



TECHNOLOGY: HOW COULD IT TRANSFORM INSURANCE?

#FinTechEU

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Why important to take into account the insurance part of Fintech?

- ➔ Until recently Fintech was only about the banking sector and insurance was left aside
 - ➔ A place of « passive interaction » with the customer (only when a claim)
 - ➔ Insurance not seen as an innovation space
- ➔ But Insurtech arrived
 - ➔ **Convenience** can revolutionised the insurance sector with new timing (e.g. Slice)
 - ➔ **Prevention** has made progress with the use of cognitive science, behavioral economy, etc. (e.g. Oscar)
 - ➔ **Inclusiveness**: Even the bottom of the pyramid can access financial advice when it is AI driven (e.g. Fluo)

Overview of the Technological Disruption for the Insurance Sector

➔ New technologies are arising leading to the emergence of FinTech:

- ➔ Internet of Things (IoT)
- ➔ Advanced Analytics & Artificial Intelligence
- ➔ Telematics & GPS
- ➔ Smart Contracts & Blockchain
- ➔ Drones & Smart Industries

➔ Technological innovation will impact how insurers...

- ➔ **Measure** Risks
- ➔ **Control** Risks
- ➔ **Price** Risks
- ➔ **Engage** with Customers
- ➔ **Reduce** Costs
- ➔ **Improve** Efficiency
- ➔ **Expand** Insurability

➔ **Investment in InsurTech startups** surged from **\$740 million** in 2014 to **\$2.6 billion** in 2015 (with a strong US domination)

