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Allianz Expects Blockchain Tech to Expedite Cat Bond Deals

By Jonathan Gould | June 15, 2016

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REUTERS

German insurer Allianz expects the technology underpinning virtual currency bitcoin to encourage trading in catastrophe bonds, which transfer the risk of natural disasters such as hurricanes to investors.

“Cat bond” payments between insurers and investors can take weeks or even months after a storm hits, but the use of “smart contracts” — agreements that are automatically executed via the blockchain when a set of predetermined conditions are met — could cut this down to hours or a few days, Allianz said.

Allianz, Europe’s biggest insurer, worked with Bermuda-based investment manager Nephila Capital to test blockchain, or distributed ledger technology as many financial institutions prefer to call it, in a natural catastrophe swap transaction.

Cat bonds and swaps allow investors to earn an attractive return, but they risk losing their capital if a hurricane or other natural disaster hits.

Allianz and Nephila Capital said in a statement on Wednesday that a test run showed that processing and settlement of payments between insurers and investors could be significantly accelerated and simplified by blockchain-based contracts.

Blockchain works as a tamper-proof ledger that is able to facilitate and process transactions, as well as other transfers of data, with no need for third-party verification.

Because it does not require manual processing, nor authentication through intermediaries, it can make payments more reliable and more easily audited.

“Delays and the risks of human error are completely removed,” Allianz underwriting officer Richard Boyd said.

Blockchain also makes sure that the digital contract ownership cannot be duplicated or forged, which would boost public trading of catastrophe bonds, Allianz said, adding that it would now develop a more detailed business case and involve other financial partners.

Blockchain’s proponents say it has the potential to disrupt financial markets by making payments and the settling of securities transactions cheaper.

Financial regulators are still trying to assess the implications of blockchain, and whether it could meet technical, governance, legal and regulatory requirements.

The European Securities and Markets Authority (ESMA) said this month it was too early to form a definite opinion of the technology and that firms planning to use blockchain should keep the existing regulatory framework in mind.

Allianz said there was a need to start discussions with regulators on how to manage the technology to benefit customers.

(Additional reporting by Jemima Kelly; editing by Alexander Smith)

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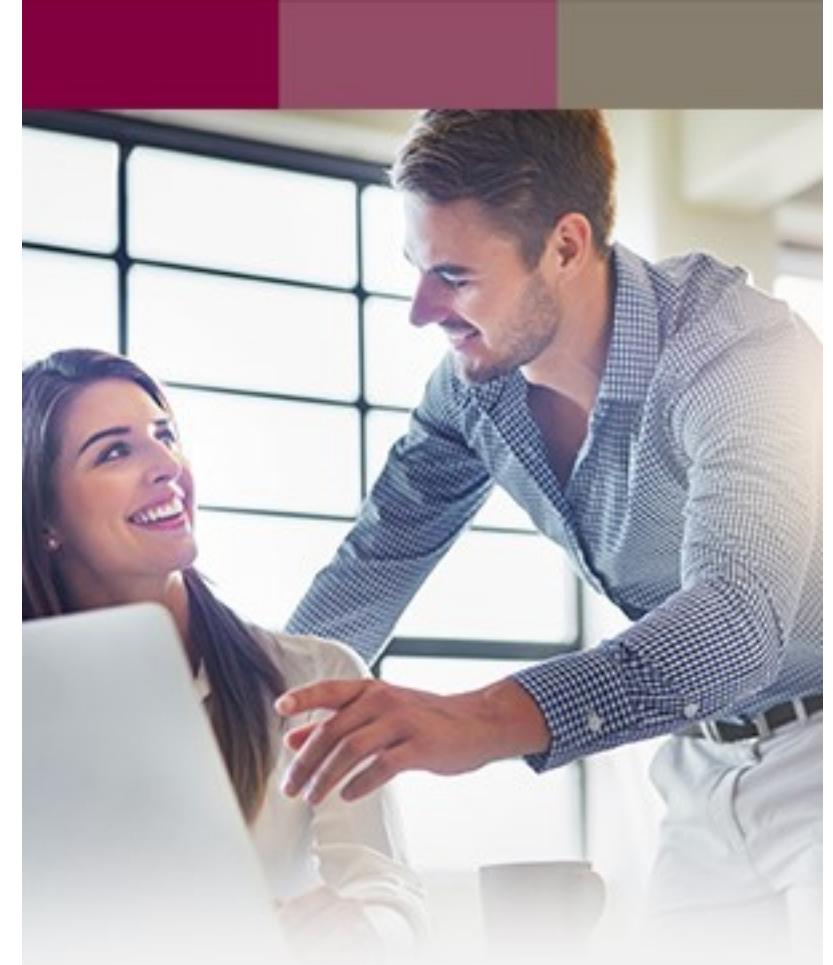


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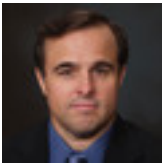
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☐ Our business has added more than one new employee this year and expects to hire more over the next year.

☐ Our business cut more than one employee this year and expects to cut more over the nex year.

☐ Our business uses freelancers, independent contractors or outsourcing.

☐ Our business uses a professional staffing or recruitment agency when looking for new employees.

☐ Our business advertises its current employment openings online.

Other:

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- ☐ Our business uses freelancers, independent contractors or outsourcing.
- ☐ Our business uses a professional staffing or recruitment agency when looking for new employees.
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