

Response to EIOPA consultation on (re)insurance value chain and new business models arising from digitalisation

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Chapter 1 - Introduction and Chapter 2 - Increased fragmentation of the value chain

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?*

Insurance Europe shares EIOPA's view that the European insurance market is witnessing a digital transformation that has the potential to substantially impact all parts of the insurance value chain. However, new forms of collaboration and outsourcing involving partners from outside the insurance regulatory perimeter are only one of several drivers of this transformation. To a large extent, digitalisation relies on in-house innovation or collaboration with partners that are subject to insurance supervision.

With the exception of cloud computing, most of the cooperation activities with partners not under the insurance regulatory perimeter mentioned in EIOPA's discussion paper are still at an early stage, which is also apparent from EIOPA's survey of NCAs and the examples given in the annex.

At this early stage, it is difficult to predict to what extent fragmentation of the insurance value chain can be expected or how important insurance distribution via platforms or digital ecosystems will become. Future market developments will depend on various influencing factors and their complex interactions. This involves the strategic decisions of hundreds of (incumbent and start-up) insurers, intermediaries, and non-financial firms, taking both the advantages (eg potential efficiency gains) and disadvantages (eg potential reputational risks) of cooperations or outsourcing into account. Other factors include consumer preferences and buying decisions, societal trends, the risk landscape or technological and regulatory developments.

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.*

Cooperation/collaboration with partners has always been an important aspect of the insurance market, eg in the context of insurance intermediation. Developments in the digital environment have simply meant that the extent and diversity of collaboration has increased. Insurers now see potential cooperation partners ranging from other traditional (re)insurers/intermediaries and new fintech or insurtech companies focusing on different parts of the insurance value chain, to technology companies and partners from other industries (eg the automobile industry).

Examples of such collaboration include:

- Insurance distribution via comparison websites or digital ecosystems
- Cloud outsourcing
- Claims processing
- Collaborations in product design

There are many advantages from this cooperation/collaboration, both for the insurer and the insured, but also for society as a whole. They contribute to making the insurance industry more innovative, more agile, safer and more cost-efficient. For individual insurers, strategy options have increased, with enhanced opportunities to focus on specific competitive advantages. For example, the incorporation of external expertise into the value chain has become easier and new niche strategies have become possible, promoting a broader field of providers along the insurance value chain. For policyholders, an important advantage of the increase in partnerships is easier and faster access to insurance products. This cooperation/collaboration is aimed at enhancing the range of products and services offered to consumers to better serve their interests and needs.

With regard to possible risks, the European insurance sector is a well-regulated and supervised industry. Where new service providers enter the market, the regulatory framework offers effective protection as long as these entrants are subject to the principle of "same activities, same risks, same rules". The existing framework also covers outsourcing to third parties. However, over the longer term, regarding some crucial areas, it would be necessary to introduce direct supervision of third parties, eg cloud service providers, as part of a critical infrastructure instead of further industry-specific requirements. In addition, due to the increasing complexity, the possibility of relying on third-party certification should be intensified rather than being in any way restricted.

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?*

Although the extent of future market fragmentation is difficult to predict, the insurance sector will be characterised by a more diverse range of providers and partners. In addition, the specific dynamics of platform markets will likely impact parts of the insurance market. This means that it will become even more crucial to maintain a level playing field and fair competition to ensure effective and innovative insurance markets.

In some areas, eg cloud computing, the risks are likely to stem more from market concentration and potential dependencies than from increased fragmentation.

It should also be noted that the market is characterised by continual development — any upcoming changes will therefore not be "one-off". The relevant issue is not only how to address and manage the short/medium term, but also how to ensure an appropriate framework that is compatible with the continuous evolution that can be expected in the future.

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?*

N/A

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?*

Chapter 3 - Case studies

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

Insurance Europe is not aware of any clear definition of platforms or ecosystems. In general, EIOPA's definitions seem adequate. However, platforms can also be cross-industry or cross-sectoral in nature (eg comparison websites offering comparisons of several products, not only insurance products). Ecosystems typically relate to a specific topic, such as mobility or tourism.

In many cases, platforms or ecosystems relevant for the insurance industry are not specifically insurance platforms or insurance ecosystems, in the sense that they are solely dedicated to insurance, but often have a broader business model (eg product comparisons, services in the field of travel).

7. *Do you see additional examples of national developments in insurance platforms and ecosystems that are not mentioned in this chapter but which might be relevant from consumer/supervisory perspective? Please explain.*

N/A

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.*

Building a platform/ecosystem and/or cooperating with other platforms/ecosystems could be seen as a clear market opportunity for the sector in general and could also potentially be a "booster" for accelerating the journey towards digital business models.

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?*

N/A

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

Insurance Europe notes that an important potential benefit of platforms/ecosystems is that they offer new ways to access insurance and can potentially contribute to reducing insurance gaps.

The most significant risk, on the other hand, is the potential for market distortions if a true level playing field and fair competition are not ensured.

