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Putting the consumer at the heart of digitalisation of the insurance value chain

Report of the A2ii – IAIS Consultation Call

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The Consultation Calls are organised as a partnership between the Access to Insurance Initiative (A2ii) and the International Association of Insurance Supervisors (IAIS) to provide supervisors with a platform to exchange experiences and lessons learnt in expanding access to insurance.

Introduction

Digital technology is bringing about change in the insurance sector with technology allowing for more efficient and effective risk mitigation and enabling the development of new business models. Digitalisation in insurance is increasingly changing the types of risks insurers cover and how insurers underwrite, distribute, administer and manage claims.

Insurance is becoming more customer-centric and has the potential to reduce the insurance protection gap. The use of digital devices and digital transactional platforms are removing barriers that before hindered the possibility of offering valuable products to unserved and underserved segments of the population. New providers, business models, products and processes have emerged and are creating a new ecosystem that is reshaping the way the insurance sector interacts with consumers.

While the application of digital insurance models offers new opportunities, it can also bring new risks and concerns. It is key for supervisors to ensure that proportionate regulatory and supervisory approaches are adopted to foster the development of responsible digital insurance models but at the same time ensure consumer protection.

The content of this call was based on an interactive dialogue between supervisors, based on a series of questions (see below). Participants included the following supervisors; Elias Omondi from Kenya's Insurance Regulatory Authority (IRA), Khai Sheng Tang from Bank Negara Malaysia (BNM), Paulo Miller and Gustavo Caldas from SUSEP, Brazil. The dialogue in all the sessions was moderated by Andrea Camargo (Director of Inspowering and Technical Expert at the A2ii).

The potential of digitalisation for inclusive insurance

Digital inclusive insurance – 'Insurance utilising digital mechanisms to improve its outreach and delivery'[1] . Outreach and delivery are core elements for increasing access to insurance for the underserved. The IAIS application paper further elaborates that inclusive insurance consumers are more vulnerable because of the deprivations they face due to poverty and limited access to financial services and insurance. The features below make up the profile of an inclusive insurance consumer and are key to understanding how digitalisation can foster access to insurance services. The profile below also provides an indication of their vulnerability and the consumer protection implications for inclusive insurance customers:

1 See 'Application paper on The Use of Digital Technology in Inclusive Insurance' (IAIS, 2018). Available here: https://www.iaisweb.org/page/supervisory-material/application-papers/file/77815/application-paper-on-the-use-of-digital-technology-in-inclusive-insurance

- Low education levels and low levels of financial literacy
- Low levels and irregular streams of disposable income
- Low levels of formal identification documents
- A living environment that makes it difficult to access/reach inclusive insurance products
- A lack of trust in insurance providers and a negative perception of insurance.

Digitalisation is rapidly transforming the insurance sector with digital technologies having an impact on the entire insurance value chain from distribution, product design to claims settlement and premium payments. Therefore, digitalisation is impacting how insurers develop, design and underwrite their products. Advancement in some of the technologies listed below can enable the development of tailored products and can be used to overcome the challenges that inclusive insurance consumers face.

- **Peer2Peer platforms** bring people together to absorb one another's risks, with each member of a group contributing premiums to insure each other's losses. The format is similar to that of mutuals, except that technology enables a much wider reach and scale in connecting people.
- **Digital platforms** replace face-to-face elements of the insurance value chain with an online service, such as online brokers, online insurers, or even backend services to insurers
- **Technology-enabled partnerships** refer to three-way partnerships between an insurer, distribution partner (be it a retailer, Mobile Network Operator (MNO,) digital commerce platform or otherwise) and Technical Service Provider (TSP)
- **New data and analytics** collect and analyse data to inform insurers and TSPs about consumer needs and behaviour patterns. This category is composed of chatbots, telematics, machine learning and artificial intelligence (AI) and smart contracts.
- **Demand-based insurance:**

  a) On-demand insurance where cover lasts for a pre-defined time period or for a specific event (such as travel insurance), and
  b) pay-as-you-use insurance, which charge the customer a premium-based on how much he/she uses an asset (currently mostly still limited to vehicle insurance). These rely on technologies such as telematics, machine learning and the mobile phone. Smart contracts are sometimes used to ensure automatic payout.
- **Parametric/index-based insurance** main use-case being agriculture and weather-related insurance and is especially impactful for groups that are vulnerable to climate risk. This category uses two types of technologies: data measurement equipment and distributed ledger technology to trigger payouts based on the index. It may also use the mobile phone for interacting with the consumer.

