Public Background Session:


IAIS Secretariat
Basel, 1 August 2018
Overview

1. Introduction

2. Public Consultation/Public Background session

3. Objective of the Paper

4. Structure and Main contents of the Paper

5. Next Steps

6. Questions from participants
Public Consultation and Public Background session

- Development of Supervisory and Supporting Material by IAIS is subject to Public Consultation
- Part of the consultation is a Public Background Session to provide background information, describe the subject matter and specific issues
- Comments to be submitted via the Consultation tool on the IAIS website Non-Members
Objective of the draft paper

• The purpose of this paper is to consider the impact of the increasing use of digital technology in insurance.

• Digitalisation can be of benefit to consumers. It could also give rise to risks that impact fair consumer outcomes (contrary to the Conduct of Business requirements in ICP 19).
Related MCWG workstreams


*Issues Paper on the use of personal and other information in the conduct and supervision of insurance → use of data*
Insurance value chain

- Customer-specific “targeted” marketing
- Robo-advice, AI and chat-bots
- Internet sales and Price Comparison websites
- Social media and SMART phone/device channels for direct distribution

- Automated (including non-human) product service centres using robo-advice, chat-bots and AI
  - Big Data enables ability to predict what customers want and need before they ask for it
  - Continuous real-time customer communication and U/W

- Platform business models
- 360 degree view of customer for consultants
- Continuous real time data enabling focus on high value customers
- Unstructured data (e.g. voice) analysis and learning

Marketing, Sales and Distribution -> Pricing and Underwriting -> Product Management -> Claims Handling -> Customer Interactions

- Telemetrics – customers and insurers understand risk much better (wearables, IoT, SMART phones, apps)
- Big Data enabling more granular and accurate pricing and faster U/W
- Blockchain technologies to seamlessly manage and instantly verify data sources
- Peer-to-peer insurance models
- Granular, customer-specific product offerings including usual-based insurance

- Fraud detection using Big Data and Blockchain
- Blockchain facilitating trust-worthy and timely claims information
- AI and drones in assessing processes
- Claims cost efficiencies re online/SMART device claims lodgement, AI/automated assessing, optimised payouts, reduced labour costs
- Supply chain management efficiencies, vertically integrated claims processes
## Structure of the draft paper (1)

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Structure of the draft paper (2)

• Section 2 considers the impacts of digitalisation on product design and underwriting. This will include discussions on live examples;

• In section 3, robo advice and price comparison websites are considered to illustrate digitalisations impact on the marketing, sale and distribution of those products; and

• In section 4, the paper assesses the challenges supervisors face in responding to these changes.
Conclusions / summary (section 5)

• Digital innovations can potentially improve the customer experience and reduce insurers’ operating cost.

• Due attention needs to be given to achieving fair customer outcomes in terms of suitability of products and soundness of IT processes including design and use of algorithms and use of customer data.

• Supervisors need to balance risks of innovations against the benefits for policyholders and the insurance sector.
Recommendations (section 5)

Supervisors should:

a. develop a thorough understanding of how innovations work and are applied to ensure a proper assessment of new product and business models, and the design and functioning of the IT architecture, infrastructures and processes, and how this is catered for in the insurers’ risk management framework.

b. develop new tools and skills for supervision of digitalised insurers, enhancing cooperation with financial and other authorities, safeguarding the supervisory perimeter to prevent regulatory arbitrage and enhancing information security.

c. consider establishing guidelines for appropriate and responsible use of new technologies to safeguard the fair treatment of customers and - for example in the use of AI and robo advice mechanisms – promote advice and services that are suitable and affordable for the customer.
Next steps

1. Consultation open as of 1 August for 30 days

2. Public background session on 1 August at 14:00 CEST (teleconference)

3. End of consultation: 30 August

4. Consideration of comments, revision of draft, final approval process: completed by end 2018

5. Stakeholder Feedback Session: to be planned later
Consultation tool

Comments to be submitted via the Consultation tool on the IAIS website

• Non-Members (consultations/current consultations): https://www.iaisweb.org/page/consultations/current-consultations

Questions?
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