Thought leadership

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Blockchain Set to Revolutionize the Insurance Sector from Within

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The insurance industry historically has resisted disruption as the threat of new entrants is inhibited by the large balance-sheet risk and regulatory requirements. However, the innovation stakes have been raised, with new technologies like blockchain, artificial intelligence and the internet of things showning improved customer service and reduced operational costs and fraud losses.

Since blockchain emerged, the insurance sector has focused on asset provenance on the network of value. Asset-based solutions such as Everledger's blockchain for diamond ownership certification have captured the attention of insurers. However, it could be insurers need to look within their own technology architectures to unlock blockchain's greatest potential.

Blockchain's automation and objectivity provides an ideal solution to handling claims for low-value, high-volume retail products such as cars, phones and travel insurance, solving retail customer challenges including:

- Claims handling costs have climbed to 10% to 15% of premiums. Any savings are multiplied by the high volumes.
- Fraud losses of up to 5% of premiums. The compressed margins on a low-value items cannot justify more than 3 hours of claims assessment and dispute resolution.
- Customers and regulators demand for trust, transparency and timeliness in retail claims.

Blockchain could pose a scenario in which the customer does not submit a claim and the insurer does not administer it. An objective set of insurance policy criteria could be coded into smart contracts, which take regular feeds from trusted authoritative sources to determine whether the claims conditions have been satisfied. Payments would then automatically be processed via the blockchain wallet. This creates an environment of trust among insurer, customer, asset provider and regulator that claims will be assessed in a timely, transparent and objective manner.

Insurers should establish cross-functional innovation teams to review the asset classes in their product portfolio and for each, identify what constraints they need to resolve to establish blockchain-based claims handling and answer the following questions:

1. Can you define objective policy criteria that apply across the asset class? Are there regularly exceptions made and/or nonbinary rules? Can you break down policy criteria to subsectors to cover every asset, jurisdiction, contract variation etc.?
2. Is authoritative digital source data available that counterparties would view as trusted, independent and with recognized owners/administrators? Can they be used for contract execution? Would they require service-level agreements and independently governed data collection and provisioning controls?
3. Is there a trust problem statement? Have we established a sufficient incentive for customers and asset providers to support the move to automation? What have regulators and stakeholders demanded?

While only a few asset classes meet all criteria, the constraints should be identified and analyzed for solutions, alternatives and future possibilities. Opportunities could arise to monetize digital authoritative data sources. This would create opportunities to redesign policy criteria from subjective disputes events between customer and insurer to objective and independent evidence. Looking ahead, there will be a shift away from organization-collected and provisioned feeds toward smart sensors. Blockchain has the potential to reinvent the way insurance claims are handled — one asset sector at a time.