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EUROPEAN INSURANCE  
AND OCCUPATIONAL PENSIONS AUTHORITY

# Overview of the EIOPA work on outsourcing to cloud service providers

EIOPA's Fourth InsurTech Roundtable

The use of cloud computing by (re)insurance undertakings

Frankfurt, 11 April 2019

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# EIOPA has been working on cloud since 2018...



- **Cloud** computing **has** multiple uses **everywhere** and in **all industries**
- **In insurance, moving** systems and applications **to the cloud is:**
  - o a way to **optimize** IT expenses
  - o an **enabler** for **innovation**(business models and products)
  - o part of the **digital transformation strategy of** many **insurers**



# ...through its InsurTech task-force...



- The InsurTech **TaskForce** **leads** the EIOPA work relating to issues and aspects arising from **technology-enabled innovation in insurance**
- The InsurTech **TaskForce**
  - o **reports to** the EIOPA **Board**
  - o is composed by representatives of **several EU insurance Supervisors**
  - o **ensures coordination with** the work of the other Banking and Securities **EU authorities** and the EU **Commission** (COM)

# ..to answer: is there a need for guidelines on cloud?



- 3 Mar. 2018 COM released its FinTech Action Plan
- **Cloud computing** is one of the technological innovations in the financial sector **put under COM's spotlight**
- Considering the **cloud potential** and the **market uncertainties on its supervisory interpretation**, COM invited to **explore the need for guidelines**
- **EIOPA** run an analysis of **impacts** and **risks of cloud outsourcing** to support the decision making process to answer the COM request

# 27 Mar. 2019: EIOPA answers the COM on its FinTech Action Plan



To develop the EIOPA **understanding** on:

- o **Legal framework**  
(Insurance vs. Banking and national specificities)
- o **Use of cloud computing**  
by EU undertakings
- o **Key risks associated to cloud computing**  
relevant for insurance industry

# The use of cloud computing by EU insurers is growing...



- **Extensive use** of cloud computing by **newcomers** and by a **niche of the market** for all value chain processes
- **Larger** insurers are **expanding** their **use** of **cloud** as part of their **wider digital transformation** strategies
- Level of use **not homogeneous** by countries
- **66%** of the **participants to EIOPA big data survey use** (or expect to use in 3 years) **cloud computing**

# ...and its risks for insurers are similar to the banking sector



- **Lack of operational oversight** over the activities outsourced to the cloud (wrong management of the “shared responsibility” model)
- **Data and information security** issues
- **Business disruption** (e.g. BCM of hybrid clouds)
- **Legal** disputes (termination, lock-in, data privacy, law enforcement provisions, sub-contracting, oversight limitations)
- **Concentration risk**, interconnections (e.g. the insurer is providing coverage to its CSP) and systemic risk

# EIOPA will issue guidelines on cloud outsourcing this year



- **EIOPA is informing this work with** the most recent guidance published by the European Banking Authority (**EBA**) on this field:
  - **Guidelines on outsourcing arrangements**
  - **Recommendations on outsourcing to cloud service providers**, which have been integrated into the EBA Guidelines on outsourcing and are repealed with effect from 30 September 2019
- **Public consultation** is expected **to start in July** with **guidelines** expected to be **finalised by year end**

# Key areas covered within the new principle based guidelines

- **Pre-outsourcing analysis**, risk and materiality assessments of cloud outsourcing arrangements
- **Documentation requirements** and **notification** to supervisory authorities
- **Contracts requirements** (clauses)
- Management of:
  - o Access and audit rights
  - o Security of data and systems
  - o Sub-outsourcing
  - o Monitoring and oversight of cloud outsourcing
  - o Exit strategies



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# Thank you

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