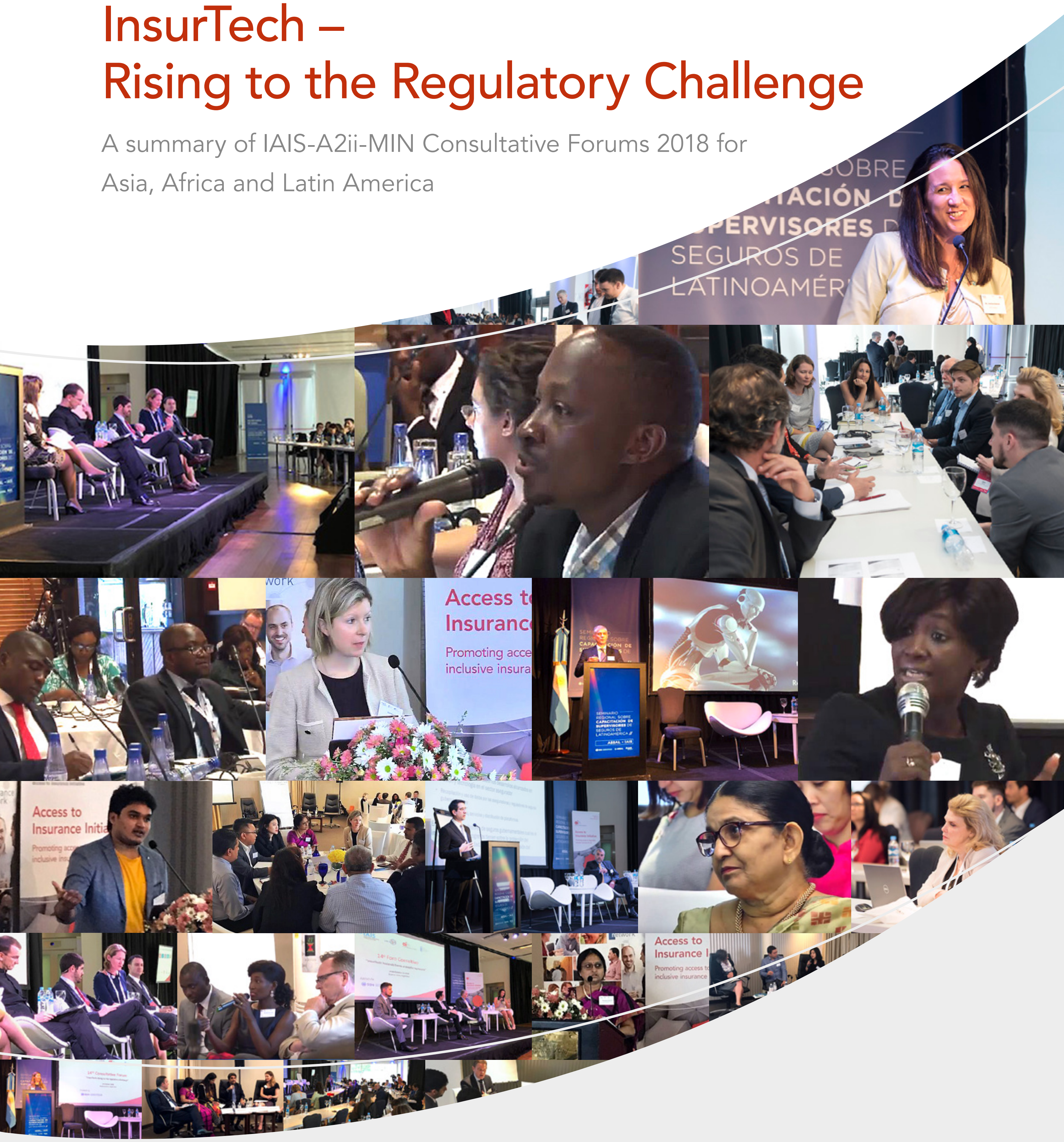
InsurTech – Rising to the Regulatory Challenge

A summary of IAIS-A2ii-MIN Consultative Forums 2018 for Asia, Africa and Latin America



Organised by the International Association of Insurance Supervisors (IAIS), the Access to Insurance Initiative (A2ii) and Microinsurance Network (MiN) Consultative Forums aim to stimulate the dialogue between policymakers, supervisors, the industry and other stakeholders that is critical to fostering knowledge and sound policymaking in the field of inclusive insurance.

The Consultative Forums 2018 were supported by GIZ RFPI (Asia), the African Insurance Organisation (Africa) as well as the Association of Insurance Supervisors of Latin America (ASSAL) and the Argentine National Insurance Supervisory (SSN) (Latin America).

