# BIPAR Response

September 2020

## BIPAR contribution EIPOA consultation Discussion paper Digitalisation new business models

bipar

European Federation of Insurance Intermediaries

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*BIPAR is the European Federation of Insurance Intermediaries. It groups 50 national associations in 30 countries. Through its national associations, BIPAR represents the interests of insurance agents and brokers and financial intermediaries in Europe.*

*Besides some large multinationals, the insurance intermediation sector is composed of hundreds of thousands of SMEs and micro-type operators. It accounts for 0.7% of European GDP, and over one million people are active in the sector. Insurance and financial intermediaries facilitate the insurance and financial process for several hundreds of millions of customers. The variety of business models, the high level of competition and the geographical spread in the sector ensure that everyone in Europe has easy access to tailor-made insurance and financial services.*

*BIPAR is a member of the World Federation of Insurance Intermediaries (WFII).*

**In what follows you will find the BIPAR answers and positions to the EIOPA public consultation on 'Discussion paper on (re)insurance value chain and new business models arising from digitalisation' (07/09/2020).**

**We refer to the original consultation for background**

**This compilation should indeed be read in combination with the original consultation.**

1. **Do you have any preliminary remark or general comment regarding the topic of (re)insurance value chain and new business models arising from digitalisation?**

   BIPAR welcomes this EIOPA paper because:

   - **it explores the activities which are currently outside the remit of the insurance regulator and supervisor** but which should perhaps be brought into their remit in order to promote a level playing field and in order to ensure that the insurance market remains transparent and safe. "Quasi insurance" and "quasi insurance intermediation" by operators outside the regulators and supervisors remit undermine trust and fair competition. *There needs to be clarity about what is/ needs to be brought under regulation and supervision.*

   - it gives the industry the opportunity to illustrate that **what is (too often) referred to in this paper as being "new" or "innovative" or technology driven" is in fact not so new and not only technology driven**. Many of these innovative technologies are used in all insurance and intermediaries' services (depending on the needs and wishes of the clients and insurers). *Technology and in particular Artificial Intelligence and data driven technologies should be used in a transparent and responsible way and should not result in discrimination of market players or consumers.*

   - the "general tone of this paper" illustrates that there is a **need to better explain the reality of the current wide role of intermediation (in the broad sense of the word) in the modern society and the wide variety of business models in the intermediation sector**. Although the general tendency is to focus on the "distribution" or "sales" aspect of intermediation, the reality is much more complex and rich. *Regulated intermediaries must continue to be able to offer services, which otherwise need to be done by the insurer or the client. This contributes to the efficiency of the market and poses no risk if the parties in the chain are regulated and supervised.*

Introductory comments

Intermediaries are… intermediaries and they can offer services to both the insurer and the client. In our philosophy, an intermediary is **a facilitator of one or more of the functions inbetween the parties** of an insurance process/ contract and related activities.

This reality is reflected in the IDD (see in particular art 2 and art 19 of the IDD) whereas other aspects covered in this paper are reflected in article 49 (outsourcing) of Solvency II.

Insurance intermediaries (whatever the level of technology used in a business model mix) are specialised in managing customer relationships in the insurance process.

Depending on several parameters regarding the customer (type, generation, situation, private, business, BtoB) they offer life cycle-related or assets-related protection solutions and administrative, compliance, risk management or contract services.

Advice (in the generic sense of the word) and distribution and matching demands and needs are key in the insurance sector but only one part of the entire process. The wide variety of business models allows for businesses and consumers to have choice (both in terms of service offers and related digital aspects).

**Intermediaries may also offer services such as (assistance in) product development or manufacturing, or other specific administrative services to insurers or services which facilitate the process between insurers and other intermediaries, insurers and re-insurers.**

There are various business models (since always) and "intermediaries" are **offering transparent choice** to consumers, allowing for an efficient, competitive (re-) insurance market using technology. In the insurance value chain, for years insurance intermediaries have harnessed technology (and other innovative techniques) to optimise the speed, fluidity, efficiency and traceability of the transactions. The flexibility and the choice between business models should continue and exist for insurance intermediaries.

For many years most insurance intermediaries have been "***InsurHybrids***". **They combine human and digital means in function of the need and wishes of the client** and in function of the quality of the insurance product (combined or not) with a technology aspect.

Although technology is an integral component for intermediaries in the customer-insurer relationship, to this interaction they add the human factor.

- With reference to the statement of EIOPA in the paper that "some of the risks are not new", BIPAR is of the opinion that "most of the risks and benefits described in the EIOPA paper are not new " but BIPAR agrees that they can be amplified due to digitalization or Artificial Intelligence and can (or should be) be captured by the existing supervisory processes.

- BIPAR agrees that "digitalization" or "digitally driven business models" by the players from outside the sector offering "quasi insurance" services to the insurance sector or to consumers can amplify or relocate significantly "old" risks.

- BIPAR regrets the use of the word "old" in the EIOPA paper. It illustrates the general "tone" of this paper, which we regret in the sense that it gives the impression that it is about " old against new" while the reality is that the system is hybrid, ensuring a gradual shift where digital and human is combined in order to offer the best customer experience in function of the individual customer and in function of the situation.

- Technology has already been used in all insurance and intermediation activities for quite a long time. The intermediaries' main function is customer interaction **and facilitating and optimising the insurance process**.

- Insurance intermediaries' activities keep the insurers under competitive pressure and help create trust in the market (by combining technology and human interaction). But they also provide the services which are necessary for efficient processes, including data analysis and risk management know-how.

- Insurance intermediaries offer a wide variety of different customer experiences: for example, for house insurance, insurance intermediaries can offer prevention or detection advice in combination with tools such as apps and classical insurance.

