Chain Reaction: How Blockchain Technology Might Transform Wholesale Insurance

The power of possible

The potential for blockchain to deliver substantial value to financial services is enormous.

Not only does blockchain offer the promise of cost reduction and efficiency, but it could also enable revenue growth, as insurers attract new business through higher-quality service.

Blockchain technologies can help the wholesale insurance sector fulfil its role in underpinning the global economy more effectively. Just as blockchain is being pursued as a force for positive change in other areas of society – from identification for refugees to better public service delivery – it can also help wholesale insurance to discharge its responsibilities for the common good.

Opportunities for blockchain

Mutual distributed ledger technologies– commonly known as blockchain –have the potential to transform the global insurance industry. Still, while there is no doubt that blockchain now looms large on the radar screens of financial services businesses, it's also the case that many businesses are only just starting to get to grips with what is possible. In one recent PwC study[1], 56% of firms said they recognised the importance of blockchain, but 57% conceded they did not yet know how to respond.

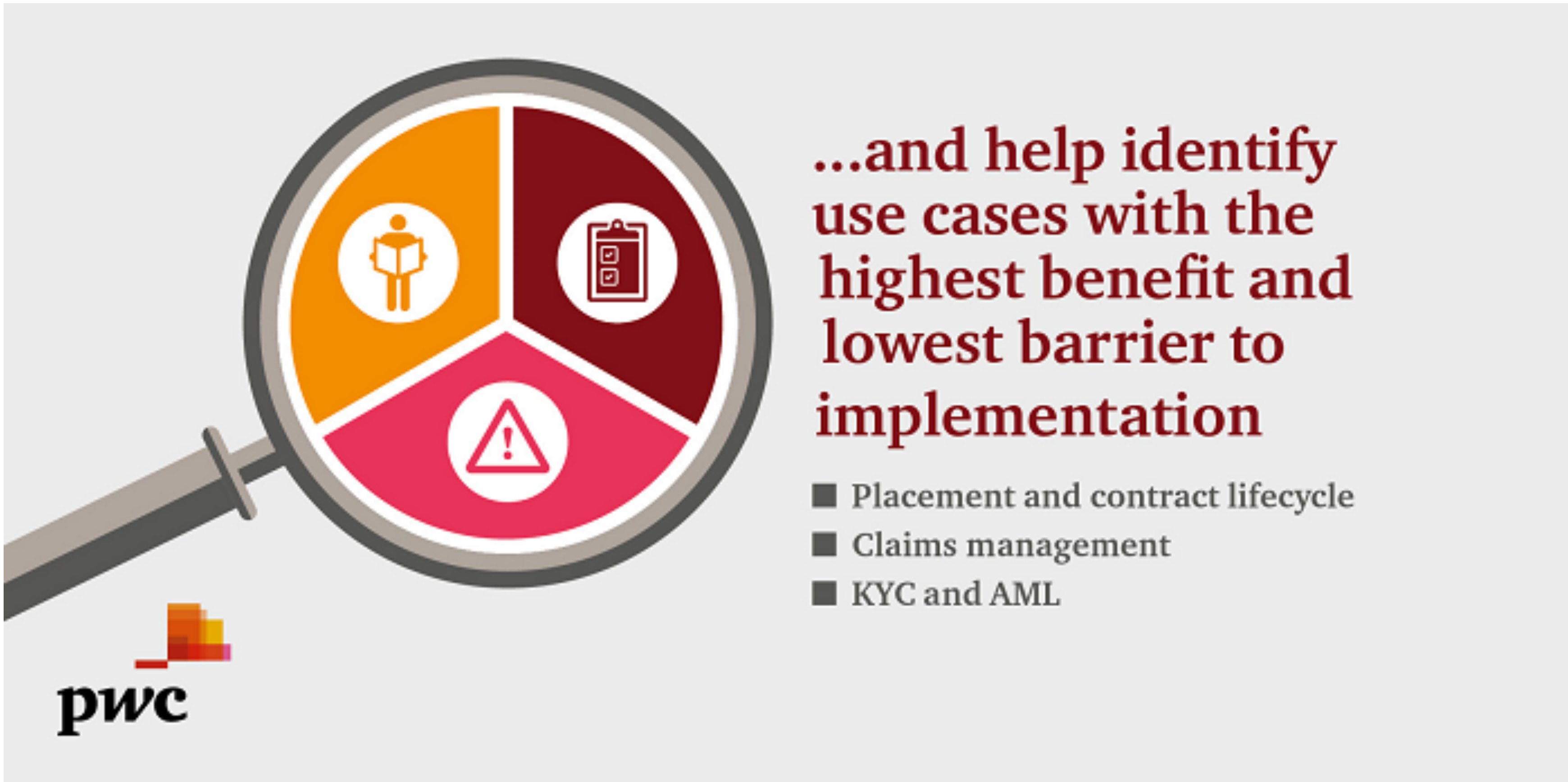
Insurers, in particular, are less likely to be familiar with blockchain technologies and applications, the PwC study shows. That's in line with the more general perception that insurance often lags behind other sectors of financial services in modernising its business processes and technology. This reflects the need to work with large clients, provide bespoke cover, and manage specialist risks; these require data-heavy interactions between multiple participants including brokers, insurers, and reinsurers.

[1] PwC Blurred lines: How FinTech is shaping financial service.

About the study and methodology

This study was commissioned by PwC to be a rapidly completed analysis of how blockchain technology might impact wholesale insurance. The study looked to identify areas where a problem or opportunity existed for which blockchain could be part of the solution.

The core of the work was interviewing some 50 market participants and other stakeholders. The focus of the interviews was to identify business processes perceived as needing improvement and to discuss where blockchain technology might be part of a solution.



