



Blockchain and DLT – From hype to productive implementation in insurance

Without a doubt, the insurance industry is facing a number of challenges on all fronts in today's environment. Externally, the combination of Covid-19, volatility in financial markets and investments, as well as a record number of natural catastrophes, made 2020 a challenging year for insurers and reinsurers alike. All of this comes in the midst of agile InsurTechs challenging the incumbents, while mostly focusing on distribution aspects and user experience enhancements

On the internal front, industry players are facing an administration problem. Insurance relies on information and data exchange and has to address three main operational challenges: manual and paper-based processes, a lack of standardization and only minimal integration of systems. Combined, these create increased administrative complexity as companies attempt to extract, communicate, transform and reconcile data.

Insurers have invested into improving their internal processes and procedures, even before Covid-19 disrupted traditional working practices. However, business complexity, including transactional volumes and data requirements, has grown exponentially, the desired process automation has not yet been achieved on a broader scale and the industry still remains strongly bound to manual reconciliations executed at any level of the value chain, from contracts to claims and accounting.

Individual company attempts to lower costs via outsourcing or process optimization have reached their limit. Despite ongoing efforts, the insurance industry has not been able to bring down operational costs. Other industries have managed to cut them by 20% over the years

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2009–2018, whereas in the insurance sector they increased by 40% during the same period.

Therefore, market players have recognized the strong need for an end-to-end transformation of their operations. The industry is in a race to modernize and to make best use of new digital technologies, like Blockchain and Distributed Ledger Technology (DLT), in order to serve customers better and achieve profitable growth. Nearly every company has developed its own digital transformation strategy, but there is also a need to re-think the underlying foundations of the industry, which cannot be achieved by a single company acting alone.

JOINING FORCES / ACTING TOGETHER

It was this objective that led to the formation of B3i, initially started as an industry consortium and later on incorporated as a for-profit company. There was a clear mandate from our shareholders – currently 21 insurance market participants around the world – to investigate the potential of Blockchain and DLT in the insurance industry and to develop standards, protocols and a network infrastructure to remove friction in risk transfer. By acting together with our shareholders and participants of the wider B3i network, we seek to optimise and automate market-wide processes, thereby generating significant savings in time and cost that cannot be achieved by insurers or intermediaries acting alone.

THE INSURANCE INDUSTRY HAS NOT BEEN ABLE TO BRING DOWN OPERATIONAL COSTS

FROM POC TO PRODUCTIVE IMPLEMENTATION

For our initial Proof of Concept, we focused on Cat XoL, on reinsurance placement as the start of the contract lifecycle, to test assumptions around scalability of the technology as a first step. In June 2019, B3i completed a testing Hackathon with brokers, insurers and reinsurers, with participants setting up real scenarios to stress test the reinsurance prototype and provide feedback. Testing revealed that by reducing manual entry and reconciliations, up to 30% of administration cost savings could be achieved across the end-to-end reinsurance value chain.

Subsequently, after the release of B3i Re (formerly known as Cat XoL V1.1) in October 2019, a total of 9 insurers, 4 major brokerage firms, and 8 reinsurers participated in complex placements, which were conducted as part of 1/1/20 renewals or as a re-creation. This parallel approach enabled direct process efficiency comparison and proved that DLT was enterprise-ready. Participants involved in the renewal placements reported various business enhancements, ranging from reduced administration, increased audibility, to improvements in workflow efficiency, interactions with the business network, contract certainty and better sharing of sensitive data. Following another year of continuous engagement with our customers, we were able to release major enhancements to B3i Re in September 2020.

B3i continues to work closely with industry participants to ensure new functionality is developed according to customer needs and that the designed and delivered solutions provide scalable benefits and increased business value. Our rapid prototyping and use case identification follow lean development principles. Recent validation with customers anticipates that B3i Re will have a positive impact on customer satisfaction, contract certainty, data quality, compliance, security, audibility, fraud detection and better use of business resources.

