The utility of Distributed Ledger Technology in facility arrangements for Brokers and (Re)Insurers
One of ChainThat’s available products is our ‘Facilities’ platform. This application supports the placement and negotiation of a Facility contract and its terms between broker and a panel of (re)insurers and then supports the placement of individual risks under the facility’s terms with that panel. This provides a comprehensive and flexible solution that supports both the broker’s and carriers’ needs for sharing and coordinating data within these facility type arrangements. These facility arrangements have become increasingly commonplace, consequently, this article looks at the rise of Facilities and the challenges these arrangements bring.

Promising efficiency

Using facility contracts to do business between (re)insurers and brokers has a number of advantages, including:

— reducing the administrative burden of repeatedly setting up contract terms for every policy where those terms tend to be common or only varied slightly across a line of business;
— speeding up the end-to-end placing process to provide a better experience to clients;
— allowing the placing process to focus underwriter and broker effort on the material activity of establishing the risk premium and associated conditions (e.g. deductibles);
— allowing brokers a level of assurance that they can create markets for new products and place that product with (re)insurers;
— allowing (re)insurers to identify, predict and manage their capacity and risk appetites internally and make overall commitments on these to brokers.

That, of course, is the theory.
Accompanying challenges

There are also a number of real and perceived perils associated with the rise of facility contracts and their ability to make the market more effective. For example:

- the growth of many different and custom facilities without adequate technology support platforms increase (re)insurer’s administration costs because use of ‘paper based’ and manual approaches are proliferated, and each facility requires tailored handling;
- broker’s digital facility platforms have typically focussed on supporting the broker’s activity and not the joint needs of broker and carrier to work effectively;
- provision of digital data to support carriers has been viewed by brokers as a source of additional fees / revenue from carriers because this typically requires new work to create such data from their internal systems.
- the perception that facilities are being used to exert control over the distribution chain and the market’s competitive processes.

Indeed, some of these topics concern the FCA and underwriting facilities are one of the topics of their current “Wholesale Insurance Brokers Market Study”. The FCA has raised questions that tackle a number of these points.

ChainThat is, of course, an insurance sector business solutions provider who uses distributed ledger technologies to provide innovative solutions to the market. So, where do such distributed ledgers come into play when looking at the placement and management of facility-based contracts? What can they do to support this part of the market and how can distributed ledger approaches make a difference?

Recognising changing relationships

First, it is worth recognising that facility contracts create a subtly different relationship structure in the insurance market. Facility arrangements create stronger business ties between a broker and groups of (re)insurers, thus a homogeneous market with many relationships becomes more subdivided into loose mini-groups or ‘mini-markets’ centred around facility arrangements. Of course, such mini-markets are not permanently fixed; participants can, over time, move between relationship groups based on the participation in facility arrangement. This is illustrated below.

Distributed Ledgers are all about business networks and the diagram shows the that there are loose and tighter couplings within the insurance markets and that these evolve over time with competition and external challenges. As noted earlier, as the market has moved to introduce more facilities, part of the effect is that barriers can get erected around these commercial structures. Individual brokers have unique ways of operating that tend to lock (re)insurer participants to them and carriers have to bear the cost of supporting these and the multiple digital platforms that grow around them. Distributed ledgers have the unique ability to support many business networks within an overall market ‘eco-system’. Indeed, that eco-system can be much broader than just, say, the London Insurance Market; it can cover the global insurance market and, as likely, the wider financial and capital markets which ultimately underpin and allow the insurance markets to work.

The diagram on the following page shows how DLTs can help and evolve this market to the benefit of all.

Facility driven realignment

Before:

![Facility driven realignment Before]

After:

![Facility driven realignment After]
Shaping a common environment

Using DLT-based platforms to support individual facilities (DLT1) does not limit or change the way facilities can be used to enhance or facilitate this business. However:

- it does pave the way to common rather than proprietary ways of working between participants in facilities and leads to common working standards;
- (re)insurers benefit from this alignment and are more able to align their overall administration and operations rather than suffering ever greater fragmentation;
- brokers benefit from being able to attract (re)insurers at a lower cost of entry because the DLT platform can leverage capability from across the market;
- brokers can also demonstrate their structures support and drive competition while also benefiting from being able to drive down their own administration costs;
- the digital nature of DLTs then drives the joint operating efficiency, that was the original promise of these facility arrangements, through automation, straight through processing and removal of costly checking and reconciliation tasks – these efficiencies can extend right across placing, accounting and payments and into claims;
- the DLT approach uniquely ensures these operational efficiencies are achieved with absolute certainty that each party’s data is secured, shared only with those other trading parties that need it, and is auditable and has provable data integrity to ensure there is a ‘single version of truth’ between trading parties.

Clearly, the market operates in a very competitive landscape and this adoption is more likely to be a natural evolution based on business cases and market forces. Although regulation might become an accelerator.

The second but perhaps parallel effect is shown in the ‘DLT2’ diagram. So far we have only considered broker-led facilities. However, there are analogous groupings in the (re)insurer world where (re)insurers pool their resources to deliver a ‘package’ to brokers. The syndicated London market is the most obvious model and DLTs have the capability to revolutionise this sharing of process and data between market participants at this scale too. Notwithstanding that parallel, there are also different versions of this that are ‘mini insurer groupings’. Co-insurance or delegated authority Line Slips are such models of carrier-based facilities. Again, as with broker facilities, such shorter-term arrangements are often hampered by the ability to support essential processes and information sharing except by ponderous and expensive manual processes. DLT platforms will allow (re)insurers to quickly create new flexible partnerships to increase insurance capability and drive greater competition in London and internationally.

Ultimately this combination of delivering on the promise of immediate and real reduced operating costs for each party using a DLT facility platform and the incremental creation of an increasingly common straightforward trading environment will help reinvigorate the insurance markets, ensure the competitive environment flourishes and delivers the insurance services that clients need.

How DLTs can help

DLT 1: Greater market efficiency and interoperability

![Diagram of DLT1](image1)

DLT 2: More business model and flexibility

![Diagram of DLT2](image2)

Beyond ideas

ChainThat’s platforms are already able to configure, deploy and run to support and drive these new ways of working across the London and global (re)insurance markets.