# When Blockchain Met Captives

The adoption of blockchain technology into captive programs opens the door for expansion and growth. But plenty of risk still remains.

**By Alex Wright**

***Captive managers are embracing*** the advantages that come with blockchain technology.

C***aptive insurance programs were*** originally designed to provide companies with coverage for hard to insure or prohibitively expensive lines of business.

Now, thanks to new advances in technology, including mobile applications and blockchain, captive owners have been able to extend coverage to third parties, namely customers and vendors, which has allowed them to minimize additional expenses and save time by streamlining or automating workflow processes. Among the main costs it can reduce are handling of policy information, proof of insurance certificates and claims submissions and payments.

At the same time, technology also enables owners to expand programs to cover a wider range of risks for third parties. Other benefits include the ability to have better-informed underwriting and policy design thanks to access to real-time data, and improved security, claims assessment, reporting and audit trails.

And with the number of captives writing third-party business increasing by 12% in 2018, according to a Marsh report, that figure will surely continue to rise.

## BLOCKCHAIN'S INFLUENCE

The concept of blockchain, invented by Satoshi Nakamoto in 2008, is simple in theory: Based on distributed ledger technology (DLT), it allows multiple parties on a network to have simultaneous access to the same data, which is updated in real time. As changes are made, new blocks are added to the chain.

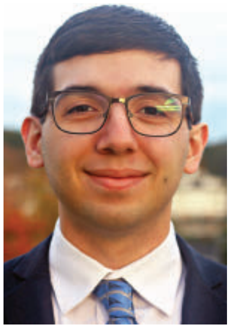
But as with most new technologies, there are a host of challenges involved: the initial expense, lack of skilled operators, integration with existing systems and scalability, with many test programs still in their infancy.

"Today, the learning curve for implementing these technologies is fairly steep," said Rocco Mancini, vice president at Marsh Captive Solutions. "In order to manage the learning curve, captive owners who are early adopters of these technologies are investing in proof of concept and pilot programs that allow them to identify risks in a controlled environment."

So how are the early adopters adapting to this new technology and using it to grow and run their business more efficiently? And which new lines of business has it enabled them to expand into?

## INCREASING UPTAKE

Blockchain's uptake by captives has increased seismically in recent years. Last year, the State of Vermont rolled out a pilot program to test the use of blockchain technology by captives for digital recordkeeping.



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***— Rocco Mancini,*** *vice president, Marsh Captive Solutions*

Carriers are also getting in on the act. Allianz Global Corporate & Speciality developed a blockchain prototype aimed at streamlining the process flows within captive programs, including annual renewals, premium payments, and claims submission and settlement.

Accenture and Generali Employee Benefits launched a blockchain-based reinsurance coverage for captives. Using blockchain to share the claims data with external insurers and reinsurers reduces both time spent and processing errors.

Mancini said that captive owners and their service providers have now turned their attention to using the technology to handle third-party risks. This has allowed them to streamline the handling of policy information, provision of proof of insurance certificates, claims handling and reinsurance contracts.

"As commercial captive programs have expanded to and continue to expand to numerous risks, it has become difficult to quantify exactly how much overhead has been reduced by," said Mancini.

By providing a single source of truth, blockchain enables captive owners to make business processes even more


## SUMMARY

- ***Captive managers are*** starting to look toward blockchain technology to advance their programs.
- ***Blockchain, however, opens*** the door to other risks, like cyber.
- ***Experts say the*** take up of blockchain in captives is still in its infancy.

effective, explained Sarah Hazzledine, managing director of Accenture's financial services technology advisory.

"Improvements in speed and accuracy can also create more positive customer experiences, vastly improving claims with access to better and faster data," said Hazzledine. "Reducing costs in the claims process could, ultimately, even lead to lower premiums."

## INITIAL HURDLES

According to Matthew Queen, general counsel, CCO, Venture Captive Management, the biggest challenge is the implementation stage.

Captive owners and managers should work together to develop best practices by formulating standards and protocol for incident reporting, data collection and claims management, he said.

However, "setting up blockchain systems and hiring programmers qualified in the field is expensive and the talent is rare," said Queen. "But like all technology, these barriers will fall as the tech spreads across the industry."

Added to that are required wholesale changes to working practices and processes, said Hazzledine. To implement these, she said captive owners need to set realistic objectives.

"DLT is a solution that takes time and must be met with realistic expectations," she said. "Implementing blockchain to grow the insurance business comes with the challenge of reshaping core industry processes, which comes with a new working culture, and not just looking at technology as a silver bullet."

Mobile applications present unique challenges, said Mike Woytowicz, director of business development, international at Artex Risk Solutions. One of the main risks is cyber: "Cyber risk is always a concern in the current business climate, but with mobile apps, you could make the argument that they are perhaps more secure than a website as most mobile phones require a fingerprint or infrared face scan to [use] the device," he said.

## EMERGING RISKS

One of the largest areas of emerging risk for captives using blockchain is in the sharing economy, according to Marcus Schmalbach, CEO of Ryskex.

"Ultimately, all risks that allow parametric claims processing are predestined for blockchain and captive solutions," said Schmalbach. "The gig economy, particularly the likes of Uber with its multiple third-party risks, by its very nature, subscribes to a digital business model, so this is just the next logical step."

Schmalbach said pilots run by his company found cost savings of up to 45% could be achieved by adopting these technologies. That gives captive owners greater scope and capacity to take on new risks such as reputation, intellectual property and climate change, he said.

Despite progress, Eric Boyum, national practice leader for Aon's technology and communications practice, said the take up of mobile applications and blockchain in captives is still in its relative infancy. Rather, captives are being used to provide coverage for these emerging technology risks.

Ward Ching, managing director, Aon Captive & Insurance Management, added: "Captives have been used to understand, curate and teach the market how to underwrite emerging risks.

An example of this is crime programs for cryptocurrency, where the conventional market doesn't have enough information or a sense for the frequency and severity of the risk." &

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