



HOLBORN™

Our Independence. Your Advantage.

ViewPoint

Analyzing Industry Issues from an Independent Perspective

B3i

Breaking down the basics

The importance of efficiency and customer-focused strategy has born B3i. Built on the concept of a Smart Contract and utilizing Blockchain technology, B3i intends to be a disruptor in the re/insurance industry.

B3i is the acronym for the Blockchain Insurance Industry Initiative, an initiative supported by a group of fifteen European, American and Asia re/insurers. B3i will build a system to streamline the execution of reinsurance transactions by automating much of the process, including contract drafting, negotiation, premium calculation, and claims handling.

FIRST THE BASICS

A Smart Contract is an agreement between two (or more) parties written in if/then statements. Once one or more conditions are met, an action is performed, without the need for human interaction.

“...a system to streamline the execution of reinsurance transactions...”

Should a trigger not be met, all actions on that contract would cease and require human involvement. In large part, the current use of Smart Contracts is for agreements that automatically happen.

The technology that supports the security of these Smart Contracts is Blockchain, a name for coding encryption also described as “distributed ledger technology.” A Blockchain is a database that maintains a continuously-growing list of records called *blocks*. Each block contains a timestamp and a link to

a previous block. With each transaction, blocks are added and linked with the prior block in chronological order. Each are dependent on the prior and any change can only be effected if the prior block also changes. The technology is considered secure, and includes the ability to store digital signatures. The decentralized system of the Blockchain eliminates risks associated with centrally held data by eliminating any single “official” copy and not trusting any particular user over another.

GOALS OF B3i

The stated goals of B3i include cutting down on the administration of paperwork and forms in order to provide coverage. It is estimated that a reduction in manual reconciliation and operational risk can lead to efficiency gains of up to 30%, equating to a combined ratio improvement of 0.5%. Architects of B3i envision four stages of reinsurance placement benefiting from this technology.

Draft a New Contract

B3i will enable the drafting of contracts using standardized clauses, without the ability to alter or amend. The perceived result is 100% contract certainty and operational risk reduction. There will be no need for emailing various drafts of the contract and wet signatures. Agreement in the Blockchain sets the rules and triggers for the response or payment.

Negotiation and Signing a Contract

Contracts are agreed with a trackable digital signature and stamp. The responsible party is easily identified, as well as the contract version – and ensuring 100% contract certainty. At this stage, the inclusion of broker negotiation and integration is not available, but in the development stages.

Premium

Manual calculations are eliminated, with all premium remittances automatically generated in the system. This reduces any delay in cash transfer and open receivables, making it easier to manage cash and credit. Benefits are also seen when dealing across currencies.

*“...caution should be taken
in the commoditization of
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Claims Handling

Again, efficiencies in claims calculation, billing and payment distribution through automated systems. A dashboard is already in place to report on every payable or receivable for each claim tied to a particular contract. Cedents will be able to more effectively manage their cash position.

LIMITATIONS

Blockchain’s protocol and decentralized approach, in theory, provides security against hacking or fraud; however, in a decentralized environment, security is enhanced by mass adoption – which may or may not occur with B3i on a sufficient scale. In addition, standardization of contract terms is not always advantageous. B3i relies on ACORD Insurance Industry standards, which limits contract flexibility and nuanced coverage required by some buyers and sellers. The (re)insurance industry is constantly evolving and responding to the current need. It is important not to lose this creativity, which could result from forced standardization.

CONCLUSION

Holborn prides itself on delivering custom solutions for clients’ business issues, while maintaining an eye on the future and best practices. Because reinsurance is inherently flexible and tailored to individual need, caution should be taken in the commoditization of the industry.

Holborn will continue to carefully monitor the technology and development of B3i. As it evolves, and potentially offers broader cost saving solutions to our industry, Holborn will be ready to respond with the best solutions for each client.

