

Supporting innovation in insurance in a digital age

Promoting consumer-friendly innovation and ensuring future-proof rules

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

Insurance Europe, therefore, welcomes the view that "fintech" should be broadly understood as the use of technology in financial services, irrespective of the sector or type of provider concerned. In a similar manner, "insurtech" should be understood as the use of technology in the insurance sector, which may be observed at various different steps of the insurance value chain. The use of the word insurtech in this paper refers to both established insurers, as well as start-ups or new market entrants. Insurance Europe urges policymakers to be mindful of the specificity of insurtechs when making general references to fintech.

Today, most digital innovation in insurance relates to the sales process, or optimising internal processes, but this is expected to change in the future and increasingly touch on product innovation and claims settlement. Traditional insurance companies and new market entrants are looking to harness new technological developments to provide both innovative products and services. Traditional insurers are already collaborating with insurtech start-ups to offer improved services to their consumers and to facilitate access to suitable insurance cover.

Regulators and supervisors have a crucial role to play to ensure that consumers and industry reap the benefits of digitalisation. They must find the right balance between safeguarding high standards in consumer protection and fair competition on the one

hand, and removing regulatory obstacles and actively encouraging innovation on the other.

To achieve this goal and increase access to the market for innovative services, there are several points that regulators and supervisors can address:

1. Guaranteed level of consumer protection

Consumers of insurtech start-ups/new entrants should be confident that they benefit from the **same rights and effective protection** as consumers of established insurers.

Recommendations:

- **Regulation and supervision must be activity-based** to ensure that consumers are effectively and equally protected both when they purchase their insurance products from established insurers or from new market entrants. This means that the comprehensive EU consumer protection rules applicable to insurance activities and distribution, such as the Solvency II Directive, the Insurance Mediation Directive (soon to be replaced by the Insurance Distribution Directive), the future PRIIPs Regulation, the Data Protection Directive (soon to be replaced by the General Data Protection Regulation) as well as the applicable Level 3 measures, should apply equally to established insurers and new market entrants/start-ups, where they carry out the same activities.
- **Supervisors should ensure effective monitoring** of the activities of all new market participants, so that they comply with regulatory obligations.

2. Future-proof rules

The EU regulatory and supervisory framework for insurance should be conducive to innovation and allow consumers, established companies and new market entrants/start-ups to benefit from the opportunities digitalisation can offer.

This is currently not the case. There are still regulatory barriers to providing insurance to consumers online, for example with paper requirements being introduced in the new Insurance Distribution Directive. These kinds of issues hold back innovation and the provision of online services, which consumers already expect to be easy to use and available.

The policy-making and regulatory processes may themselves need to adapt to keep up-to-date with technological and market developments. Producing an ongoing stream of highly-detailed technical rules and guidelines risks overwhelming both policy-makers and business with requirements that are already obsolete by the time of their adoption.

Recommendations:

- Insurance legislation, rules or guidelines should be **digital-friendly, technologically neutral** and sufficiently **future-proof** to be fit for the digital age and encourage digital innovation.
- Rather than automatically introducing new regulation for the digital age, policy-makers at EU and national levels should review how the application of existing rules and policy approaches might be adapted to meet digital developments without incurring major regulatory change.

3. Regulatory sandboxes and other tools supporting innovation

National authorities across the world have begun taking a variety of initiatives to support innovation in a digital environment and foster competition in the insurance market.

BaFin, the German supervisory authority, offers close contact and advice to insurtech start-ups. In France, the ACPR and the AMF set up a *fintechs forum*. Since June 2016, in the Netherlands the AFM and the DNB have been working with an *Innovation Hub* where both established insurers and insurtech start-ups can ask questions about innovative initiatives. In 2017, they will launch a regulatory sandbox to increase access to the market for innovative services (*Customised Innovation* project). In the UK, the FCA has also developed a regulatory sandbox as part of its *Project Innovate* initiative.

While there should be no unnecessary barriers to insurtech start-ups having proper market access as new entrants, it is also important that existing insurers have the opportunity to develop innovative products and services aimed to benefit consumers, and have access to supervisory tools supporting innovation.

These innovative supervisory tools can be of equal value to regulators and supervisors in helping to identify where existing regulations hinder innovation. However, when discussing innovative supervisory practices, it would be helpful to ensure consistency and clarity of understanding regarding the terminology used. Regulatory sandboxes are an example of just one such innovative tool that may have a different meaning or scope depending on the jurisdiction in which they are introduced. To avoid divergent interpretations, policymakers should aim for a clear and lucid description of the type of tool to which they refer.

The innovative approaches taken by national regulators in collaboration with both established insurers and new market entrants demonstrate the importance of maintaining a level playing field between traditional players and new entrants, and of striking the right balance to encourage innovation and protect consumers.

Recommendations:

- Regulators and supervisors should be encouraged to take initiatives or set up tools to **support market players' innovation** that benefits consumers.
- These initiatives and tools should be made **available to both new market entrants/start-ups and established insurers** that are trying to develop innovative products or services.

4. A role for EU regulators and supervisors

Member states have already adopted national approaches to provide regulatory tools and dialogues for innovative products and services. **A more consistent approach at EU level** would therefore contribute to the achievement of a real digital single insurance market in the longer-term.

Recommendations: to achieve this, the EU authorities could:

- Encourage national supervisors/regulators to **exchange information on and experiences** with new regulatory tools aimed to support innovation, both at EU and international level.
- **Assess the benefits and risks**, both for consumers and markets players, of different types of tools.
- Clarify the roles and **responsibilities of the various EU authorities** concerning innovation and the use of digital technologies, in particular regarding the use of data.
- At an international level, **engage with policy-makers around the world** to promote mutual understanding, consistency and convergence of policy solutions in order for the EU to take a leading role in international policy developments concerning innovation in the insurance sector.