- In pensions or health-related insurance, intermediaries help consumers to be better aware of their needs and solutions.

- In the case of claims or accidents, the human interaction is still highly appreciated, if not necessary.

- The customer can choose from a wide variety of services and experiences via a wide variety and combination of tools and systems (apps, web, telephone, face-to-face…).

- For businesses, the insurance intermediation spectrum of services is even wider and state of the art, tailor made risk and insurance management know-how are offered to SMEs and large industries to assist them in their daily operations, innovation and cross-border (and international import and export) activities. These services can also include the management of complex cross-border employee benefit services.

- Insurance intermediaries also offer "sustainable" cost-effective and efficient services to insurers and re-insurers in the interest of efficiency of the insurance and reinsurance process (and market) overall and in the interest of consumer experience. Each intermediary defines its own "business model" but always in compliance with the IDD and other relevant rules.

- Intermediaries may focus on client services or on services to insurers or other intermediaries. The sector contributes in a regulated environment to the efficiency of the process.

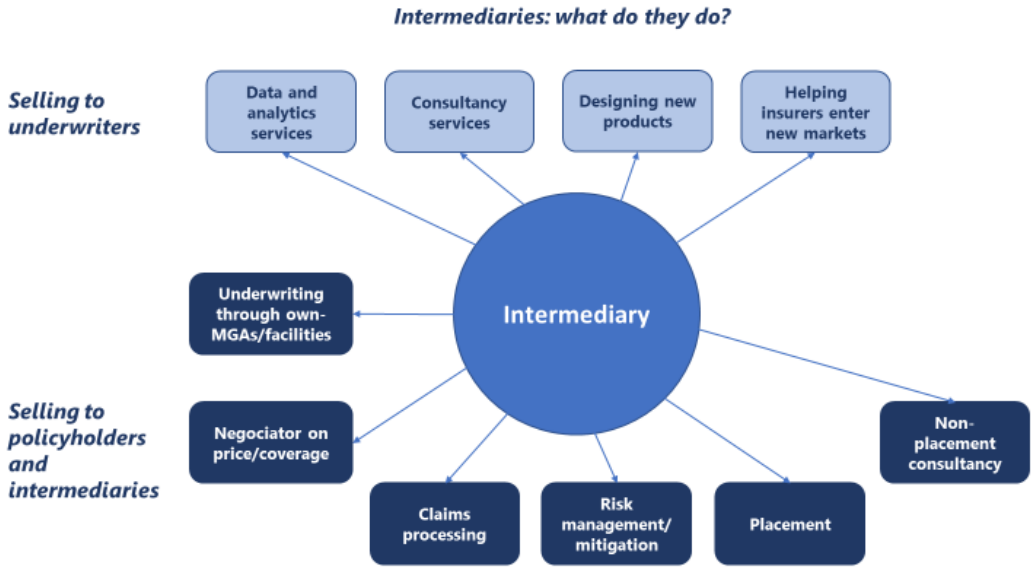
In terms of future initiatives **by regulators or supervisors**, BIPAR has the following opinions:

1. The search for unnecessary overregulation in the financial services sector should not be limited to those elements which would be a barrier for Insur/FinTechs in their development. Where there is overregulation, it should be streamlined.

2. **In our sector, many thousands of mainly smaller firms and their hundreds of thousands of local employees interact daily with millions of consumers. They comply with a series of regulations which protect the consumers and act in competition with (regulated or unregulated) institutions which are often defined as Fin or InsurTechs. Therefore, a regulatory level playing field should be the basis of every regulatory initiative in relation to Fin/InsurTech. The IDD and Solvency II should be the basis for this level playing field.**

3. In the insurance value chain, for years insurance intermediaries have harnessed technology to optimise the speed, fluidity, efficiency and traceability of the transactions. For many years most insurance intermediaries have been "***InsurHybrids***". Although technology is an integral component for intermediaries in the customer-insurer relationship, to this interaction they add the human factor.

**The regulated insurance (intermediation) sector has been characterised for many years by the following model:**




(based upon FCA study)

Not all business models exist in all Member States.

2. **Please describe your own co-operation/collaboration respectively with insurance companies/ intermediaries/InsurTech companies, BigTech companies, platform providers. Please describe risks and benefits you see on this co-operation/collaboration.**

There may be a need to make a distinction between the following "platforms":

- Platforms for back-office between insurers and distributors (integrated systems, ex: insurance agents almost exclusively use integrated back office systems provided by insurers they work on behalf of ) (insurer proprietary platforms where intermediaries can quote and/or bind and /or administer policies for their clients)
- Platforms for back-office between insurers and intermediaries (non-integrated)
- Platforms which target directly consumers (offered by companies, intermediaries or third parties (OEM's), that have a close, topic/service specific relationship and might offer insurance products as well (Change of client ownership, increasing dependencies, dominant position over time?)
- Platforms which assist insurers, intermediaries and business clients in the insurance process.
- Third party data providers: depending on use could be positive or negative – flexible data use is important.
- Cloud providers (very few) and their services around data & analytics. Cloud providers are able to train their AI powered services and increase their future influence.
- Insurers/ intermediaries collaborate with manufacturing companies (systems preventing, detecting water leakage…)
- Banks that run analysis what a consumer bought and are offering summaries on how much money e.g. to spend on insurance, to then offer insurance.
- Online marketplaces where ancillary or standalone insurance products are offered to customers

Mobile apps for certain purposes, where insurance is an additional service or product (health trackers, car maintenance, etc)

Some potential issues:

- The IT risk becomes systemic for an entire network of distributors,
- Via the "captive digital tools" of insurers, the distributor may become more "dependent" of the insurer.

