associate traditional marketing with trustworthy, legitimacy and reputation; it is difficult to track the results out of the investment made and have limited exposure and reach besides being expensive. Therefore, the online marketing benefits would be more substantial to the company than that of the traditional tactics. Ensuring that unlimited customers are reached anytime and anywhere in an economical and consumer friendly way gives the whole picture of the favoured position that an organisation would be in if it makes use of this invention. (SMB Authors, 2012) This gives us one conclusion that audiences are different than they used to be and business owners must invest in online marketing if they want to succeed. 2. 3. 2

**Websites and Search Engine Optimisation** The first proven tactic that is commonly used by the majority of Insurance Companies and Brokers here in Malta and even abroad is the use of a website which must have a design that would attract customers and promote the company over the World Wide Web effectively. In Malta, the top insurance companies like Middlesea Insurance PLC, GasanMamo Insurance, Citadel Insurance, Atlas Insurance and others, all have a website that one can easily navigate through and offers detailed information however in order to gain huge benefits from websites, this is not enough. The fact that having a website is of great support to the insurance company, sheer of insurance websites are being developed on the Internet nowadays and this led to greater online competition. To take into consideration the competition that this endeavour have created for insurance companies and brokers, what is important is that the organisation will opt for what is called a search optimisation technique.



(Thomas, 2012) Search Engine Optimisation is the method used by the owners of the website to make sure that their own site will be found at the perfect time when potential customers are searching and this means that the site must appear high in the searches provided by search engines for phrases and keywords related to insurance companies or brokers.

(TOTALSEO and Marketing Limited, n. d.) It is common that customers would enter into the first website that shows up at the top of the search results in the search engine and that gives the insurance company greater probability of conducting business with that customer in the nearby future since the traffic would be led to that particular website. Therefore, the application of this technique can result in the insurance company being a great hit in its own market. If one uses Google Search Engine which is designed to search for information on the World Wide Web and FTP servers and you enter the keywords Maltese Insurance Companies, the first results or hits as they are usually referred to would be that of MiddleSea Insurance, Gasan Mamo Insurance and Citadel Insurance. (Google Search Engine, n. d.) This means that if I was searching for an insurance company right now, I would obviously enter into those sites first. A search engine has three major components where one of them is the spider which is also referred to as the crawler. The search engine usually functions in the way that a spider would visit the webpage, reads it, follows the links found in the webpage, makes copies of it and stores them in the search engine index. This is what is meant by crawler-based search engine. This process is repeated every two or three months in order to see if there were any changes and if this is so the giant book or the index is updated with the new data. This process can take a

while and until the changes are added to the index, the new information would not be available to the search engine customers. The third element of the search engine is the search engine software which based on the data found in the index, it ranks the websites according to what is the most relevant. (SEW Staff, 2007) Since search engines rank the websites conforming to the relevance, insurance companies and brokers must make use of ' Rich Snippets' such as star review rating which can not only help to make your website stand out from the other hits but also boost the click through rate of the listing. Other methods which should be adopted are the brand protection service which protects the brand name against online corrupting techniques used by competitors and the promotion of your brand using back-link anchor text in order to eliminate the possibility of over-optimisation. What must be kept in mind is the issue of trustworthiness, therefore insurance websites must contain website terms and condition and clear contact and about us pages since search engines like Google also use these as indicators. (Sharratt, 2012) What is not recommended when using search engine optimisation technique is flash technology, image only sites, spelling mistakes, java scripts and HTML errors. It is a known fact, that insurance companies and brokers nowadays are experts in attracting customers to crawl through their own websites while searching for insurance in search engines however there are still questions being asked regarding online advertising which is another technique that could be used to promote the brand, products and services offered by the insurance company. There are several methods of online advertising which some of them are more popular than others and can be used by insurance companies such as

display advertising, paper-per-click search engine advertising, advertorials, interstitial adverts, pop-up ads, text ads, online leads and online video ads. (Web Ad. vantage, n. d.) Display advertising are graphical representations like leader boards, large boxes and banners which can be found in the top, bottom or the sides of a website. These could be featured not only on the insurance websites but also on websites which can related to insurance like tied insurance intermediaries' websites, car company's websites, medical sites and real-estate agents sites where customers would enter in these websites to get particular information and this advert will catch their eyes and maybe make an impression on them. According to Nielsen Online in 2007, U. S personal lines insurers for property and casualty insurance invested 4% of their expenditure in this type of advertising and in 2008 it had similar results which is not so much however they still contribute to brand recognition. . (Jamie Pickles, 2010)

