

EIOPA Shines Light on InsurTech Market and Licencing Considerations

Bridget MacDonnell, FSAI, CERA
Dominik Sznajder, PhD



A recent EIOPA paper¹ (March 2019) has discussed licencing requirements and proportionality in an InsurTech context. While the paper highlights the potential risks EIOPA sees with InsurTech, it also points to the potential benefits of InsurTech and EIOPA's desire to facilitate innovation in a way that ensures a level playing field and does not lead to de-regulation.

Given the lack of a legal definition of InsurTech, EIOPA have adopted the following definition for the purpose of this assessment:

InsurTech is defined as 'technology-enabled innovation in insurance that could result in new business models, applications, processes or products with an associated material effect on the provision of insurance products and services' – taken from FSB FinTech paper².

EIOPA Survey and Assessment

EIOPA conducted a survey of national regulators which found the following:

1. 903 EU InsurTech firms³:
 - 716 incumbents (licenced)
 - 63 start-ups (licenced)
 - 123 non-licenced⁴
2. Of the 779 regulated (i.e. licenced) InsurTech firms:
 - 67% are within the scope of IMD/DD (i.e. brokers)
 - 33% are in the scope of Solvency II (i.e. insurance and reinsurance companies)

The purpose of the survey was to provide an overview of EU Insurtech Market. EIOPA investigated the potential need for regulatory amendments or further investigations into the following areas:

- Current **licensing requirements** were concluded to be sufficient, as an assessment of a company should not be based on technological advancement but only on the nature of the product and the risk. Similarly, the principle of **proportionality** was concluded to be sufficiently addressed from a regulatory perspective. However, both topics were assessed to require additional effort to align best practices and develop a consistent approach across Member States.
- **Peer-to-peer (P2P) insurance**⁵, as a potentially new business model, was given special attention in the paper. Based on the survey results, EIOPA has found that the currently available information is not sufficient to decide if regulatory amendments are required to address this particular business model. However, EIOPA encourages Member States to closely monitor emerging P2P insurance initiatives.
- **Outsourcing** is recognized to be well established in the Insurance Market, but it gains additional attention as most InsurTech start-up reportedly cooperate with insurance companies under outsourcing agreements. EIOPA acknowledges that the current definition of "critical and important function" is insufficient. Further, EIOPA has questioned whether outsourcing rules are sufficient, calling out cloud computing as a particular example.

¹ <https://eiopa.europa.eu/Pages/News/EIOPA-analyses-licencing-approaches-to-InsurTech.aspx>

² <http://www.fsb.org/wp-content/uploads/R270617.pdf>

³ EIOPA considers this number to be understated given most large insurance players could be included as InsurTechs in that they are technologically advanced and utilize modern technology.

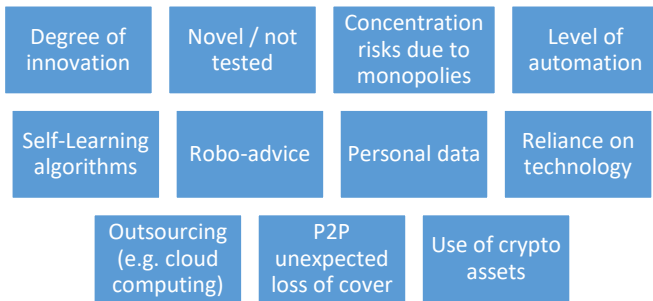
⁴ Some InsurTechs do not require licences at all, to the extent that they are not carrying risk, not providing advice and therefore only providing the technology / platform.

⁵ Peer-to-Peer (P2P) insurance defined in the paper as: "a risk-sharing network where a group of individuals with mutual interests or similar risk profiles pool their 'premiums' together to insure against a risk." Depending on the model, this can be similar in concept to a mutual.

Risks and Benefits

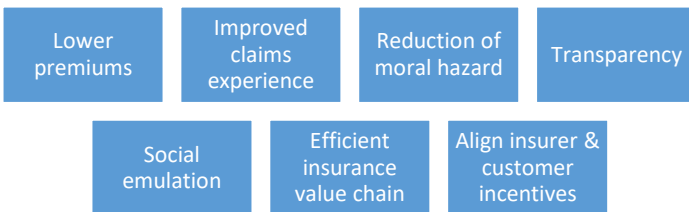
Although the paper is intended to provide initial (non-binding) thoughts regarding best practices for regulators, it hints at the issues, which may be on EIOPA and national regulators' minds at this point, as shown in the following figure. EIOPA encourages the voluntary adoption of the best practices set out in the report.

FIGURE 1: INSURTECH RISKS RAISED BY EIOPA



EIOPA also highlights potential benefits of InsurTech as shown in the following figure.

FIGURE 2: INSURTECH BENEFITS RAISED BY EIOPA



Some initial thoughts on best practices for regulators are included – these are in the early stages and are not binding (or

subject to “comply/explain” rules). Best practices mentioned include ensuring technological neutrality, providing clear guidance on licence applications and facilitating general consumer awareness regarding non-supervised P2P insurance platforms.

EIOPA has assessed the EU InsurTech market as “at an early stage but evolving” and we therefore expect more to come on this topic.

How Milliman can help

Milliman has a depth of experience and expertise in the insurance industry. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

Our consultants have expertise in:

- New company applications
- Mergers and acquisitions work
- Product development and pricing
- InsurTech initiatives
- Enterprise Risk Management and Own Risk and Solvency Assessments (ORSAs)
- Actuarial Consulting
- Strategic Consulting

For further information please contact any of the consultants below or your usual Milliman consultant.



Milliman is among the world’s largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Bridget MacDonnell
bridget.macdonnell@milliman.com

Dominik Sznajder
dominik.sznajder@milliman.com

© 2019 Milliman, Inc. All Rights Reserved. The materials in this document represent the opinion of the authors and are not representative of the views of Milliman, Inc. Milliman does not certify the information, nor does it guarantee the accuracy and completeness of such information. Use of such information is voluntary and should not be relied upon unless an independent review of its accuracy and completeness has been performed. Materials may not be reproduced without the express consent of Milliman.