



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

IAIS-A2ii Consultation Call: **21 September 2017**

Supervising InsurTech





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INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Presenters



Main Presenter

Stefan Claus

Technical Head of Division at Bank of
England

IAIS representative



Conor Donaldson

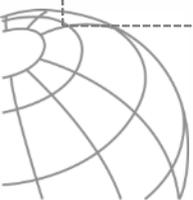
International Association of
Insurance Supervisors (IAIS)

Moderator



Janice Angove

Access to Insurance Initiative (A2ii)





BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

IAIS: FinTech developments in the insurance industry

Supervising InsurTech

21st September, 2017

Agenda:

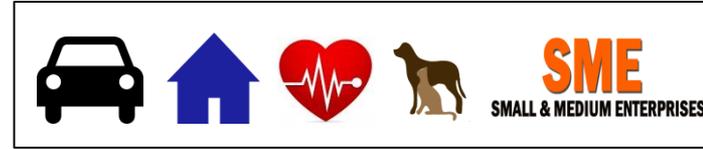
- Purpose of the IAIS report (dated 21 February 2017)
- Framing our analysis
- Overview of the findings
- Implications for Supervisors

- Experiences of InsurTech Supervision

- Discussion



But first: what is InsurTech?



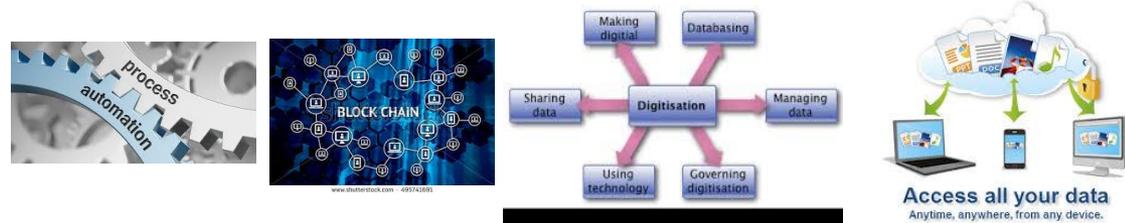
1. Enhanced customer engagement
(*& cheaper distribution*)



2. Better risk selection / monitoring



3. Process improvement
(*cost savings*)



4. Integrity risks (Cyber & Privacy)



5. Peer-To-Peer



Purpose of the IAIS report

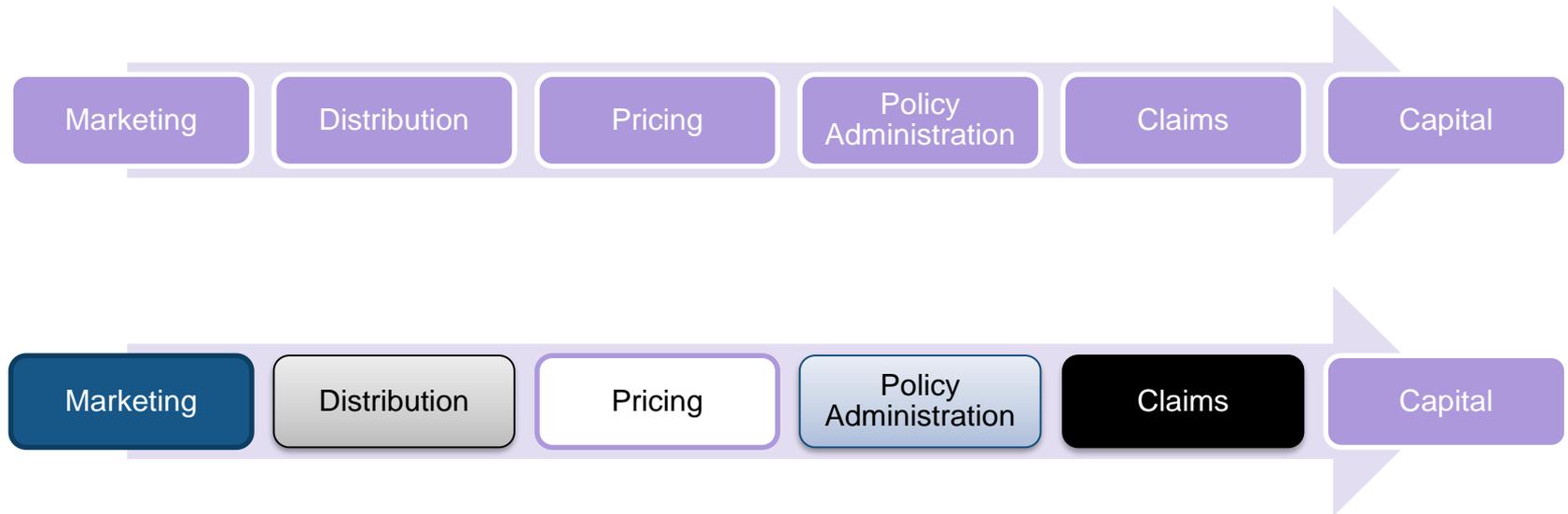
- Stocktake of developments
 - Overview of drivers and areas of innovation
 - Potential implication for individual insurers and the industry as a whole