### 2. 3. 3 Online Advertising - Pay Per Click and Video Advertising

An opportunity for insurance marketers is the use of paper-per-click search engine advertising since this is a method which drivers traffic towards the website from people who are really interested in purchasing insurance since the company can select the target audience of these adverts. (Insurance Splash, n. d.) When using this type of advertising the insurer will bid on the keywords that clients use and this bid would be based on the cost per click. The host of these adverts will be paid only when their advertisement is clicked by a customer. Insurance Companies can apply this on several website amongst which are Facebook and the search engine Google and Yahoo for example if one write as a keyword insurance in the search box of Google search engine, adverts of GasanMamo, Atlas and

England Insurance will come up. This is very easy to set up and a cost effective way of online advertising which can reach a specific target audience and the insurance company can have accurate results of how many people have clicked on their advertisement. Based on analysis from data provided by comScore, the expenditure of personal lines property and casualty insurers in US for 2008 increased by 25% to \$235 million. (Jamie Pickles, 2010) What is becoming a prominent way of advertising is online video advertising. This is a way of putting your advertisement through a video and a search engine like Google through Youtube gives this opportunity. Compared with the other methods of online advertising, it is very costly and maybe this could be the reason why some of the insurance companies and brokers are still hesitant in using this type of media however it is an excellent way to attract more customers. Here in Malta, GasanMamo Insurance is one major company which makes use of this method through Youtube. American Family Insurance which is a foreign insurance company is also familiar with the use of Youtube for online advertising videos and teamed up with Mindshare to increase the subscribers to their channel. (Guest, 2012) Moreover, another way of advertising an insurance company or the products or services it offers is by pop-up advertising. An insurance company can through their websites make use of this method for example if they are going to give a free year premium to those who purchase online car insurance, they could advertise this by using pop-ups. (Web Ad. vantage, n. d.)

### 2. 3. 4 The Use of Social Media

In today's world, another essential aspect of online advertising that insurance companies and brokers must make use of is the invention of social media. Social Media can be defined as the

different online technology tools that can be used by people to interact with each other and share information and resources easily. These internet applications are evolving constantly and social media platforms come and go however the advantages coming out of this invention like speed and the reach of billions of people ensures success to insurance companies making use of this. Most of the insurance companies are advertising through social media in order to make people more aware of their products and services, develop relationships and show customers that they could trust the company. By using social media, insurance companies can build a good image and reputation of their business and because of this benefit, they are investing a lot of time and money resources in social media. (National Association of Insurance Commissioners, 2011) Customers of Insurance Companies are making use of social media such as Facebook, Twitter, and Youtube to gain information before taking a decision on what type of products to purchase and also provide to other consumers positive or negative feedback on their purchasing experience. Usually negative posts last longer and reach people quickly therefore insurance companies must tackle these types of situations truthfully and in a professional manner and offer remedies since a negative comment could have a substantial impact on the business image that could last forever. Facebook has a like function and if a customer likes the Facebook page of an insurance company or broker that is a free advertisement on its own since if there is a large number of likes, this means that the insurance company is satisfying a great number of customers. By this way, personal experiences are also shared on the page and if a respected person like a Minister of Parliament or famous persons like

the page or leave a comment, this would create more interest in customers and they would visit their website. An insurance company must share news and exclusive content authentically through social media. They must also encourage fans participation by making use of polls as an example and create a conversational calendar. Another way of attracting customers is to create competitions by using for example Facebook application as most of the Maltese Insurance Companies are doing presently. Insurance Companies can expand their fan base on social media by being partners with other associations for example Citadel Insurance PLC commenting on the event of the boatshow created by Bank of Valletta. (Citadel Insurance PLC, n. d.) A good idea that should be implemented as well by insurance companies is leading their customer to fan pages and other social sites through their own website. A case study is that of Farmers Insurance, a foreign insurance company which partnered with the successful Zynga game, Farmville on Facebook. (Guest, 2012) While making use of social media like Facebook and Twitter, insurance companies and brokers must keep into consideration insurance laws since if they are not used carefully, they would find themselves in violation of these laws and responsible for the unlawful actions. However, this would be discussed further in the Legal Implications sub-chapter. (T. Stead, 2010)

