

## **GFIA response to the OECD report**

### ***Technology and Innovation in the Insurance Sector***

#### **Introduction**

GFIA welcomes the opportunity to provide feedback on the draft OECD report, *Technology and Innovation in the Insurance Sector*.

#### **Discussion Questions**

In which areas is innovation and technological advances having the greatest impact in your insurance market, and how are they affecting pre-existing processes and business models of insurance?

Technology and innovation in the digital age are resulting in a larger reorganization of the economy, changing the nature of personal and business risks, and changing consumer buying patterns. The reorganization of the economy resulting from the sharing economy, telematics, big data and automated vehicles is affecting or will affect the business of insurance. Yet the insurance demanded through this reorganization may not be compatible with the insurance products permitted for use under current insurance legislation and regulations.

As new data sources become available, for example, insurers will be able to make more accurate underwriting, rating and claims decisions. The proliferation of data and the technological advances enabling its capture and analysis currently exist. In some jurisdictions, using this data has had a profound impact on the P&C insurance industry, transforming general insurance product classes by enabling more accurate risk-based pricing. This has allowed pricing to move away from a community rating model to more individualized underwriting. However, in other jurisdictions, the data available from telematics devices and other sources of big data may not be compatible with market conduct and privacy regulations. This leads to an uneven application of technology in the insurance industry across jurisdictions, as some insurers are held back from using technology to improve their processes by dated regulations and policies.

Another benefit of the increase in data sources and the overall development of technology by insurers is the increase in consumer outreach and education on the benefits of insurance and available insurance products. Through the use of technology, such as websites and smartphone applications, insurers are finding innovative ways to communicate with customers. Technology also enables insurers to reach a broader set of potential customers, such as those who come from under-served markets and have greater difficulty accessing financial protection. Thus, with the help of technological innovations, the financial inclusion of these segments of the population becomes easier. Technology is also contributing to consumer financial literacy by creating multiple channels with which insurers can reach and inform people about such things as risk mitigation and personal safety measures.

As technological advances and innovations transform social and economic realities, the pace of policy and regulations should match the speed of change. In this dynamic and evolving market, where the direction of change is difficult to gauge, what insurers need are technology-agnostic policies and regulations. This will ensure that policies and regulations remain relevant regardless of advances in technology.

What form of authorisation have InsurTech start-ups in your market gained, and has there been interest in developing different platform for enabling start-ups to experiment? If so, what are the criteria used to assess the appropriateness of participating in the platform, and what are deemed the regulatory requirements that are indispensable to all market players?

Each jurisdiction has a different experience with InsurTech start-ups. Collaboration can be of mutual benefit to both incumbent insurers and new market entrants. Incumbent insurers can provide new entrants insight on the consumer, the market, and how to deliver products within the regulatory framework. New entrants can bring fresh perspectives and ideas on the application of new technologies, processes and concepts to enhance customer experiences and create new market opportunities. However, insurers are concerned about government responses that create a two-tier system of regulations, whereby established insurers are at a disadvantage relative to start-ups.

Some insurers have expressed interest in the development of a regulatory sandbox, whereby regulatory standards are relaxed to encourage the development of innovative products that benefit both insurers and consumers. Insurers believe that the sandbox should be accessible to both incumbent insurers and new market entrants. If the objective of the sandbox is to encourage new innovations, then no party should receive favorable treatment in the sandbox. Questions remain as to the actual sandbox construct and whether additional laws and regulations are needed to allow for its use. This would likely differ from one jurisdiction to another. One major consideration would be the confidentiality affiliated with the sandbox given the highly sensitive and proprietary nature of any ideas developed within the sandbox.

What wider policy, such as data protection or electronic ID, are likely to contribute to InsurTech developments?

