access to insurance initiative

Insurance regulators' role in managing data risks and protecting consumers

Presenters

Technical expert

Stefanie Zinsmeyer
Technical Expert, GIZ

Moderator

Janina Voss
Access to Insurance Initiative (A2ii)

IAIS representative

Conor Donaldson
International Association of Insurance Supervisors (IAIS)

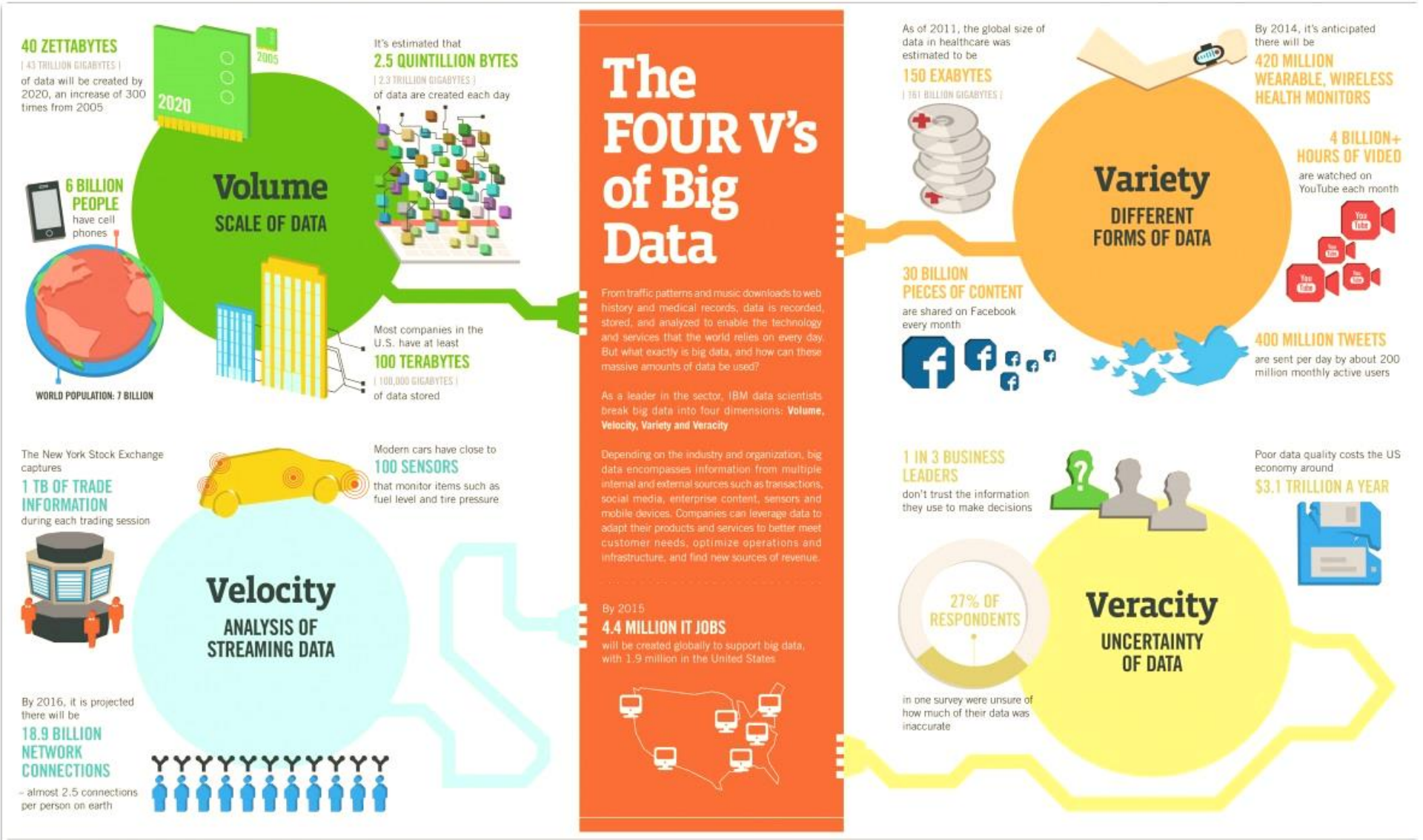
Case study 1: BaFin, Germany
Case study 2: IRA, Kenya

Speakers:
Kathleen Koehn, BaFin
Elias Omondi, IRA

Enter the code and participate!

