



BLOCKCHAIN AND INSURANCE



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Claims handling

The insurance industry is uniquely positioned to benefit from blockchain technology as it can be used to facilitate claims handling in a more efficient manner. Fraudulent claims, manual processes, fragmented data sources, policies for one user sitting in silo and legacy underwriting models are some of the biggest challenges experienced in the insurance sector today – all causing low customer satisfaction.¹



An important benefit of blockchain technology for the insurance industry is that it can help to prevent multiple claims from different parties for the same accident, a historically rich source of claims fraud. Creating policies as smart contracts on the blockchain is ideal for insurance. It offers complete control, transparency and traceability for each claim and could lead to automatic pay-outs.² Similar to the investment management industry, regulation is an important part of the insurance business, and blockchain will facilitate transparency and decrease operational costs associated with following such regulations.

Reinsurance transactions



Another important aspect is related to reinsurance transactions where transparency and collaboration are key for efficiently processing such transactions. However, in reality the actual processes for claims verification, are often time consuming, manual and risky. Duplication and errors are not uncommon. Thus, using blockchain would allow insurers and reinsurers to create a distributed ledger of their transactions, using a real-time, efficient, automated and secure solution tailored to the reinsurance ecosystem.³ This will help all participants not only minimise costs and efficiency, it also helps reduce overall exposure to losses.

Blockchain insurance projects



In order to take advantage of blockchain technology, in October 2016, five major global insurance and reinsurance undertakings joined the Blockchain Insurance Industry Initiative (B3i) to look at the impact of blockchain on the industry.⁴ A few months later, ten new companies joined such group. This group aims to provide a central point for insurance companies to share ideas, develop models and test cases that may eventually fundamentally rewrite how insurance is delivered. These and other insurers believe blockchain's distributed ledger has the potential to serve clients better through faster, transparent, more convenient and secure services. Last month, the B3i group announced that it has expanded with 23 new brokers and re/insurers entrants, which will help with B3i's upcoming market testing program. The move follows the launch of a working market testing prototype at the Monte Carlo RVS conference held in September 2017.⁵

Since its launch in October 2016, the B3i initiative has gained broad attention across the industry and beyond.⁶ Market testing of the prototype commenced in October 2017, following on-boarding and the provision of training to all member companies. Each participating company will simulate the creation and management of property catastrophe insurance contracts in order to test post placement processes. This will apply from the setting up of the contract, through to the automated calculation for payment of claims.

¹ <http://www.fintricity.com/5-ways-blockchain-will-transform-financial-services/>

² <https://www.finextra.com/blogposting/13068/5-ways-blockchain-will-transform-financial-services>

³ <https://home.kpmg.com/xx/en/home/insights/2017/09/the-promise-of-blockchain-in-insurance.html>

⁴ http://www.swissre.com/reinsurance/insurers_and_reinsurers_launch_blockchain_initiative.html

⁵ <http://www.insurancejournal.com/news/international/2017/10/02/466117.htm>

⁶ <https://www.generali.com/doc/jcr:40aa1c7a-1287>

The testing companies will provide feedback based upon their experiences using the platform, thereby contributing to the development of a viable production platform for the insurance and reinsurance industry by the second half of 2018. B3i will also embark on developing and prototyping further test cases during 2018 for market adoption. At the beginning of 2018, B3i will put in place a new structure designed to better serve its members and future platform users. This will take the form of a limited liability company structure, with a research and development function and commercial operations.⁷

Conclusion

The short-term effects of blockchain on the insurance industry will be most visible in improved efficiency and cost reductions across the industry.⁸ However, as blockchain usage becomes more prevalent in each industry, it will be used by these players to address industry-wide problems and bottlenecks. For the organisations operating within these markets, not having blockchain technology will be a competitive disadvantage, and, over the long term, innovating continuously in this domain will be important in order to stay competitive. Nowadays, insurance customers expect tailored products and services and blockchain could be a significant tool in delivering them, while reducing cost and increasing efficiency and resilience for insurance companies⁹