### 2.3.5 E-Newsletters via E-mails

Another online strategy that insurance companies can apply is the distribution of e-newsletters on a monthly basis. These newsletters will contain monthly news about events organised by the company or certain developments made. It could also include advertising about new products or offers given on existing products. One problem with sending newsletters via email is that they end

up being a spam, therefore it is important that insurance company will have people who are really interested in receiving continuous information regarding the company in their distribution list. The consequences of sending the e-newsletter to everyone without taking into consideration who may view it as worthwhile or who may view it as a spam can be harsh since the customer can block your email address, report you to their internet services providers and this would mean loss of business. Therefore it is important that the people in the distribution list would register to receive such emails via websites or request themselves to be added. For an insurance company or broker, newsletters can be the most cheapest method or one could even refer to it as free marketing. If it is sent to the intended target audience, its effect would be huge for the business. Insurance companies can even track who opened the emails and how long they took to read the message. What is important to have when sending newsletters via email is the signature which should contain every bit of information about the company like address, telephone numbers, websites and facebook links. (Internet Marketing, 2012)2. 3. 6 Blog Marketing Finally, the last method that an insurance company or broker can adopt is blog marketing. A blog is a type of weblog or online journal that would allow people to share their opinions or ideas about various subjects related to insurance that could be of an issue at the moment. These blogs are also ranked in search engines therefore it is very easy for any customer to find what the other customers or insurance company wrote in these blogs. The disadvantage here is that negative reviews will also show up in the search lists and it is difficult to do anything about it. An insurance company could also benefit from blog marketing

without owning a blog by commenting on someone's else posts about topics in relation with insurance. This would also help in targeting traffic towards your website. (Powell, 2010)It is imperative that insurance marketers would not stuck to traditional marketing techniques but try to reallocate their capital to online marketing techniques and adopt the majority of the above mentioned tactics since if they are used purposefully, lawfully, properly and at the right time, insurance companies and brokers would see successful growth and higher returns on investment.

## **2. 4 The transition from E-Commerce To E-Insurance**

Today's world have witnessed a meteoric growth in e-commerce over the last ten years in which U. S Insurance Professionals consider it as the major 21st century insurance risk. (Lloyd's, 2000) One can refer to electronic commerce as being the endeavour that uses the Internet and Web for" the sharing of business information, maintaining of business relationships, and conducting of business transactions by means of telecommunication networks." (Zwass, 1996)E-commerce has modified the processes and trading transactions of a business in which its consequences where mostly advantageous since large revenues are being earned and accelerated growth is being forged. From a survey conducted by the National Statistics Office in Malta, we see that during 2010, 225 enterprises have conducted sales electronically which is an increase of 5. 4% from 2009 while the number of consumers purchasing goods and services over the internet increased by 11, 620 from 2009 to 117, 597 in 2010. (National Statistics Office, 2011) This shows that here in Malta, the emergence of e-commerce in our small world of trade is on the increase due to the several benefits that

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both organisations and consumers can take advantage from like effective external communications with customers and suppliers and improved business competence.

#### 2. 4. 1 The Impact of E-Commerce on the Financial Services Sector: Malta and Abroad

Initiatives like E-Malta, E-Government and E-Money shows that here in Malta, we understand perfectly how important it is to adopt this concept in the way we carry out business. Both internationally and locally, financial services are being effected greatly by this phenomeon. One can say that e-commerce is creating a revolution in the financial services sector since major transformations have been carried out in the provision of services locally and even abroad, it is giving rise to new alliances and bringing into existence new financial services and business models. Our local banking sector has entered into huge investments in order to give customers a convenient and friendly way of how to use and purchase Internet banking products and services and this is also seen abroad. (Zahra, 2001) Despite the fact, that e-commerce is having a profound impact in the banking sector, we cannot say the same for the insurance industry since it is still on its way to fully embrace this technology. The majority of insurance companies in Malta and abroad are offering customers the services of getting online quotes and access to certain policies however this is not open to all the products and services they offer because of the complexity of certain policies, regulation hindrances, lack of online software infrastructure, concern about security and customer behaviour and attitudes which are obstacles that this sector is continuously facing. (Garven, 2000) The full process of selling insurance via the Internet which constitutes of the advertising of products and services, provision of advice and

recommendations to customers, negotiations with clients on best terms and policies, purchasing of policies and settlement of claims, still must all be automated. (Dasgupta, 2002)The insurance industry is making the utmost use of the advancements in information technology for internal purposes like recruiting staff and the generation of reports however its less employing this new possibilities when it comes to negotiating with customers on certain transactions. In certain countries, the websites of insurance companies displays several alternatives that customers can choose from but they are not all useful and customer-friendly for acquiring a quote. For certain countries and even here in Malta, it is imperative to continue investing in this novelty since e-insurance or online insurance can offer endless opportunities both globally and locally.

