



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public Background Session:

Issues Paper on the Increasing Use of Digital Technology in Insurance and its Potential Impact on Consumer Outcomes

IAIS Secretariat

Basel, 1 August 2018



Overview

1. Introduction
2. Public Consultation/Public Background session
3. Objective of the Paper
4. Structure and Main contents of the Paper
5. Next Steps
6. Questions from participants

Public Consultation and Public Background session

- Development of Supervisory and Supporting Material by IAIS is subject to Public Consultation
- Part of the consultation is a Public Background Session to provide background information, describe the subject matter and specific issues
- Comments to be submitted via the Consultation tool on the IAIS website Non-Members

Objective of the draft paper

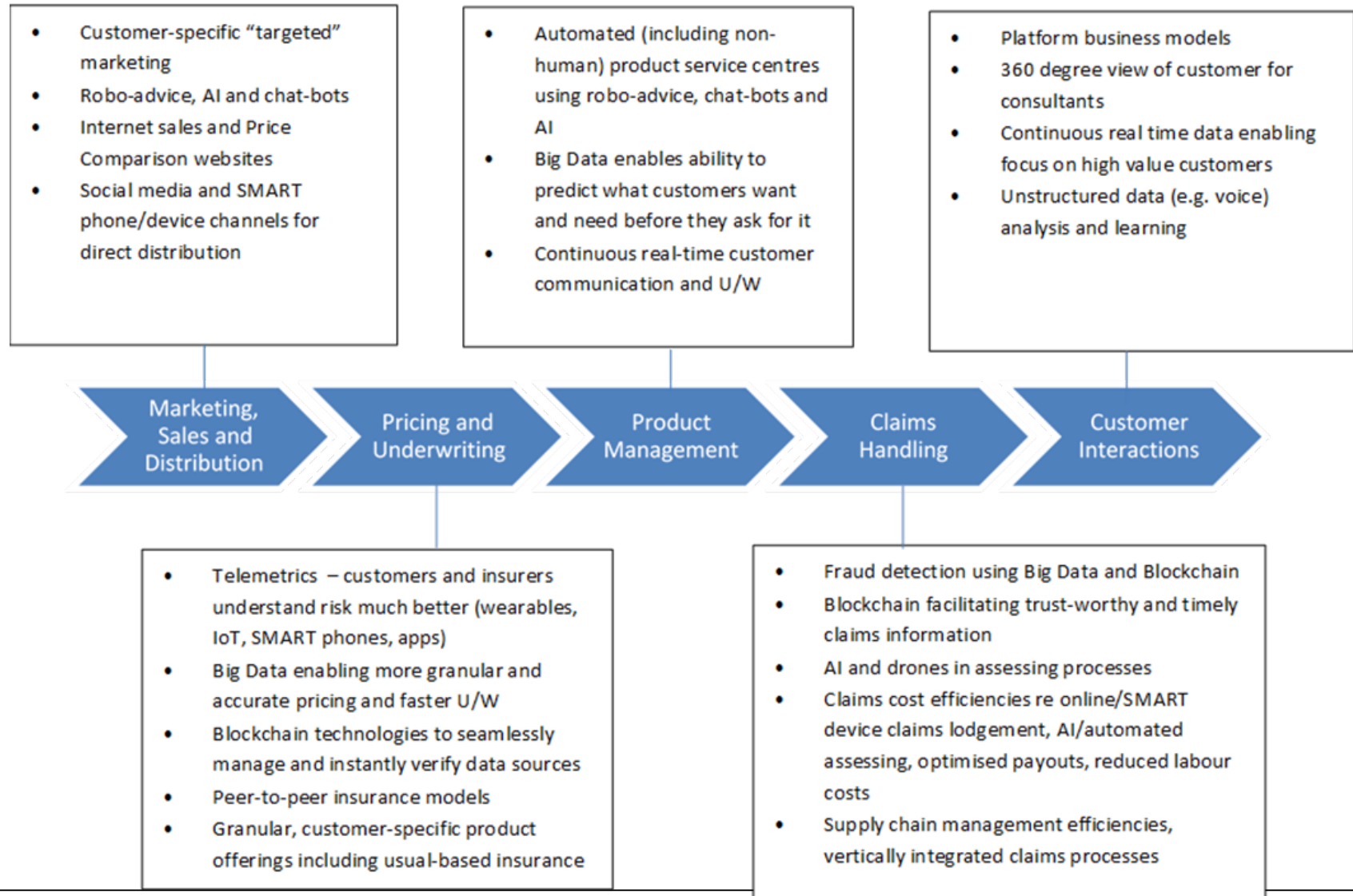
- The purpose of this paper is to consider the impact of the increasing use of digital technology in insurance.
- Digitalisation can be of benefit to consumers. It could also give rise to risks that impact fair consumer outcomes (contrary to the Conduct of Business requirements in ICP 19).

