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Insurers battle for blockchain

YESTERDAY Oliver Ralph

Getting the world's insurers to co-operate on anything is like herding cats. So it is no mean feat that 38 of them - including heavyweights Allianz, Swiss Re and AIG - have voluntarily signed up to collaborate on a technology initiative called B3i.

Perhaps they have decided that there is safety in numbers. The project that has brought them together is an existential one: the use of mutually distributed ledgers that can never be changed - aka blockchain - in insurance.

Depending on who you believe, blockchain could either create huge efficiencies for insurers and their clients, or cut vast swathes of the industry out of the process altogether.

"Insurance is very manual and paper-based, and there are a lot of intermediaries," says Simon Taylor at 11FS, a consultancy.

With blockchain, you could create a secure, permanent database where the details of contracts are stored. You could then link that database with outside sources of information. The idea is that the whole system is more efficient and reliable for clients, brokers, insurers, reinsurers and everyone else involved.

As ever when it comes to blockchain, there is an element of hype to what is happening, and not all of it is deserved. According to Oxbow Partners, a consultancy, blockchain is one of the most hyped parts of the insurance world, but the impact of the technology is - so far - minimal.

Greg Brown at Oxbow says that existing database systems can do the same job as blockchain. "You can fry bacon on an engine block, but why would you when a frying pan is more efficient?"

Insurers' progress with the technology so far is largely a long list of prototypes. In September B3i launched a blockchain prototype for property reinsurance contracts.

Outside of the B3i world, MS Amlin, XL Catlin, Willis Towers Watson and others have developed a new blockchain system for marine insurance that will go live next year.

Working alone, Allianz has developed a blockchain system for captive insurers, which are effectively in-house insurance companies that allow multinationals to self-insure.

Axa has gone a step further than many others and actually launched a blockchain-based product. Called Fizzy, it covers travellers for the costs of flight delays. By using blockchain, Axa says, it can connect its policies directly to global air traffic databases, so as soon as there is a delay, the payout is sent to the customer automatically.

B3i believes its system can create productivity gains of 30 per cent. The benefits of blockchain won't be immediate though. "The impact is one that we'll really see in the next five to ten years," says Magdalena Ramada, of the research and innovation centre at Willis Towers Watson. "It will need depth and scale. A lot of firms are testing the waters and trying to understand the technology."

Look further out though, and blockchain is a potential threat. The insurance industry is made up of intermediaries who sit between the ultimate clients (a property owner, for example) and the ultimate bearer of the risk (an insurance company's shareholders, or perhaps investors in catastrophe bonds). Blockchain could eventually make it easier for those two ends of the process to connect with each other, perhaps not directly but with fewer intervening links.

Standardised contracts that automatically pay out after a pre-defined event could help to bring down the cost of cover, at least for the most common perils.

No wonder B3i and the others are attracting such intense interest across the insurance world.

Further fintech fascination

Lending limits. The Chinese government has moved to cool down the country's online lending system. A newly-created agency has halted all approvals for new online lending companies amid concerns that some companies have been extending loans without proper due diligence, adding to China's bad-debt troubles. The announcement caused shares for some of China's biggest fintech companies listed abroad to drop overnight. Online microlender Qudian, which raised $900m on the NYSE last month, saw its shares tumble as much as 16 per cent in reaction to the news, before recovering.

Hot hubs. The battle to be a hub for the fintech world is hotting up. Warsaw, Tallinn and Prague have been working on their pitches, while Manchester has also been promoting itself to fintech hopefuls.

P2P pulling power. Peer-to-peer lenders in the UK have found a new way to pull in the cashthat they can then lend to their customers. The snappily-named "Innovative Finance Individual Savings Accounts" will offer returns of 4.8 to 7.5 per cent a year to Funding Circle's investors, depending on their risk appetite.

Hear more fintech views in the FT banking podcast

Bits and bobs

Clamour for consultants. Fintech may or may not have proved to be a boon for the world as a whole, but while we wait to find out it is definitely proving to be a boon for consultants. According to data from Source Global Research banks spent $13.6bn on consultants last year, up 8 per cent from the year before reports City AM. The need to fight off the fintech challenge was one of the main reasons for the jump.

What's next for WeLab? Not content with raising $220m in a recent funding round, WeLab, the Hong Kong-based online lender is gearing up for an IPO that could raise another $500m, reports Bloomberg. The flotation could take place as early as next year.

Alterations at Allianz. Like other big insurers, Allianz has been an enthusiastic investor in early stage technology. But the company has announced a change of strategy - instead of putting money into early-stage company building activities, Allianz will instead focus on investments with "strategic relevance" for the company.