Go to www.menti.com and use the code 58 69 85

Big Data



http://www.ibmbigdatahub.com/infographic/four-vs-big-data

Technology has allowed businesses to better understand and serve consumers through the collection and analysis of big data.

Current Insurtech innovation landscape

Source: Venture Scanner (2018)

But innovations, and specifically the use of consumer data, also leave consumers vulnerable

Where data leaves consumers vulnerable

Personal data of a billion Indians sold online for £6, report claims

Newspaper says it bought access to details from world's largest biometric database, used to administer public services

The Guardian (04.01.2018)

BBC WORLD SERVICE **Business Daily**

Could Big Data Kill Off Health Insurance?

As US health insurers ask customers to wear fitness trackers, are they opening a Pandora's Box of ethical dilemmas and business threats?

Available now
18 minutes

Ed Butler speaks to Brooks Tingle, chief executive of insurer John Hancock, which has been pioneering the controversial policy of rewarding customers willing to demonstrate that they exercise more.

BBC World Service (01.11.2018)

> For example, Tala, a firm that offers microloans in Kenya using a smartphone app to evaluate applicants' credit risk, gathers various types of data, including where loan applicants spend their time, how many people they communicate with every day, how often they call their parents (by searching call logs for the word "mama") and, less surprisingly, whether they pay their bills on time.

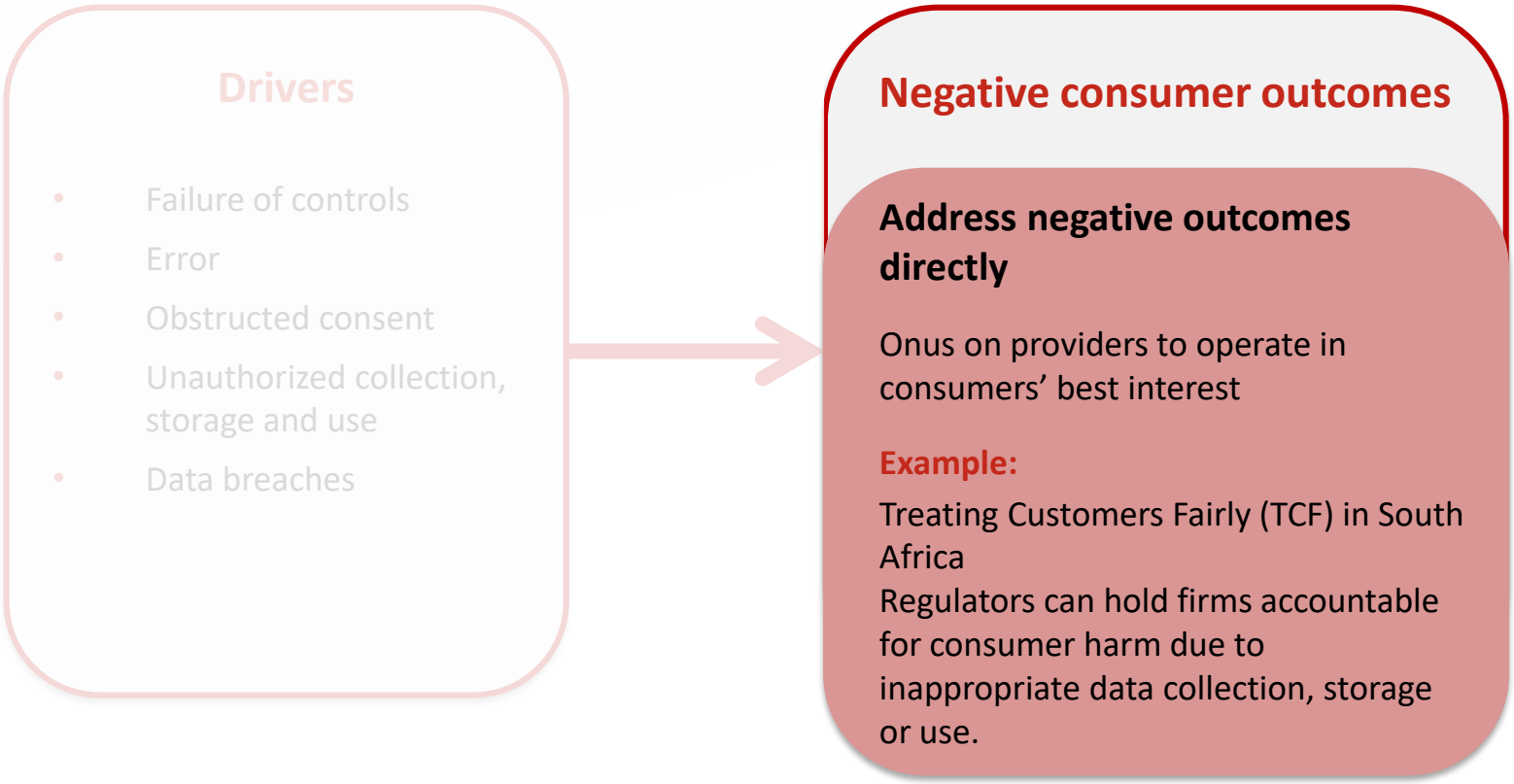
CGAP blog (11.12.2018)