Related MCWG workstreams

Issues Paper on the Increasing Use of Digital Technology in Insurance and its Potential Impact on Consumer Outcomes

Issues Paper on the use of personal and other information in the conduct and supervision of insurance → use of data

Insurance value chain



Structure of the draft paper (1)

Contents

Executive summary.....	4
Acronyms.....	6
1 Introduction	7
2 Product Design	10
2.1 Digitalisation Impact on Product Design.....	10
2.2 Examples of digitalisation impact on product design	11
2.2.1 Background.....	11
2.2.2 Shared economy.....	11
2.2.3 Usage based insurance	12
2.2.4 On-demand insurance	13
3 Marketing, Sales & Distribution	15
3.1 Marketing and promotions.....	15
3.1.1 Benefits and opportunities.....	16
3.1.2 Potential Risks	16
3.2 (Robo) Advice	18
3.2.1 Types of advice.....	18
3.2.2 Benefits and opportunities of robo advice	18
3.2.3 Potential risks	19
3.3 Price Comparison Websites	20
3.3.1 Benefits and opportunities.....	20
3.3.2 Potential risks	21
3.4 Disclosure and informed decision-making	22
3.4.1 Benefits and opportunities.....	22
3.4.2 Potential Risks	23
4 Supervisory issues	25
5 Conclusion and recommendations	32
Annex: Digital technologies and alternative business models affecting insurance business	33

Structure of the draft paper (2)

- Section 2 considers the impacts of digitalisation on product design and underwriting. This will include discussions on live examples;
- In section 3, robo advice and price comparison websites are considered to illustrate digitalisations impact on the marketing, sale and distribution of those products; and
- In section 4, the paper assesses the challenges supervisors face in responding to these changes.

Conclusions / summary (section 5)

- Digital innovations can potentially improve the customer experience and reduce insurers' operating cost.
- Due attention needs to be given to achieving fair customer outcomes in terms of suitability of products and soundness of IT processes including design and use of algorithms and use of customer data.
- Supervisors need to balance risks of innovations against the benefits for policyholders and the insurance sector.

Recommendations (section 5)

Supervisors should:

- a. develop a thorough understanding of how innovations work and are applied to ensure a proper assessment of new product and business models, and the design and functioning of the IT architecture, infrastructures and processes, and how this is catered for in the insurers' risk management framework.
- b. develop new tools and skills for supervision of digitalised insurers, enhancing cooperation with financial and other authorities, safeguarding the supervisory perimeter to prevent regulatory arbitrage and enhancing information security.
- c. consider establishing guidelines for appropriate and responsible use of new technologies to safeguard the fair treatment of customers and - for example in the use of AI and robo advice mechanisms – promote advice and services that are suitable and affordable for the customer.

Next steps

1. Consultation open as of 1 August for 30 days
2. Public background session on 1 August at 14:00 CEST (teleconference)
3. End of consultation: 30 August
4. Consideration of comments, revision of draft, final approval process: completed by end 2018
5. Stakeholder Feedback Session: to be planned later

Consultation tool

Comments to be submitted via the Consultation tool on the IAIS website

- Non-Members (consultations/current consultations):
<https://www.iaisweb.org/page/consultations/current-consultations>
- Members (Members Extranet: consultations and surveys/current consultations):
<https://extranet.iaisweb.org/page/projects-and-activities/consultations-and-surveys/current-consultations>

Questions?

Contact information

Peter van den Broeke
IAIS Secretariat

Telephone: + 41 61 280 8747
Email: peter.vandenbroeke@bis.org

c/o Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland
Website: www.iaisweb.org