- Cross-selling using market power.
- “Digitalization” sometimes used an excuse to create “future” client ownership.
- Insurance industry may become dependent on third parties who have “oligopoly” of data.
- Cross-financing of the insurance premium by including the insurance in other services / goods.

3. **What additional issues do you consider relevant for supervisors to understand increased fragmentation and complexity of the market as well as new business models?**

- How data are collected, who has access to data? What data is collected e.g. sensor / IOT (does consumer know what data is used to perform the risk assessment)
- Who sets the rules? Who supervises? (can social media prohibit the use of certain data by the consumer?)
- Resilience of some business models, continuity of service
- Cheaper insurance versus un-insurable? Segmentation vs "Mutualization" vs "pooling"?
- Risk avoidance vs “steering”/ freedom of lifestyle
- When analysis of the data ... How to verify correctness? (both analysis and underlying data)
- What is insurance? Insurance versus warranty, embedded insurance/ replacement…
- Private consumer market needs to be studied differently from commercial lines market as influences and possible issues are different. Idem for non-life insurance versus IBIPs/pensions
- Application of distant marketing rules, cross-border impact.
- Robo « advice », blackboxes, deep learning/ AI transparency?
- If the advice or demands and needs, recommendation, … are based exclusively upon robo “advice” or AI, … the consumer should be informed. Is robo “advice” the correct terminology? is it advice? It is confusing for consumers.
- Cross-border/national/ international and supervisory powers/ reach?
- Interest of the individual consumer versus group of insureds. Individual consumer protection versus macro-economic "prudential interest” Long term common consumer interest.
- Impact of vertical integration on local “sustainable employment” and the economy
- Recognition of role of self-employed and SMEs in the insurance services sector
- Long-term consumer choice
- Long-term macro-economic impact of possible reduction of choice due to concentration
- Welfare, well-being, and comfort versus economic efficiency
- Digitalization in function of the economy versus digitalization as an objective in itself.
- Resilience of decentralized service (in a network) versus centralized service
- Variable costs versus fixed costs
- The “price”/"cost" customers pay for sharing data to access certain products
- Fairness of capital/ risk capital… Start-ups not making profits for many years versus well established service providers.
- Role of insurance in society and economy
- Administrative burden
- Financial education
- Shift from insured to protected?
- Impact of development of digital identity
- Level playing field
- New risks which need the combination of risk prevention, risk management techniques and insurance or even PPP’s
- Access to insurance, anti-selection
- Role of (few) cloud provider(s)
- Dependencies on third parties / OEMS on data vs. ownership of data
- Digital identities and the potential benefit on reducing admin efforts & reduce overlapping insurance coverages …but privacy issues …access to information issues…long term concentration risks.
- Transparency of personal data coming from external sources, which has been used to determine cover and price of an insurance product.
- in transparency and understandability of AI/ML decisions made
- Lacking standards of data quality, secureness/confidence of data sources esp. when used with AI
- Tax level playing field ?

- To monitor the evolution of the categories of insurance intermediaries
- To monitor the volume of business generated by intermediation exercised on an ancillary basis.

Certain general assumptions may need more consideration and study:

**Technology-driven businesses may bring disintermediation when used for the sales process** (with a next potential assertion that this would reduce costs and therefore the prices customers pay) **is, in fact, when looked at from a different perspective not always true**. What it actually means is just a set of potential different distribution channels or transformation of existing ones through technology. Even in case of direct sales of insurers, disintermediation is not disintermediation, but

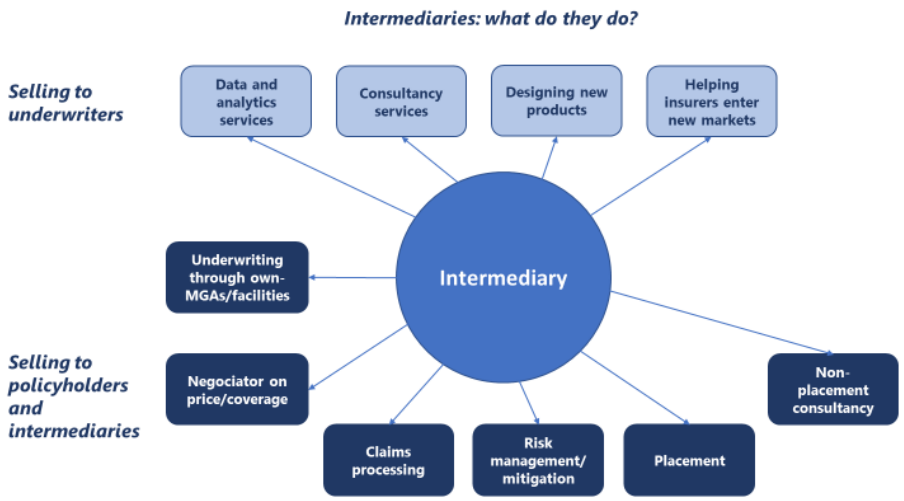
- either a white label solution of tech provider working exclusively for that insurer as an intermediary,
- either a channel of distribution supported by significant marketing costs to bring in new customers (which is the main role of an intermediary in relation with carriers) and tech developments, support staff and logistics.

**The price customers pay with data needs to be properly assessed**. For example, some new forms of insurance may actually be tools to get huge amounts of data for little value propositions, such as automated travel coverage based on permanent sharing of geolocation/geofencing etc. The "price" paid through data has to be clear for the consumers and their advisors.

