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A CAPCO COMPANY

**KEY DISTRIBUTED LEDGER TECHNOLOGY
TRENDS FOR THE INSURANCE INDUSTRY**



INTRODUCTION

The COVID-19 pandemic accelerated a digital surge for the insurance industry, as companies scramble for new ways to respond to the need for remote interactions with customers, employees, and partners. Now, the race is on to capitalize on that transformation and turn it into strategic advantage with the application of emerging technologies, such as distributed ledger technology (DLT).

The recent surge of interest in cryptocurrency by all sectors of the economy both lays to rest the thought that this technology is a fad and sharpens the focus on the promise of the technical infrastructure – distributed ledger technology (DLT) – to transform business. DLT allows for multiple parties with consent to access distributed data to participate in secure transactions.

Imagine a purpose-built network with advanced privacy controls that allows you to control and customize what is shared among “permissioned” (known) network participants. Insurance, which relies on being able to securely collect, analyze, then deploy huge amounts of data and reliably manage a high volume of secure transactions, can leverage the confidence engendered by controlled data sharing.

This paper explores some key trends and opportunities ripe for innovation from DLT and demonstrates how Capco can help with your move to modernized, secure, and cost-effective transaction -processing.

SMART CONTRACTS

A smart contract captures and enforces the rules of a transaction between two parties without the need for a middleman. Users want a low-touch, self-serve approach that puts them in control of a flow and leads to a positive outcome, and DLT provides the framework for creating more responsive processes.

For example, a smart contract can be developed with rules to automatically respond to a triggering event, such as initiating a claim automatically in response to an automobile accident. Or they can be written to initiate and even pay out a claim as a response to a major weather event or natural disaster. If a crop is destroyed by drought, a claim can be initiated, and a crop-insurance payment

can be automatically released. The transaction is secure, distributed, and safeguarded from tampering, creating trust between the participating parties.

Automation of transactions holds the promise of dramatically reducing transaction processing costs and can reduce the time to pay-out, resulting in a positive outcome for both provider and customer. Capco has experience writing, testing, and deploying smart contracts to DLT platforms, including Hyperledger, Ethereum, R3 Corda, and more. Let us help you reimagine, design, and implement seamless customer interactions that will increase user satisfaction while lowering transaction costs.

FRAUD DETECTION

Given the high volume of sensitive transactions insurance carriers manage, fraud detection and cybersecurity are top priorities. Processes based on DLT are decentralized, making them more difficult to corrupt. They are also permission-based, preventing against data breaches. Each transaction is chronologically timestamped to ensure a clear, auditable recording of events. Finally, data transmitted with DLT is immutable; it cannot be changed as it flows through an automated process. The levels of security can deter fraud and improve customer confidence in a range of transactions.

Capco recognizes that the security of being able to transmit data using DLT will provide substantial opportunity for process improvement for highly regulated industries, including insurance. For example, Capco is investing in digital identity solutions that leverage smart contracts and zero-knowledge proofs to address know your customer (KYC) and anti-money laundering (AML) compliance requirements. The goal is to minimize personal data collected to reduce the potential for data breaches and streamline the compliance process to reduce cost of compliance, while still ensuring all regulations are met.

DYNAMIC UNDERWRITING

New approaches to gathering data, such as electronic health records (EHR), are gathering steam and dramatically improving the flow of information in the healthcare ecosystem. Managing the transformation to a more seamless, easy-to-use experience has the potential to boost customer confidence and increase user engagement in insurance-related activities. Customers will be more willing to voluntarily share EHR if they are confident their data will be handled securely and if they receive the benefit of simplified transactions.

The data you collect can then be used to populate applications for underwriting and allow for automating

the process and reducing the time required for delivering a dynamic, highly customized quote. Additionally, once the data flows into the system, with the consent of the customer, a patient's medical history can be safely transmitted and viewed by doctors and insurers to determine correct policies and procedures going forward, with each transaction protected and verified by DLT.

Capco can help you to plan for this type of digital transformation and bring together the architects to build the systems that will carry your business into the future.

REINSURANCE

Reinsurance is all about pooling and sharing risk. To effectively assess potential risk exposure, reinsurance underwriters need secure access to the broadest pool of data available. This is another case where DLT allows for access to data without the owners of the data surrendering control. Companies that want to syndicate, or share their data, can do so securely, with controlled, secure access. The underlying data is immutable and secure from interference.

Transactions built on the data are transparent to the credentialed parties. Pooled data can be used for actuarial analysis, and can drive dashboards or workflows, all without compromising privacy or security guidelines.

The ability to develop models and gather insight from a broader pool of data can result in better business decisions.

Capco can provide guidance on developing the processes to acquire and use the data you need to advance with confidence. For example, Capco has experience with syndicated lending, using DLT to assign payment/risk based on contractual agreements. It is easy to see how that type of smart contract can easily be leveraged to modernize reinsurance processes as well. Finally, smart contracts built on DLT are portable, allowing for re-use, which will maximize the return on investment over time.

CONCLUSION

The COVID-19 pandemic accelerated many digital trends already underway, including the reimagining of processes built on new secure technology platforms. We expect further maturation in 2021, as increased consumer demand and associated regulation will drive insurance institutions to develop new approaches for managing processes.

Capco is experienced at providing digital transformation, regulatory compliance, and process improvement advice. Let us be your technology partner and help you plan ways to leverage distributed ledger technology to modernize and improve your insurance operations from underwriting to reinsurance.



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ABOUT NEOS

NEOS is a recognized leader in helping global Insurance and Financial Services organizations drive transformative change. Specializing in Life, Annuities, Retirement, Employee Benefits, Property & Casualty, and Wealth Management, NEOS provides management consulting and delivery services that enable clients to solve strategy, distribution, operations, data, and technology challenges. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk, reduce costs, and enhance controls. Since our founding, our expert teams of seasoned data, strategy, technology and business management consultants have continued to apply a holistic approach to understanding your strategic priorities and desired business outcomes. With creative thinking and practical implementation, we ensure that the services and solutions we provide merge seamlessly with your company culture. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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