

# VIEWPOINT

## 'Blockchain could transform ILS'

Technologies such as blockchain could clear the way for the deployment of ILS capital to classes of business other than property catastrophe



Annette King  
Galileo Platforms



Patrick O'Brien  
Greenlight Reinsurance  
Ireland

The insurance and reinsurance industry operates in an inefficient manner at present, involving lots of different players. As a result the experience for the end customer – the buyer of retail insurance – is not what it should be.

The customer will, typically, speak to a financial adviser or broker, who will then contact an insurer, who in turn will speak to a reinsurer. The customer may then end up talking to the insurer's call centre as a claim is being processed. It is all very sequential and cumbersome and each party has their own system and data, meaning delays and costs. Given all of this, it is not hard to understand why insurance buyers are not enamoured by the process.

Blockchain – a secure and transparent distributed ledger system – can transform the whole experience for customers, as well as all the other counterparties involved in an insurance transaction. Once a claim is triggered, all parties on the blockchain get to see the information – which, effectively, becomes a single source of truth – in real time.

The fundamental purpose of insurance is to provide financial relief to customers in their time of need, as quickly as possible, to help them get back on their feet. Using blockchain means customers will get paid faster than they do at present under the existing business model. Delivering a much more agile, customer-focused experience can only be good for an industry that does not have the best reputation when it comes to customer experience.

The advantages for customers are easy to see, but what are the implications for providers of third-party capital that want to put their money to work in the insurance industry? Despite the low premium margins in many parts of the global reinsurance industry, the returns compared with many other sectors are still attractive for funds with capital to invest.

Reinsurance has always been a complex business with many touchpoints in the transaction, but the advent of blockchain, with its efficiencies and transparency, make the sector more appealing to third-party capital providers.

The reinsurance industry will continue to evolve in the next five years and we are likely to see a move away from silos and much more of a mix of capacity between insurance, reinsurance and insurance-linked securities (ILS).

To date, the involvement of ILS in providing reinsurance capacity has been primarily limited to property catastrophe. However, technologies such as blockchain could clear the way for the deployment of ILS capital to other classes of business.

An example of this is usage-based car insurance using telematics, insurance in the sharing economy or short duration accident insurance when you hire a bike or take your child ice-skating. The data is also a very rich source for analytics and product development and is taking us towards a holy grail for insurers – personalised products. That is also a very attractive proposition for third-party capital providers looking for a place to invest their money.

### Cost of distribution

Other lines of business that are growing and could interest ILS markets could include travel and gadget insurance. With these products, the challenge insurers face is the high cost of distribution. If blockchain can reduce costs and make distribution easier, these will be lines of business that could be attractive to ILS investors.

Cyber is another line of business that could, potentially, open up for third-party capital. A good example of this is the recent decision by Singapore's finance ministry to launch the world's first commercial cyber risk pool. The pool will have up to \$1bn of capacity, offering cyber insurance



### Blockchain will slash costs, creating the possibility that a new market could be created for millions of people in Asia who do not have insurance

to corporate buyers in the Asia region and it is reported it is expected to be backed by both traditional reinsurers and ILS markets.

The facility has been established with the assistance of the Singapore Reinsurers' Association. Singapore has been working to establish itself as an ILS hub and the announcement of the cyber risk pool, which is expected to see ILS and traditional reinsurance deployed, would seem to underline that commitment.

Another genuinely transformative consequence of blockchain is that it could open up a massive new market to hundreds of millions of people in Asia who are uninsured and, similarly, in Africa and South America. There is a huge unserved market in Asia for home, life, motor and health insurance. Insurers are not servicing this market because the existing cumbersome distribution model does not make it economically viable.

Blockchain will slash costs, creating the possibility that a new market could be created for millions of people in Asia who do not have insurance.

The cost economics will also enable new types of insurance to be offered to match our changing lifestyles.

There is a clear need to make the experience of buying insurance much more efficient and user-friendly for purchasers. If technologies such as blockchain can help to achieve this, the potential is there for third-party capital providers to play an even more important role in a growing insurance market. ■

Annette King is chair and founder of Galileo Platforms and Patrick O'Brien is chief executive of Greenlight Reinsurance Ireland