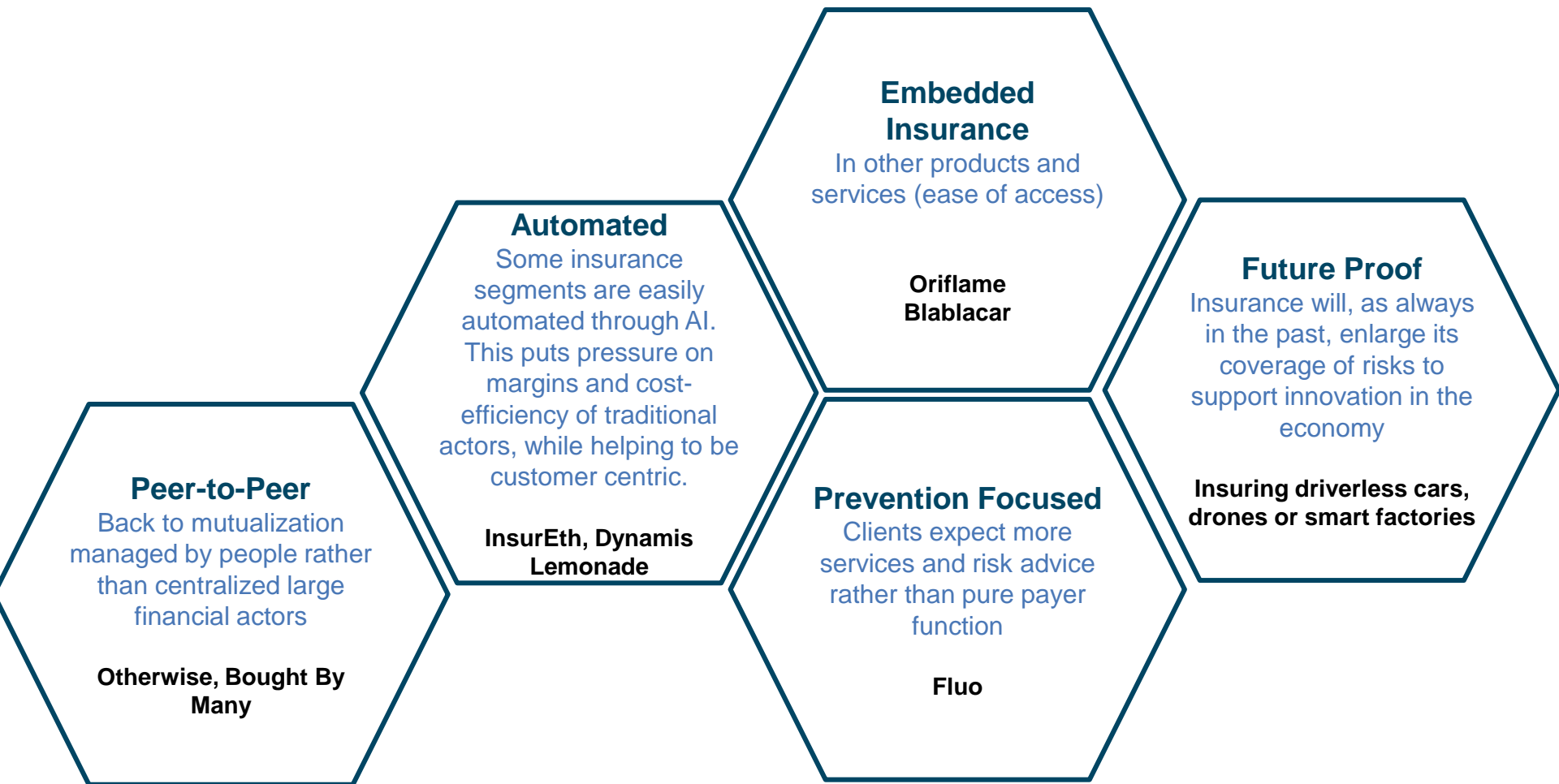
The new models of Insurtech

- ➔ Use of AI
 - ➔ To reduce the expense ratio
 - ➔ To reduce the time to market
 - ➔ To be scalable
 - ➔ To price products and services

- ➔ Use of behavioral economics
 - ➔ To realign interests with customer
 - ➔ To reduce fraud
 - ➔ To foster prevention

- ➔ No decrease of the level of protection
 - ➔ Same risk coverage
 - ➔ But more accurate pricing

How the Insurtech is transforming the insurance business?



Traditional Insurers' Response to the new nature of competition

THE NEW NATURE OF COMPETITION BY FINTECHS

- **Asymmetrical**
 - Smaller size (43% of insurance tech companies <10 employees)
- **Digital proof**
 - Fewer legacy costs of old IT systems
- **Greater specialization**
 - Specific segment
 - Specific service
- **Higher risk tolerance and agility**
 - Scalability

HOW EXISTING INSURERS EVOLVE

- **Adapt**
 - Integrate new technologies in their business models
 - Develop new tools and platforms (ecosystemic view) to provide innovating services
 - Join debates on the topic with regulators, researchers and other actors
- **Partner**
 - Build-up links with startups to benefit from their creativity
 - Join the FinTech ecosystem to be aware of ongoing development
- **Invest**
 - Traditional insurance players have VC

Regulatory Frameworks – Potential Objectives and Principles

Consistent

Consistency between the different regulatory frameworks
(prudential financial regulation – Solvency II, data regulation - GDPR, cyber regulation - NIS, customer protection regulation – IDD, PRIIPs, etc.)

Digital Proof

Old regulatory framework to be adapted to become digital proof (IDD and distribution of insurance via mobile and pure digital channels)

Competitive

Ensure a level playing field at EU level

Equal

Same service same regulation across different sectors to ensure fair market rules

Flexible

Consider a flexible approach towards innovation (e.g. sandbox approach)

Privacy

Data privacy is the key of trust. Ensure an explicit consent, purpose, use and storage of data. Clear EU guidelines on portability, privacy impact assessment, labels are needed.

Fair

Ensure integrity and transparency in the way algorithms are used to avoid implicit discrimination of customers and ensure fair treatment

Up-to-date

Start thinking about the rule of code/Blockchain and the power of a regulator on fully automated contract making

Cross-sectoral

E-ID and mobile payment are the future of a free flow of data economy. Therefore the regulation of telcos should enhance the possibility to sell insurance products

Should not stop at the industry's door

Reg Tech could be explored inside public private partnerships (fraud detection, etc.)

What will be the key questions for the future?

- ➔ Transparency versus Black-boxes of algorithms and data processing
- ➔ Financial Inclusion versus Discrimination
- ➔ Empowerment versus Paternalism
- ➔ Human-centric versus Machine-driven

By design conceiving an ethical approach to AI, data, etc.

- ➔ The new technical questions
 - ➔ **When to renew the training data set?**
 - ➔ **How to control for the deviation of self learning algorithms?**

- ➔ The new regulatory and policy discussions
 - ➔ **On the impact of big data**
 - ➔ **On Ethics of algorithm**
 - ➔ **On the impact of robotisation**

- ➔ The pure ethical questions
 - ➔ **How to avoid implicit discrimination?**
 - ➔ **How to differentiate between segmentation and discrimination?**

Analysing the need for new insurance products

- ➔ **Cyber insurance**
 - ➔ **How can a damage be verified and its financial impact accurately assessed?**
 - ➔ **What should be mandatory?**
 - ➔ **What should be covered and not?**
 - ➔ **What ecosystem of cyber resilience for EU citizen ?**
 - ➔ **What to do about silent cover?**

- ➔ **Insurance of the smart city or the smart factory**
 - ➔ **What should be the liability regime?**
 - ➔ **How can insurers access to data to be able to trace back who is liable?**

- ➔ **Insuring the gig economy**
 - ➔ **New cover for new working status?**
 - ➔ **New income / new way of life?**