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Contents

SUMMARY

Over the course of 2018, the International Association of Insurance Supervisors (IAIS), the Access to Insurance Initiative (A2ii) and Microinsurance Network (MiN) organised three Consultative Forums on the topic of "InsurTech – rising to the regulatory challenge". The forums provided a platform for in-depth discussions about the future of insurance and regulation given the rise of new digital technologies.

Over two hundred high-ranking representatives from insurance companies, digital providers, policymakers and regulators from 49 countries shared their views on how different stakeholders can work together to facilitate innovation, consumer protection and market development.

- Asian Forum: 20 March 2018, Colombo, Sri Lanka
- African Forum: 9–10 May 2018, Accra, Ghana
- Latin American Forum: 24 October 2018, Buenos Aires, Argentina

Key conference messages

Digital technology is a game changer for insurance: InsurTech has experienced rapid growth in recent years and is changing the insurance landscape by paving the way for new products and business models as well as a new set of market entrants. The use of big data as well as advanced machine learning is the area of most rapid innovation. Digital technologies will transform the insurance sector quite significantly in the near future.

New digital technologies have the potential to enhance financial inclusion: new and established technologies offer enormous potential to providing access to unserved and underserved customers, to bring down administrative costs, introduce new business models adapted to the needs of customers and to enhance client value.

Creating trust is key: for many consumers, digitally enabled inclusive insurance products are their first experience of insurance. New digital products can therefore have a significant impact on the future growth of the market. But these new technologies bring new risks. The increasing amount of consumer data collected, for example, creates the risk that some consumers could be excluded if automated decision-making using algorithms were to result in unfair discrimination. One of the key messages was that the human touch in advanced data analytics is key. Other areas of major concern are cyber and data protection risks.

For supervisors, digitalisation presents a "moving target in a moving environment": the fast-moving developments in InsurTech are a challenge for existing regulatory frameworks and could lead to regulatory gaps. New players are entering the insurance space and range from InsurTech start-ups to "BigTechs" and technologies might cut across multiple laws. At the same time, supervising InsurTech activities requires technological literacy and a new set of supervisory skills.

The industry desires close dialogue with the supervisor and a test-and-learn environment: industry representatives stressed the fact that waiting for regulatory change might kill an innovation and underlined the importance of regulatory certainty and signalling from the supervisor. Non-insurance start-ups face particular challenges when it comes to understanding and meeting regulatory requirements. All industry stakeholders wished for a test and learn environment such as regulatory sandboxes as well as close dialogue with the supervisor.

Recommendations for supervisors: facilitating innovation while protecting consumers from potential risks will be one of the key challenges for supervisors. Some of the lessons shared during the forums included:

- **Build up supervisory expertise or enter into partnerships**
- **Assess different supervisory options beyond the sandbox approach**
- **Reach out to the market and provide more regulatory clarity**
- **Spur innovation in the market**
- **Keep regulation flexible to keep up with innovation**
- **Learn from your peers**
- **Seek cooperation with other supervisory authorities proactively**

1. DIGITAL TECHNOLOGY IS A GAME CHANGER FOR INSURANCE

InsurTech – the variety of emerging technologies and innovative business models that have the potential to transform the insurance business – has experienced rapid growth in recent years and is changing the insurance landscape by paving the way for new companies and business models with the potential to enhance financial inclusion.

InsurTech applications have emerged around the world in two waves: in many parts of the world, and especially in Sub-Saharan Africa, mobile insurance has already provided access to insurance for millions of people for the first time. Going a step further, mobile and other digital technologies are now changing the customer journey through individualised underwriting, with new products or by enabling more regular communication with the customer. Insurers and InsurTech pioneers are currently digitising processes from initial application and premium collection through to claims payments. This leads to reductions in administrative overheads and means that customers can benefit from receiving pay-outs in their mobile wallets almost immediately. We also see the creation of new business models such as peer-to-peer insurance. The use of big data and alternative consumer data as well as advanced machine learning is the area of most rapid innovation globally and could transform the insurance sector quite significantly in the near future.

> "InsurTech heralds the advent of the Fourth Industrial Revolution. The speed of change has no historical precedent. When compared to previous industrial revolutions, change is occurring at an exponential, rather than linear pace. When it comes to greater access to insurance, these are exciting and unprecedented times", *said Hannah Grant, Head of the Access to Insurance Initiative Secretariat.*

Here are some of the examples of how digital technologies are being applied:

Chatbots for personalised sales: chatbots are computer programmes or artificial intelligence (AI) designed to simulate a conversation with users and can be used for basic customer services. For example, ToGarantido, Brazil's largest online microinsurance broker, offers a 100% digital sales process through using chatbots. By applying advanced machine learning, the chatbot can learn with time by the contents of the messaging what specific categories of customers are more likely to purchase and start tailoring messaging and product promotions. The chatbot reduces the cost of the sales process.