Data protection says: “Collect and use only that information which is necessary to serve the immediate purpose.”

Big data says: “Give us everything you have and we’ll see if we can find a purpose for it.”

https://www.centerforfinancialinclusion.org/getting-data-right

Key consumer data risks affecting the insurance industry



Source: Based on IAIS (2016), IAIS (2018a), IAIS (2018b), Institute of Actuaries of Australia (2016), McKee *et al*. (2015), The Smart Campaign (2016), The World Bank Group (2017), BaFin (2018) and stakeholder interviews (2018)

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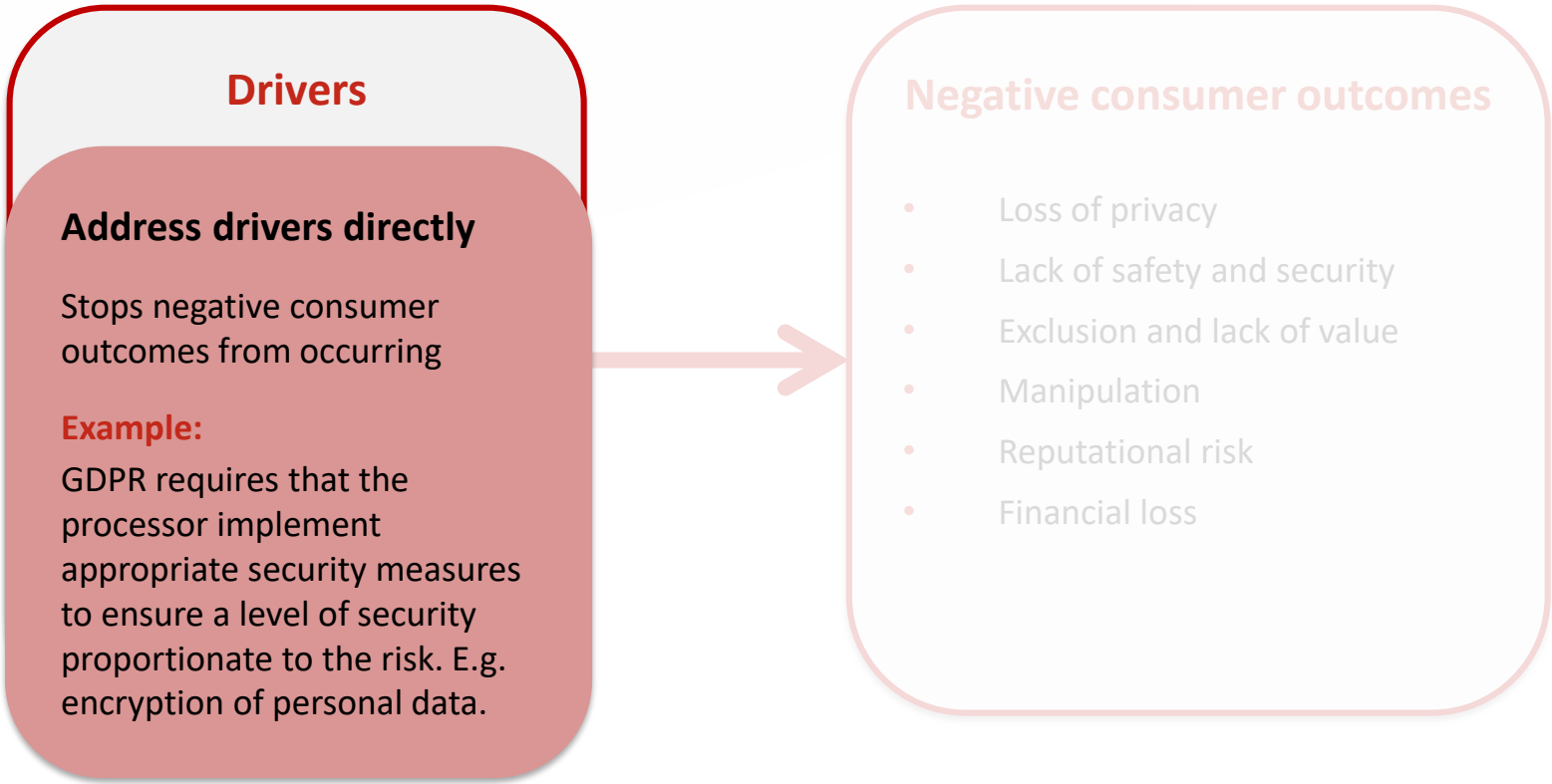
How high or low do you assess consumer data risks in your jurisdictions? Very high – high – low – very low