**The personal data influencing cover or price should be transparent and easily accessible to customers and their intermediaries/ advisors**. We believe that any insurance product using data sets from third party sources should disclose both the sources and the exact types of personal data which have been used to determine cover and price. Consequently, it may have to be evaluated whether special consent should be required by the data providers (social media platforms, navigation apps, sports tracking apps etc) for this data to be shared (in any way) with financial institutions, as a separate category. A bulk inclusion under the Terms and Conditions is not enough as it usually ends up being unread. These may be some effective prevention measures to stimulate the responsible use of BDA and they will also enable the industry to have proper access to customer information (in order to promote competition and quality).

4. **In addition to those described in this chapter and in Annex 1, do you see other co-operation/collaboration models (e.g. outsourcing, co-operations, joint ventures) between insurance companies/intermediaries and third parties (e.g. InsurTech companies, BigTech companies, platform providers) to implement and/or enhance the use of innovative technologies that might be worth to look at further from supervisory perspective?**

The insurance sector is characterized since many years by the following model:



(based upon FCA study)

With regard to digital developments for insurance agents, the trend is towards the creation of virtual agencies directly developed by the insurer and allowing subscription via a relay in the physical agency.

In addition, distance selling is becoming more widespread via emailing.

5. **In addition to those stated in chapter 3, are there any other business models that can be seen as related to the fragmentation of the value chain that might be worth to look at further from supervisory perspective?**

As mentioned in the paper the cross-selling (in a broader sense than tying and bundling) needs attention. (for example, mortgage where long term mortgage conditions are linked to related insurances which should be "annual"). The same problem exists in relation to some multi-annual "warranty insurances".

Not only the current models in place, but it is possible that some tech players outside the insurance market are now collecting data to later analyze them and sell them or use them for insurance (or quasi insurance) purposes.

Publicity / marketing business models by big tech and other tech players outside the sector where sector regulated entities have to pay per click (and/or payment by "data" / payment by "publicity" models).

"Personalized" insurance related publicity on social media.

Marketing automation platforms might require further analysis, as they aggregate huge amounts of data from various sources.

Comparison websites

Warranty systems which are in fact "quasi" insurance.

Smart home systems and similar detection systems…

All kinds of mass data collection where the consumer has no control or ownership over the collected data.

The use of social networks is becoming a means of attracting customers but does not yet constitute an independent sales process in itself ( see also question 8)

6. **How do you define insurance platforms and insurance ecosystems? Do you distinguish between those two developments/definitions? If so, how?**

There are various "intra-sector" platforms which help incumbents in making the process more efficient. They help the intermediaries / distributors and insurers to avoid double work.
Ecosystems are wider than platforms: a possible description is : An "ecosystem" is perceived as a complex and flexible platform, allowing operators from various fields to connect via APIs or other types of protocols and offer their products/services there. Flexible architectures can turn most platforms in ecosystems.

See also question 2

8. **If you are an insurance company/intermediary, are you planning to build your own platform/ecosystem or to co-operate with other platforms/ecosystems? Please explain.**

   There are various "microsystems" where insurance intermediaries or insurers are in contact with their clients via social media (this is an illustration of the hybrid character of the developments). Who allows who to have access to certain data on social media?

9. **Are there any other aspects related to platforms/ecosystems that are not covered in this chapter but are important from consumer/market/supervisory perspective?**

   - As mentioned in the paper, an important aspect is the "security" and the "fair balanced contractual terms" between cloud providers (and social media) and the industry (and in particular SME size operators/ intermediaries) in general. Fair balanced contractual terms would also need attention in other relationships between large and smaller operators in particular in relation to "data" "ownership"/ access to data.

   - The GDPR is protecting static data but Artificial Intelligence and more in particular deep learning systems could potentially "learn" from data flows and from interactions between clients and insurers or intermediaries. Who owns the "intellectual rights" of these flows of data? In particular when information gathered from these data flows is combined with insurance transactions?

   - Supervision and transparency over algorithms and AI: How to organize?

     - An all-digital models may lead to fears of a lack of proximity to the customer, which potentially leads to :

- a poor understanding of the risk when it presents a specificity and consequently an inadequate insurance cover;
- a poor understanding of the insurance product by the client (all information obligations have shown their limits without ever solving the difficulty of the public's understanding of insurance products). The value of the face-to-face exchange remains ("advice / educational/ pro-active- non-legal strictly speaking - verbal");
- loss of customer knowledge in the field ("non-legal" in the strict sense).

     - Data does not replace personal knowledge and can thus create pockets of incomprehension that are detrimental to the client.

10. **In addition to those covered in this chapter, what related risks and benefits do you see regarding insurance platforms/ecosystems?**

    In order to keep a competitive market in the interest of the consumer (macro-economically and in the long term) consumers themselves should have access to (insurance / risk sensitive) data collected by social media, car manufacturers or wearables, in order to be able (if they wish) to transfer them to those insurers or intermediaries they wish to transfer them to.

11. **Do you consider that changes in existing regulation or further rules (including soft law/guidance) should be introduced both to facilitate platforms/ecosystems and to adequately cover new emerging risks?**

    We believe that the IDD and Solvency II are a good starting point and include the principles necessary to capture most of the developments. In this respect the supervisory approach is important. It should be studied what kind of "quasi insurance" (warranty) be included in insurance regulation. There may have to be a discussion about causality versus correlation in order to safeguard the mutualization character of insurance. The concept of insurance in itself needs a broader discussion. Insurability become an issue when risk profiles can be become (hyper)individualized.

    It should be politically defined what "new risks" are. What kind of society /economy is wished? New and too often changing rules makes the entrepreneurship more complex and often lead to compliance or administrative burden which is only "accessible" to large entities. In insurance, local service and human

interaction are still highly appreciated by consumers. Existing regulation guarantees the necessary professionalism. New rules or supervisory interaction should be focused on the issues where there is a need to intervene and should not have a negative impact on existing well-functioning models and (smaller) operators.