Robo advisors for product comparison: price comparison websites are already well established in many jurisdictions and offer consumers the benefit of comparing products and prices in one single place. However, consumers have to choose which criteria matter to them on their own, without further advice. Robo advisors go a step further and provide automated, algorithm-based product comparison and advice and can fully or partly take over the role of financial advisors. This emerging sales method can help make products more accessible to the customer if proper consumer data is used and the underlying algorithms are adequately designed (IAIS, 2018a).

Chat applications and social networks for filing claims: more and more examples can be found where the claims process is digitalised and chat applications like WhatsApp or WeChat as well as social platforms like Facebook can be used to send soft copies, documents or photos for claims purposes. AXA presented how they worked without claim forms: chat applications are used for claims and mobile wallets for receiving pay-outs quickly.

Blockchain technology to automate claims process: the claims process is one way that insurers are already using distributed ledger technology. In flight insurance, for example, smart contracts are applied and pay-outs are generated automatically without the need to file a claim or the need for verification. This is done by drawing directly on third-party centralised databases. Insurance terms and conditions can be programmed into smart contracts which trigger an automatic pay-out if certain conditions are met e.g. if a flight is delayed by a defined period. The same principle can be applied to index-based insurance. Plenty of other opportunities for the use of distributed ledger technology exist as it improves transparency and multiplies options to verify an event that has taken place and provide contract certainty. However, it should not be seen as a panacea for all problems, as for example in many countries it is not possible to connect to centralised databases.

Big data and advanced data analytics for individualised underwriting: big data refers to large amounts of data that can be generated from many data sources such as telematics, mobile phone data – which might include locations or contacts –, social networks or internet sources. Businesses are using this data to improve their understanding of consumers and design products better suited to individual needs, and to micro-target advertising.
In the insurance market, data analytics could be used for tailoring products better, risk selection, pricing, cross-selling, claims prediction and fraud detection (IAIS, Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018b). However, as data proliferates, so do the opportunities for the exploitation of that data (see box 2). While insurers in many developing markets may not yet be using this data to any significant extent, it is highly likely that they will do so increasingly in the near future: global and local technology-related firms and digital platforms as well as mobile network operators are already collecting personal information on both existing and potential insurance clients that is highly relevant to insurers (Access to Insurance Initiative, 2018b).

Use of AI for automating underwriting and claims processing: advanced machine learning (systems that learn by themselves when fed with sufficiently large training datasets) are currently being used to better spot discrepancies in data to tackle fraud in claims. Arya.ai, a tech company that develops AI applications for companies, suggests that deep learning systems (which can learn and adapt autonomously) are currently developed to automate claims processing based on digitised information, to automate underwriting based on risk profiles and pricing personalisation, to improve customer targeting via multi-channel recommendations and facilitate Know-Your-Customer (KYC) authentication using face and signature matching.

New business models:

Digital technologies have given rise to new business models (IAIS, Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018b):

On-demand insurance: a business model that specialises in covering specific risks faced at a particular moment, enabled by digital tracking such as location services. In the inclusive insurance market, this could for example entail personal accident insurance that only applies while using public transport.

Peer-to-peer insurance: a collaborative model that brings together insurance customers to share the risk and pool their capital and self-administer their own insurance. Although the concept as such has been applied in the past, digital technologies allow for broader implementation (see box 1 on TongJuBao)

Usage-based insurance: a business model introduced by auto insurers where the customer only pays for the actual distance driven. Mileage and driving behaviour can be tracked by in-vehicle telecommunication devices (telematics) or by an app on the mobile phone.

BOX 1

TONGJUBAO – PEER-TO-PEER INSURANCE

In China, TongJuBao is a person-to-person insurance platform without an underlying insurance carrier. It is described as a collaborative insurance model which brings users together to share risks (also risks that are typically not covered by an insurance e.g. divorce, child abduction) with the intention of maintaining fairer costs, fairer claims treatment and more transparency than in traditional insurance models.

Their model separates the underwriting process from the claims process. First, TongJuBao creates social communities that customers join as members. They then create a deposit account for every member, which TongJuBao has delegated authority to operate. All members pay two sums of money into their deposit account. One is the fee for administration. The other is effectively a guarantee deposit to cover the risk being insured.

TongJuBao thus follows a mutualisation model where everyone contributes and anyone can draw from it. But there is a capital limitation and all payouts are restricted to a capped amount. In many ways, the TongJuBao model is more a marketplace than an insurance carrier.

