

## INSURANCE MATTERS

# DIGITAL TRANSFORMATION

*Digitalisation is driving societal progress in Europe, reshaping the way economies function, public services are delivered, and sustainability initiatives are pursued. At the same time, digitalisation comes with important challenges, in terms of data privacy, cybersecurity, and social inclusivity, as well as challenges in terms of creating a regulatory environment that is conducive to innovation and level playing field on the one hand, and consumer protection on the other. Furthermore, the digital transformation is expected to become increasingly affected by challenges arising in relation to environmental sustainability and resource scarcity, necessitating a shift towards more efficient and sustainable practices across digital infrastructures and supply chains.*

*Insurers contribute to digital transformation, first and foremost by helping building resilience in the face of increasing and evolving cyber risk. In addition to ensuring their own digital operational resilience, insurers increasingly offer cyber insurance solutions, which focus on prevention, risk management, and post-event support. Secondly, through their uptake of digital solutions, insurers increase efficiency, improve consumers' journeys, and promote financial inclusion. Finally, insurers' data use, which is inherent to their business model, is fundamental for risk analysis, risk mitigation and prevention, and, therefore, for offering services and products consumers need and expect. As such, insurers' use of data and technologies is pivotal to increasing the insurability of risks. It is also key for detecting and preventing fraud.*

### With insurance...



#### **(Cyber) resilience**

Insurance provides financial resilience to businesses in the face of unexpected disruptions, such as cyberattacks, natural disasters, or supply chain disruptions. Insurers can help businesses recover from such events, which otherwise would lead to significant financial losses and operational setbacks. Insurance therefore contributes to the stability and continuity of digital transformation efforts.



#### **Financial inclusion**

Through digital channels, insurers increase the access of individuals to insurance products and to pension savings, thereby enhancing the opportunity for people to get protection and ultimately boosting the resilience of vulnerable groups.



#### **Road safety and sustainability**

Through data access, telematics, and Internet of Things devices, insurers can offer more accurate pricing based on actual usage and driving behaviour, thus promoting safer conduct and potentially reducing premiums for low-risk customers. From an environmental point of view, in the motor area, "pay as you drive" or "pay how you drive" policies have the potential to encourage people to drive less and in such a way that their driving style keeps their emissions to a minimum.

### Without insurance...

#### **Disruptions and exposure for businesses**

Insurance plays a crucial role in mitigating risks associated with digital transformation. Without insurance coverage, businesses would face heightened financial exposure to potential cyber threats, data breaches, and other digital risks. This could deter companies from adopting innovative technologies due to fear of financial losses.

#### **Lack of innovation**

Insurance provides a safety net for businesses to take calculated risks and invest in innovation. Without insurance protection, companies may be more hesitant in their approach to digital transformation and in allocating resources to new technologies or ventures due to the perceived financial risks involved. This could stifle innovation.



Without insurance, businesses would face greater uncertainty, financial exposure, and reluctance to embrace digital technologies.

## WHY PRESERVING A LEVEL-PLAYING FIELD IS KEY FOR THE DIGITAL ECONOMY TO THRIVE

In the digital age, insurers are faced with several challenges in terms of competition, and this is directly affecting consumers. First, the entry of Big Techs into the insurance domain is poised to disrupt the level-playing field. With their resources, expansive customer base, and troves of data, Big Techs may circumvent regulatory requirements and oversight as they advertise, market, and distribute insurance products through their online platforms. Moreover, their use of aggregate data could potentially evade data privacy regulations. And while insurers' access to and use of data is increasingly subject to supervisory scrutiny, Big Techs are already monetising on the vast amounts of customer data they have access to, by providing personalised financial products and services.

Insurers are also faced with an uneven playing field in the context of access to car data, notably because in-vehicle data remains almost exclusively in the hands of car manufacturers, acting as the sole gateway to the data. Even when access is granted, it is usually costly and under unfair contractual terms, leaving insurers at a distinct disadvantage. Without direct, independent, unmonitored, and fair access to in-vehicle data, it will be challenging for insurers to introduce innovative products and services to consumers, such as advanced "pay how you drive" policies, theft notification systems, advanced breakdown services, and real-time traffic management solutions. Access to data that is necessary to establish the circumstances of an accident is also a precondition to insuring future autonomous cars.

Finally, policymakers' push for European digital sovereignty may imply new requirements that could adversely affect the agility of insurers, and, with this, innovation and competition, notably at a time when efforts are increasing to boost the transition towards a digital economy. For example, insurers should be able to scale up or down their use of cloud services, in line with changing operational demands and evolving customer needs, and not be faced with any restrictions to their choice of provider.

### INSURERS CAN DO EVEN MORE...

#### How can policymakers help?

##### **Remove barriers and ensure an innovation-friendly regulatory environment.**

- The regulatory and supervisory framework should facilitate a data-driven financial sector and support the uptake of new technologies. The adoption of new technologies and novel tools can bring various benefits, from enhancing the customer experience to fraud detection and providing innovative products or facilitating access to insurance protection.

##### **Ensure that insurers have access to and can make use of data to the benefit of customers**

- Without data, new insurance products cannot be designed, existing products cannot be priced, risks cannot be assessed, and prevention measures cannot be developed. Even if regulation prohibits the use of certain customer data for individual pricing decisions, the data is still needed to assess the overall risks and ensure future claims are being paid in line with customers' expectations.
- Additionally, in relation to access to in-vehicle data, sector-specific legislation is needed to fully enable customers to share data from their cars, if they wish so, with insurers. This would bring greater benefits through innovative data-driven products and services.

##### **Set up an "insurance expertise centre" within the European Commission**

- Serving as an insurance knowledge hub across Directorate-Generals, this would ensure that policy decisions and initiatives are taken on the basis of an understanding and recognition of the fact that insurers need data to continue to play their key societal role.

##### **Preserve the level playing field**

- Policymakers should address the risk of Big Techs not playing by the rules in a comprehensive and coherent manner and ensure a level playing field with incumbent insurers.
- It is also key that, before any new legislative requirement is put forward, an independent and thorough impact assessment is carried out to assess its potential impact on European companies' competitiveness and innovation.