Key consumer data risks affecting the insurance industry



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But data and data risks are pervasive and seldom affect only one sector

Legislative approaches

Omnibus regulation

- Cross-cutting data protection regulatory framework
- Often also has a dedicated regulatory authority
- E.g. EU, South Africa, New Zealand and Argentina

Sectoral regulation

- No overarching national/regional data protection legislation
- Each sectoral regulator is responsible for addressing data protection and privacy
- E.g. USA, India and China

No regulation

- No laws/regulation governing consumer data protection in place
- E.g. Kenya

Countries falling into a particular category may have draft or pending legislation, which once in operation, may change the applicable framework category.

Source: Based on DLA Piper (2018) and Deloitte (2017)

Overall implementation strategies

	Omnibus regulation	Sectoral/no regulation	
Active	**Shape** Shapes the application of policy to the insurance sector	**Create** Actively creates the data regulation approach for the insurance sector	Active
Passive	**Delegate** Delegates the regulation of consumer data risks to the data regulator	**Take risk** Takes the risk of not developing a data regulation approach, leaving the sector without a specified legislative approach to consumer data protection and privacy	Passive

Overall implementation strategies

Omnibus regulation

Active

Shape

Shapes the application of policy to the insurance sector

Passive

Delegate

Delegates the regulation of consumer data risks to the data regulator

E.g. BaFin (Germany)

Employs regulatory and supervisory tools to augment the existing omnibus legislative framework

Tools employed:

- *Regulate:* Data protection requirements beyond GDPR
- *Supervise:* Supports BfDI (Federal Commissioner for Data Protection) in implementing/enforcing data protection laws
- *Advise:* Assists firms with compliance with GDPR (innovation hub)

Overall implementation strategies

E.g. IRA (Kenya)

Data protection and privacy legislative framework absent; IRA has amended regulation to deal with data-related risks to consumers.

Tools employed:

- *Regulate:* Amending and reinterpreting existing market conduct guidelines to ensure appropriate consumer protection against arising data risks; Explicit consideration of harmonisation with pending data regulations and global guidelines

Sectoral/no regulation

Create

Actively creates the data regulation approach for the insurance sector

Active

Take risk

Takes the risk of not developing a data regulation approach, leaving the sector without a specified legislative approach to consumer data protection and privacy

Passive

Overall implementation strategies

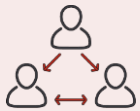
Active

Passive

Omnibus regulation

Shape

Shapes the application of policy to the insurance sector



Delegate

Delegates the regulation of consumer data risks to the data regulator

E.g. CNSF (Mexico)

The Comisión Nacional de Seguros y Fianzas (CNSF) of Mexico considers the Federal Law on the Protection of Personal Data held by Private Parties to sufficiently deal with the risks in the insurance sector.

Tools implemented:

- *Monitor:* Monitoring the prevalence and impact of data risks in its market which includes conducting research on these risks.

