Discussion paper on blockchain and smart contracts in insurance: EIOPA invites comments

NEWS
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The European Insurance and Occupational Pensions Authority (EIOPA) published today a discussion paper on blockchain and smart contracts in insurance. The aim of the paper is to provide a high-level overview of risks and benefits of blockchain and smart contracts in insurance from a supervisory perspective as well as to gather feedback from stakeholders.

On one hand, blockchain has the potential to deliver key digital opportunities, reduce duplication of processes, increase process automation and efficiency, enhance customer experiences, and improve data quality. On the other hand, the adoption of blockchain may also trigger new risks to insurers, supervisors, and consumers. As blockchain technology is still evolving, several challenges are emerging, such as the complexity of the technology, energy consumption, data protection and privacy, cyber risk, integration with legacy infrastructures, or interoperability and standardisation between different blockchains.

Although the current regulatory and supervisory framework can be considered mostly effective to address emerging risks, specific issues should be considered, based on the evolution of the technology and its uses in business processes. It is important to ensure appropriate understanding by insurance undertakings and supervisors as well as proportionate governance policies and processes, to guarantee that all relevant risks are identified and properly managed.

EIOPA invites stakeholders to provide their views to this discussion paper by filling in the EU survey by 29 July. The feedback is welcome to all parts of discussion paper covering blockchain, smart contract and crypto assets use cases in insurance, related risks and benefits and regulatory barriers as well as possible European approach to blockchain and smart contracts in insurance. EIOPA will assess the feedback to better understand and address blockchain developments in the insurance sector as well as the risks and benefits related to them.

Download the discussion paper

Respond

Background

Distributed ledger technology (DLT) enables parties with no particular trust in each other to exchange any type of digital data on a peer-to-peer (P2P) basis with fewer or no third parties or intermediaries. Blockchain is a subset of DLTs, using ‘blocks’ of information to keep track of data transactions in a distributed network of multiple nodes or computers.

From an insurance perspective, one important element for using blockchain in practice is smart contracts. Smart contracts are deterministic computer programs that are deployed and executed on a blockchain and that are capable of carrying out the terms of an agreement between parties without the need for human coordination or intervention. These agreements can be recorded and validated into a blockchain which can then automatically execute and enforce the contract.