Plenary 4

InsurTech: Rising to the regulatory challenge

Hosted by A2ii

By Pedro Pinheiro

Digital technologies are changing the insurance landscape by paving the way for new players and business models, bringing the potential to expand coverage faster than ever before. Whilst this exponential growth comes with enhanced efficiencies and lower costs across the product life cycle, it also brings new risks to consumers. This plenary hosted by A2ii explored how insurance supervisors can create environments that enable and encourage innovation, whilst at the same time protect consumers – and what lessons can be learned from around the world.

Benefits and risks: A2ii assessment

Digital technology is fragmenting the insurance market progressively. Distinct parties now provide different stages of the value chain, from product development to post-sale services and reinsurance. These different market players have unboxed the traditional insurance company's functions into several service providers, apps and software systems backed by self-learning artificial intelligence.

Emerging technologies come with benefits and risks to consumers that need to be considered by regulators in a proactive and responsive manner. Technology can help improve access to insurance by facilitating distribution. It can help providers in designing products that better fit consumer needs with premiums that are more affordable. And it can also help lower operating costs, increasing profitability and overall sustainability of the businesses.

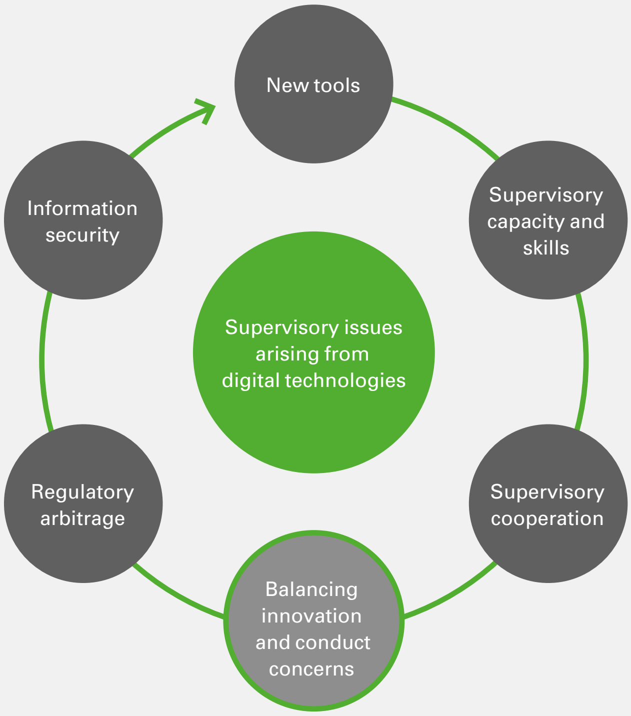
But technology can also make the customer feel more distant from the provider and further the lack of trust and image concerns so crucial to the insurance industry today. It poses serious privacy and cyber risk threats that need to be taken seriously by insurers and carefully monitored by supervisors. It reduces risk pooling by allowing insurers to target very specific demographics, thus potentially creating groups of financially excluded individuals, and it reduces transparency to the customer in an industry that is already struggling to be clearly understood.

Some of the key challenges supervisors face in this evolving scenario:

- developing new tools and skills for supervision of increasingly digitalised firms,
- improving their own supervisory capacity and skills,
- enhancing cooperation with financial and other authorities (e.g. the Data Protection Authority),
- safeguarding the supervisory parameters to prevent regulatory arbitrage,
- enhancing information security (see Figure 43)

Supervisors' guidelines are needed for appropriate and responsible use of new technologies to safeguard the fair treatment of customers and promote advice and services that are suitable and affordable for the customer.

Figure 43
Supervisory issues



Source: Grant, Hannah. Presentation "Insurtech: Rising to the Regulatory Challenge." 14th International Microinsurance Conference 2018

