



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Towards an Application Paper on the Use of Digital Technology in Inclusive Insurance

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Why this application paper?

Digital technology can help solve inclusive insurance challenges, but gives rise to particular risks and regulatory considerations

How should supervisors respond and how does this fit in with the principles for insurance regulation?

- Purpose of an Application Paper: additional material related to one or more ICP to help with practical application
 - Implementation advice, illustrations, recommendations or examples of good practice
- IAIS papers leading up to this AP:
 - **Application Paper in Regulation and Supervision of Inclusive Insurance Markets 2012:** Scope for proportionate approach in accordance with nature, scale and complexity of risks; acknowledges unique features of the inclusive insurance market context
 - **Issues Paper on Conduct of Business in Inclusive Insurance Markets 2015:** Digital technology identified as key conduct topic requiring further application guidance
- This AP will address:
 - Crucial role of new technologies in various stages of product life cycle and in value chain
 - Regulatory considerations and risks to interest of policyholders

What does it cover?

Why **digital technology** and not just m-insurance?

M-insurance most well-known application, but technology is about much more:

- Impact of technology is not limited to m-insurance
- Supervisors need to focus on what is likely to drive future inclusive insurance market development.

Why **digital technology** specifically in inclusive insurance?

Technology & insurtech is a mainstream topic, but unique inclusive insurance considerations:

- Vulnerability of client enhances imperative for market conduct and consumer protection measures.
- Regulatory capacity constraints and the pace of innovation create imperative for application guidance

Outline

1. Introduction
2. Features of the Inclusive Insurance Market
3. Use of Digital Technology in Inclusive Insurance Markets
4. Impact on insurance business and risks
5. The Proportionate Application of the ICP to Digital Inclusive Insurance
6. Conclusion

Key themes emerging

- Digital technology helps make business models more inclusive, e.g.:
 - Policy origination without face-to-face interaction
 - Reduced distribution & premium collection costs whilst increased convenience for customer
 - Claims lodging and settlement streamlined through mobile phones, sensors, big data analytics, smart contracts, etc.
- Digital technology impacts inclusive insurance value chain
 - New players not traditionally from the insurance sphere, e.g. MNOs, TSPs
 - Power balance away from insurer and conventional intermediaries

Implications for insurance regulators and supervisors

- Speed of technological innovation challenges existing regulatory & supervisory frameworks
- Need to accommodate & manage new players & power relationships
- Some models challenge definition of “insurance” and “intermediary services”
- Various consumer protection risks arising, including Aggregator, Sales, Policy Awareness, Payment, and Post-sale risks.

Relevant ICPs

ICP 1

Objectives, Powers and Responsibilities of the Supervisor

The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.

Relevance for Application Paper on the Use of Digital Technology:

- The supervisor needs to have authority to extend its legal powers to non-financial companies like MNOs that fulfil insurance value chain functions
- The supervisor's staff needs to have access to skills and knowledge of technology used by supervised firms and of IT risk management
- If a supervisor involved third parties to carry out supervisory activities – for example EDP / IT audits – it needs to take adequate control measures and safeguard confidentiality

Relevant ICPs

ICP 3

Information Exchange and Confidentiality Requirements

The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.

Relevance for Application Paper on the Use of Digital Technology:

- Adequate exchange of information between involved supervisors needs to be arranged, in particular with telco regulators.

Relevant ICPs

ICP 4

Licensing

A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.

Relevance for Application Paper on the Use of Digital Technology:

- Different requirements, conditions and restrictions might be appropriate proportionate to the complexity and risk involved in the use of digital technology, and for different types of insurance value chain players.

Relevant ICPs

ICP 8

Risk management and internal controls

The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.

Relevance for Application Paper on the Use of Digital Technology:

- La gestion des risques et l'audit interne doivent être adéquats pour l'environnement informatique et les processus métiers.
- L'externalisation des processus informatiques et d'autres fonctions doit être correctement gérée et contrôlée.

Relevant ICPs

ICP 19

Conduct of Business

The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Relevance for Application Paper on the Use of Digital Technology:

- Unique requirements and oversight from conduct of business perspective.
- Focus on digitalisation / cross-reference with Issues Paper on Conduct of Business in Inclusive Insurance and draft Application paper on Product Oversight in Inclusive Insurance.

Relevant ICPs

ICP 18

Intermediaries

The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.

Relevance for Application Paper on the Use of Digital Technology:

- Requirements and oversight of intermediaries and other parties such as aggregators - in particular MNOs – from conduct of business perspective.
- Requirements in respect of mobile wallets ...

Road to adoption

We are here



