



LOSS MODELLING  
FRAMEWORK



**Don't become shackled by the ball and (block)chain**

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**This is a great time to be in re/insurance and an even greater time to be in Insurtech. There are many challenges ahead, but the excitement and potential fulfilment considerably outweigh these. There's an almost palpable feeling that we're surrounded by an extraordinary energy pulling together people, ideas and capital. More energy than at any other time in the industry history. Energy that will change re/insurance... and that's a good thing.**

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The technology options and the magnitude of potential change seem to be overwhelming. There's a lot of 'noise' and it makes it difficult for many to see the signal and take action. This noise is important to create interest, attract capital, and build momentum. However, the interest, capital and momentum have arrived now, and I believe it's vital that we focus on creating a cycle of identifying and implementing small changes that can make a real difference. To move from the big picture and zoom in on the smaller details that will make a genuine difference to a key area of your business; focus on one small change, then another and another and so on.

Let's take blockchain as just one example. Along with the likes of AI, AR, VR and other new technologies, there's considerable noise around blockchain for sure, and of course recognition of the considerable benefits. These benefits include immutability of data (data can't be changed), decentralisation (the blockchain is operated independently of any single entity), reliability (decentralisation means it is very resilient so doesn't or shouldn't! crash), transparency (by definition, a public blockchain transparent to everyone, and a protected blockchain is transparent to all members) and of course secure (data is encrypted).

When considering blockchain for your organisation, there are now many potential use cases to help identify the most relevant benefit to your business such as smart contracts for claims processing, purchase and sale of data or other 'policy assets', business workflows and compliance, and economic efficiency of crypto currency to transfer value instead of fiat currencies, to name but a few.

And as you explore your use-case, don't be shy in asking apparently basic questions. Last summer I was asked a great question – what is the benefit of blockchain compared to technology built on a well-structured, secure database? My answer at the time was the MVA (Minimum Viable Answer) so I went away and thought about it. Really thought about it. At the time we were developing our blockchain strategy using both Hyperledger and Ethereum, so we already had at least some real-world experience. After this period of reflection, I concluded that the core advantage of blockchain to our users is the independent verification of data. This could change, but for now that's the primary blockchain benefit for us – the independent verification of data.

And that's not to be dismissive of other benefits. Independent verification of data is incredibly powerful. If you take exposure information today, regardless of the data type and use, in most if not all cases it has been produced or manipulated by someone with a vested interest and a focus on their role in the lifecycle of that data. As schedules of exposure information are created and transferred from the insured all the way through the carrier, reinsurer and into the capital markets,

it could be touched by 20 stakeholders or more. Each has a purpose for the data, and anything not required is not cared for or is potentially left behind.

There's nothing divisive in the processing or editing of the data; it's actually rather pragmatic in many cases... take a look at schedule of values and try to avoid wondering what all these columns are for! When the data eventually arrives at its destination, it's incomplete and in many cases not fit for purpose. The power of blockchain in this use case is independently verifying what data was available when. As simple as that.

Of course, one must bear in mind that independent verification of the data is very different from verification that the data is correct... or useful! It's just verification that the data is what the creator says it is. And how is that useful in practical terms? In lots of ways. For example, to retrospectively understand what data was known when a claim is being assessed is very important... and to have that independently verified could make all the difference in settling a claim. Today, the independent verification is missing and blockchain can provide that. Currently, blockchain is the only way to provide that.

Continuing to focus on all that blockchain is, or all that it can become, goes against one of the core beliefs everyone in Insurtech should hold dear... move fast and break stuff. Waiting to implement blockchain for an entire process is unlikely to be successful. Deconstructing the potential benefits leads to the identification of the key use case for your business; use this as the basis for embracing the technology, allowing you to deliver your blockchain MVP, learn about the benefits and challenges, and then go again... and again. Realise the small changes with the right technology at the micro-level and before you know it you'll have created positive change across parts of your business at the macro-level.

If you'd like to chat about this then drop me a note; I'd be delighted to discuss anything blockchain, API, ML, AR, or even AI if there's coffee on offer.