



EIOPA REGULAR USE
EIOPA-BoS-19-031
10 January 2019

Insurtech Task Force

Mandate

I. Background

InsurTech has an impact across all of the steps of the value chain in the insurance and pension sectors, including through the emergence of start-ups, often in cooperation agreements with incumbent undertakings. The business models of undertakings and the consumer experience are being transformed as a result of the proliferation of financial innovations and technology.

EIOPA's Board of Supervisors discussed the topic of InsurTech during the EIOPA 2017 Strategy Day, with the aim to create a shared vision on the topic and agree further work for 2017 and beyond. In June 2017 the BoS confirmed EIOPA's commitment in the area of InsurTech and agreed to establish a multidisciplinary InsurTech Task Force (hereinafter the "ITF") which will be responsible to undertake the activities described in the present Mandate.

II. Tasks of the InsurTech Task Force

The ITF will lead EIOPA's work relating to issues and aspects arising from InsurTech, and falling within EIOPA's powers under the EIOPA Regulation¹. To this end, InsurTech means technology-enabled innovation in (re-)insurance and pensions, regardless of the nature or size of the provider of the services. Given the InsurTech's broad impact on the business model of undertakings, and given the ever-changing nature of financial innovations, it is necessary to plan and prioritize amongst the different InsurTech activities.

At an initial stage, and taking into consideration the European Commission's Fintech Action Plan,² the tasks of the ITF will be the following:

- Thematic review on Big Data: For regulatory purposes and without prejudice to the competencies of supervisory authorities under Article 51 of the General Data Protection Regulation (hereinafter GDPR)³, the ITF will

¹ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

² FinTech Action plan: For a more competitive and innovative European financial sector, European Commission, March 2018, https://ec.europa.eu/info/sites/info/files/180308-action-plan-fintech_en.pdf

³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive

carry out a thematic review on the use of Big Data by (re-)insurance undertakings and intermediaries (both incumbents and start-ups), seeking to gather empirical evidence on the use of Big Data in areas such as pricing, underwriting, claims management, sales and/or marketing. The thematic review will analyse the benefits and potential risks to fair treatment of consumers, including assessing the boundaries of potential ethical and privacy issues arising from enhanced consumer profiling techniques and more granular risk assessments. It will also assess the impact of Big Data on the availability and affordability of insurance for consumers.

- Innovation Facilitators: EIOPA will continue to map the innovation facilitators set up by the different jurisdictions in the area of InsurTech, with a view of establishing efficient and effective supervisory practices in the form of best practices, and, where appropriate, issue guidelines.
- Licensing requirements and regulatory barriers to financial innovation: This work will also include mapping current authorising and licensing requirements and assessing how the principle of proportionality is being applied in practice specifically in the area of financial innovation (e.g. regarding InsurTech start-ups such as peer-to-peer insurers), also with a view of determining efficient and effective supervisory practices in the form of best practices and identifying possible regulatory barriers to financial innovation. Where appropriate, EIOPA will issue guidelines on authorising and licensing approaches and procedures or present recommendations to the Commission on the need to adapt EU financial services legislation.
- Cloud Computing: Taking into consideration the potential benefits and risks for insurance undertakings and consumers linked to the use of cloud computing technology, the ITF will assess National Competent Authorities' (hereinafter NCAs) supervisory practices and expectations on outsourcing to cloud service providers and explore the need to issue guidelines. Issues that could be addressed include how to assess the materiality of cloud outsourcing, supervisory authorities' right to have physical access to the premises of cloud service providers, or other security issues relating to cloud computing arrangements.

At a later stage and subject to EIOPA's work programme, the ITF could also undertake the following tasks:

- Convergence on supervision of algorithms: Leveraging on the data gathered through the thematic review on Big Data, the ITF may seek to further assess the design and use of algorithms to determine how the functioning of increasingly complex analytical IT tools and processes (e.g. artificial intelligence or machine learning) can be best supervised and/or communicated to consumers. This could include work on ethical principles in the use of Big Data Analytics in the insurance sector, and assessing (black-box) algorithm's governance requirements (e.g. transparency, auditability and explainability requirements), including the role of key functions (in particular the actuary function). Different capacity-building

95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1). According to Article 51 of the GDPR, each Member State shall provide for one or more independent public authorities to be responsible for monitoring the application of this Regulation, in order to protect the fundamental rights and freedoms of natural persons in relation to processing and to facilitate the free flow of personal data within the Union.

activities for NCAs such as workshops or seminars could eventually be explored.