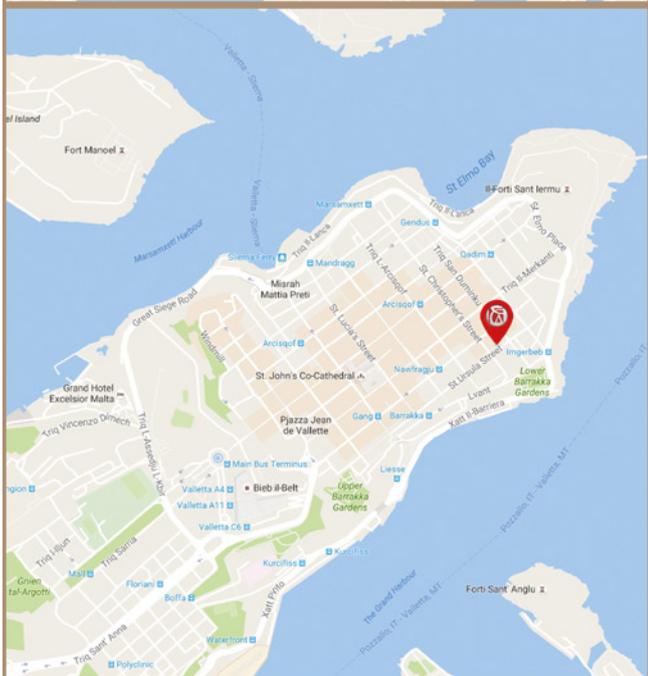
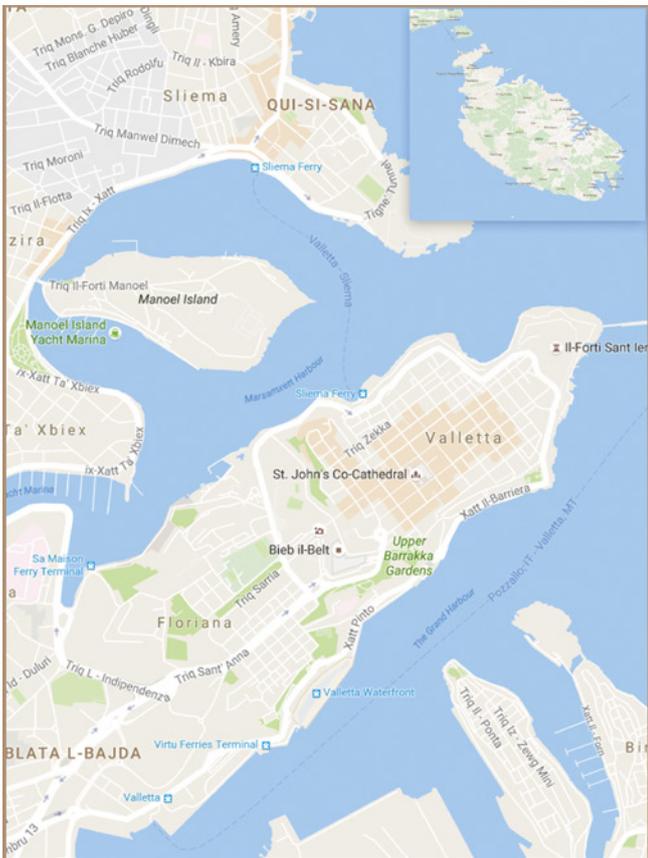
The above innovations and progressive ideas are all nice to have, but there is an issue of timing. Blockchain requires heavy IT investment and it could be several years before the most effective uses can be identified and benefits realised. The B3i initiative illustrates how the industry is starting to work together, but more collaboration and communication between insurers, technology experts, regulators and start-ups is needed. Equally, individual insurance companies must determine the most likely use of blockchain, drawing from customer needs and potential.



⁷ <https://www.aegon.com/en/Home/Investors/News-releases/2017/b3i-new-members/>

⁸ <https://prescouter.com/2017/03/cryptocurrency-blockchain-impact/>

⁹ <https://www.mckinsey.com/industries/financial-services/our-insights/time-for-insurance-companies-to-face-digital-reality>



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