2. HOW DIGITAL TECHNOLOGIES HELP TO OVERCOME CHALLENGES OF INCLUSIVE INSURANCE

"Insurance is yet to be recognised as a risk mitigation tool by many parts of the population," Indrani Sugathadasa, former Chairperson of the Insurance Regulatory Commission of Sri Lanka and a pioneer in promoting insurance for the low-income population, reminded the audience in her opening words at the Asian Consultative Forum. InsurTech holds enormous potential for enhancing financial inclusion.
In order to answer the question [as] to what degree new technologies are solving the problems we are facing in microinsurance, Mia Thom presented the findings from an online database Cenfri set up in order to track InsurTech activities in emerging markets. According to Cenfri, five problems that we are facing in inclusive insurance stand out:

1. Lack of information about consumers
2. Inadequate access to consumers
3. Different and new consumer needs
4. Consumers inexperienced with formal financial services
5. Constrained business models

Cenfri's analysis of current InsurTech activities suggests that mobile insurance and partnerships with mobile network operators have successfully created access for many new consumers. New business models are being tested and introduce product innovations to consumers, but newer technologies such as AI and peer-to-peer insurance are still largely untested in emerging markets, particularly outside of Asia. At the moment, many of the emerging technological applications focus on reducing the costs of doing business, which could result in lower prices for the microinsurance consumer (Cenfri, 2018). The lack of information on consumers might be addressed with data analytics applications in the near future.

Technology can also make it easier for consumers inexperienced with formal financial services to understand the concept of insurance cost-effectively. Chatbots, for example, can be used not just to improve customer service, but also to enhance insurance literacy.

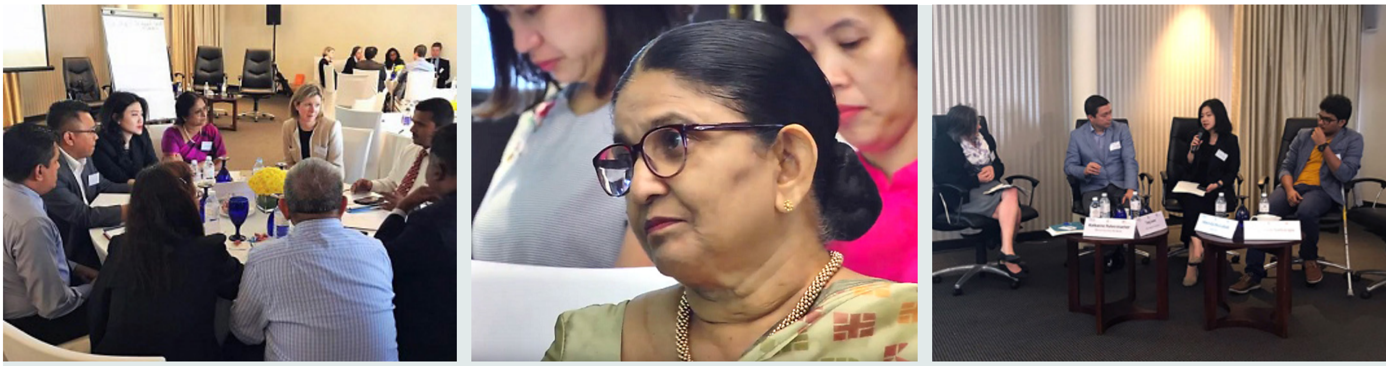
> "If in the next 10 years we have not succeeded in translating insurance into the plain language used by ordinary people, we have not done our jobs. Technology provides us with the tools for achieving this." *Alex Korner, CNseg speaking about the emerging InsurTech landscape in Brazil.*

Trust is an important element in inclusive insurance and lack of trust in insurance providers is another reason why insurance has not succeeded in the past in a number of emerging markets. New InsurTech applications hold the potential to provide more transparency to consumers. Some InsurTech applications are making insurance relevant to the market by linking it with the real sector and interacting and engaging more with policyholders so consumers better understand the risks and benefits of insurance and feel more involved. However, the importance of understanding technology to create closer relationships with the policyholder as opposed to using it for improving insurance innately is critical to trust.

Easy ways to file claims using mobile phones, faster claims payment and easy accessibility of payments e.g. directly into mobile wallets are of big importance for low-income consumers and a number of providers are offering these services already.

