

Why Distributed Ledger/Blockchain Technology Matters to Insurers

What is Distributed Ledger/Blockchain Technology and why does it Matter to Insurers?

First, a definition. Distributed Ledger/Blockchain technology transfers value in a decentralized, consensus based immutable manner using cryptographic tools and is different from technology today by offering transactions occurring between unknown counterparties that are mathematically trusted in real time. Further, the technology is at once a network and a database that can host applications like Smart Contracts with the potential to be interoperable across trade ecosystems. This technology seems tailor-made to help administer the claims end of insurance.

Let's talk about claims. It is well known that insurance claims are the storefront of an insurance business. Claims processing and resolution provide touchpoints for extended customer engagement and a bad experience can poison an insurer in a customer's mind which can affect policy renewal. Internally, claims processing matters to an insurer's bottom line. The claims experience should be seamless and easy to manage for all.

Imagine if you could smooth out your claims process so that it is more accurate, frictionless, cost efficient and can even provide easy access to data for benchmarking and analysis to improve your customer's digital experience.

I had my "aha" moment when I first learned about this technology and was struck with an immediate vision of how things could be made better within the insurance industry. As a prior General Counsel of an Insurer, and now a Consultant specializing in the strategic use of this technology, I understand how it can be implemented (once fully developed) and can envision how it can change and improve business from end to end.

Practically speaking, on the claims side, at the very least, the industry would never again have to suffer "the dog ate my homework" excuse for lost documents, duplicate or other document mishaps and related law suits. Claims provenance could be automatically established and adjudicated by so-called "smart contracts" (in the most general sense they are protocols that have deterministic outcomes) in real time with an easily auditable and immutable trail. Identity proof would be less onerous. Those developments alone go a long way to reducing fraud and risk and their associated costs.

While modernizing claims processes is not a "sexy" thought, it is one that directly affects all insurers and impacts their bottom lines by reducing risk which directly

translates into increased revenue. A small shift in the actuarial calculation based on a risk reduction goes a long way. There is not a business person on earth who does not want to increase revenue.

As I said earlier, this technology is new. While there is a lot of hype, I believe we are only seeing the beginning of its potential. Education is needed. Imagination is needed. And innovation and execution is needed. The financial services industry has looked at this technology over the past year, is engaging with it and some practical applications are expected to go into production in 2017. Insurers/asset managers should take notice. For instance, Delaware will begin using blockchain technology for UCC filings powered by [Symbiont](#). Financial Industry regulators overall, both domestically and internationally, are evaluating this technology and are listening and learning. In part, we owe the financial services sector a debt of gratitude for creating awareness overall.

Generally speaking, insurers have been slow to the table to learn about this technology, but it is imperative that they engage as early as possible because the technology has the potential to be very valuable for them. Some reinsurers already understand this and are experimenting. The diamond industry understands this and is experimenting with digital representation of hard assets on a blockchain for asset management and insurance purposes though [Everledger](#). Other insurers have made some attempts to trial similar concepts.

Indeed, the insurance industry can benefit on more than just the claims side.

We all know customer acquisition is the most uncertain and expensive part of the process in any business. Well designed digital processes can prove invaluable in customer acquisition and retention. On the front end of the insurance industry, smart contracts can aid in creating easy to manage customer policies which can be fed into databases and be tailored and segmented in any way that makes business sense. Data management and security can be enhanced using blockchain technology. In fact, the Estonian company, [Guardtime](#), has embraced the cyber security end of this technology and has evolved a Keyless Signature Infrastructure (KSI) that [DARPA is verifying](#).

Blockchain technology is not a panacea for all. But it is worth exploring as the technology evolves. We are at an inflection point in the development of this technology—a point in time where insurers and others can have a say in how it evolves. Once standards emerge and practical applications are in production, it may be too late.

Time to get on board, insurers and weigh in! All you need do is participate to make sure your interests are heard and accounted for.

To the insurance industry, I ask you. How do you see this technology impacting insurance?