



**Looking Beyond Current Business Models and Distribution Strategies:
“High Tech” vs. “High Touch”**

IAIS Annual Conference 2017

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The Center for Economic Justice

CEJ is a non-profit consumer advocacy organization dedicated to representing the interests of low-income and minority consumers as a class on economic justice issues. Most of our work is before administrative agencies on insurance, financial services and utility issues.

On the Web: www.cej-online.org

Why CEJ Works on Insurance Issues

Insurance Products Are Financial Security Tools Essential for Individual and Community Economic Development.

CEJ works to ensure ***fair access*** and ***fair treatment*** for insurance consumers, particularly for low- and moderate-income consumers.

Insurance is the Primary Institution to Promote Loss Prevention and Mitigation, Resiliency and Sustainability:

CEJ works to ensure insurance institutions maximize their role in efforts to reduce loss of life and property from catastrophic events and to ***promote resiliency and sustainability*** of individuals, businesses and communities.

Thank you to the IAIS for inviting a consumer stakeholder to participate in your Annual Conference and for the opportunity to participate on this important panel. I also want to thank the NAIC for their ongoing support of consumer participation at the IAIS and the NAIC. The NAIC's support makes my participation today possible.

What's So Big About Big Data?

1. Insurers' use of Big Data and Digital Technology has huge potential to benefit consumers and insurers by transforming the insurer-consumer relationship by discovering new insights into and creating new tools for loss mitigation and by creating new methods of access through mobile and digital technology.
2. Insurers' use of Big Data has huge implications for fairness, access and affordability of insurance and for supervisors' ability to keep up with the changes and protect consumers from unfair practices.

3. The current insurance supervisory framework generally does not provide supervisors with the tools to effectively respond to insurers' use of Big Data. Big Data has massively increased the market power of insurers versus consumers and versus supervisors.
4. Market forces alone – so-called “free-market competition” – cannot and will not protect consumers from unfair insurer practices. So-called “innovation” without some consumer protection and public policy guardrails will lead to unfair outcomes.
5. Supervisors and policymakers must understand the economic and competitive implications of Big Data on insurance. Without public policy action, captive insurance markets will no longer be limited to add-on products markets like credit-related insurance. Other insurance markets – whether personal or commercial lines – will become captive markets where control over access is with the data vendors and algorithms describing and scoring the individual consumer or business.

- 6.** The insurance industry and insurance supervisory systems are at a crossroad. **One possible future is empowered consumers and businesses partnering with risk management and sustainability companies who also provide insurance.**

Another choice is a small set of insurers, data brokers and consulting firms who control access to insurance through opaque algorithms and control of data.

What is Needed to

- **Improve Insurance Role for Economic Security, Loss Mitigation, Resiliency and Sustainability for Individual and Businesses**
 - **Improve Access to Insurance and Close the Protection Gap**
 - **Keep Insurance Markets Competitive and Fair to Consumers**

1. Articulate What the Future of Insurance Should Look Like

Empowered consumers and businesses partnering with risk management and sustainability companies who also provide insurance.

Greater, not less, transparency in insurance pricing, sales and claims settlements.

Adherence to fundamental principles of insurance cost-based pricing and risk-spreading.

These should be the guiding values for policy and supervisory decisions

2. Monitor Markets More Comprehensively and Efficiently – identify what data and algorithms are being used for what purposes and track consumer market outcomes

a. Pro-active guardrails to address the dangers of Price and Claims Optimization and AI/Machine Learning – not only to prevent unfair treatment of consumers but to prevent departures from cost-based pricing which would present a new type of solvency risk.

3. Improve the competitive operation of insurance markets by empowering consumers with better information, including information on insurer and intermediary performance, provided in a more timely fashion optimized for a digital world and reflecting the insights of behavioral economics.

a. A corollary of the last point is that supervisor must Develop / Improve / Reinvigorate Capabilities for Economic Analysis of Markets, Competition and Anti-Trust.

For the IAIS – our message is, generally, devote significantly more resources and emphasis to conduct of business issues and, specifically for 2018, develop best practices and tools for supervisors for monitoring markets and consumer market outcomes in an era of big data.

Big Data Algorithms as Insurance Market Gatekeepers

- Marketing: web searches and web advertising that pre-score and channel consumers to particular products, providers and price-levels.
- Pricing: pre-fill applications and pricing without the consumer providing information, pricing based not just on risk but on price optimization / consumer demand models, real-time competitive options and/or socio-economic characteristics
- Claims: automated, instant claim settlement proposals based on data generated by a vehicle, home telematics or wearable device and utilizing price optimization/consumer demand models to determine amount of claim settlement offer a particular consumer is likely to accept based on his or her personal data.
- Common characteristics – opaque algorithms, little or no disclosure or transparency to consumer, great potential to penalize most vulnerable consumers, limiting loss mitigation role of insurance

Fintech Paper

5.3 Scenario analysis 1: Incumbents successfully maintain customer relationship

60. Under this scenario the insurance value chain remains essentially with the (re)insurers. Product development, distribution, underwriting, policy & claims administration and customer interaction is either in-house or out-sourced by the insurer. From the customer perspective the insurer continues to be the key provider. This scenario may be the result of natural, social, regulatory or capital barriers to the entry of InsurTech start-ups unrelated to traditional incumbents. Through acquisitions, corporate ventures or internal innovation initiatives, incumbents can achieve to stay in the front line for the consumer.

5.4 Scenario analysis 2: Insurance value chain becomes fragmented; Incumbents no longer in control

66. Under this scenario specialist technology firms have successfully established a customer relationship that increasingly considers insurance as a reducing component of other services provided. Sophisticated data analytics across multiple platforms / customer interaction points is carried out by the customer interfacing technology firm, leaving the insurer to focus on claims handling. The insurer continues to be the ultimate risk carrier, but is increasingly marginalised with many products being white-labelled. Customers may no longer know (or care) who their insurer is.

5.5 Scenario analysis 3: Big technology firms squeezing out traditional insurers

71. Under this scenario Big Technology Firms (BTF) provide products that seamlessly integrate the insurance element, thereby capturing the entire insurance value chain. Premiums are embedded within other services or as part of a consumer lifestyle package. Sophisticated data analytics and the increased prevalence of connected devices allow BTF to develop enhanced claims prevention measures, thereby allowing them to undercut and to be even more competitive than traditional insurers.

Scenarios 1 and 2 have been in play for many years depending on the size of the insurers/intermediaries and the type of insurance. In add-on markets, scenario 2 is already a reality. For other types of non-life insurance, there is a dual market – the largest firms relying on their own data with small and medium sized firms relying upon pooled data –

advisory organizations and consulting firms. Big data will widen the divide.