WE ARE MUTUALIZING THIS TECHNOLOGY FOR THE BENEFIT OF THE WHOLE INDUSTRY

REVEALING MISCONCEPTIONS AND ADDRESSING CUSTOMER NEEDS

In such a complex process, there are of course obstacles that need to be faced along the way. When B3i was first conceived, Blockchain/DLT was far less mature than it is today, yet it had garnered a lot of attention and raised huge expectations across various industries, including the insurance sector. In the beginning, our exchange with customers was technology-driven and we talked to CTOs and other senior executives who took an interest in new and evolving technologies. Today is a very different picture, with counterparts now stemming from the business side of companies. The industry has also had to recognize that Blockchain/DLT is not a solution to every problem, it is a tool and it is the relentless focus on customer needs that is key. As B3i, we had to explain not only the technology itself but also demonstrate that we understand the challenges of our counterparts and that everything we do is driven by the ability to generate value for customers.

From a product perspective, we are not predominantly building applications for individual customers. We are mutualizing this technology for the benefit of the whole industry. We seek to solve common problems and achieve market-wide efficiencies. Our projects are either market solutions (transversal) or differentiating for individual companies. The sweet spot for us remains common industry solutions, standards and protocols for all, whilst enabling our partners to deliver innovative and differentiating capabilities for single customers. Our role is to facilitate engagement and consensus among our customers, who on the one hand joined forces to drive this technology forward, whilst remaining competitors at a business level. But DLT is a team sport in its best sense – in the end, no-one benefits from isolated improvements.

TIME TO TRANSFORM REINSURANCE BUSINESS AND TO BUILD A FUNCTIONALLY RICH ECOSYSTEM

From a user perspective, the technology needs to be accessible and affordable. That's why we developed our Node as a Service. It is cost-effective, highly performant and removes complexity for customers. And ongoing efforts are focused on addressing the need to change mindsets and set standards, for example on the implementation of legally binding insurance contracts on DLT, which represents a step change for the industry.

WHAT'S TO EXPECT GOING FORWARD?

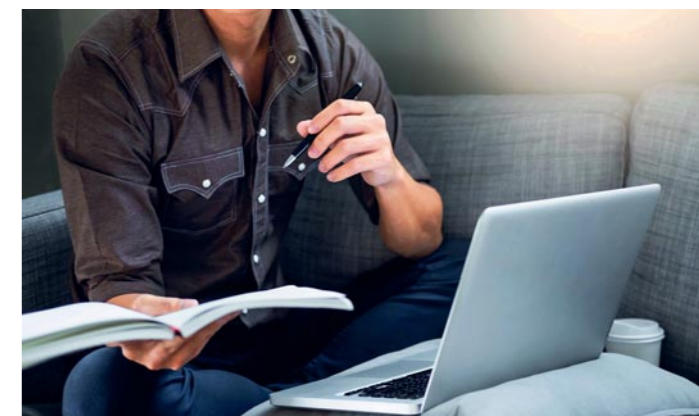
Our next release will bring additional technical accounting and claims functionality into scope and additional contract types and lines of business will be added during 2021. Based on customers' feedback, B3i Re provides business value for cedents, brokers and reinsurers. Quick wins start with post placement and improved operational efficiencies, which will in turn reduce costs for business, reduce settlement times and enable working capital to be better deployed.

Structured, trusted and automated data, with a single version of the truth, facilitates end-to-end business model transformation and enables companies to fully digitalise their reinsurance operations.

TRANSFORMATION IS NOW

The industry is making increased use of solutions that allow them to share and consume data, either using APIs or new e-placement platforms. At its core, this rising demand is looking to enable more integration to increase efficiencies; and improve collaboration across different ecosystems to boost business opportunities.

As an independent and neutral actor, B3i aims to facilitate this process by identifying and addressing industry problems and driving forward the adoption of DLT-based solutions at scale. Time is of the essence, there has never been a better time to collaborate in order to transform reinsurance business and to build a functionally rich ecosystem. ■



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