> "New technologies might be a tool, but are certainly not a panacea." *Arup Chatterjee, Principal Financial Sector Specialist, Asian Development Bank*

While new and established technologies offer enormous potential, Arup Chatterjee, Principal Financial Sector Specialist, Asian Development Bank, highlighted the importance of infrastructure, broadband access and the accessibility of mobile technology to the low-income population also in rural areas as preconditions to meaningful action as well as the need for government involvement, particularly in risk management. He also noted that the middle-income class will be the first to benefit as many of the current innovations target them. Supervisors need to tailor regulation in a smart way that will also allow low-income customers to benefit from new technologies.



Consultative Forum Asia, 20 March 2018, Colombo, Sri Lanka

3. CONSUMER RISKS POSED BY NEW DIGITAL TECHNOLOGIES

For many consumers, digitally enabled inclusive insurance products are their first experience of insurance. Consumers might not be familiar with the concept of insurance, making them vulnerable to mis-selling. New digital products can therefore have a significant impact on the future growth of the market.

Less personal interaction: in mobile insurance low consumer awareness was experienced in the past. Because of limits to communication on feature phones and by SMS as well as product branding by mobile network operators, many clients had difficulty understanding who their insurer was, policy terms and conditions, and how to claim (Access to Insurance Initiative, 2018a) (CGAP, 2017). New digital technologies have the potential to help improve communication with the customer and provide that transparency, but fewer customer touch points mean that it is critical that clients understand products.

Risks of financial exclusion: with new technologies, the collection, storage and use of consumer data has grown significantly over the last decade. InsurTech innovations collect new types of data with the aim of pricing risk more accurately, improving understanding of consumer needs and being in a better position to spot fraud. However, with this potential there come new risks: big data and automated processes facilitate more granular pricing which could lead to certain customer segments facing higher premiums, being priced out of the risk pool or simply not being offered insurance (IAIS, Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018b). So far, although this risk has been recognised, few examples of it occurring in the insurance field have been identified. However, in the microfinance sector, customer data is already to a much wider degree used to assess credit risks.[1] This makes the risk of this occurring in the insurance sector in the future very real and unauthorised use or sharing of this data could lead to unfair discrimination.

Reduced transparency through algorithms: algorithms and automated decision-making could also lead to unfair discrimination and companies may claim that forecasts made by an algorithm might not be explainable. Some supervisors have already stated that they will not accept black-box models and underline how important the transparency of decision-making is (BaFin, 2018).

One of the key messages emerging from discussions at the forum was the necessity for the human touch in advanced data analytics and artificial intelligence application. The makeup of artificial intelligence systems and how the rules that direct them are built is critical.

1 Microfinance lenders gather a number of alternative data from phones including locational data, contact lists, call- and SMS logs, how often potential clients communicate with others, how often they call their parents and other data from social media in order to assess the credit risk (CGAP, 2018)

BOX 2

THE ROLE OF DATA PROTECTION IN INSURANCE

Most consumers are not aware of what data is collected and how their data is used and give away their consent easily (or they do not have a choice as no alternative is offered to them). Simply obtaining consent is therefore not effective for protecting data rights. Providers do not have sufficient incentives to secure privacy and security, therefore there is clear need for appropriate regulations that set standards, assign liability and establish enforcement mechanisms for data protection (for more information on different approaches see the CGAP reports "Data Protection and Financial Inclusion: Why Consent Is Not Enough" and "Data Protection Approaches That Go Beyond Consent".

Data innovation is challenging the traditional role of insurance supervisors, as they must protect consumers within their sector from the risks that arise even though they do not have sole regulatory oversight over the topic. To help inform the discussions, the A2ii has just recently published a study on insurance supervisor's role in this (Access to Insurance Initiative, Regulating for responsible data innovation: The role of insurance regulators in dealing with risks relating to consumer data protection and privacy, 2018).

Cybersecurity and data risks: with increased collection and storage and third-party use of consumer data and advanced data analytics being applied, cyber risks and data protection questions have become much more prominent. As stated in the IAIS Issues paper on the topic, "For insurers, cybersecurity incidents can harm the ability to conduct business, compromise the protection of commercial and personal data, and undermine confidence in the sector." (IAIS, Issues Paper on Cyber Risk to the Insurance Sector, 2016). The IAIS has recently published an Application paper on the topic (IAIS, Application Paper on Supervision of Insurer Cybersecurity, 2018c).

4. SUPERVISORY CHALLENGES

The fast-moving developments in InsurTech are a challenge for existing regulatory frameworks. With the introduction of new business models, digital technologies are challenging the very foundation of insurance: some peer-to-peer insurance, for example works without an underlying risk carrier as in the case of TongJuBao in China (see box 1). Robo advice and black box algorithms challenge traditional categories and many models operate outside of national jurisdictions e.g. use of cloud computing.