Overall implementation strategies

	Omnibus regulation	Sectoral/no regulation
Active	**Shape** Shapes the application of policy to the insurance sector	**Create** Actively creates the data regulation approach for the insurance sector
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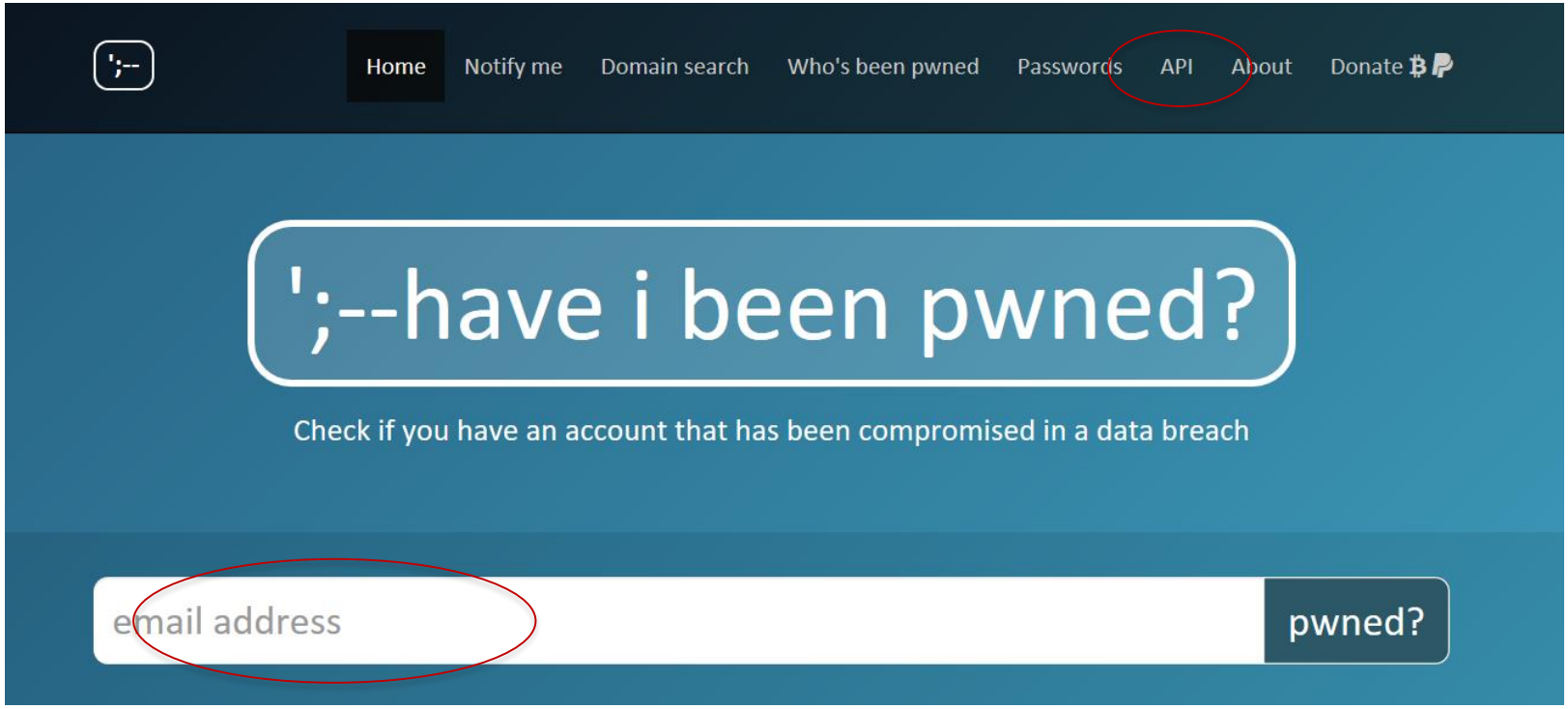
Has your authority taken an active approach on data regulation (“shapes” or “creates” data regulation)? yes/no

Do you think your authority should become more active in data protection? Yes/no

Test it yourself!

Check if your data has been compromised in a data breach

https://haveibeenpwned.com/



BaFin

Bundesanstalt für
Finanzdienstleistungsaufsicht

Big data meets artificial intelligence

Challenges and implications for the supervision and regulation of financial services