Consumer protection and conduct of business considerations for supervisors

While digitalisation and the application of digital technologies has the potential to benefit consumers, it also gives rise to significant risks which supervisors should take into consideration under ICP 19 (Conduct of Business Core Principle). These include potential impacts from reduced face-to-face contact, insufficient consumer understanding of the product or service and its provider, data security risks including the misuse of consumer data, and potential exclusion for some consumers who are not as digitally literate[2].

Some of the risks associated with mobile insurance and broadly other digital insurance models, are highlighted in figure 1 below:

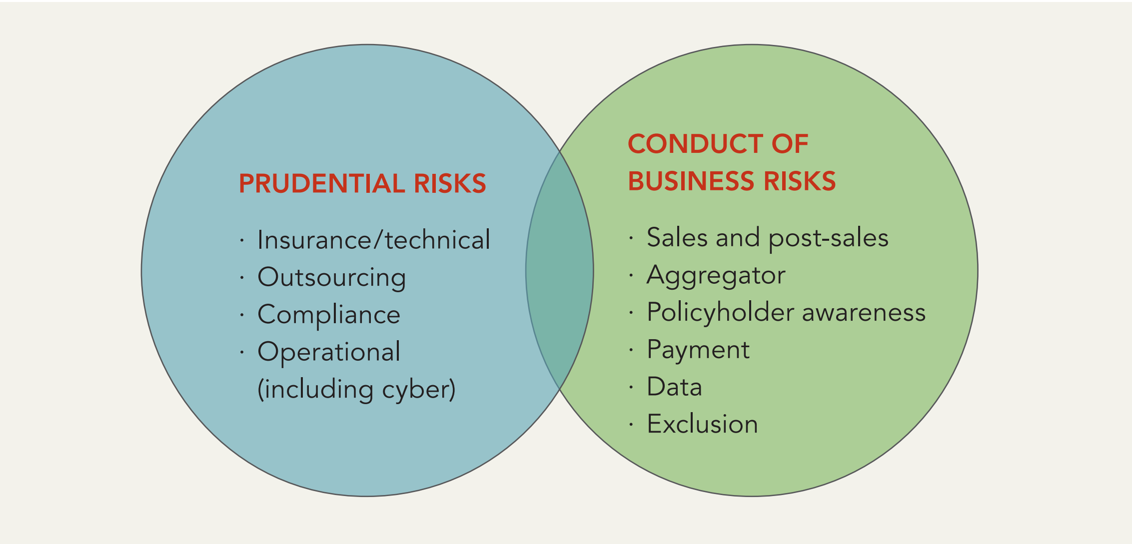

Figure 1: Risks associated with m-insurance models (see 'Application paper on the use of Digital Technology in Inclusive Insurance' (IAIS, 2018) and 'Regulating Mobile Insurance' (A2ii, 2018)[3]

To ensure effective consumer protection and particularly considering the profile of inclusive insurance consumers, it is important for supervisors to uphold proper conduct of business with respect to:

- Product development and pricing
- Distribution
- Disclosure

2 See 'Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes Consumer outcomes' (IAIS, 2018). Available here: https://www.iaisweb.org/page/supervisory-material/issues-papers/file/77816/issues-paper-on-increasing-digitalisation-in-insurance-and-its-potential-impact-on-consumer-outcomes

3 Available here: https://a2ii.org/en/media/125/download

- Customer Acceptance and premium collection
- Claims settlement

As part of their conduct of business, insurers and intermediaries need to treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied. Customers need to be made aware of the risks to which they are exposed and if and how insurance can play a role. This principle needs to be woven into entire product cycle from consumer education and advice to product development and claims handling.[4]

One of the key challenges for supervisors is to adopt a balanced approach that facilitates innovation whilst maintaining consumer protection. In implementing the most suitable regulatory approach – 'requirements and rules should be based on the principle of proportionality, considering each jurisdiction's context and national strategic objectives, with adaptations made to ensure that the needs of inclusive insurance customers can be most appropriately addressed, and their interests adequately protected[5].'