**12. Are there other aspects related to on-demand insurance that should be considered from both consumer, market and supervisory perspective?**

There needs to be transparent choice. An on-demand insurance offer should be comparable with annual insurance premiums and should be accompanied by specific warnings (for example a clear mention of what the price per year would be, warnings about exclusions, …) On demand insurance is generally "expensive" but may be a solution for some. The demand and needs" test should be consistently adopted. For example, providers of rental cars with on demand insurance should leave the possibility (and explicitly) invite insurance takers to look at other possible offers for the insurance (cross selling issue). It may have to be considered in how far there is fair competition between incumbent insurers who have capital requirements and start-ups offering (with high levels of risk capital) "quasi" insurances on demand.

**On-demand insurance may generate problems:** For example, in a product where cover needs to be manually activated, customers may easily forget to access the cover when they need it. Automatic activation of cover may also create customer detriment as cover could be activated inaccurately – e.g. travelling by train and getting automatic motor insurance cover from your mobile phone or travelling near the border (but still in your country) and getting automatic travel insurance because your mobile phone connected to the neighbouring country's mobile network.

Marketing of on-demand insurance might be misleading as these models tend to over-appreciate the benefit of buying/paying for insurance only "when you need it". Such a marketing approach may move customer attention from the risks which are completely not suitable to being covered with on-demand products – natural disasters, fire, health etc.

**13. Are there other aspects related to instant/push insurance that should be considered from both consumer, market and supervisory perspective?**

Service continuity, cross-selling (broader than tying and bundling)
Many of these products tend to cover the same coverages as traditional products, thus the innovation is limited. Most examples refer to situations where the instant cover is part of the same typical risks clients can cover with current products and they do not have to pay the "price" in shared data, which may be disproportionate.

Demand and needs test, pre-contractual information, clarity of cover, exclusions and claims settlement are always important in the acquisition of insurance as the client situation is always more complex than an "simple" insurance product can deal with.

In general, the kind of "fragmented" instant insurances on offer in combination with other goods and services create a perception with the consumer that insurance can be simple and a wrong feeling of security. It also undermines the trust in the longer term in insurance and undermines the efforts both by regulation and professionals to build trust in the insurance. Instant insurance providers often also do not meet the requirements of a demands and needs test which may result in "double insurance".

As mentioned before (hard) marketing of on-demand insurance might be misleading as these models tend to over-appreciate the benefit of buying/paying for insurance only "when you need it". Such a marketing approach may move customer attention from the risks which are completely not suitable to being covered with on-demand products – natural disasters, fire, health etc.

This being said, some of these systems may be appropriate for certain situations but this needs to be analysed on a case by case basis on the basis of professional analysis.

**14. Are there other aspects related to preventive services in insurance that should be considered from both consumer, market and supervisory perspective?**

The dilemma between "preventive" measures (and tools) and “steering “behaviour” (from a lifestyle freedom perspective.

Un-insurability of those who do not “apply” the predetermined behaviour, anti-selection, wrong conclusions on the basis of data, ethical aspects … see also our answer to question 15

**15. Do you consider the potential benefits for consumers and for the industry to be accurately described?**

The benefits and risks table in the EIOPA paper may give the wrong impression and is in our opinion representing the reality in a too binary/ theoretical way. The reality is more complex. Benefits and risks should not be “generalized”. The benefits and risks are dependent upon individual behaviour of individual business models which mix the potential benefits and risks.

The benefits and risks are not due to or thanks to the “new” (or innovative) fragmentation of the value chain. The benefits and risks and or not due to or thanks to a business model. The value chain is “hybrid” and has evolved and will continue to evolve.

The benefits and risks analysis in the EIOPA table should be labelled “potential risks” and “potential benefits”. Furthermore, they should be completed with the factor: short term / long term “potential benefits/ risks”. Distinctions may have to be made between commercial insurances/ private consumer insurance, IBIPs/non-life…

Not all benefits and risks are applicable to all business models. It is the combination of bits and pieces of certain techniques or fragmentation which create a risk and benefits balance to be analyzed in relation to the “individual business model” on a case by case model.

Risks are mitigated by compliance with regulation and by supervision. Benefits can be diminished if the “objectives” of the provider are the wrong ones or when the provider is not (or only partially) regulated and supervised.

The EIOPA paper, for example, seems to start from the assumption that “new” is more cost-efficient and leads to cheaper insurances and services: Reduced price / lower operation costs seem to be a given characteristic of the technology driven businesses in insurance. We believe such implied or even directly expressed general assertions need to be thoroughly analyzed before launched into the public space, as they are not always true (in particular in the “hybrid” reality. Technology developments require huge investments, long periods of time to get to maturity and gain customer traction (when and if they gain as business risks in this space is fierce). On top of this, the 100% digital new entrants sometimes rely on different business fundamentals, where their main interest in the first 5 to 10 years (or even longer) is not profit – which is ultimately the guarantee for customers’ capital protection and a stable market – but users, irrelevant of the losses. Then, when the dominant position is gained, the ROI and profit objectives may become prevalent and customer detriment may become a really high risk, with potential systemic impact.

Better customer experience is another type of benefit that seems to be a given characteristic of the technology driven businesses in insurance, as per the EIOPA’s document’s view. We also believe that such implied or even directly expressed assertion may not always be valid. A “streamlined buying experience”, where one click of the “Accept” button binds the coverage may be accompanied by poor advice or no advice, no awareness at all. Customer support may be provided by chatbots and text messages only, which may bring consumer protection concerns for example in case of a claim. Such an approach may move customer attention away from the broader picture and real role of insurance which is protecting its patrimonium or financing costs related to health or fire.

