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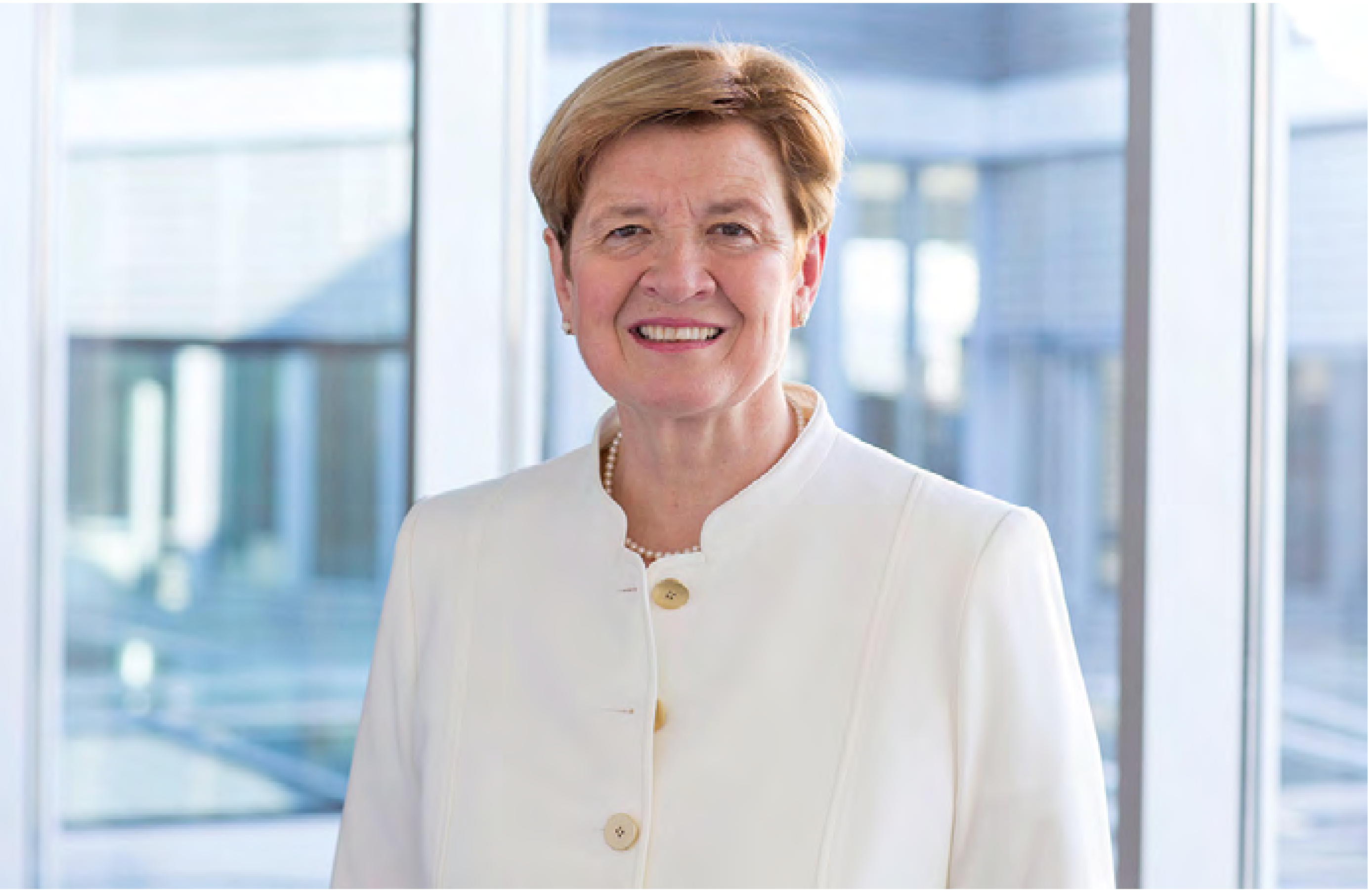
InsurTech Paving the Way to Change the Insurance Regulatory Landscape?



InsurTech as part of FinTech is developing rapidly. Numerous new technology-enabled processes are designed to enhance interaction with policyholders; others are aiming at promoting broad Big Data-based underwriting and efficiency within insurance undertakings.

Regulators at global, European and national levels are watching these developments attentively, while offering regulatory advice and sandboxes for testing new ventures. However, to date little insurance regulatory action has been taken although there is a growing need for considered regulatory responses while maintaining sound risk management.

Changing Landscape

Through technology the landscape of providing insurance services is changing rapidly, as is the case in many other industries.[1] InsurTech affects the entire value chain from product design to distribution[2], direct customer contact, underwriting[3] and all the way through to claims management. This may happen through artificial intelligence, datafication, automation, robotics and the Internet of Things[4] as well as to Blockchain initiatives such as B3i.[5]

At the same time the business configurations to provide insurance services involved are changing. **Separate** InsurTechs are mainly active as distributors, often in models similar to brokerage. Aggregators provide comparative information. Adjacent players assume an increasing role as sellers of non-insurance products combined with insurance features.