Source picture: iStock/spainter_vfx

The idea behind it: Bringing together experts from all fields

Technology

Fraunhofer IAIS

Market perspective

- Banks and financial service providers
- Insurance companies
- Capital markets

BCG The Boston Consulting Group

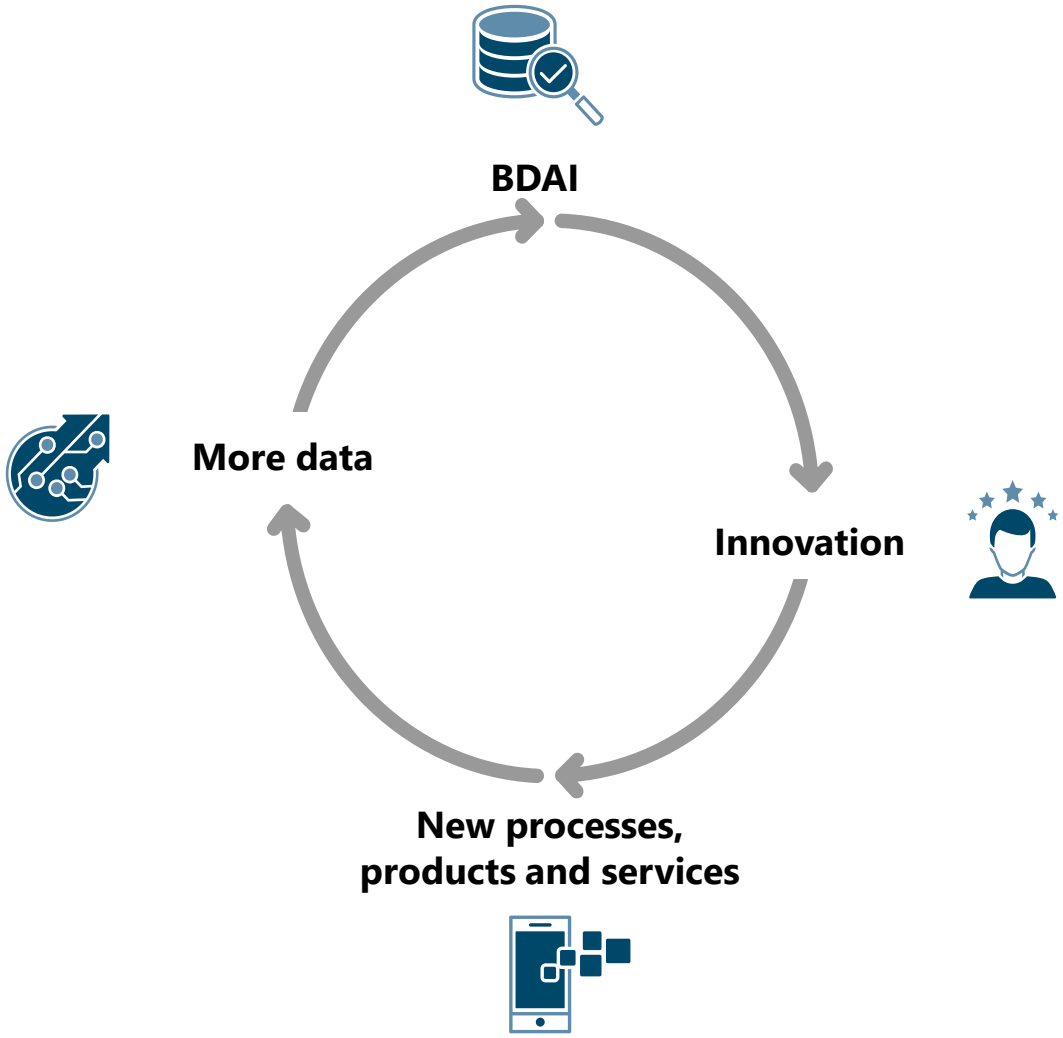
Supervisory perspective

- Financial stability and market supervision
- Firm supervision
- Consumer protection

BaFin Bundesanstalt für Finanzdienstleistungsaufsicht

Link to the study: https://www.bafin.de/SharedDocs/Downloads/EN/dl_bdai_studie_en.html

Cycle of innovation requires early supervisory attention



Revised regulatory framework
(e.g. PSD 2 and EU GDPR)

