

Date: 13.8.2018

Publication: ET CIO.com

[Future of blockchain in the Indian insurance industry](#)

Blockchain has the potential to improve the way insurers' record risk, increase the speed, accuracy and transparency of our processes.

Aug 13, 2018, 05.35 PM IST



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Blockchain technology has created a buzz with the success of Bitcoin and other cryptocurrencies. It provides a simple premise for solving the financial and logistical problems. Blockchain is useful, where multiple parties need to be involved to complete transactions, confidential data is to be shared, transaction costs are high and transparency is paramount, such as insurance.

At the heart of this technology is a distributed ledger. It is a common database of validated and encrypted transactions adhering to agree upon a said protocol. It allows for a central, validated data repository including all transactions and rules rather than each participant be it the insurer, intermediary or the customer, maintaining their own database – which may or may not be fully coordinated and up-to-date. Blockchain involves series of data and transactional validations by the parties across the chain. The parties being the one which are a part of the insurance contract, and sometimes who are not, such as insurtech companies that form part of the larger insurance ecosystem.

Blockchain has the potential to improve the way insurers' record risk, increase the speed, accuracy and transparency of our processes. Potential use cases of blockchain seem to point to benefits in terms of revenue, cost savings, and efficiencies. Underwriters in the near future will be able to unleash the power of peer to peer networks and underwrite better using AI and analytics. The most recent and large-scale application of blockchain seems to be around loss identification using sensors, thus eliminating the need for lengthy registrations of claims etc. The parties involved in the chain though has to be end to end.

However, I see more application in retail spaces where insurance companies can collaborate with larger ecosystems to make life easier for customers. It can not only help in seamless auto reporting of claims, but also validating the actual claim and paying the customer in a pre-defined account/mode. Another potential use case stems from what you and I use every day, i.e. cabs, also known as the sharing economy. In the March of 2017, The Brookings Institute estimated that the global size of the "sharing economy" (e.g. Uber, Lyft, Airbnb, ZipCar, etc.) was \$15bn and expected to reach over \$330bn by 2025. Yet most users of shared economy products and services are vastly under- or uninsured. The opportunity for on-demand, usage-based insurance products provides general insurance companies with significant new revenue

opportunities with a new demographic (shared economy consumers tend to be younger, e.g. millennials) that is averse to traditional forms of insurance.

I'm from an operations background and the most obvious application I can see is management of third party vendor contract terms, master service agreements, and vendor optimization/complexity reduction. Typically, cumbersome, cost heavy in terms of manpower effort as well as time and money. Even non-legal vendors such as adjusters, engineering firms, etc. can come under such chains and Service Level Agreement can be defined for certain triggers in terms of rewards or reductions.

According to me, fraud prevention is the most critical part of blockchain. Sharing of data among multiple third parties can prevent fraud before it happens, especially in extraordinary circumstances (e.g. catastrophic loss). They also provide validation of provenance of valuable items helpful against high severity claims (esp. in high net worth market). Blockchain can be used between an e-commerce player and an insurance company - based on your receipt number, details of the asset insured can be validated, thus making insurance seamless and fault proof.

The earliest adopters seem to be the reinsurers. Smart contracts and distributed ledgers can improve efficiency, compliance with terms, and remove intermediaries in the long term to reduce expenses or erroneous payouts. There can be more transparency in multi-party treaties, facultative programs and multi insurer/reinsurer layered programs. Compliance wise too, explicit inclusion of regulators and reporting agencies as partners in the blockchain will reduce reporting costs, enhance trust, and improve compliance. Admittedly, the Indian insurers are in the proof-of-concept stage of blockchain technology development and may be a few years away from scalable implementation, but they all do share a common characteristic. These players are building an insurtech ecosystem of connected entities to make this possible. Investments though need to improve, looking at all FinTech private investment from 2016 to 2017, only 26% was in insurance despite being just as large as the remaining financial services sectors. Looking just at InsurTech, the blockchain-specific portion of investment ranked sixth behind more popular (and perhaps tangible) areas like Big Data, IoT, AI and robotics.

So, why do insurers lag in a new technology space where the application is so beneficial? While it would be easy to blame the natural risk aversion of insurance professionals, there are real challenges and logic to the slower uptake in insurance. Blockchain strategies are still a work in progress. There remains an absence of industry standards and an industry-specific platform. Despite the large-scale involvement in consortia, B3i standards still seem a long way off, especially in India. The lowest hanging fruit seems to be connecting all insurers - RTO & the India stack, appears a distant dream as of now. Most important reason for this lag to my mind is lack of talent and technology know-how. There's a lack of IT talent within the industry and a challenge attracting such talent into insurance. While insurers have been open to partnering with blockchain startups, these companies lack insurance-specific knowledge or are dismissive about the peculiarities, regulations, and other unique aspects of the insurance industry. There always remain questions about scalability – many use cases thus far have been

in limited or niche lines of business, applications, or market segments (e.g. cat bonds & swaps; crop insurance for small farmers; micro-insurance)

It will be interesting to see how the regulator accepts blockchain and looks to standardize it, not just from a data collection standpoint, but an actionable data standpoint. Worries around data security remain, this technology being super secure and encrypted. It will impact the way insurers take up liability covers for their own businesses. It will be interesting to see how India adopts this. My gut feel tells me, we as a country might move late, but we will move faster than anyone else in this space.