All benefits and risks existed also 15 years ago; they apply to incumbents working with or without “cooperation” or outsourcing.

This column style presentation is denying the complexity and oversimplifies the situation. All depends on how

the “mix” is applied and is not “due to the mix” or “thanks to mix”.

For example: in the column benefits one can read:
“Benefits of the fragmentation: More accurate and targeted pricing models, Lower prices, Premiums are a more accurate reflection of an insured’s underlying risk. “

But this is also true for business models 15 years ago. When the lower premium is conditional upon wearing a smartwatch (for medical insurance) then the perceived benefit could well become a risk in the long term (what if the by the provider “suggested” targets are not met ? The premium will increase or the client will become uninsurable . In this sense a short-term benefit could thus become a long-term risk. On the other hand, it can make certain risks “insurable”.

In reality , **in particular in the intermediation market, we believe for the years to come in a “hybrid model” and therefore the discussion about digitalization and new business models should not only be about digital or non-digital or about benefits and risks of innovation but about transition and choice and mixed business models and mixed consumer experiences** where the human and the digital can go hand in hand in the interest of consumers, and efficiency.

It should also be noted that re the benefits column/
- the pricing is not a guarantee of the quality of the insurance product distributed;
- digital/automated systems can have perfect "front end" regulatory compliance and yet lead to cases of misselling. Only the quality of the insurer and of the distributor are real guarantees of appropriate insurance;
- competition is already strong in insurance, the advent of pure digital platforms is no guarantee of healthier competition, it could even be counter-productive and create opportunities for bad practices in the market.

Regarding the risks column, it could be added that the individualisation of products finds its limit in mutualisation.

The debate should also be about employment and economic reality or real economy and welfare and wellbeing and choice and informed decisions. We believe this could be more emphasized in the paper. we regret that the paper gives the (implicit) impression that the current model is compared to the innovative model. While the current model is the innovative model. It should be recognized that the current insurance and intermediation model gives choice between all options: from the pure digital to the less digital (no digital does not exist anymore – every insurance process these days is to some extent “digitalized”).

The debate should also be about real people versus economic models and about sustainability.

In this respect, fostering digitalization in financial and insurance services calls for a review of existing regulations in order to adapt them where needed: **it is not a question of regulating more but of regulating (and/or supervising) better or differently**. And this revision must take into account the specificities (or commonalities) of all players and be in the interest of SME’s in the sector.

There is a clear challenge/opportunity to encourage the simplification of the regulatory environment and its respect by all players in the value chain.

For the consumer (and the economy at large) to benefit from digitalization, actions to support digital / hybrid insurance solutions and services must not result in a limitation of the intensity of competition, either because certain types of players have been granted exemptions to the detriment of others, or because the focus is only on price and not on the quality/price ratio, or because excessive regulation only allows "large" players to develop. It is widely recognized that SMEs play a key role in the European economy, in the financial services sector there are many SMEs active who employ together one million people at local level.

A key challenge will be the control / supervision of algorithms and in particular AI and deep learning: the more AI and deep-learning there is, the more difficult this supervision will be. Data and access to data is an important aspect.

Consumers (and businesses) should have the choice between more or less “human”, more or less “digital”,

depending upon the preference and the situation. Similarly, operators in the financial services sector should have a legal framework, in which they have the possibility to innovate or to distinguish themselves from other providers in the service on offer and in the customer experience on offer. The legal framework should thus be all encompassing and on the basis of a level playing field where financial service providers can swiftly change their model or offer various models in parallel.

**We welcome this EIOPA initiative because it explores the boundaries of what is "in" and what is" out" the system (and thus attempts to explore the activities which are currently outside the remit of the regulator and supervisor but which should perhaps be brought into the "system")**

**16. Do you agree with the description of the risks identified for consumers and for the industry?**

Besides the reflections made under question 15, a distinction should be made between "commercial clients" and private clients in this debate. In the real world, intermediaries and insurers have clear "transparency" obligations toward the clients. In some "new" more digital business models, outside the "system" this transparency is often reduced to click on "accept terms and conditions". Perhaps more "warnings" should be imposed to digital transactions. On the other hand, "on paper-only" information should be replaced by (practically flexible) digital information means in the non-digital or hybrid world. Insurance education should be promoted (at secondary school level). The "quasi insurance" offers present insurance or "quasi insurance" as being simple but the situation of the consumer is never simple.

**17. Is the regulatory framework adequately addressing the risks mentioned above? Do you think further regulation is needed? Please explain why.**

**We agree that "digitalization " or " digitally driven business models " by the players from outside the sector offering "quasi insurance" services to the insurance sector or consumers can amplify or relocate significantly "old" (we prefer to call it current") risks (e.g. operational risk, Information and Communication Technology (ICT) risks, security, governance, and reputational risks, consumer protection).**

BIPAR believes that the existing rules for the distribution of insurance products are in principle technologically neutral and fit-for-purpose to allow for an uptake of the new technological developments in the sector.

The basic rules that are in place are a sound basis for any kind of business model (more or less tech, more or less outsourcing, ). Many of the potential risks emerging as a consequence of the use of "new" busines models are no different from the risks caused by the provision of insurance services using "less tech" means. Supervision in this respect is important.

The main issue is the application of the philosophy of the "level playing field" and the "activity-based" interpretation of the rules. Data and access to data in combination with choice by consumers are also a key aspect.

