22 March 2018

GFIA Response to IAIS Draft Application Paper on the Use of Digital Technology in Inclusive Insurance

General comments

Many of the comments regarding inclusive insurance apply equally to insurance distribution even in the developed world, particularly around the different types of new digital entities that fall in between the existing licensing laws (e.g, chatbots and other forms of Artificial Intelligence), making insurance more clear (i.e., more "plain English"), with digital features and ensuring that laws are keeping pace with innovation in the digital space.

Also, by not being prescriptive but by being inclusive as to how new technologies could improve access to insurance, benefits everyone. Recognising that digital records (e-signatures, electronic records, and DLT platforms) are just as good, if not better than, paper.

Questions from the paper

Q20: Comment on Paragraph 15

GFIA disagrees with the statement that "inclusive insurance is most relevant in developing countries, which are often characterised by low levels of insurance market development and limited skills in the insurance sector". In some markets there is a fully skilled insurance sector, but social and economic conditions might not be favourable to expand insurance, or there might be mistrust in the insurance sector given poor understanding of the use of insurance products. In contrast, in some developed countries, a large part of the population might form a significant underserved insurance market.

Q22: Comment on Paragraph 17

GFIA is of the view that adequate disclosure of product features and claims processes is particularly important for all customers, and not only for those with a low rate of financial literacy. While the use technology can assist the dissemination of information, existing legislation is some jurisdictions in fact prevents information being provided to consumers in a digital format, as paper requirements are the default.

Q25: Comment on Paragraph 19

GFIA agrees with the IAIS view that digital technology can either be a tool to enhance existing business models, or it can be utilised to form the heart of the model. In this regard, InsurTech start-ups and new entrants should be regulated on an activity basis and subject to the same rules as established firms to guarantee a level playing field and ensure equal consumer protection in every jurisdiction. GFIA takes the view that cases such as the one described for China, TongJuBao without an underlying insurance carrier, should be regulated to avoid confusion among customers about what is and what is not insurance.

Q37: Comment on Box Examples of Digital Technology Applications

Regulatory sandboxes can be useful in providing support for market innovation. National regulators should be encouraged to make use and to ensure they are available for established market participants and new entrants equally.

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Q42: Comment on Paragraph 33

In relation to “Paid Products”, the customer must have total awareness that they have insurance coverage.

Q44: General comment on Section 3.3

GFIA understands the importance of electronic signatures for policy origination and welcomes the initiative to promote their use. However, other biometric mechanisms can be considered for authentication and validation of purchases, such as facial and/or iris recognition.

Q48: Comment on Paragraph 36

GFIA would highlight that big data algorithms are calibrated constantly and any possible risk of excluding a customer profile is adequately managed. There is therefore no need for supervisors to carry out reviews of such algorithms in order to prevent the biased exclusion of particular groups of customers. Consumers are further protected because insurers must abide by unfair trade practice prohibitions and anti-discrimination laws in the relevant jurisdictions in their algorithmic underwriting.

With regards to the statement that it is necessary to enhance data protection regulation and risk management systems of insurers that employ financial innovations, such regulation is already in place in the countries where GFIA members operate, albeit to a varying degree. GFIA would therefore recommend avoiding more regulation that could end up creating overly burdensome compliance standards that, contrary to supporting inclusive insurance, could create obstacles for its development. Under new regulatory regimes based on risk management, these risks are already managed and controlled by insurance companies as part of their corporate governance.

Regarding the 6th bullet point, instead of more regulatory scrutiny of algorithms to address affordability concerns, perhaps the focus should be on government risk pools for the more difficult risks. Regulators could be (inadvertently) creating discrimination if, for example, they do not permit some of the underwriting criteria used outside of the inclusive insurance environment, within the inclusive insurance environment. Ultiamtely, premium is based on (or relative to) risk. If an insurer cannot adequately judge the risk because underwriting information is not sufficient, they will make assumptions as there is always room in rating plans which could then cause premiums to be higher than they would otherwise be. As insurance is not a non-profit industry, and some risks are higher than others, government risk pools may be an answer versus highly scrutinising insurer algorithms.

Regarding the 7th bullet point, existing data protection laws and regulations are adequate to protect data collection for big data/data analytics. Instead of creating additional laws and regulations on top of existing ones, there should be an analysis of where the existing laws are deficient, if at all. Regulation for the sake of regulation, simply because something is new never serves any industry well.

Q54: Comment on Box Observed Practices

Regulation should provide that these models operate in sandboxes for a period, and later apply to insurance companies.

Q58: General comment Section 4.2.1

GFIA considers that adequate exchange of information between involved supervisors needs to be arranged, in particular between insurance supervisors and telecom regulators.

Q60: Comment on Paragraph 43

Paragrpah 43 establishes that “insurers’ use of digital techniques or telecommunication should not limit the formal powers of the insurance supervisor, particularly if other regulators are involved. The same principle applies to the ongoing review of intermediaries”. GFIA fully agrees with this principle and considers that data protection laws must be observed to protect any data transfers made among supervisors. However, supervision of the insurance product and the customer journey regarding such products must rest with the insurance supervisor.

Q77: General comment on Section 4.2.3

GFIA is of the view that there is no need to have particular considerations for digital technology in inclusive insurance in regard to corporate governance and risk management, especially in those cases where a regulation requiring strong risk management is already in place. Setting additional requirements might result in an unnecessary exercise, given that the risk management framework would guarantee the proper handling of this new type of business.

Q78 : Comment on Paragraph 59

Restating a point made in earlier consultations, GFIA does not agree with this paragraph if it implies that policyholders have a legal standard to challenge corporate governance.

Q81: Comment on Paragraph 62

GFIA is concerned with the lack of standards and the subjectivity of this paragraph.

Q86: General comment on Section 4.2.4

When recommending supervisors observe these principles, caution should be taken given that in some jurisdictions there is a separate supervisor dealing with these topics (twin-peaks system). Prudential supervisors must communicate and coordinate with conduct-of business supervisors in order to avoid double regulation.

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About GFIA

Through its 40 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 61 countries. These companies account for around 87% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.