Source graphic: BCG

Profound implications along three dimensions

Financial Stability

- New forms of systemic importance
- Market structures change

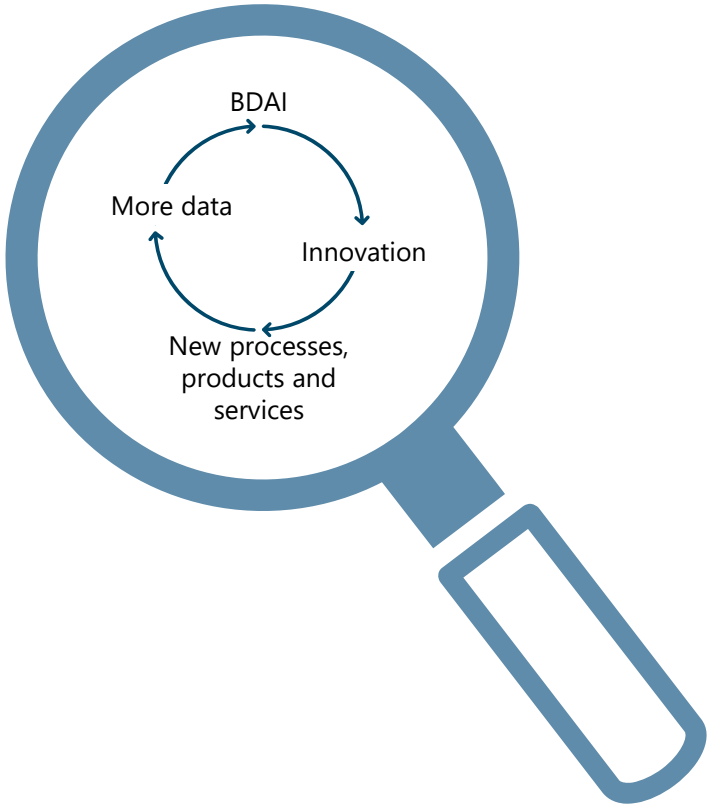
Microprudential Supervision

- Responsibility remains with people
- No black box excuses
- Detection of financial crime

Consumer Protection

- Discrimination vs. differentiation
- Consumer sovereignty

Basic regulatory principles should remain unchanged



Speed of innovation is increasing

Regulatory principles

- Technology-neutral
- Principles-based
- Further strengthen international cooperation to reduce regulatory arbitrage
- Develop BDAI capabilities as a supervisor

BaFin

Bundesanstalt für
Finanzdienstleistungsaufsicht

Thank you for your attention!

Role of the Regulator in managing data risks and protecting consumers
"CREATE STRATEGY"

Elias Omondi
Actuarial Associate
Insurance Regulatory Authority - Kenya

Insurance Regulatory Authority
Bima Bora kwa Taifa
IRA

STATE OF PRIVACY?

- Constitutional privacy protections: Article 31 of the Kenyan Constitution specifically protects the right to privacy.

- Data protection law: Kenya does not currently have specific data protection legislation. However, a Data Protection bill was tabled in Parliament in 2015.

- Data protection agency: Kenya does not have a specific data protection authority. – To be set once the law is enacted

- The Integrated Population Registration System (IPRS) collects data from a dozen databases held by various government agencies.

WHY CREATE STRATEGY?

Insurance Regulatory Authority
Bima Bora kwa Taifa
IRA

Financial Inclusion & Innovation Emergence & Integration of Business Models

Coordination

Embracing Change

framework to test a new idea in a live environment and adopt safeguards

Capacity

Regulatory sandbox

Framework set up for small scale live testing of innovations in a constrained environment

Structured approach, information made publicly available
Explicit & transparent entry criteria for applicants

InsureTech /Fintech Bridges

The Hub

Innovation Hubs
inclusive insurance innovation lab

iLab set up to stimulate transnational multi-stakeholder dialogue and collaboration

Elias Omondi, Actuary IRA Kenya

RISKS VS BENEFITS

Insurance Regulatory Authority
Bima Bora kwa Taifa
IRA

Consumer benefits

- Access to insurance
- Better alignment to customer needs
- Better risk pricing
- Potentially lowering cost

Role 2: protect the interest of the insurance policyholders and beneficiaries

Role 1: Maintenance of a fair, safe and stable insurance sector

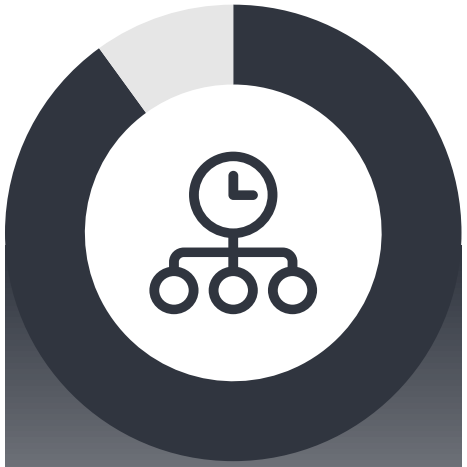
Consumer risks

- Less personal interaction / consumer trust
- Privacy & cyber-risks
- Reduced risk pooling & risk of financial exclusion
- Reduced transparency (AI / machine learning)