- Approach taken
 - Supervisory collaboration (*IAIS, Brazil, France, Mexico, UK, US*)
 - Industry workshop
 - Literature review



Framing our analysis

- Scenario approach adopted to enable debate on
 - extent to which incumbents may need to redesign their business model; and to
 - Consider market changes from a supervisory perspective
- Scenarios considered:



Framing our analysis: Criteria considered

- Macro / sectorial perspective:
 - Competitiveness
 - Consumer choice
 - Level of interconnectedness
 - Ability for regulatory oversight
- Micro / firm supervisory specific
 - Business model viability
 - Conduct of business
 - Supervisory oversight



Overview of the findings: Drivers of innovation

- Supply-side factors:
 - Increasing computing power and data storage at reducing cost
 - Increased connectivity with increasing sophistication to analyse implications / draw conclusions
 - Increased capital / investor appetite in low yield environment

- Demand-side factors
 - Insurer's perspective:
 - Enhanced customer engagement (& cheaper distribution)
 - Better risk selection / segmentation & monitoring of risk
 - Process (operational) improvement: cost savings (highly competitive market)
 - Integrity risks: cyber & privacy
 - Societal shift: always-connected generation; service over ownership;



Overview of the findings: Implication for insurers

- Too early to call
 - Many new InsurTechs, but to date incumbents have had the upper hand (capital rich, jurisdiction / regulatory savvy, capital efficient)
 - Technology, whilst improving, still needs to demonstrate how it can transform aspects of the insurance business model longer term (e.g. DLT, driverless vehicles)
 - Societal changes, whilst undoubtedly changing, have not reached critical mass
 - Large technology firms (GAFA) have yet to focus on the insurance sector; in part due to healthy commission income from insurers
- Whilst implications and timescales uncertain, there is general consensus that insurers need to adapt to survive / stay relevant



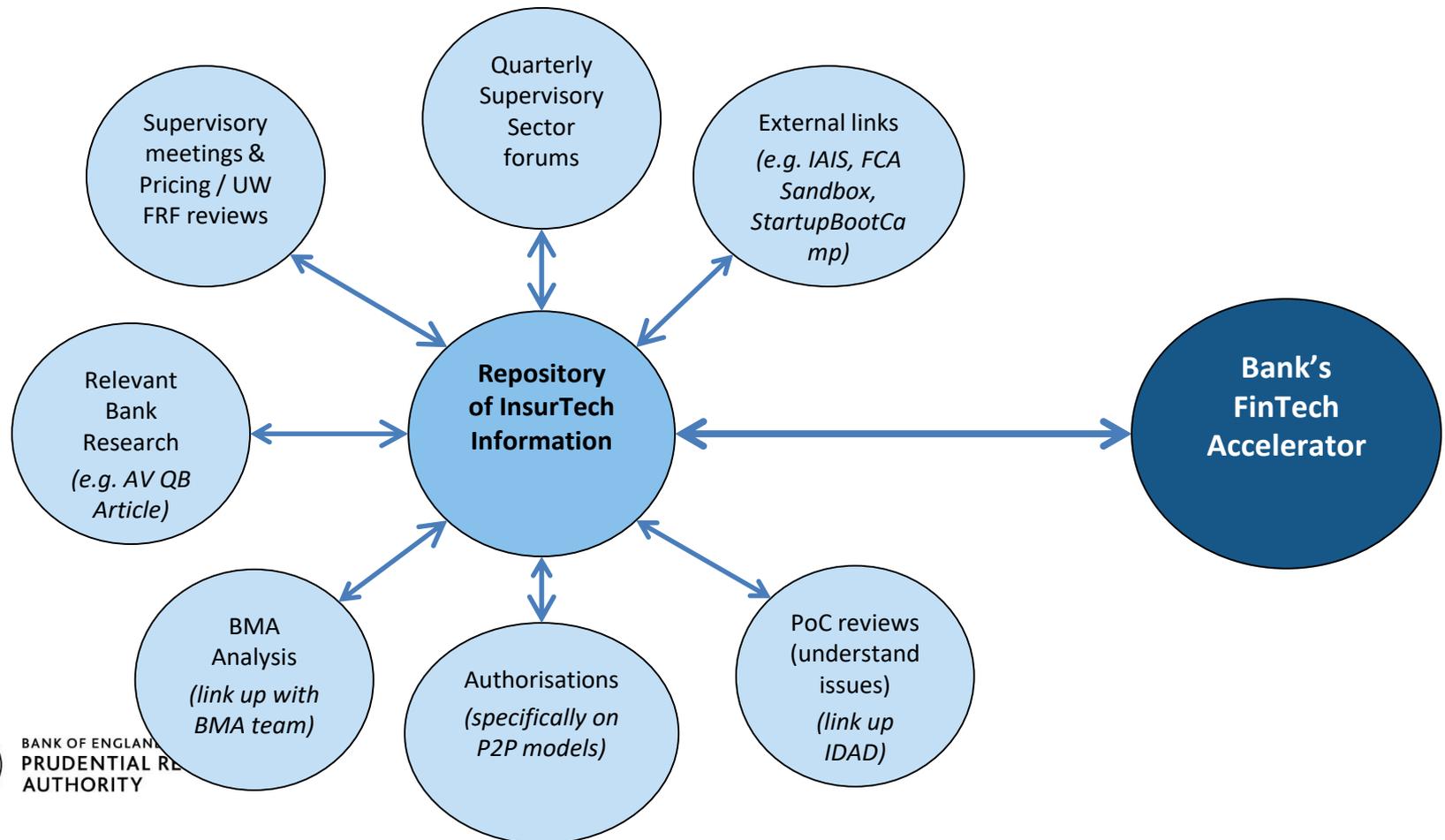
Overview of the findings: Implication for supervisors