For supervisors, digitalisation presents a "moving target in a moving environment"

Some common regulatory challenges were identified during the forums. The recently published IAIS Issues Paper "Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes" (IAIS, 2018a) also highlights a number of supervisory issues, some of which are introduced below:

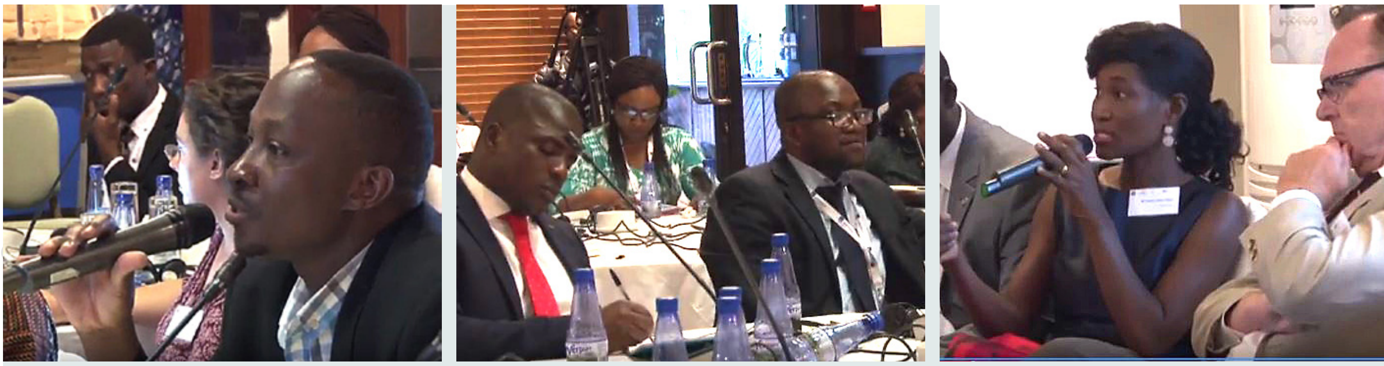
Regulatory arbitrage: the speed at which digital developments are happening and new players are getting involved, could create regulatory gaps or uncertainties. Legislative change takes time and most insurance legislation was developed with more traditional business models in mind. As a result, the insurance law often does not provide sufficient space to allow for digital transformation.

Supervisory capacity and skills: understanding how big data is used, supervising automated decision-making based on algorithms or chatbots that communicate with people requires technological literacy and different supervisory skill sets and approaches as in more traditional insurance.

Entry of non-insurance players: new players are entering the insurance space, ranging from small InsurTech start-ups, to technical service providers and "BigTech" platforms. These providers might not fit anymore in the traditional intermediary categories of broker and agent. Supervisors will need to engage with entities that might have different structures and risk cultures and different level of experience with financial services regulation than incumbents. In addition, new technologies might cut across multiple laws making engagement with other supervisors necessary.

> HELP EACH OTHER TO HELP THE POLICYHOLDER
>
> "It is important that all stakeholders work together and help each other in understanding new technologies and making them work for inclusive insurance in the interest of the policyholder." *Peter van den Broeke, IAIS Senior Policy Advisor*

Balancing innovation and risks to consumer: as mentioned above, new digital technologies create enormous potential opportunities for greater access and improved consumer experience at more affordable prices; however, they also introduce significant risks which could lead to serious consumer harm if not managed properly. Facilitating innovation while protecting consumers from potential concomitant risks will be one of the key challenges to supervisors as highlighted by the IAIS (IAIS, 2018a).



Consultative Forum Africa, 9-10 May 2018, Accra, Ghana

5. WHAT THE INDUSTRY NEEDS

Industry representatives highlighted a number of prerequisites for a business model to work in a digital world:

What matters to customers are quick and simple processes: insurers stress the fact that in order to enable digital products particularly on mobile phones to work, processes such as sign-up must be simple and quick and enable a seamless customer journey. No complicated documents should be required. For supervisors it is important to understand the consumer experience.

Supervisors need to provide regulatory certainty more quickly: technological developments happen at an exponential rather than linear pace so it is not easy for regulators to keep up. However, many industry stakeholders stressed the fact that the need to wait for regulatory change might kill an innovation. They underlined the importance of regulatory certainty and clear signals from supervisors throughout the process.

> "With regard to digital innovations, the industry is moving at a speed of 150km/h, while the regulators are currently still lagging behind at a speed of 30km/h." *Vinay Kumar, Arya.ai*

Close dialogue with the supervisor and a test-and-learn environment: close dialogue between the supervisor and industry was deemed important so that the insurance supervisor understands how innovative business models work. All industry stakeholders wanted a test-and-learn environment (see box 3 on different supervisory approaches). As digital technologies can cut across multiple laws, industry participants wished for roundtables that bring together the market with the different regulators involved.