There is little doubt that usage-based insurance pricing (UBIP) will impact the business of insurance. The report rightly mentions telematics and UBIP in paragraph 53. Something worth considering in this report is that vehicle manufacturers have exclusive access to much of the vehicle data being generated. Some GFIA members in Europe are concerned about a recent development concerning access to in-vehicle data. European automobile manufacturers and suppliers have proposed that “relevant” data obtained from vehicles would be communicated in a secure manner between the vehicle and an off-board facility, from where market participants (such as insurers) could access the data. Through a joint statement, Insurance Europe and other stakeholders expressed concerns that consumer interests were not being considered in the development of this technical solution concerning access to in-vehicle data, since the solution prevents vehicle owners from deciding who to share their data with and for what purposes. Instead, they propose the development of a standardize in-vehicle open-access platform that would ensure the same high-level of security, safety, liability and data protection as the vehicle manufacturers’ solution. This platform would enable insurers and other third parties to access information from the vehicles, thus safeguarding competition, innovation and consumer choice.

In Australia, the government is conducting a wide-ranging inquiry into data availability and use. The purpose of the inquiry is to investigate ways to improve the availability and use of public and private sector data, including how consumers can use and benefit from access to data about themselves. Reforms are expected to encourage more transparent use of data and wider community and individual access to data. This is likely to result in greater proliferation of data throughout the economy and accelerate the trend towards use of big data in insurance. Importantly, the reforms are likely to encourage broader access by consumers to data collected about them. This may encourage innovation in insurer point-of-sale systems and other product comparison services.

Beyond regulatory sand box approaches, what ongoing monitoring of InsurTech is being planned by regulators?

Regulations exist to achieve social, political, economic and environmental objectives that could not otherwise be achieved in a competitive marketplace. In the insurance industry, regulations primarily exist to protect the

consumer. Technological innovations not only increase convenience, but can also be effective in achieving policy objectives set out in regulations. The insurance industry has long advocated for governments to ensure that regulatory frameworks reflect modern day realities, so that insurers can innovate and meet the expectations of consumers. As such, insurers would like to see governments removing outdated regulations that hold the industry back from innovating. Furthermore, for innovation to occur, whether initiated by start-ups or by incumbent insurers, governments need to ensure regulations are minimally intrusive on market forces and do not unnecessarily impede competition in the sector.

What next steps should be taken by the Committee to further address the issue to InsurTech? How could the Committee further develop an output that would be beneficial to delegates and have a policy impact?

InsurTech and innovation is not only achievable through start-ups. Incumbent insurers themselves are already hubs for innovation. For innovation to occur, it is important for the regulatory framework to be technology-agnostic and clear to insurers. Accordingly, a thorough review should occur by regulators and government, in consultation with insurers, to ensure regulations are not causing undue friction for innovation.

GFIA has identified the following roles that the Committee could take to address InsurTech.

1. Develop a more robust stock-taking of regulatory responses to technological innovation. The industry must work together to ensure an appropriate balance between regulatory oversight and innovation so as to encourage continued technological enhancements for the benefit of the customer. Therefore, it would be helpful if the Committee would document what different regulators are trying and planning to try with regard to innovation. This would also include tracking any innovative product or new market entrants that are unsupervised or supervised by a non-insurance regulator.
2. Begin a process to draft/document “best practices” for promoting innovation in emerging and developed markets. This could provide overarching guidance to OECD members when addressing innovations and enabling their positive and stable growth. The Committee could focus on obstacles, both regulatory and technological, which prevent innovation in insurance.
3. Continuously document new technological innovations as the list of applicable ones to the insurance industry will continue to grow and evolve as this market continues to develop.

## **Conclusion**

Insurers want to be on the frontline of innovation. However, in order to do this, what is needed is a thorough vetting of existing regulations to bring them into the digital age. By ensuring regulations are technology-agnostic and allowing incumbent insurers to embrace technology, regulators will be creating an environment of innovation. In many jurisdictions, the regulatory restrictions are cumbersome and outdated, so it is not enough to alter the regulatory environment to help start-ups. Instead, holistic regulatory changes need to occur that will create an environment conducive to innovation whether initiated by start-ups or incumbent insurers.

## **About GFIA**

Through its 41 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 60 countries. These companies account for around 87% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.