- Potential significant **benefits**; for example
 - ✓ Better alignment to p/h needs
 - ✓ Better risk pricing should result in better exposure management
 - ✓ Real time data should result in more timely decisions / oversight
 - ✓ Digital distribution should result in cheaper/targeted cover for p/h
- But new **risks** will emerge; for example
 - Reduced risk pooling may result in social exclusion
 - Increased data => reduced privacy / increased risk of cyber hack
 - Reliance on AI may actually reduce transparency / oversight
 - Shrinking risk pools may cause disruption to existing providers
 - Increased reliance on outsourcing may increase systemic risks
 - Capital regime not sufficient flexible to capture changing risk profile
 - Ability for oversight may reduce (insurance embedded in service)
- ***Striking the right balance will be the biggest challenge***



Bank of England approach: Community of Interest

- InsurTech focus to date on distribution – hence conduct related; but
- Innovations starting to impact product development, U/W, pricing, capital, etc...
- BoE approach: build up knowledge and continue to monitor / assess risks to insurers / sector via establishment of a Community-of-Interest





The Initiative

The Initiative is a partnership between:





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Case study: Financial Conduct Authority (UK)

Speakers

Paul Worthington & Tony Gellett

Innovate / Strategy & Competition

FCA, UK



FCA Innovate: Supervising InsurTech

Update from the FCA

Paul Worthington & Tony Gellett

21/09/17

FCA Innovate Structure



Regulatory Sandbox: InsurTech

Firm	Testing model	Cohort
Blink Innovation Limited	An insurance product with an automated claims process that allows travellers to instantly book a new ticket on their mobile device in the event of a flight cancellation.	1
AssetVault	AssetVault enables consumers to catalogue all of their assets in a secure online register and better understand their total value. AssetVault then works with insurance providers to protect the consumer and their assets with appropriate insurance products.	2
Canlon	An insurance policy that saves a portion of the net premium to reimburse policyholders if a claim is not made.	2
FloodFlash	FloodFlash provides event-based flood insurance, even in high-risk areas. Customers receive a pre-agreed settlement as soon as the company's sensor detects that flood waters have exceeded a certain depth.	2
Insure A Thing	An alternative insurance business model where the consumer makes payments at the end of the month, based on the exact cost of claims settled during that period.	2
Nimbla	Nimbla provides flexible trade credit insurance and credit and invoice management tools to UK SMEs, via an online platform	2
YouToggle	An app that uses mobile phone telematics to monitor a user's driving and create an individual score that can then be shared with a car insurer to obtain a discount. Driving information captured by the app could also be used as evidence in the event of motor accident.	2