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Digitalisation in insurance: keeping track on current pace of change

Data is the raw material for insurers who have always used data analytics to inform underwriting decisions, price policies, settle claims and detect fraud. However, the availability of data has exponentially increased, and traditional data sets are combined with new data sets derived from social media, the Internet of Things, weather reporting, and wearables. The capacity to store and process data has also multiplied. It helps to transform raw material into insights and these insights into new digital business models.

Growing digitalisation has accelerated the fragmentation of the insurance value chain. Insurers pursue new forms of cooperation and increasingly turn to innovative third-party service providers for quick and efficient access to new technologies and business models. While the so-called BigTech entrance into the EU insurance sector remains limited so far, it has the potential for a quick scale-up.

Digital platforms have also emerged. They offer convenience by bundling financial, insurance and non-financial products and services from different providers. The growing adoption of Artificial Intelligence (AI) and the use of data exchanges governed by standardized Application Programming Interfaces (APIs) facilitate the development of enhanced front and back-office processes and online access. APIs also enable open finance and insurance business models that may facilitate industry-wide innovation and increase the agility of businesses in responding to changes in customer needs and expectations.

There are new opportunities for consumers and businesses. Outsourcing allows insurers to focus on core services, leading to flexibility and efficiency gains. Digital platforms enhance convenience through 24/7 access to a wider range of products and services. This is likely to be attractive to firms who, thanks to the internal market and freedom to provide services regime, could tap into a broader customer base, including cross-border. BigTechs can leverage network effects to reach a wide range of consumers, including some that may be otherwise underserved.

New risks and supervisory challenges also emerge. The growing reliance on tech companies can create new types of operational risk. Digital distribution channels, coupled with sometimes aggressive marketing techniques, e.g. focused on so-called 'dark patterns' or leveraging on social media, may also exacerbate risks to consumer protection.

The entry of BigTechs into insurance may further create concentration risks and raise level playing field issues for incumbent financial groups, requiring a stronger supervisory focus on both prudential and conduct, product oversight and governance and value for money issues.

While the first question policymakers face is almost always: 'is regulation necessary?' for supervisors the better question is: 'how can we keep abreast of changing markets and their risks?' There is a need to focus on digital developments and ensure supervisors are equipped with the right skills – an understanding of new technologies, emerging business models, front and back-office processes. Supervisors cannot always wait for regulation as business models do not wait for regulatory change. In addition, digital innovation spreads quickly across sectors and borders.

To keep supervisory skills up-to-date, last year the European Commission together with the European Supervisory Authorities and the Florence School of Banking and Finance launched a new EU Supervisory Digital Finance Academy. It offers a training programme to supervisors, enabling them to deepen their understanding of the complex digital transformation impacting finance.

Supervisors need to focus on digitalisation and ensure that they are equipped with the right skills

EIOPA is also constantly engaging with stakeholders, old and new, to get views on market trends, and recently launched a structured Digitalisation Market Monitoring survey on developments including the growth of digital distribution, adoption of AI or blockchain, the identification of cyber risks, as well as on possible areas where regulation and practice do not neatly fit together. A natural next step is to turn market intelligence into support for supervisors. Hence EIOPA continues its work on digital business model analysis, open insurance, and AI. As a supervisor, EIOPA also needs to make sure that regulation remains relevant. This means adopting a 'same regulation, same rules, same risks' approach while remaining technology neutral.

Supervisors that have a good and up-to-date oversight on market developments, with good cooperation between themselves and those driving change can support sound progress for the benefit of the European economy, its citizens and businesses. The current pace of change makes it one of the key challenges.