Synthesis of the supervisory dialogue

The following section is a synthesis of the key points from the supervisory dialogue that took place during the webinars.

What are the innovations that providers have adopted in your country to address last-mile obstacles and provide insurance?
In Kenya, there are technology-enabled partnerships between insurers and MNOs commonly used by providers and consumers alike. Examples here include:

- M-pesa, a Safaricom mobile money platform, has a penetration rate of 106% and is being used for collection of premiums and settling claims. M-pesa has been used in index-based agricultural insurance schemes to collect premiums when farmers purchase seeds and fertilizers and in the event of extreme climatic conditions, payouts are made directly into the M-Pesa mobile phone accounts of the farmers[6].

4 See 'Issues paper on Conduct of Business Risk and its Management' (IAIS, 2015). Available here: https://www.iaisweb.org/page/supervisory-material/issues-papers/file/57927/issues-paper-on-conduct-of-business-risk-and-its-management

5 See 'Issues paper on Conduct of Business in Inclusive Insurance' (IAIS, 2015). Available here: https://www.iaisweb.org/page/supervisory-material/issues-papers/file/57850/issues-paper-on-conduct-of-business-in-inclusive-insurance

6 See 'Kilimo Salama – Index-based Agriculture Insurance' available here: http://documents1.worldbank.org/curated/en/963291468039041424/pdf/947940WP0Box380ture0Insurance0Final.pdf

- M-tiba, a 'health wallet' on the mobile phone used by healthcare providers and allows consumers to set funds aside for medical treatment, thereby improving their financial capability to access healthcare services.

In Malaysia, the traditional insurance industry has been reliant on agency and bancassurance channels, which tend to serve the higher income segments of the population. In order to promote greater accessibility especially for the underserved segments, two initiatives were launched by BNM. These include:

- Expanding distribution channels to allow insurance companies to distribute their products through direct online channels. Since 2018, life insurance companies have started offering direct distribution for pure protection products[7]. The main products are critical illness products and health products which are designed to be easily understood by consumers. Commission fees are also not imposed on the products given that intermediaries are not involved.
- Issuing an exposure draft on insurance aggregation business to give more guidance particularly for product comparison websites[8].

In Brazil, SUSEP has been encouraging the use of digitalisation and remote distribution principally through mobile technology since 2004. This has included allowing electronic signatures and encouraging new distribution channels through mobile phones. Mobile penetration is very high in brazil with 92% of Brazilians owning a mobile phone and 99% of Brazilians accessing the internet through their phone. SUSEP is keen to encourage this distribution mechanism as it has an important growth potential. In 2013 SUSEP introduced rules for remote marketing that also covered the use of biometric technology instead of login and passwords. More recently SUSEP has initiated "Open Insurance" which they hope will stimulate competition and they recently publicly consulted on a regulatory sandbox (since the Webinar was recorded that sandbox has since gone live and SUSEP anticipate having ten firms in their first cohort). The project aims to increase the penetration for the Brazilian insurance market and reduce the cost for the consumer through the use of innovative products and services and new technologies[9].

What are the main risks of these innovations and how are you addressing those risks to ensure that consumers are effectively protected?

In Malaysia, the main risks for consumers are those related to mis-purchasing of products and the misrepresentation on product comparison websites. To guarantee consumer protection, BNM has introduced certain minimum requirements: Products on these platforms need to be simple, information should be presented in a plain and simple language and since customers are purchasing directly without any advice or assistance from agents, insurance companies are required to have appropriate tools in place to support consumers e.g. self-assessment of the product suitability to meet customer's needs. To minimise the risk of misrepresentation, product comparison websites are required to ensure transparency and impartial presentation of insurance products. For instance, arranging products in an alphabetical order, entities cannot

7 See: https://www.bnm.gov.my/index.php?ch=57&pg=140&ac=722&bb=file

8 See: https://www.bnm.gov.my/index.php?ch=57&pg=150&ac=806&bb=file

9 See: http://novosite.susep.gov.br/

manipulate sorting or filtering elements to promote products from certain providers and providing product recommendations to consumers is not allowed.