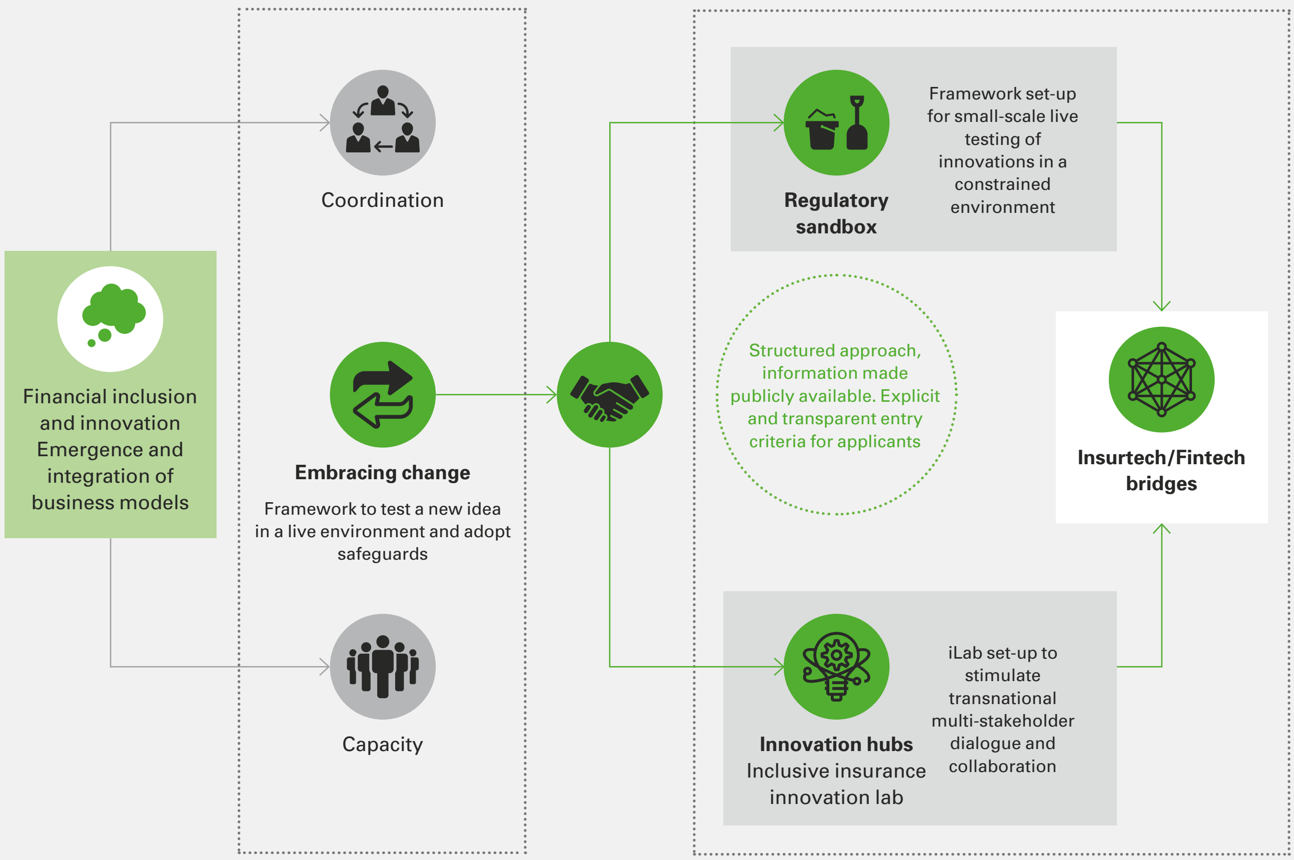
Kenya's approach: testing in a controlled environment

With the mandate of regulating and supervising one of the most thriving markets for digital financial innovation, the Insurance Regulatory Authority (IRA) of Kenya made a decision to embrace change and become a facilitator for innovation in the market (see Figure 44).

Focusing on promoting inclusive insurance for vulnerable people and businesses, the supervisor set up a regulatory sandbox[19] to test innovations in a constrained environment with clearly defined entry criteria and transparent information available to the public.

19 The Consultative Group to Assist the Poor (CGAP) defines a regulatory sandbox as "a framework set up by a regulator that allows fintech startups and other innovators to conduct live experiments in a controlled environment under regulator's supervision."

Figure 44
The Insurance Regulatory Authority of Kenya's roadmap for fostering innovation



Source: Omondi, Elias. Presentation "Insurtech: Rising to the Regulatory Challenge". 14th International Microinsurance Conference 2018

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Regulatory sandboxes can have different features set by the supervisor in line with specificities of the local market and even of the segment in the focus of innovation. They may or may not include regulatory concessions, as some are simply an environment for testing. An example would be a new product or form of distribution under the traditional regulatory framework, but with closer monitoring by the supervisor to co-create solutions when issues arise.

Whilst regulatory sandboxes are a trend being increasingly picked up by insurance supervisors around the world, there are still fewer of them to use as benchmarks than banking ones.

Regulators who want to establish them should know that this approach to innovation is very resource-intensive and requires a lot of capacity from supervisors themselves.

Another noteworthy initiative of IRA was to set up an iLab – a hub for innovation that stimulates transnational multi-stakeholder dialogue and collaboration.

Lessons learnt

- Emerging technologies come with benefits and risks to consumers that need to be considered by regulators in a proactive and responsive manner.
- Supervisors must seek to find the balance between fostering technological innovation and ensuring appropriate market-conduct standards.
- Establishing regulatory sandboxes is an increasingly attractive approach to fostering innovation while ensuring some form of testing in a controlled environment.
- They enable the supervisor to co-create solutions with the insurer when issues arise, but require a lot of resources as well as a lot of capacity from the supervisors themselves.

“Regulators are sleeping beauties. If regulation is not done within a particular time, it will not be relevant“

Elias Omondi, Actuarial Associate, Insurance Regulatory Authority, Kenya

87 — Hannah Grant, Head of Secretariat, Access to Insurance Initiative (A2ii), Germany

88 — Belhassen Tonat, General Manager / Non-Life, Munich Reinsurance Company of Africa, South Africa

89 — Elias Omondi, Actuarial Associate, Insurance Regulatory Authority, Kenya

90— Left to right: Craig Thorburn, Lead Financial Sector Specialist, World Bank, United States; Herman Smit, Technical Director, Cenfri & i2i, South Africa

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