EIOPA Consultation | (re)insurance value chain and new business models

(working document of AFPA, Austrian Financial and Insurance Professionals Association Austria)

Chapter 1. Introduction &

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?

Although the value chain and the interaction between the involved parties are changing, the general and essential parties and protagonists are probably staying the same: customers, intermediaries and risk carriers.

With this perspective, the rights and obligations of the different parties – coming from the already existing regulatory frameworks (e.g. IDD, Solvency II, GDPR) – have to be sharpened and correctly assigned to the (possibly new) player / parties of the (new) value chain. This requires, that the different tasks along the (possibly new) value chain are made transparent and assigned to eligible entities.

This requires that two levels are distinguished: outsourcing and cooperation should be allowed and facilitated, however, the general regulatory responsibility (e.g. related to an insurer) should stay with the original player.

In addition, we would like to highlight that on the one hand side the industry is obliged and forced to accelerate digitization and be more efficient while some parts of regulation still slow down or are in opposition (e.g. physical signature requirement or physical retention of contracts and agreements).

The overview, propagated in figure 1, depicts the existing value chain in a highly simplified manner. The real-life value chain is already quite more complex. However, it would be beneficiary if EIOPA could sketch within a single overview the "future" value chain / value network on the basis of all its research and the input from the NCAs.

Finally, we believe that the company itself (risk carrier, intermediary) should still be the first line of defence. Thus, it is the job of the company to identify and mitigate potentially arising *(new) risks – as this should be already the case. However, what seems to be important is the communication and transparency towards the NCAs.*

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

AFPA is the association of independent Austrian financial and insurance professionals. Our members are companies that offer customers a broad range of financial and insurance products in contrast to the advisers employed by banks and insurance companies. More than 13.000 insurance brokers, financial advisers and insurance agents cooperate with the members of AFPA. Our members work on behalf of 540.000 customers, attending to their day-to-day insurance, investment and financial needs.

In addition, numerous service providers focusing the insurance industry are also among our members.

A description of the diverse cooperation landscape would go far beyond the scope here.

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?

It will definitely be the speed and the variety with which new cooperation models arrive on the market. It will therefore be essential that the regulatory framework evolves from a rigid and solid framework to a flexible and modular structure that can be put on each and every cooperation model.

The regulatory framework should be principle based. It mustn't be an additional layer to the already existing local rules and the local implementation mustn't differ from country to country. In order to foster platforms and ecosystems it will be vital that a single financial market with same rules is established within the European Union.

4. In addition to those described in chapter 2 and in Annex 1 of the Discussion Paper, 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?

We see a lot of existing and emerging new cooperation models and cooperation covered; however, we believe the following topics may be worth to add:

- *software as a service with respect to administration of policies ("admin-as-a-service") ➔ allowing faster and more flexible product development*
- *InsurTechs offering dedicated (and large scale) services to Brokers (or in general other intermediaries) ➔ dependence versus independence of intermediaries*
- *Data & Data Analytics providers ➔ impacting, amongst others, pricing, underwriting and claims management as well as customer management in general*

Anyway, in order to find the right regulatory answer to the phenomenon of a more fragmented value chain, it will probably not be necessary to write down all existing (and future possible) cooperation modes and value network constellation, but to transform the existing regulatory framework into a flexible and modular structure that can be put on these (new) models.

In addition, we want to highlight that the traditional sales process will partially disappear. So-called annex or integrated insurance (e.g. included insurance when buying a new smartphone, new glasses or other devices) will further spread. In this context, from our perspective regulation should assure that the freedom of choice remains with the retail client.

5. In addition to those stated in chapter 3 of the Discussion Paper, 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?

Something we are really missing in this discussion paper is the merger of the different insurance segments (i.e. life, health and non-life). While regulatory framework highly separates these segments, some InsurTechs are working towards a modular "all-in-one" policy apart of the frontlines of the segments, which is from customer perspective a quite natural thing to do so.

This convergence of segments raises new questions on supervision, starting with the right organization of NCAs as well as auditors.

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?

We are happy that the paper offers a definition of both terms and we fully agree on distinguishing between platform and ecosystem. From our view, a platform is the technical (and probably also the regulatory) basis / back bone of an ecosystem.

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.

We see a lot of existing and emerging new cooperation models and cooperation covered in the discussion paper. Anyway, an opposite trend is not covered yet. It is about InsurTechs that upgrade themselves to risk carriers. We just want to mention here:

- *WeFox Group: Started as insurance manager app and as broker, they have since 2018 their own risk carrier: One Insurance. The insurer is based in LIE and currently focusing P&C. However, it is already in preparation to expand towards health and life.*
- *Getsafe: Is applying for a P&C license in Germany.*

We assume that advanced InsurTechs with appropriate funding will do this step, in order to be more independent in terms of product development and related product services.