Facilitate access of non-insurance players to the market: digital technology business models are introducing a range of new players. InsurTech often struggles to address regulatory challenges that are part of incumbents' business-as-usual. In particular, non-insurance start-ups trying to enter the insurance sphere face challenges understanding and meeting appropriate regulatory requirements.

BOX 3

HOW TO REGULATE FOR (DIGITAL) INNOVATION

Different supervisory approaches are available to regulators wishing to promote InsurTech innovation. For more details see "FinTech: Regulatory sandboxes and innovation hubs" (European Banking Authority, 2018), "Regulatory Sandboxes and Financial Inclusion" (CGAP, 2017) and "Regulating for Innovation" (Cenfri, 2018).

Wait-and-See Approach
Monitoring a trend to understand it better before the regulator intervenes. Usually applied if innovation is not yet fully understood and innovation is not yet mature or scaled-up. Example of a wait-and-see approach: person-to-person lending in China.

Test-and-learn Approach
In close cooperation with the innovator, the regulator crafts a framework to test an innovative product or technology in a live environment with safeguards and key performance indicators in place. Usually applied ad-hoc when provider approaches regulator with an innovation. The supervisor should ensure that regulatory conditions and treatment are also made transparent to other market players. Example of a test-and-learn approach: launch of M-Pesa in Kenya.

Innovation Hubs
"Innovation hubs provide a dedicated point of contact for firms to raise enquiries with competent authorities on FinTech-related issues and to seek non-binding guidance on regulatory and supervisory expectations, including licensing requirements" (European Banking Authority, 2018). Example: UK FCA's Innovation Hub has a dedicated team that assists in preparing applications for authorisation.

Regulatory Sandboxes
Regulatory sandboxes are schemes set up by supervisory authorities that offer the potential for any eligible firm to participate in the sandbox and enable companies to test innovations in a market pursuant to a plan agreed and monitored by the supervisor. Usually this involves partaking in a structured communication with the regulator. Operating a regulatory sandbox requires adequate resources (staff and funding) to select proposals, provide advice to companies and evaluate innovations. In practice no regulatory sandbox looks the same. Examples: CGAP has established a repository of a number of regulatory sandboxes in the financial area (CGAP, 2017)

6. RECOMMENDATIONS FOR SUPERVISORS

Insurance supervisors play a crucial role in enabling innovation. Financial supervisors worldwide are exploring how best to enable innovation without compromising consumer protection. Here are some of the lessons shared during the Consultative Forums:

Build up supervisory expertise and partnerships to understand innovation: supervisory authorities need to build up staff capacity or establish partnerships with third-party providers so they can fully understand new technologies and their impact on consumers and can assess new applications for technologies (IAIS, 2018a). In this regard, we heard about examples of separate units set up within supervisory authorities focusing just on tech developments, the establishment of interdisciplinary supervisory teams and partnerships with applied research institutes to better understand the risks and supervisory options.

Learn from your peers: a number of jurisdictions have experimented with supporting FinTech and InsurTech in their markets. The IAIS has recently published a number of issues and application paper on digital technologies that provide learning on current practices and a number of case studies (IAIS, 2018a), (IAIS, Application Paper on the Use of Digital Technology in Inclusive Insurance, 2018b), (IAIS, Application Paper on Supervision of Insurer Cybersecurity, 2018c) (IAIS Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes, 2018d)). The IAIS also recently set up the FinTech Forum, a forum for exchange and learning among jurisdictions with experience in regulating FinTech innovation in their market. Presentations and summaries of A2ii's consultation calls for supervisors and Consultative Forums can be found on A2ii's website.

Seek cooperation with other supervisory authorities proactively: we observe an increasing interconnectedness in digital technologies. As digital innovations can cut across multiple laws, regulations and authorities, cross-disciplinary regulatory cooperation is particularly crucial. This can include the central bank, telecommunication regulator, data protection agency, but also other regulators. A number of supervisors have established supervisory roundtables to encourage exchange and coordinated action.

> "In Kenya, we have seen an embracing of change and embracing of collaboration whereby innovation is perceived as part of the regulatory culture. Consequently, the regulator is familiarised with new trends and their implications and potential future scenarios are identified and shared across the organisation." *Elias Omondi, Insurance Regulatory Authority Kenya*

Assess different supervisory options: supervisors can learn about innovation in different ways. A number of countries are establishing supervisory sandboxes, but these can be quite resource-intensive and might not be appropriate in every market context. Regulators in other countries have chosen to let market activity evolve and monitor it closely to better understand developments before intervening (see box 3 for an overview of regulatory tools to support innovation). The question of how supervisors should regulate for innovation should not simply be answered with "implement a sandbox". Supervisors should assess different regulatory options and consider the maturity of the market, the supervisory mandate and available resources and knowledge. Overall commitment of the supervisor and communication with the market is deemed critical.

