

BLOCKCHAIN IN INSURANCE: GUARANTEED COVERAGE & BENEFITS



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A WNS Perspective

The insurance industry is in the middle of an exciting transformation. Technology advancements coupled with changes in customer lifestyles and expectations are driving a hitherto unwitnessed level of innovation. Insurers intent on realigning their business models with evolving customer needs have new allies in the form of blockchain and Internet of Things (IoT) that have the ability to change the course of the industry.

Consider the case of travel insurance. Today, many customers would rather forego filing a claim for situations like flight delays than deal with tedious claims and settlement processes. However, European companies such as AXA are re-defining the sector with parametric insurance policies which enable customers to get auto-paid without even having to fill a claims form in case of flight delays. This remarkable twist to the claims process catapults

customer satisfaction to new levels and is made possible by blockchain technology.

Blockchain, based on the distributed ledger system, is a simple but revolutionary form of shared record-keeping. Blockchain updates and encrypts information continuously to provide a verified trail of all transactions. As it is stored in multiple locations with no single authority, every change is published as an addendum while still maintaining the original data created, making the ledger a highly credible source of information.

Estimated to reach a market size of USD 2.3 Billion by the year 2021,¹ blockchain technology uses a single 'shared ledger' that replaces the need for multiple entities in a value chain. Created and updated as a joint investment, this shared ledger becomes a single source of truth that can be trusted implicitly by all stakeholders.

In the insurance industry, blockchain can help all players — from agents and brokers to distributors and underwriters — to use the same source of data to underwrite risks and make decisions. The single ledger will also enable companies to eliminate inconsistencies and errors boosting the overall efficiency and transparency across the entire value chain. This can indirectly reduce data management costs significantly.

Blockchain will also compel all entities involved to adhere to the highest standards while they update the records. This will ensure that the resulting data is highly accurate and reliable. Each entity will also be assured of the safety of its proprietary information with the use of private and public keys along with cryptography.

The technology, though still in its nascent stage, already has many early adopters. Let's explore how blockchain is disrupting the insurance ecosystem in particular.

1. <https://www.statista.com/statistics/647231/worldwide-blockchain-technology-market-size/>



Blocking False Claims

One of the biggest pain points for the insurance industry is fraud. In the U.S. alone, fraud is conservatively estimated to be around USD 80 Billion² a year across insurance lines. Though insurance companies deal with false claims using smart analytics and other methodologies, fraudsters continue to come up with more sophisticated ways to dupe companies.

All participants in the insurance contract value chain can effectively combat fraud and process truthful claims faster by using a distributed ledger in tandem with existing anti-fraud mechanisms.

Blockchain's inherent feature of capturing time-stamped transactions with complete audit trails makes it extremely difficult for fraudsters. A blockchain-powered risk ledger, for instance, can be used to track the data around high-value items and jewelry. Authenticity certificates can be replaced by this ledger in order to avoid duplicate claims, double financing, fake replacements and false claims.

The entire chain of applications, renewals, re-insurance and claims can be processed by relying solely on blockchain to authenticate a

transaction. Everledger, a global start-up, is already enabling such a use case for diamonds by creating a shared public ledger for over a million diamonds across the globe. By recording the unique characteristics of each diamond and creating an equivalent digital identity for every precious stone, the ledger ensures that traders and insurers have ready access to the stones' provenance. Such a ledger can act as an extremely reliable audit trail for insurers and law enforcement officers to reduce and fight the possibility of fraud.

2. <https://www.insurancefraud.org/statistics.htm#1>



Enabling Enhanced Customer Experience

The digital age has truly empowered the insurance customer. Continued loyalty to one service provider is no more a given. Customers tend to deviate towards providers offering lower premiums, irrespective of the value provided by other policies. Intense competition from new players operating innovative models such as pay-per-use and on-demand insurance coverage has added to traditional insurers' woes.

In this scenario, winning customers' trust without compromising heavily on price margins has become a tightrope walk. One way to address this is to use blockchain to enable automated processing with the use

of 'smart contracts.' In this model, business agreements are built into the blockchain and payments are auto-triggered when certain conditions are met.

The entire process is efficiently and completely managed by technology, through rule-based operations written into codes, with no manual intervention.

Smart contracts can be applied to insurance use cases where payment conditions are clear with low possibilities of disputes such as property insurance coverage against hurricanes and earthquakes. Insurers can avoid tedious claims processes including

evidence collection and verification in case of natural disasters by simply building settlement terms into a smart contract to trigger automated payouts in the event of an authenticated incident.

Similarly, use cases can be designed around covers involving straightforward eventualities such as an automated life insurance payout to nominees after a policyholder's death is officially registered. Apart from saving significant costs for companies, these automated processes will also reduce the effort involved in filing and following up with claims, translating into superior customer experience.





Innovating for Digitally Savvy Customers

It is slowly becoming evident that insurance policies and procedures designed a decade ago are not relevant for today's technology-savvy, digital device-toting customers. To successfully navigate this new dynamic market, insurers will need innovative offerings that can appeal to new-age customers. Developments such as IoT and the concept of 'connected devices' offer a wide scope for new models of insurance that are more in line with today's digital ecosystem. One such offering that blockchain can help realize is in the area of parametric insurance, which uses smart contracts as discussed

above, to build new IoT-based use cases.

For instance, anti-theft sensors attached to a connected home can trigger an insurance claim the moment they go off and when certain other conditions are met. By building the agreement terms into the blockchain, if even 10 percent of a cover is auto-settled immediately on theft detection, the related claim processing time and cost of operations can be drastically brought down. Insurers can then pass on the benefits of the cost reduction to their customers and offer them competitively priced products.

Blockchain has the potential to enable a quantum leap for insurance businesses. From identifying sample low-risk use cases to nurturing promising technology partnerships to working with industry consortiums as an active participant, insurance companies should experiment with and master blockchain to reap the benefits. In an age where insurers are preparing for an uncertain future amid myriad disruptions, blockchain stands as a beacon of hope to re-invigorate business models and capture customer mindshare.

About WNS

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