#### 2. 4. 2 E-commerce to E-insurance

The process of traditional commerce is applied the same when having e-commerce over the internet. When the need arises to buy a product and services, people will look around for the best product that would satisfy his/her need, procure and then purchase the product. When a customer goes online to purchase a good or a service, usually he/she goes through a five phase process which is the following:

**Search:** The consumer will look around for different products and services offered by various online sellers to see which best suits him/her.

**Valuation:** At this stage, the consumer will enter into the comparasion phase where he/she compares the various products on sale by keeping in mind certain factors and priorities like price and quality

**Logistics:** When the customer finally decides which products or services he/she is going to purchase, certain details of the transaction will be excahnged between the owner and the buyer and the customer will make his/her own requirements.

Price will be negotiated and other parameters will be taken into consideration. Transaction: In this phase the actual transaction will take place where the buyer will pay the seller the amount decided beforehand and the seller after he/she is paid will deliver the item. Post-Sales Service: The customer will be offered after sales services like replacement or repairment of defective products. The above mentioned steps are adopted in the same situation when purchasing an insurance product online since consumers will look for different insurance companies to see which products and services they offer, evaluate the different terms and conditions offered by the insurance companies to determine the best match for their needs and when an offer is made and there is an agreement to it from both sides of the transaction, the client will pay the insurer the first premium and a policy certificate will be issued. What is significantly different in the collective process of e-insurance when compared with e-commerce is the after-sales phase. When a claim arises, the client is responsible to notify the insurer immediately which can be done online however the settlement of the claim consists of elaborate dealings between the insurance companies and insured and if it is the case with legal authorities therefore this phase would be challenging and of a hurdle to be implemented over the internet so the majority of the insurance websites will lead the customers to contact the company personally and human intervention will take place. (MATTA, n. d.)<sup>2</sup>.

4. 3 E-Insurance Business Models Insurance companies can adopt different business models of how to deliver products and services over the Internet. By combining the concept of marketing and technology together, insurance companies are blowing away past barriers and give more empowerment to

customers. The first model is the initial step to e-commerce for the majority of insurance companies which is the Marketing Support Only. In this strategy, the website of the company will only provide support to the traditional distribution methods and does not allow for interactive dialogue with experts in the insurance company to give them possible solutions for their problems. An example of this is the Allianz Website which only provides a list of the products and services and inform the customers about what is offered. (Rakovska, 2011) The next business model is the distribution of products electronically which for many companies, the sales of a narrow insurance products range online is their main aim in relation to e-commerce however the shortcoming of this model is that it is very difficult to offer financial services without human intervention. Webinsurance is a channel which is available to different countries by connecting them to the same platform such as Belgium, France, Italy and UK in which it is dedicated to the selling of the products and services of Winterthur Groups. (Rakovska, 2011) Furthermore, the online administration model can be used by insurance companies where this model is capable of providing extended services to different consumers and intermediaries. American International Group's site allows all its member companies to provide to customers the full range of insurance products and services through a customer-friendly oriented online process. Its electronic model offers one-stop shopping for the customers where they could find a detailed portfolio of all the products, high level of online customer service and information and other resources related to insurance. This model can be employed by individuals, brokers, insurance companies and risk managers however the suitability depends on whether it

is a personal insurance market or a commercial insurance market.

(Rakovska, 2011) Moreover, there are product portals which are websites that provide a collection of links that direct you to sites of interests which offers the opportunity to sell financial products and services while consumers are in the process of searching. Pivot. com is one of the most well-known portals which provides insurance solutions to customers with minimum cost. Other type of portals are point of sale portals where the website will provide the opportunity of buying insurance products in addition with certain goods such as a car seller will offer motor insurance. (MATTA, n. d.) In addition to the above models, there is aggregators which are comparison sites that are used to examine in contrast quotes obtained from different insurance companies. Aggregator sites include E-helath Insurance, Quote Smith and Insweb. Although there are certain problems associated with aggregators, they are the closest to automated insurance online and are widely adopted. (MATTA, n. d.) The last model that is available is reverse auction where the commercial person is interested in purchasing group insurance. The client will make his own requirements which satisfy his/her needs and then select the best offer made from a different number of insurance companies.

Priceline. com is a good example of this model. (MATTA, n. d.)

2. 4. 4  
Architecture of E-Insurance  
E-insurance is the course of advertising, recommending, negotiating, purchasing and settling claims of insurance policies online. Although, not all of the above processes have been employed online, the following are stages in e-insurance that have been adopted for certain sites. Policy selection and recommendation: customers are made aware of insurance products and services through advertisements over the

internet where detailed information is also supplemented. Customers also have the opportunity to contact insurers via e-mail in order to find solutions for queries. Figure 1: This figure shows how insurance companies and customers interact during the policy recommendation and selection phase.

