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DIGITALISATION

Tomorrow's world

If insurers and their customers are to get the best from increased digitalisation, legislation must be future-proof

The insurance industry is constantly innovating to better meet the evolving needs and demands of consumers. Technological developments are significantly changing consumers' expectations of insurance, while the digital environment enables both established companies and start-ups to bring innovations to market much faster and to better meet these emerging needs.

The EU regulatory and supervisory framework for insurance should be conducive to innovation and allow consumers and businesses to benefit from the opportunities that digitalisation can offer. This is currently not the case.

There are still regulatory barriers to providing insurance to consumers online. For example, paper requirements were recently introduced as the default method of information disclosure under the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation (see p30). EU legal texts should be digital-friendly, technologically neutral and sufficiently future-proof; insistence on paper information provision does not reflect the growing digital trend. Such requirements only hold back innovation and the provision of online services, which consumers today expect to be easy to use and available.

Big data: big benefits

In today's digital world, enormous, unstructured sets of data can be collected from widely diverse sources. Mining this "big data" has the potential to bring benefits to consumers in terms of the insurance products available and their price, the way products are distributed and sold, customer service and claims-handling.

Insurers are currently exploring the many possible opportunities for using big data to optimise their business and the outcomes for consumers. These include: better analysis of whether products work as intended and

reach the right consumers; easier detection of fraud with resulting benefits for honest customers; better risk-management advice to consumers; more tailored products; and cover for previously uninsurable risks.

A comprehensive framework of EU rules — including the Insurance Distribution Directive and the General Data Protection Regulation (see p41) — ensures that big data is used responsibly in insurance. Data has always been vital to insurance; big data is set to be just as, if not more, important.

An additional requirement under the IDD that may present a barrier to innovation concerns the provisions on product oversight and governance (POG) and the specific requirement to carry out appropriate product-testing. In an environment of innovation, speed is key and product-testing is carried out in real time. It is therefore important to ensure that any requirement to carry out product-testing is reasonable and conducive to supporting innovation, and does not unnecessarily lengthen the time needed to bring innovative products and solutions to market. This should be the case regardless of whether the product is developed by an established insurer or an insurtech start-up.

Insurance Europe has also been stressing the importance of ensuring proper and consistent application of the principle of proportionality to insurance legislation to enable both established market participants and insurtech start-ups to provide innovative products and solutions, and avoid giving a competitive advantage to one type of market participant over another when the activity and risk are the same.

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Data challenges and opportunities

It is not only insurance-specific legislation that can present obstacles to innovation. Access to adequate data is of paramount importance to insurers and is at the heart of their business, allowing them to assess risks and informing their underwriting decisions, as well as to develop new and innovative products and services. This raises a number of important considerations that policymakers need to bear in mind.

For instance, due to the increased use of digital means, as well as EU legislation addressing companies' obligations relating to cybersecurity, the demand for insurance cover for associated risks is increasing in the EU. Insurance has a key role to play in helping to increase society's cyber resilience (see p38). Beyond compensating losses caused by cybersecurity incidents, insurers can help citizens and companies implement prevention measures to avoid cyber incidents as far as possible and to mitigate the effects of successful attacks as quickly as possible.

However, cyber insurance is still in its relative infancy. One of the reasons for this is that it is a difficult market to underwrite, characterised by a lack of data and by historical loss data that is of limited value because cyber risks are constantly evolving. Sharing information about attempted or actual cyber incidents

with the insurance industry is therefore vital. Insurers and policymakers need to work together to channel useful data so that cyber risks can be better understood and managed.

Insurers could, for example, be granted access to the (anonymised) data gathered as a result of cyber-incident reporting requirements, such as the notification obligations under the EU's General Data Protection Regulation and its NIS Directive on the security of network and information systems.

To support the discussions on this issue at European level, Insurance Europe has developed an EU template for data breach notifications and recommended that EU provisions be put in place to maximise the use of the data gathered under the different reporting requirements. These provisions should allow insurers to access this data in an anonymised format, which would help improve coverage and protection against cyber risks for companies of all sizes.

Ensuring an appropriate framework for data access and (re-)use in the digital economy is also key, particularly given the important role data plays in driving innovation. The ability to fully utilise large data sets is core to insurance in the development of customer-centric, innovative, tailor-made products, deepening understanding of risks to the benefit of the customer and society, increasing product innovation and encouraging competition.

Safeguarding data ownership

However, insurers do not generally produce or control the connected devices and vehicles that generate this data. If the manufacturers of such devices have the ability to restrict access to raw data (either by the customer or by potential competitors), it could lead to a monopoly on access to big data. Whether the data is being created and/or used by established insurers, insurtech start-ups, technology companies or other third parties, such as connected car or smart device manufacturers, it is important to safeguard data ownership.

Data should be treated as being owned by the customer and not by the manufacturer. EU legislation must always ensure that it is customers who decides whom they allow to use their data and for which purpose and duration, with the responsibility on industry and manufacturers to facilitate this through open standards. Insurance Europe has therefore recommended adopting provisions at EU level to ensure that

consumers decide who can access their vehicle data and for what purpose, by putting all stakeholders on an equal footing in their access to in-vehicle data (see box on p45).

Addressing regulatory barriers

In light of the ongoing work of EIOPA's Insurtech Task Force and the European Commission's Expert Group on Regulatory Obstacles to Financial Innovation, Insurance Europe has been heavily engaged in identifying potential regulatory barriers to financial innovation and putting forward appropriate recommendations to address these issues. It published a paper highlighting examples of regulatory obstacles to digital innovation in the insurance industry, which it shared with EIOPA and the EC Expert Group. It has also participated in EIOPA insurtech roundtables and provided further input to EIOPA via its InsurTech Insight Survey in August 2018.

It is now for EIOPA and the Commission to take measures to ensure that the EU's regulatory and supervisory frameworks are fit for the digital world and do not stand in the way of innovation. ●

Promoting best workplace practice

Digitalisation will continue to have profound effects in the workplace, with insurance companies no exception. Insurance Europe is an active member of the EU's Insurance Sectoral Social Dialogue Committee (ISSDC), which brings together employer and employee representatives and which, earlier this year, signed a follow-up to its 2016 declaration on the social effects of digitalisation.

The February 2019 declaration (available on the Insurance Europe website) stresses that employees require good training — in the widest sense — to be ready for the ever-changing digital age, with particular attention paid to employees whose function is likely to change dramatically or disappear.

It also stresses that employees should be made aware that it is in their best interests to participate in training to maintain and enhance their employability in the digital age. And given the trend towards employees' greater autonomy in determining when and how long they work, the declaration calls for boundaries to be set to protect their work-life balance.