While in general we do not see obstacles when an InsurTech is grading up, we believe that supervision should assure that requirements of information give a transparent view on whether a market player is independent or not.

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.

The members of our association are independent insurance intermediaries as well as service providers for the insurance industry. It is in their nature of having different perspectives on this question. We assume that some of our members will follow a plan to integrate into existing / emerging ecosystems while others will try to set up their own.

In general, we assume that large market players will tend to develop their own ecosystem related to a pre-defined topic (e.g. finance or health) while they will try to integrate into ecosystems that focus some inferior topics / themes at the same time.

Small and mid-sized players and highly specialized players will tend to integrate into (several) ecosystems as their customer base and / or their coverage of the entire (traditional) value chain is too small. One example: a start-up or tech-company offering a specific service (e.g. digital customer identification) will do its best to place its service into a lot of ecosystems rather than developing its own.

9. Are there any other aspects related to platforms/ecosystems that are not covered in chapter 3 of the Discussion Paper but are important from consumer/market/supervisory perspective?

We see the major aspects covered in the discussion paper. Regardless of the level of fragmentation and complexity of the value chain arising through platforms / ecosystems, we believe that it is important to clarify exactly who (which party / entity) is doing what (tech, analysis, distribution, manufacturing, etc.) in order to assign the rights and responsibilities properly and to, finally, assign the corresponding and existing regulation.

The more complex structure of cooperation mustn't lead to unclear compensation flows and misdirected incentives.

10. In addition to those covered in chapter 3 of the Discussion Paper, what related risks and benefits do you see regarding insurance platforms/ecosystems?

We believe that, given a decent advisory, the increased individual awareness of risks will help to reduce risks and to assign the right coverage to an individual risk (over time). So, given a decent advisory, the movement towards ecosystem will foster the development of a "complete" insurance market with having risks better priced, allocated and covered.

In addition, we believe that technology will help any professional advisor to increase the quality of advice as well as e.g. better meet documentation requirements.

In any case, cp. answer to Q4, we are of the opinion that the freedom of choice should always remain with the retail client.

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 given regulatory framework is sufficient, it "just" needs to be sharped and renovated, and changed from a rigid and solid framework to a flexible and modular structure allowing to cover existing and new business and cooperation models.

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

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

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

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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?

Yes, on the whole, potential benefits for consumers and for the industry are described quite well. We believe this analysis is sufficient.

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

Yes, on the whole, potential risks for consumers and for the industry are described quite well. We believe this analysis is sufficient.

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

Please allow us to ask a counter question: What is "the regulatory framework" you are referring to? It would probably need a huge number of experts to create an overview within an abundant timeline. This framework then needs a redevelopment and renovation. The remnant needs to be changed from a rigid and solid framework to a flexible and modular structure allowing to cover existing and new business and cooperation models, too.

In general, we believe that no further regulation is necessary but it must be simplified. It must be changed from guidelines to concrete acts which are implemented in all legislation identically.

If then in real-life some adjustments are necessary these have to be implemented quick and with a sense of proportion on an on-going basis.

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?

We consider the breakdown and the reallocation of the rights and responsibilities along the "new" value chain as the big challenge. In particular, it will be difficult to track the dismantling of the value chain within the (highly) individual approaches of the different players and their interaction. This tracking will be difficult especially at the beginning, when "new roads" are explored and the right level of cooperation is not yet identified.

We believe that it is important to clarify exactly who (which party / entity) is doing what (tech, analysis, distribution, manufacturing, risk carrier, etc.) in order to assign the rights and *responsibilities properly and to, finally, assign the corresponding (and already existing) 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).

It would be useful to introduce (or enhance existing) minimum requirements on reporting and transparency. As the risk carrier is probably the first target of the NCAs, these requirements should be addressed to the risk carriers. The risk carriers have to disclose – separated by product line / segment – any cooperation (tech, data analysis, distribution, co-manufacturing) in order to make transparent the rights and responsibilities of the different involved parties. This is probably the starting point for further investigations of the NCAs.

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

Cp. answers to Q17, Q18 and Q19.

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?

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ABOUT US

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AFPA is actively engaged in shaping the regulation of the European and Austrian financial markets to ensure that customers will still be able to access independent insurance and financial advice in the future.