(MATTA, n. d.) Policy purchase and e-certificates: The buyer fills up the proposal form online and sends it automatically to the insurance company after deciding which product to purchase. After the details in the proposal form are examined, the final terms will be sent electronically and the buyer will pay the insurance company through authorisation payment from banks or via credit cards. The insurance company will normally then issue a policy certificate and in case of e-insurance, e-certificates are issued. Figure 2: The different stages that an insurance customer passes through during the

purchasing of the policy (MATTA, n. d.) Online claim settlement: this phase is the most complicated and difficult to implement since other parties can be involved and there is no analogous online methods in e-commerce for such implementation to occur in insurance however this could provide insurance companies with several advantages since a quick and easy settlement of claims can be done. Pre-launch product development: Before an insurance

company launches a product in the market, it must analyse whether a demand is present, market the product beforehand and determine the ratings of the product. This can be conducted more efficiently through e-insurance since one can find online data and there is the use of web

advertising and customer surveys. (MATTA, n. d.)

2. 4. 5 Advantages of E-Insurance and Risk posed to Insurers James Gerry, Executive Director of

Lloyd's insurer, Brockbank Syndicate Management, said: "The proliferation of

e-commerce will significantly facilitate - if not accelerate - the growing trend towards the convergence of industries and services. It also has the powerful ability to transform any business into one with global reach instantly."

(Lloyd's, 2000) The adoption of e-commerce in the insurance industry can provide this sector of financial services with several advantages to benefit from such as Minimisation of costs involved in transactions The internet provides the facility to offer more competitive products because of the speed and flexibility The generation of more revenue due to the expansion of market at a lower cost Developments in investment through new investment strategies Opportunities for intermediaries Reducing management and internal administration costs Reducing commission costs since products can be sold direct (Grossman, 2004) However in a survey conducted in May 2000 by Lloyd's of London in RIMS conference in San Francisco, 70 per cent of those who participated in the survey think that e-commerce is a major risk for the industry for the new century. (Lloyd's, 2000) The risks posed by e-commerce on the insurance industry can be of strategic risk, operational risks, transaction risks, conduct the business risks, data security risks and connectivity risks. Strategic risks will materialise if the insurance company will not evaluate and analyse the impact that a decision on adopting an e-commerce system could have on the other areas of the organisation as a whole. The possibility that the strategy of e-commerce will succeed will be to a minimum if the implications are not taken into consideration. The board of directors need to consider whether e-commerce fits within the company's image, the impact on the solvency of the insurance company, system costs and if it helps to achieve the company priorities. If the system developed for

e-commerce and the use of internet is not appropriately managed, the chances that the insurance company will suffer from operational risks will get higher.

The consequence of an operational risk usually would be a failure of the IT infrastructure used like the lack of capacity to handle traffic increase and volumes of transactions. When unauthorised adjustments to information or data transferred from the insurer to its client and vice-versa over the internet, this would create a transaction risk for the insurance company.

Transaction risks usually occurs in e-commerce when the source of the risk is within the technology server itself and not with the insurer or client therefore the necessary technical resources must exist to ensure integrity.

Furthermore, it is highly possible that an insurance company will face a data security risk where leaks of information or losses of data can occur. This will be furthered discussed in the next sub-chapter. When a failure of one aspect of the systems effect the other parts of the system, a connectivity risk materialise however the probability of occurring is low due to the extensivity of the system and the rapid process of data. The final risk that can be faced by the insurance company is conduct of business risk where for example the format and style of presentation which needs to be modified and changed in order to be transferred electronically will not meet the regulations and rules or the proof coverage provided to the policyholder will not be accepted by the regulator. (IAIS, 2003)With regards to an insurance broking business, E-insurance can be both of an opportunity or a risk. Since many of the insurance products are now being sold directly via websites over the internet, the need for intermediaries to act between the insurer and the customer is being reduced therefore e-insurance can be one of the main



causes of disintermediation. However brokers should look from the positive side of e-insurance and employ it in their daily business since it could provide them with several advantages like rapid communication with customers and easier access to insurance companies' products and services. Several opportunities can be gained and several challenges can be faced by insurance companies when adopting an e-commerce system however insurance companies and brokers must continue investing in this endeavour as if a good analysis is made before employing the system to see that e-commerce can meet the aims of the company and when it is established is managed properly and accordingly, the opportunities will outweigh the challenges and success would be the result.