Blockchain in insurance: Guiding the hammer toward the real nails

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With a blockchain, all parties involved in a layered risk share the same data from a common source (database). (Photo: iStock)

Start with layered risk

As an example, consider layered risk participation policies in which a potential loss is too great for any one insurer to accept at a reasonable price. For example, for many large commercial businesses, multiple insurers agree to take a portion of the responsibility for a loss. Multiple parties are involved and communicate at different times about what their various participation levels will be.

Traditionally, this is handled through a variety of communication modes — phone, email, fax and paper documents — that are exchanged between the broker, the insured and the insurer. In some cases, the multiple back-and-forth flow of information results in a disagreement regarding the final, agreed level of participation and the terms. Service delays (including claim settlement), expense, and, in some cases, litigation result.

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Layered risk is a high-value target for blockchain and has many characteristics that could benefit from a shared ledger approach. With a blockchain, all parties involved in a layered risk share the same data from a common source (database). Individual insurers use this platform to register their desired participation level, confirm the level (limits) and price at which they agree to participate, view any number of changes to the risk (the number and level of reported claims, for example), access an immutable audit trail at any time, and pay claims.

Use of a blockchain removes the need for a central clearing authority and delivers transparency of previous transactions to the insured, broker and, as appropriate, to the insurer participants. If there is a question about any agreement on risk level or other information related to the policy, claim or risk communication, it’s contained on the single blockchain.

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Insurers should evaluate distributed ledger technology solutions using multiple dimensions and score potential uses against each. (Photo: iStock)

Evaluate specific business scenarios

The second task for insurers that wish to explore blockchain opportunities and to invest in testing those activities with high value, specific business scenarios raises an evaluation challenge. How does an insurer identify the business scenarios that are most suitable and that have the greatest potential for return? The fact is that many potential applications could be built on a number of different platforms.

Insurers should evaluate distributed ledger technology solutions using multiple dimensions and score potential uses against each. Several to consider including in such a review are:

- **Complexity of design:** There are processes specific to blockchain that add complexity to the solution design and that should be evaluated. For example, how will agreement among different parties using the shared database regarding what data is valid be determined? Is it difficult to design a straightforward, reliable consensus method?

- **Complexity of implementation:** The ease or difficulty of introducing a blockchain solution is a factor. For example, one of its benefits is the ability for distributed actors to interact with each other on the platform rather than through a centralized clearing point. The number, diversity and relationship between different participants involved in a scenario influence the complexity of implementation.

- **Level of industry cooperation:** Different business situations require various degrees of cooperation between participants. In order to realize the expected benefits, is it necessary for a large number of participants across the whole value chain to contribute? Motivating end-to-end cooperation will be challenging, especially in the first years of adoption.

Applying a score to each dimension (for example, 1 = low complexity/cooperation, 5 = high complexity/cooperation) allows differentiation between scenarios. Once scored, an insurer can choose those that offer the profile that matches their individual risk and investment tolerances.

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The ability to share a common, secure ledger for business transactions offers profound opportunities. (Photo: iStock)

Developments expected

Blockchain in insurance will continue to evolve rapidly. Many of the tests being performed by the blockchain consortiums sponsored by banks and securities firms will also be applicable to insurance. In the next 18 months, Celent expects the following developments:

- Increased activity in proof-of-concept testing, including co-development activity between insurers and technology companies;
- Greater involvement by insurers in consortia currently established for banks and securities firms;
- Wider recognition that the lack of standards for blockchain inhibits progress, particularly in inter-firm applications; and
- Increased interest among insurance regulators.

The ability to share a common, secure ledger for business transactions offers profound opportunities. Adoption will be accelerated by a reasoned approach to early development. Evaluating the most appropriate applications of blockchain technology for early tests will improve the results and garner increased business sponsorship.

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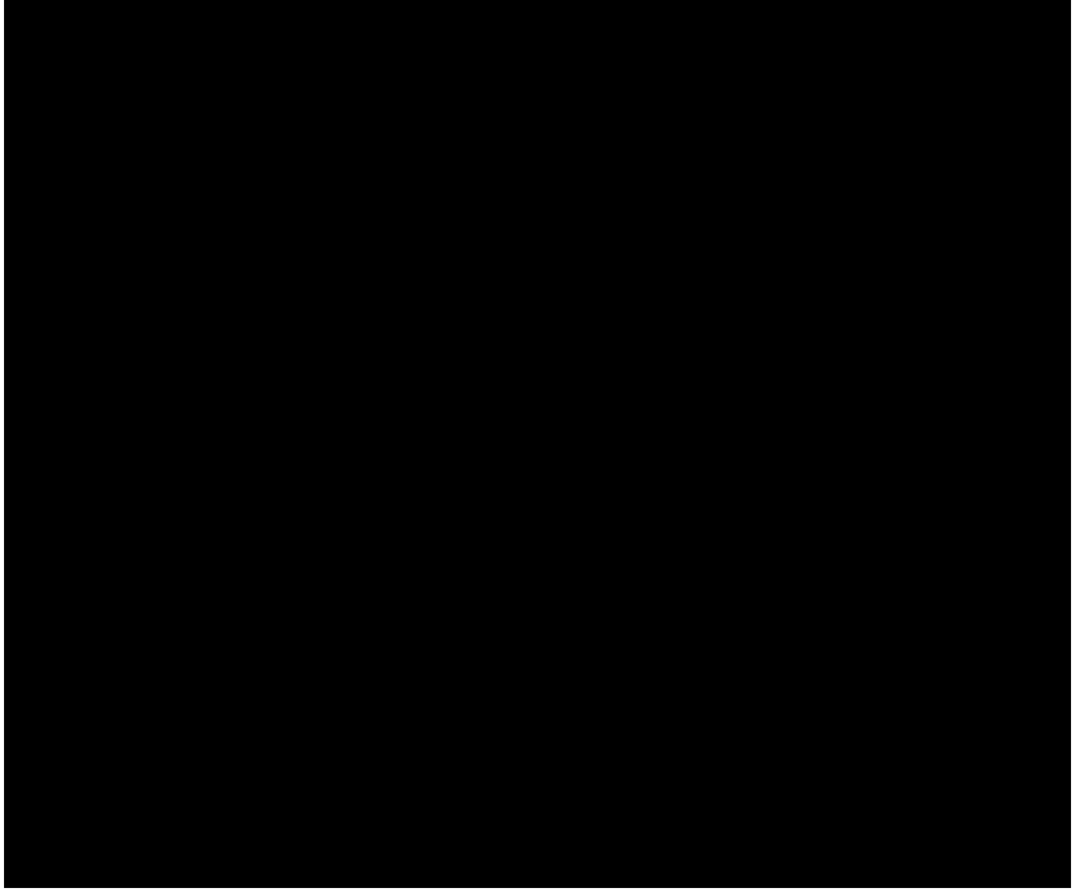

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