Role 3: promote the development of the insurance sector

IMPLEMENTATION STRATEGIES

MARKET CONDUCT GUIDELINES

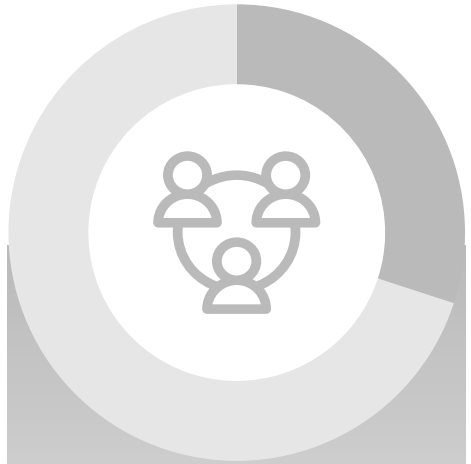


Amending and reinterpreting existing market conduct guidelines to ensure appropriate consumer protection against arising data risks

TCF MODEL

TCF Model of Consumer Protection aims to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry

REGULATORY SANDBOX



Framework employed to create experimental environment where FinTech/InsureTech can test new ideas and innovations in product design, product development and distribution with a leverage to contain the consequences of failure

Your logo

STRATEGIES

Insurance Regulatory Authority
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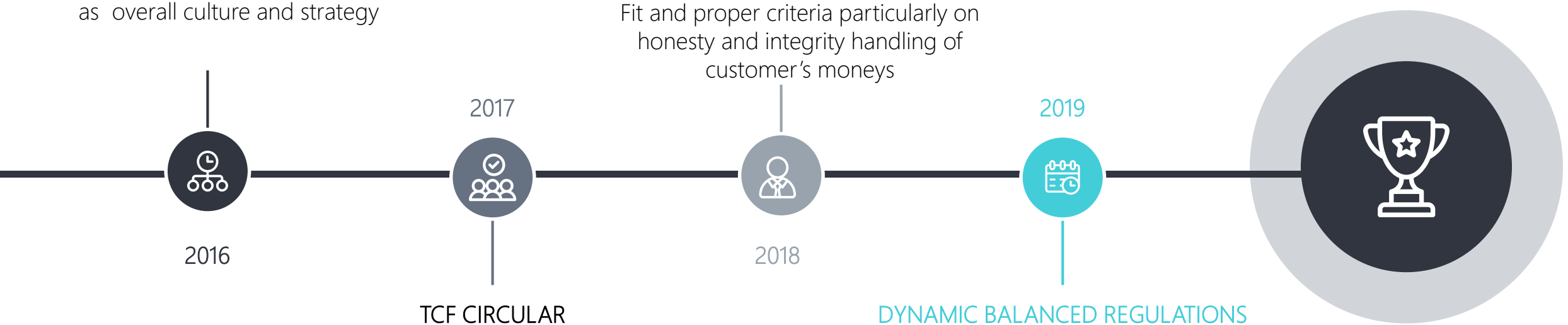
IRA

MARKET CONDUCT GUIDELINE

- Policies and procedures for the protection of confidential information on customers.
- Board and Management required ensure that confidentiality of data as overall culture and strategy

DRAFT REGULATORY SANDBOX POLICY

- provides appropriate regulatory support by relaxing specific legal and regulatory requirements.
- "To Maintain" requirements on confidentiality of customer information, Fit and proper criteria particularly on honesty and integrity handling of customer's moneys



TCF CIRCULAR

- TCF Self Assessment Tool developed
- Framework for Treating Customers Fairly (TCF) developed on six outcomes amongst them consumer data confidentiality

DYNAMIC BALANCED REGULATIONS

- Enact Sandbox Policy
- Develop Innovation Incubation Centre
- Develop Conduct of Business Policy

THANK YOU ASANTE!!

eomondi@ira.go.ke
omondieliaso@gmail.com

Thank you.

Save the Date!

Next Consultation Call on 21 March, 2019

RegTech and SupTech: Implications for Supervision

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