In Kenya, the main risks are mis-selling and data protection risks. To address these risks IRA-Kenya has issued microinsurance guidelines[10] that requires insurers to disclose the benefits that consumers are entitled to when purchasing a product and the type of risks that it is going to cover. The language used should be plain and simple. To address data protection risks and avoid potential negative consumer outcomes, at the sector level, the IRA's market conduct guidelines ensure appropriate consumer protection against rising data risks, which is also complemented at the national level by the Data protection Act of Kenya 2019[11].

In Brazil, SUSEP focused on the risk to supervisors and their need to be able to understand new technology. By understanding this new technology and how it is applied supervisors will be better able to understand the risks without necessarily hindering innovation and financial inclusion. However, it was added that with consumers gradually moving online there are greater risks stemming from data protection and cyber-attacks.

What would you recommend to supervisors to adopt a balanced approach that facilitates innovation, but at the same time ensures that consumes are protected?

This is a key challenge for supervisors and will depend on the mandate of the supervisory authority. It is important for regulators to embrace the benefits of technology and at the same time establish mechanisms that ensure consumer protection. In addition, checks and balances internally within regulatory authority is key. For instance, BNM has dedicated departments looking at consumer protection issues, safety and soundness of the industry players. The mandate of the IRA-Kenya encompasses consumer protection and market development. Within its 2018 – 2022 strategic plan[12], the IRA has set up an innovation hub project (the BIMA lab and BIMA box) that seeks to harness innovation while at the same time protect consumers, and entails four issues connecting, accelerating, testing and scaling. SUSEP recommended supervisors focusing on market development and the need to promote competition to develop a more inclusive market. In particular, SUSEP advocated the use of the regulatory sandbox as this gives firms greater freedom to establish their products whilst also protecting consumers. This prevents consumer harm and gives supervisors a greater understanding of new technology and preventing them from blocking innovation and greater financial inclusion.

10 See: http://kenyalaw.org/kl/fileadmin/pdfdownloads/LegalNotices/2020/LN26_2020.pdf

11 See: http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/2019/TheDataProtectionAct__No24of2019.pdf

12 See: https://www.ira.go.ke/images/updates/IRA-STRATEGIC-PLAN---Abridged-Version.pdf

Key messages

Supervisors can encourage the responsible development of the digitalisation of the insurance lifecycle by adopting the following regulatory and supervisory approaches:

- Allowing disclosure in multiple formats and modes beyond paper, but ensuring that these tools achieve the expected impact
- Allowing the use of e-signatures, electronic policies and electronic payment, but ensuring that the embedded risks are appropriately managed – risks such as fraud, theft of data, unauthorised access, misappropriation of funds, break downs, etc.
- Allowing the use of technological platforms and devices but ensuring that appropriate protocols of consumers data protection is applied
- Allowing innovative business models and alternative distribution channels by ensuring that they are reliable, suitable, transparent and trained depending on the services provided and that insurers are ultimately liable.
- Constant monitoring of the impact of innovation in contained spaces
- Constant engagement and collaboration with involved parties
- Collaboration with other supervisors
- Applying a proportionate approach to regulation and supervision.

Questions and discussion

Insurance is often claimed to be for the rich only. Do you think that technology or digitalisation of insurance can help to overcome this challenge? Initiatives launched by regulators such as expanding distribution channels or introducing microinsurance frameworks aim to bring more affordable and accessible insurance products to the lower income and vulnerable segments who are often traditionally excluded from the insurance industry. Technology is a key enabler in increasing greater accessibility and access to insurance products especially in terms of offering alternative distribution channels, onboarding new customers and reducing claims processing costs.

How do microinsurance players in Kenya ensure that claims are valid before pay-out? Taking index-insurance products as an example, a pay-out is issued when an index is triggered hence a claim cannot be easily manipulated. In terms of conventional insurance products, disclosure materials are key to ensure that consumers are aware of the benefits that they are entitled to and how the claims process is to be undertaken. Insurance companies also need to have a holistic claims validation process rather than validating each claim on an individual basis. Overall, claims processes driven through digitised channels will provide value in a way that it will be easy for providers to validate claims.

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