BOX 4

U.S. REGULATOR-LED INNOVATION ACTIVITIES

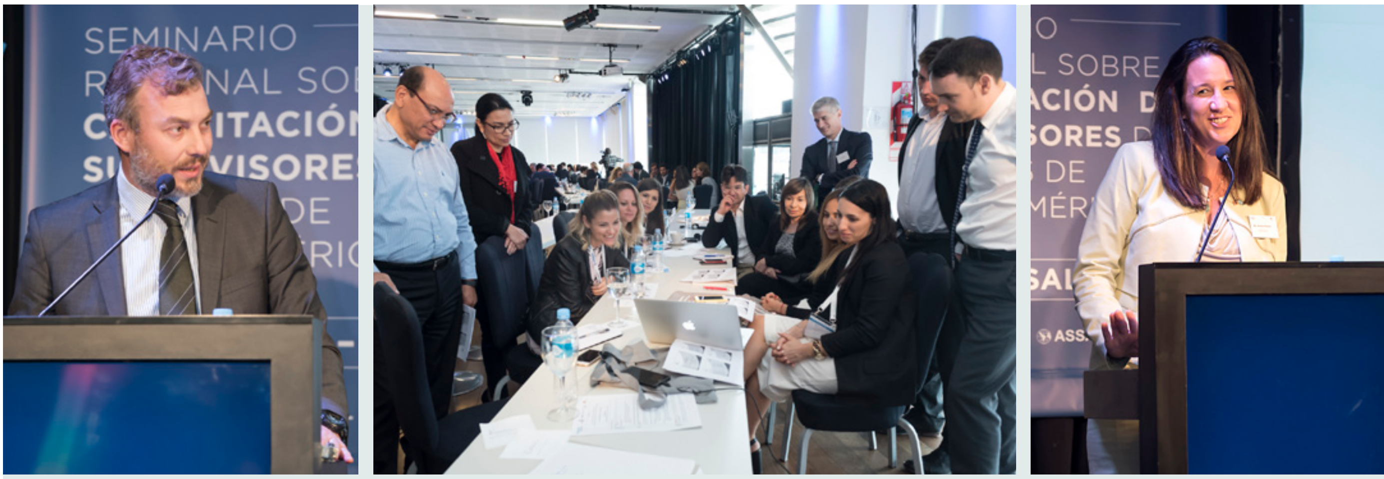
With the support of the NAIC, regulators in the United States have been reaching out to start-ups early in the process to better understand the innovations in technology and products being developed as well as to actively support the industry to understand the regulatory landscape. The NAIC and regulators attended or hosted numerous events and dialogues both with innovators and start-ups as well as with incumbent insurers.

Some cities in the United States are making efforts to establish themselves as recognised centers of InsurTech activities. For example, in Hartford an InsurTech hub was launched in 2017 by a group of insurers and City of Hartford representatives. Actors bundled their support, resources as well as industry and investor connection and created incentives to attract technology start-ups, build up talent with internship and university programs, raised capital and launched a number of pilots with companies being accompanied by mentors (NAIC, 2018)

Reach out to the market and provide more regulatory clarity: supervisors wishing to support InsurTech developments should reach out to start-ups and insurers early in the process and support market actors e.g. by facilitating events that bring together supervisors, innovators and insurers and facilitate mutual learning and for providing more regulatory clarity. Some supervisors have established access points for companies to submit enquiries and questions about business models upfront or established innovation units that provide recommendations to which adaptations to business models are necessary to comply with current regulation.

Spur innovation in the market: supervisors could also encourage InsurTech innovation in their market to overcome certain challenges i.e. to facilitate access for excluded parts of the population. Supervisors can facilitate collaboration and joint problem-solving between market actors for example by setting up innovation labs or match investors with start-ups. They could also support efforts to build the knowledge and capacity of market actors or provide financial support to innovators like InsurTech start-ups.

Keep regulation flexible to keep up with innovation: change happens quickly and it is impossible to anticipate exactly how technology will develop. This makes supervisory flexibility important. New regulatory frameworks should provide room for innovation and be as flexible and open as possible to any future developments. The challenge for supervisors is to balance the need for innovation with consumer protection and maintaining a stable, competitive and level playing field.



Consultative Forum Latin America, 24 October 2018, Buenos Aires, Argentina

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