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?*

In the insurance sector, there are possible limitations and restrictions for insurance undertakings wishing to implement innovative digital strategies. Under the EU regulatory framework (Solvency II), some new digital activities might be classified as "non-insurance business". Consequently, they would not be permissible for insurance companies. We believe that this is counter to the level playing field principle, as it puts insurance

companies at an unjustified disadvantage relative to other participants in the digital economy. We are therefore of the view that the current definition of “insurance business” should be reconsidered in a way that the newcooperation and digitally related activities of insurers are encouraged and will be considered as an integral part of their core insurance business. We would also refer to recommendation 24 of the European Commission’s Expert Group on Regulatory Obstacles to Financial Innovation, which proposes that the impact of existing activities’ restrictions for financial institutions’ non-core business (eg Art. 18 Solvency II) should be reviewed to determine whether these restrictions remain proportionate. According to the Expert Group, in this review particular regard should be paid to cross-sectoral considerations, in order to ensure a level playing field between different types of players in the financial sector, including bigtech.

With regard to insurance distribution, this issue should be examined in the context of the IDD review under Article 42(1) IDD. It is important, in any event, to ensure that the same rules apply to all market participants where they carry out the same activities. Platforms should not be given any preferential treatment.

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

Insurance Europe shares EIOPA’s assessment that on-demand, short-term insurance is a valuable additional option for consumers that can provide effective and tailor-made insurance cover for some situations. At the same time, for many risks (eg biometric risks, general third-party liability, etc.) consumers will continue to need (traditional) permanent insurance cover. This limits the potential of on-demand, situational insurance cover.

In our view, insurance products whose premiums are partly usage-based should not automatically be regarded as on-demand insurance. For example, certain motor insurance products making use of telematics usually involve “normal” one-year contracts and provide permanent insurance cover over this time.

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

N/A

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

N/A

Chapter 4 - Risks and benefits for consumers and for the industry

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

Insurance Europe notes that many of the potential benefits and risks listed by EIOPA relate to the digital transformation of insurance markets in general and not specifically to a potential fragmentation of the insurance value chain. New partnerships and some fragmentation of the value chain could even lessen some of the potential risks identified by EIOPA, eg the risk of financial exclusion.

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

Regarding any fragmentation of the insurance value chain, potential risks very much depend on the specific situation (eg the cooperation partner, the exact part of the value chain concerned, the risk management/governance of cooperation).

In addition, it should be noted that not all of the listed risks are actual risks as such. For example, "increased competition" is a result of changing market circumstances to which companies have to adapt and would not be considered a risk *per se*.

With regard to insurance distribution, the potential risk for customers is that platform providers do not provide clear information about their status (agents or brokers) or that the needs and demands of the customers are not sufficiently queried during the course of the process.

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

The current regulatory framework already goes a long way towards effectively addressing potential risks. A level-playing field and an activity-based regulatory framework are crucial prerequisites of fair competition and well-functioning, innovative digital markets. In particular, regulators and supervisors have to make sure that the existing regulatory and supervisory framework is consistently applied to all market participants following the principle of "same activities, same risks, same rules". In addition, effective competition policy is needed to deal with dominant market positions that could otherwise have a substantially negative impact on market conditions and prices.

With regard to insurance distribution, this issue should be examined in the context of the IDD review under Article 42(1) IDD. It is important, in any event, to ensure that the same rules apply to all market participants where they carry out the same activities.

It is also worth noting that insurance is an enabler of the collaborative economy, as risk transfer and risk management support is required to grow new business models and protect participants and customers. More broadly, insurers can play a significant role in the digitalisation of the EU by helping to cover the new risks of a digital society and lowering the protection gap.

Chapter 5 - Supervisory implications

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

One of the most significant future challenges will be to ensure fair competition between market players and business models. It will be crucial to ensure that the principle of "same activities, same risks, same rules" is respected and that policymakers and supervisors strive for a true level playing field.

The most significant expected risk associated with bigtech companies gaining substantial market share in financial services relates to competition issues and potential abuses of market power. Bigtech companies may make use of their market power when entering into partnerships or commercial agreements with certain financial service providers, or provide them with favourable conditions to the detriment of their competitors. This could result in restricted access to certain services for other financial service providers, or unfair terms and conditions, such as requiring payments to be made only via the bigtech company's own platform.

Maintaining a level playing field between European financial services companies and bigtech players in particular will therefore be key, particularly in terms of access to data and data monopolies. In this regard, it is also worth considering Recommendation 24 of the Expert Group on Regulatory Obstacles to Financial Innovation, which

states that the impact of existing activities' restrictions for financial institutions' non-core business (eg Article 18 of Solvency II) should be reviewed to determine whether these restrictions remain proportionate. According to the expert group, this review should pay particular attention to cross-sectoral considerations, in order to ensure a level playing field between different types of players in the financial sector, including bigtech.

A crucial issue is to ensure that insurance customers enjoy the same level of protection, regardless of whether they are served by established providers or new entrants to the market, by bringing all new market entrants within the scope of insurance regulation.

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).

With regard to insurance distribution, this issue should be examined in the context of the IDD review under Article 42(1) IDD. It is important, in any event, to ensure that the same rules apply to all market participants where they carry out the same activities.

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

Insurance Europe is of the view that extensive market monitoring by supervisors and regular exchanges between supervisors and market participants are very important. A number of existing initiatives at national and European level already provide a useful platform for such exchanges (eg national innovation hubs or the European Forum for Innovation Facilitators).

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?

N/A

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out almost €1 100bn annually — or €2.9bn a day — in claims, directly employ over 900 000 people and invest nearly €10 200bn in the economy.