TECHNOLOGY TRANSFORMATION AND POLICY IMPLICATIONS

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Harnessing the benefits and managing the risks of digitalisation in insurance

The digital transformation in the insurance and pensions sector cannot be ignored. It can have a positive impact on (re)insurers, consumers, as well as for supervisors. But it also brings new or increased risks. As supervisors, our job is to make sure that we can harness the benefits while managing the risks.

New actors, including InsurTech start-ups and BigTech companies, are already entering the insurance market, both as competitors and as cooperation partners. At the same time, insurers' reliance on third-party ICT providers and contractors has accelerated across the value chain. Access to new technologies and the emergence of new business models likewise appear to accelerate.

We are seeing an increase in automated distribution, that is the Application Programming Interfaces (APIs) used to distribute insurance products via platforms, embedded alongside other financial and non-financial services. Ecosystems grow more complex, yet they can provide seamless consumer experiences. This can change the extent and nature of conduct and prudential risks, while Decentralised Finance (DEFI) and Peer-to-Peer (P2P) insurance using digital platforms promise to raise new challenges around resilience, mutualisation, accountability and transparency.

On an important but more evolutionary level, innovative ICT solutions can allow undertakings to implement significantly more efficient processes, reduce operational costs, and open the door to new products and services that may have been uneconomical in the past.

However, the risk of ICT security incidents, including cyberattacks, is also greater due to increased use and complexity of technology. This can have a considerable impact on the operational functioning of undertakings. Moreover, dependency on larger ICT service providers could also lead to concentration and contagion risks.

Innovation is in constant state of evolution, led by a cycle of hype: The metaverse and Web3 were trending topics last year, raising questions on potential implications for insurance, for example, through cyber insurance coverage on intangible assets. This year new Large Language Models have taken centre stage. Here, impacts along the insurance and pensions value chains can be readily seen in areas including communications, marketing, advice, claims management, and process automation. ChatGPT-like tools can also potentially be used to support the work of supervisory authorities.

There has also been an uptick in potential regulatory change. The AI Act aside, earlier this summer the European Commission published a legislative proposal on a Framework for Financial Data Access (FIDA), which aims to establish clear rights and obligations to enable customer-led data sharing beyond payment accounts, including in insurance and pensions. This may form the foundation for new data-driven financial and information products and services.

In this changing environment, supervisors must work harder to understand today's innovation and technology—both its impacts on new business models and consumers, and its potential benefits for supervisory processes.

EIOPA aims to support this supervisory work: for instance, by launching a public consultation on an insurance dashboard use case to bring technical considerations to the discussion on open insurance. We also support National Competent Authorities in scanning the innovation horizon. Through a Digitalisation Market Monitoring Survey, EIOPA is gathering input on insurers' digital transformation strategies to better understand how undertakings use or plan to use innovative business models (such as digital distribution and communication channels, as well as insurers' partnerships with start-ups and BigTechs) and technologies (for example blockchain and artificial intelligence).

Supervisory skills need to be enhanced to face challenges raised by digitalisation and understand new forms of risk. Cooperation is a great enabler of this, allowing not only the building of knowledge, but also the exchange of experience. 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, aiming to share and grow knowledge and expertise on financial innovation. This is one step towards supporting a European supervisory community that is better able to adapt and respond to changes stemming from innovation.

EIOPA's key priority is to support the supervisory community and the industry to mitigate the risks and seize the opportunities of the digital transformation, including by further promoting a data-driven culture.