





# Digitalisation in insurance – challenges from a supervisory perspective

## Navigating the next industrial revolution



Revolution	Year	Information
	1	1784 Steam, water, mechanical production equipment
	2	1870 Division of labour, electricity, mass production
	3	1969 Electronics, IT, automated production
	4	? Cyber-physical systems



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# Why should supervisors care about digitalisation? (1)

- As a generally accepted principle, supervision should be technology-neutral: regulation/supervision should neither encourage nor discourage financial innovation and digitalisation.
- However, supervisors must dispose of and effectively use adequate tools to achieve a similar level of policyholder protection across different types of technologies and business models.

## Why should supervisors care about digitalisation? (2)

- Supervisors have constantly been alert when insurers were changing their business models and looked carefully into the potential impact of such changes. As digitalisation becomes increasingly important, insurance supervisors should monitor whether insurers adequately adapt their business models (need for even ‚disruptive changes‘).
- Where insurance products can be sold more easily, bad products or misselling practices may quickly affect a large number of customers, result in losing trust in insurance and even have systemic or significant societal impact.

## Scope of regulation/supervision (1)

- More segmented value chain with more players => need for clarity which activities or processes are within the scope of regulation/supervision and which are not. Assessment requires precise information on all relevant features of the business model. ‚Sandboxes‘ must remain within regulatory boundaries.

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- Peer2Peer insurance, CrowdInsurance etc. – Do we need to define a new borderline between regulated and unregulated activities? Do we see a real renaissance of mutuality or could we potentially expect ‚misuse‘ of such concepts under the umbrella of regulated insurance providers?

## Scope of regulation/supervision (2)

- In the digital world, monitoring business operations becomes much more difficult and supervisory tools need to be adapted to the digital environment. In the new technological environment, what level of policyholder protection do customers require and what costs are they prepared to bear?
- Through new technologies, detrimental products or business practices can spread out extremely quickly. Consequently, time becomes a more relevant issue for supervisors and speediness of supervisory actions and court procedures becomes more important.

# Business models / Risk management

- Use of big data could result in
  - an improved assessment of risks, more adequate pricing of risks and better risk management; but also
  - potential unavailability of insurance cover for certain risks => exclusions may have severe social, societal and political implications. Those outcomes may, in turn, trigger political response (e.g. disallowing certain risk differentiations, obligatory coverage) which could potentially undermine proper risk management and sound business strategies.
- Insurers and related service providers will be highly exposed to cyber risks. Therefore, robust cyber risk management will be a prerequisite for carrying out digital insurance business.

- People get increasingly used to sharing personal information through the internet. For insurance contracts, even more sensitive information might have to be shared. How can we make sure that the customer is aware of the potential consequences and risks of sharing personal data?
- Are products tailored to the customer or tailored to the insurer? Customers might not be aware which information the providers are using when offering insurance products. Should legislation require a certain level of transparency of the information used for insurance offers?



- Supervisors cannot monitor highly individualised products as if they were still simply standardized mass products. In order to maintain effective business conduct supervision, supervisors need to better understand the way in which insurers use customer-related information. This requires new supervisory techniques.

# Information and transparency (1)

- Do policyholders understand the different roles of service providers in the new environment with a more segmented value chain and an increasing number of players?
- People can buy insurance no matter where they are, at any time and as easily as hiring a cab or booking a hotel room. How can we make sure that customers are aware that entering into an insurance contract is different from doing a simple cash transaction through on-line banking?

## Information and transparency (2)

- Different levels of ‚digital literacy‘ between different parts of the population – those who are part of the digital world and those who are not – need to be reflected in the requirements for information provision to policyholders. Customers may expect to receive all relevant information in the way they are communicating.
- In order to really reach the intended recipient, information provision to policyholders should keep pace with the technology used by the respective customer groups (e.g. smartphone display vs. print-outs in black and white).

# What remains do be done by supervisors?

- „(.....) regulators must continuously adapt to a new, fast-changing environment, reinventing themselves so they can truly understand what it is they are regulating. To do so, governments and regulatory agencies will need to collaborate closely with business and civil society.“

*Klaus Schwab, Founder and Executive Chairman of the World Economic Forum*