BIPAR is also of the opinion that:

- A consistent, transparent, all-encompassing and clear activity-based, risk-oriented regulatory framework should be maintained. It is crucial to remove any rules adding administrative burden to business, especially SMEs, when they bring no added value for customers or markets or supervision. The implementation of the rules currently in place should be evaluated and any new rules should be based on thorough impact assessment (also considering the real impact on SMEs and local employment).
- The volume and cumulation of the rules recently adopted and implemented have come at a high cost for firms. These rules should be consolidated so that the initial investments can be written off over a reasonable time (and be a basis for future economic and legal) stability. BIPAR supports the "one in, one out" principle endorsed by the new Commission and it should be recognized that every change in legislation (and thus compliance procedures) has a cost (in particular for SMEs) for the firms in the industry.
- Firms which are not regulated in the insurance services sector but are active in the insurance services value chain should be brought into the existing regulatory framework, so that the "chain" is consistent and can be properly supervised.
- There should be a regulatory level playing field between all providers of comparable (quasi) insurance services, so that consumers can make a choice. The existing legal framework is the best basis for this "hybrid" approach.
- Cross-selling and cross-data analysis where non-insurance activities are combined with insurance activities are an issue to be studied (in particular where the non-insurance service provider is in a strong position to cross-sell (or to "cross-analyse information from the client…wearables, detection, tracking behaviour, mortgages, …).

**Consumers should be warned that insurances (or quasi insurances) offered in combination with non-insurance products may have an interest in seeking further guidance from an insurance professional in order to avoid double insurance or to get a better deal.**

We are of the opinion that consumers in the insurance sector are better served when a gradual approach is adopted and when the regulatory framework leaves them the choice on a transparent basis. In the insurance sector, human and digital go already very well together. This hybrid model will continue to be expected by many consumers (and businesses). Intermediaries should have the possibility to offer digital intermediation services.

Intermediaries should have, in the interest of their services provided to clients, the possibility to have access (with the consent of the data subject obviously) to data collected by non-insurance providers (car manufacturers, telephone operators, social media, etc) when these data are used for insurance purposes (directly or indirectly). It is also necessary to study what the possible problems are when using big data in the framework of statistics used in the insurance sector.

We also refer to our comments in relation to Artificial Intelligence above (AI learning from data flows)

**We agree that "digitalization " or " digitally driven business models " by the players from outside the sector offering "quasi insurance" services to the insurance sector or consumers can amplify or relocate significantly "old" (we prefer to call it current") risks (e.g. operational risk, Information and Communication Technology (ICT) risks, security, governance, and reputational risks, consumer protection).**

18. **What are the greatest future challenges in the fragmentation of the value chain including the emergence of insurance platforms and ecosystems?**

- Lack of a level regulatory level playing field
- Shift of power to "data owners" if there is no access by insurers and intermediaries to "insurance sensible data "collected by non-insurance regulated parties. Parties in the chain should have balanced rights and responsibilities which they can define themselves (if balanced).
- Lack of flexibility and lack of recognition of the fact that that the hybrid model (and thus incumbents who are already supervised) are the best guarantee for a consumer targeted "customer experience "adapted to their wishes and needs.
- To consider robo-advice as advice, could be misleading
- Allowing flexible business models and giving access to the current hybrid model to all insurance offers
- The definition of what is in the remit of insurance regulation and supervision (quasi insurance/ quasi warranty)
- Insurability
- Vertical integration of "ecosystems" (hospitals. Medical insurance)
- Ensuring choice and holistic "risk"/protection approach
- Recognition that services deserve a remuneration for work
- Allowing regulated and supervised insurance "intermediaries" to be facilitators of a process rather than a-priori, by regulation, "limiting" their role to advice or distribution.
- Know-how of the supervisors

19. **This Discussion paper refers to some areas for further work meant to mitigate some of the risks and providing supervisors better tools to tackle with the increased fragmentation (see Executive summary in page 5). Are other measures and tools needed? If so, what are they and what they should cover (e.g. to ensure compliance with conduct and organisational regulatory requirements; data and consumer protection; better supervisory oversight capabilities; better information about new developments).**

See above

**20. What additional tools could support supervisors to understand increased fragmentation and complexity of the markets as well as new business models?**

Dialogue … a "sandbox approach" for all models
How to train colleagues or attract/recruit experts that bring in-depth knowledge on the topics above in order to be ready to supervise a changing business landscape.
To ensure that insurance activities are always performed by insurance professionals.

**21. Are there any other comments you would like to convey on the topic? In particular, are there other relevant issues that are not covered by this Discussion Paper?**

Sustainable employment, service continuity, non-supervised providers of "quasi insurance services, tax , costs of publicity, marketing , costs of maintenance and initial investments in "start-ups", current collection of data by non-insurance regulated operators, preparing future insurance related activities . Right of access to data. Correlation versus causality, anti-selection, the hybrid development, choice between more or less digital, robo-advice, the current incumbent business models. Social media and the use of information on social media by regulated entities. Comparison websites, what is insurance?