Low and high barriers

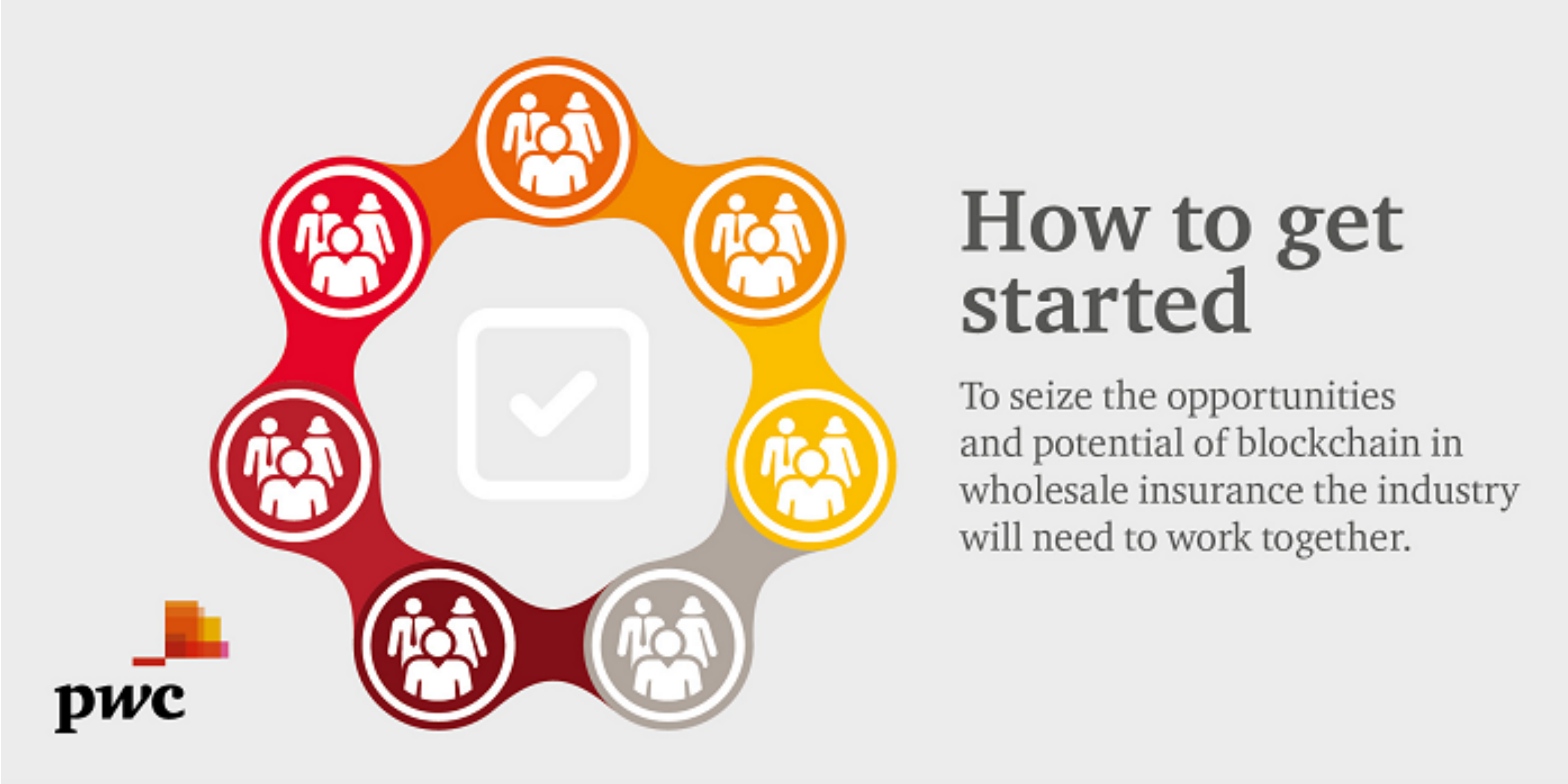
The definition of low and high barriers and benefits relies upon the view of industry specialists. The priority was to have confidence that the resulting short list was genuinely low Barrier/high Benefit, and therefore the process erred towards excluding doubtful cases from the short list.

Is blockchain for you?

If the following conditions apply, then blockchain has strong potential to provide a solution:

1. Multiple parties share data – multiple participants need views of common information
2. Multiple parties update data – multiple participants take actions that need to be recorded and change the data
3. Requirement for verification – participants need to trust that the actions that are recorded are valid
4. Intermediaries add cost and complexity – removal of ‘central authority’ record keeper intermediaries have the potential to reduce cost (e.g. fees) and complexity (e.g. multiple reconciliations)
5. Interactions are time sensitive – reducing delay has business benefit (e.g. reduced settlement risk, enhanced liquidity)
6. Transaction interaction – transactions created by different participants depend on each other.

If you can’t tick at least four out of six ask “why blockchain”.



Recommendations

The recommended next step is to identify a group of firms willing to join a consortium to investigate the business case for at least one of the potential use cases. The consortium firms would also work together on areas of common interest by, for example:

- expanding frontiers – develop and publishing thoughts on common insurance applications of blockchain technology;
- changing systems – provide evidence-based examples on where blockchains work and don't work in wholesale insurance;
- delivering services – such as standards, common technology bases, and shared demonstrators;
- building communities – engaging wider stakeholders (regulators, trade bodies, customers, suppliers) through meetings, networking and events, including conferences and training using collaborative tools.

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We estimate within the next 3-5 years, cumulative investment in FinTech globally could well exceed $150bn.

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