- (Re) insurance value chain and new business models arising from InsurTech: The ITF may also further scrutinise and propose remedies to the supervisory challenges arising from the new business models and the possible fragmentation of the (re-)insurance value chain as a result of new technologies and actors entering the insurance market. This could include mapping of the fragmentation of the value chain (e.g. What is outsourced? To whom? To what extent?). Among other things, this work would cover the increasing collaboration between (re-)insurance undertakings and non-regulated firms such as data vendors and BigTech companies, including potential reversal of relationship between insurance undertakings and subcontractors (so called "reverse outsourcing") in the light of innovative technologies.
- Innovation Hub: The ITF could seek to develop an European Insurance Innovation Hub, where EIOPA would cooperate with NCAs and InsurTech firms (regardless of their size) in the promotion of financial innovation in the European insurance and pensions market. The Innovation Hub could seek to establish a structured framework where NCAs and InsurTech firms would regularly exchange experiences and provide guidance in the area of financial innovation including applicable European regulatory requirements. This could also include assessing the costs and benefits of developing a thematic Innovation Hub e.g. on the Internet of Things.
- RegTech: The ITF could assess the impact of InsurTech in the context of regulatory monitoring, reporting and compliance by (re) insurance undertakings and intermediaries. Work in this area could include assessing how Big Data and other innovative data-analytical tools could be used for supervisory purposes in order to capitalize on the new data-reporting requirements introduced by recent sectorial legislation such as Solvency II, MiFID II / MiFIR and EMIR. Collaboration with start-ups and other entities could be considered in order to benefit from their data analysis capabilities.
- Distributed ledger technology (DLT) / Blockchain: While it is still early days for DLT / blockchain in (re-)insurance, the number of potential uses cases is constantly growing. The ITF could eventually explore the benefits and risks arising from the use of blockchain and smart contracts for (re-)insurance undertakings and consumers, including assessing possible regulatory barriers preventing the deployment of this innovation.

A tentative timeline for these activities is provided in point VI below. However the exact prioritization, sequencing and timing of the different activities will depend on the outcome of the tasks which will roll-over into following year. The ITF will also continue monitoring other developments in the area of financial innovation, including on crypto-assets and Initial Coin Offerings.

III. Organisation of work

EIOPA will ensure that, through a combination of the membership of the ITF and internal EIOPA staff, adequate expertise is available for delivering the tasks identified above.

In view of the wide range of issues and aspects arising from InsurTech, the ITF shall gather expertise from all the relevant disciplines including consumer protection, financial stability, policy, supervisory oversight, IT, etc. This multidisciplinary approach will enable the ITF to have a broad perspective on technological innovations. Additional specialist resources may be co-opted as the need arises.

The ITF will liaise with relevant EIOPA working groups and steering committees as well as with EIOPA's Stakeholder Groups, providing briefings, inviting them to meetings, seeking feedback and/or opinions, etc., as relevant. The aim is to have a close dialogue with all the relevant stakeholders, including with InsurTech start-ups. The ITF will also ensure coordination with the relevant work being developed in the area of InsurTech by the European Commission, the other ESAs and other relevant EU and international institutions and bodies.

The ITF will regularly report on findings to the Board of Supervisors.

IV. Chairperson

The Board of Supervisors of EIOPA elected Kathleen Köhn, Senior Officer in the Insurance and Pension Fund Supervision at the German Federal Financial Supervisory Authority (BaFin), as Chair of EIOPA's InsurTech Task Force.

V. Review of the Mandate (including Chairmanship)

The ITF is expected to complete its work by the end of 2020. Detailed deliverables will be reviewed once a year.

VI. Deliverables for 2019 and beyond (N.B. This section will be updated annually)

The ITF has finalized its work on Innovation Facilitators and will finalize work on licencing requirements in Q1 2019. The ITF has set as a high priority for 2019 the continuous work on Big Data (work on practical supervision of (Black-box) AI/ML algorithms and ethical principles in the use of Big Data Analytics in the insurance sector), work on Guidelines on Cloud Outsourcing, and work on fragmentation of the value chain and reverse outsourcing. An indicative timeline of the tasks of the ITF is provided in the table below.

Project	Timeline (Q1 to Q4)	Priority High (H), Medium (M), Low (L)
Innovation Facilitators	Finalized	Finalized
Thematic review on Big Data	Q1 2018-Q1 2019	(H)
Supervision of algorithms (including black-box algorithms)	Q1-Q4 2019	(H)
Ethical principles in the use of Big Data Analytics in the insurance sector	Q1-Q4 2019	(H)

Licensing requirements and barriers to InsurTech	Q1 2018-Q1 2019	(H)
Guidelines on Cloud Outsourcing	Q2-2018-Q4 2019	(H)
(Re-)insurance value chain and new business models arising from InsurTech	Q1-Q4 2019	(H)
Innovation Hub	Q1-Q4 2019	(M)
RegTech	Q1-Q4 2020	(M)
Distributed ledger technology / Blockchain	Q1-Q4 2020	(M)