**Annex (extract from the EIOPA paper)**

FIGURE 4: RISKS AND BENEFITS STEMMING FROM FRAGMENTATION OF THE VALUE CHAIN FOR CONSUMERS AND FOR THE INDUSTRY

| | Benefits | Risks |
|---|---|---|
| **Consumers** | ▸ Co-operation of incumbent undertakings with third parties allows the use of new technology in order to adopt more sophisticated pricing approaches (e.g. using new parameters like day-to-day behaviour of the insured) and do better risk assessment (e.g. the use of improved predictive models)<br>○ More accurate and targeted pricing models<br>○ Lower prices<br>○ Premiums are a more accurate reflection of an insured's underlying risk.<br>▸ The quality of services and user experience is improving for consumers<br>○ Easier and 24/7 access to products through mobile applications, websites and chatbots<br>○ Insurance-as-a-service allows frictionless experience for the customer<br>▸ Availability of new and more individualised/tailor-made products and services better reflecting actual risk profile<br>▸ The possibility of covering new risks (e.g. cyber risk; gig economy workers) improving inclusion<br>▸ Better and cheaper access to advise could increase financial inclusion<br>▸ Increased competition<br>▸ Possibly reduced damage through preventive measures | ▸ Increased IT-risks/cyber-risks (cyber-attacks, loss of personal data)<br>▸ Not always clear for the consumer what additional financial services/products they sign up for or the strict scope of the insurance coverage<br>▸ Data protection and privacy<br>○ Due to long value chains it might be difficult to estimate by whom and how consumers´ data is processed<br>▸ Lack of transparency<br>○ more difficult to recognize all companies involved in the value chain<br>▸ Discrimination/financial exclusion<br>○ high risk consumers may suffer from higher premiums due to the better segmentation of risk<br>○ Increasingly accurate pricing could reduce the level of risk pooling and lead to the highest risk individualsbecoming effectively uninsurable<br>▸ The risks associated with the use of robo- advisors (e.g. possible errors and/or functional limitations in the design of the algorithms that underpin the automated advice tools)<br>▸ Focus on price instead of coverage<br>○ the cheapest products and easiest accessible might not be the best product<br>▸ A monopoly position of the platform provider could allow to ask for a price that makes the product more expensive for the consumer<br>○ Possible over- and under insurance |

| | | |
|---|---|---|
| | o Convenient, more automated fraud detection | o More individualized products might make it more difficult to compare the products offered<br><br>Risk of uninsurability / anti selection |
| **Industry** | ▸ Creates an element of differentiaton for the company (compared to other competitors)<br>▸ Possible costs reduction<br>▸ Potential to pick-up technological 'know-how'<br>▸ Strategic co-operation might give insurers the strategic flexibility they need in a competitive environment. It can help insurers to enhance efficiency of product design and development and to target new costumers and/or existing customers more effectively with new products that reflect more accurately consumers' needs<br>▸ Product development cycles can be faster with external partners<br>o Quick market introduction of new products<br>o Less up-front costs<br>▸ Better consumer experience and reduced price could lead to better consumer satisfaction<br>▸ The greater agility of some InsurTechs (e.g. their IT systems) could allow for quicker testing and implementation of new technologies and products<br>▸ The sale of new products and services (e.g. risk prevention devices) can diversify insurers' income streams, potentially reducing profit volatility.<br>▸ More accurate pricing of risks<br>▸ New sale channels<br>▸ Improved services quality and increased customer satisfaction<br>▸ More efficient claims handling and fraud prevention<br>▸ Possibly reduced claims through preventive measures | ▸ Loss of market power as technology firm holds relationship<br>o Strong dependencies could occur and undertakings could lose control over the point of entry of consumer communication. This would lead to the loss of important consumer data, needed to develop accurate/ customized products and to train self- learning algorithms or other Big Data Analytic-tools<br>o InsurTechs could enjoy success as the customer-facing entity, reducing insurers' brand recognition and leaving them simply as a capital provider. An increase in InsurTech bargaining power could then lead to increased commissions and either higher charges to customers or reduced underwriter profitability<br>▸ Uncertainty related to new and untried technology/business models<br>▸ Potential for loss of internal know-how in the long run<br>▸ Potential conduct risks could arise if the digital platforms used to offer policies also provide non-insurance services, thus making it ambiguous for the consumer to separate pure service products and those that involve insurance coverage.<br>▸ Issues related to outsourcing/oversight<br>o Loss of control / influence<br>o the insurance undertaking cannot assess correctly the InsurTech companies<br>o The speed of innovation at the InsurTech may outpace incumbents' ability to adjust their risk reporting |

1 See e.g. EIOPA, Big Data Analytics in Motor and Health Insurance: A Thematic Review, 2019. https://www.eiopa.europa.eu/content/big-data-analytics-motor-and-health-insurance_en; EIOPA, Thematic Review on Consumer Protection Issues in Travel Insurance, 2019; EIOPA, Consumer Trends Report 2019, 2019. https://www.eiopa.europa.eu/content/consumer-trends-report-2019

| | | |
|---|---|---|
| | ▸ Benefits for InsurTechs:<br>○ Insurer can provide financing and infrastructure<br>○ Lower transaction costs and access to new customers through another channel | metrics to maintain effective oversight of data, conduct or prudential risks<br>▸ Incumbent insurers who fail to form InsurTech partnerships or are unable to develop tailored propositions may face threats to the sustainability of their business models<br>▸ Information oligopolies can develop<br>○ e.g. health wearables data collected by one central institution<br>▸ Increased competition<br>▸ Reputational risk, cyber risks, data protection, IT security, legal risk<br>▸ Errors from robo-advisors could be systematic, with advice possibly being negligent or representing poor value for money<br>▸ Potential new types of fraud<br>▸ Risks for InsurTechs:<br>○ Possible dependence on co-operation partners<br>○ Depending on business model, possible regulatory risk |

Source: EIOPA InsurTech Task Force questionnaire on fragmentation of the value chain and new business models

## QUESTIONS TO STAKEHOLDERS

15. Do you consider the potential benefits for consumers and for the industry to be accurately described?
See above

16. Do you agree with the description of the risks identified for consumers and for the industry?
See above

17. Is the regulatory framework adequately addressing the risks mentioned above? Do you think further regulation is needed? Please explain why.