InsurTechs also **assist incumbent carriers and intermediaries** to enhance their processes: In cooperation with InsurTech firms, traditional insurance carriers are enhancing their digital and direct approach to customers. At the same time, with the aid of InsurTects, incumbents are redesigning their internal processes relating to underwriting, claims and other activities in order to become more efficient. To date, however, there are not (yet?) many new digital insurance companies. Noteworthy are several big joint ventures in China between insurance companies, providers of other goods and services and technology companies; a prominent example is the recently IPOed Zhong An.[6] Furthermore, there are some new digital insurance companies in the US such as Lemonade[7] and now also in Europe such as One Insurance.[8]

On the one hand, these developments represent a strongly intensified focus on customer needs based on an analysis of customer behaviour and data. On the other hand, they also reflect an intensified cost and efficiency orientation of insurance carriers and intermediaries, in which technology has already played a role in enhancing production for decades.

Regulatory Developments to Date

To date **regulatory activities** have been of a stocktaking nature while highlighting the general principles for further evolution. The global standard setters and select national regulators and supervisors have expressed themselves on FinTech or, more specifically, on InsurTech. At the forefront are the pronouncements of the G-20 Finance Ministers[9] with a view to enabling technological progress while maintaining financial stability. The FSB has developed a framework to assess the benefits and risks of FinTech in its report on Financial Stability Implications of FinTech dating back to June 2017.[10] Based on the FSB invitation, functional standard setters have assessed the situation in their area. The International Association of Insurance Supervisors IAIS released its report on "FinTech Developments in the Insurance Industry" in February 2017[11] which represents a comprehensive stock-taking of recent developments and an assessment of benefits and risks against several scenarios.

On a regional EU level, monitoring has also intensified with the objective of developing a FinTech Agenda[12], with the ECB being attentive to benefits and potential risks building up.[13] Some jurisdictions have advanced initiatives in terms of advising new ventures, with some supporting testing initiatives in sandboxes (e.g. UK,[14] Singapore[15], Hong Kong[16]) or, while being supportive generally, also increasing scrutiny (e.g. China[17]). Beyond this, banking-related proposals for regulatory action came through in Switzerland[18] and in the US[19], but to date not for the insurance sector. "Wait and see" seems the prevailing approach for the time being.

Areas Touching on Insurance Regulatory Matters

As in the past, the **balancing** of protection of policyholders, fair markets and financial stability against developments in technology, in behaviours and in the markets will serve as a sound guiding principle to assess the impact of InsurTech on insurance regulations. It is important to note that the resulting evolution is dynamic and may lead from a traditional sell-side market to a buy-side market in which consumers are gaining bargaining power. Concentrations may increase while in parallel value chains are broken off and fragmentation may grow. ▸

The resulting issues can be clustered in three boxes, namely regulatory content, regulatory methodology and impact on existing regulation. As to **regulatory content**, it will be important to review the scope or perimeter of insurance regulations. Some activities may no longer be considered insurance activities and will thus not be subjected to insurance regulations, but possibly to other regulations or to no regulations at all. Such activities should also be open to incumbents, in order not to disadvantage them by prohibitions from doing non-insurance business. Given the many distribution-related initiatives, it becomes evident that the currently existing definitions of roles of intermediaries might need to be opened up. In addition, there might be a need to rethink requirements as to the information of policyholders and products. Requirements as to form should be technology-neutral. Data protection may in the future increasingly be addressed through comprehensive concepts, not a series of individual norms, and it needs to be examined whether the protection levels should be modularized. Data analytics and segmentation could require specific governance arrangements, including random judgment calls to assess the outcomes. If cooperation models with other providers are used, there should be clarity about accountability and controls relating to the various partners. At the same time, it will be important to maintain the role of the insurance carrier as a genuine risk management hub overseeing comprehensively insurance liabilities and capital buffers as well as asset management in order to be able to honour claims in the future. The assessment of systemic risk considerations, particularly when partnering with large technology providers, is likely to increase. The need to watch the interrelation with rules developing in other sectors of the financial market will be key.

Regarding **methodologies** it is likely not to be sufficient over time to operate with advice and sandbox approaches, but well considered regulatory responses with specific special rules or exemptions, possibly combined with increased transparency and auditing requirements, which will become indispensable.

The **impact on existing regulation** most likely remains negligible in the near term, since the regulatory focus is likely to remain directed at monitoring and allowing testing environments. In the medium term, it is conceivable that clusters of specific technology-related regulatory clarifications will emerge, co-existing with traditional insurance regulations. They may be needed to address the revised regulatory perimeter, for instance, and to foster digital distribution and address the challenges of datafication. Given the rapid evolution, it will be important that such specific rules and exemptions will be developed for the many questions that warrant considered regulatory responses. In the longer run, however, it would not be surprising to see technology-driven new regulatory approaches impacting existing regulation. This process could result in a re-orientation of current insurance regulations on the essentials. It will always be vital to safeguard the honouring of future claims by each insurance carrier as a genuine risk management hub. Such a focus would, however, simultaneously allow for critical review, and in certain cases abandonment, of regulatory requirements having become obsolete. They could be found, as examples, in overextensions of the regulatory perimeter or in details regarding formalities and product-specific regulation. The synthesis evolving over a longer time horizon could result in a **renewed common approach to the future regulation of insurance**. ◆

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↗ E.g. Zhong An, please see https://www.the-digital-insurer.com/dia/zhong-an-chinas-first-complete-online-insurance-company/;
↗ investors paid USD 1.5 bn in the recent IPO <https://www.ft.com/content/424e7b36-9f5d-11e7-9a86-4d5a475ba4c5>

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