

POSITION PAPER

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Referring to: **Joint Committee Discussion Paper on the Use
of Big Data by Financial Institutions**

COMMENTS OF THE FRENCH INSURANCE FEDERATION (FFA)

Executive Summary

On 19 December 2016 the Joint Committee of the European Supervisory Authorities (ESAs) published a Discussion Paper on the use of Big Data by Financial Institutions. The ESAs are issuing this Discussion Paper in order to receive feedback from stakeholders on this preliminary high-level assessment with the aim to decide which, if any, regulatory and/or supervisory action may be required.

The French Insurance Federation (FFA) welcomes the opportunity to comment on the Joint Committee Discussion Paper since the insurance sector is one of the most impacted by digital evolution as data processing lies at the very heart of the insurance business model.

Facing the evolution of customers' expectations, Big Data is a tool for insurers to develop innovative services, more personalised products and to increase risk prevention, not only for the benefit of consumers but for society as a whole.

To meet this need of innovation, insurers require a stable and efficient regulatory framework. Today, insurers are already subject to an important number of regulations, both at European and national levels, which provide for strong data privacy, consumer protection and enhanced trust in the market. That being said, new regulatory initiatives might bear the risk to hinder innovation without any additional value for consumers.

Finally, the increase of data-driven business models at global level shall lead us to adopt a balanced approach to strengthen the competitiveness of the European Union on the global market.

About the FFA

The French Insurance Federation (FFA) brings together insurance and reinsurance companies operating in France. We represent 280 companies accounting for over 99% of the French insurance market. Our main missions are to promote all areas of the economic, social and financial fields as they relate to insurance activities. We represent the interests of insurers to national, European and international public authorities, to institutions and to administrative or local authorities. We produce and make available statistical data essential to the industry. We provide information and map out specialist insurance questions for the general public and the media, and we strive to develop education on all categories of risks. The FFA also contributes to raise the awareness and attractiveness of the industry in the academic and adult training worlds.

For more information go to www.ffa-assurance.fr

Introduction

The rapid development of new technologies and applications, which generate a massive amount of data, is impacting the entire value chain of the European industry, but also the social and economic relations on which this value chain is based. The emergence of a data-driven economy brings many opportunities for businesses and consumers. **Insurers are among the most impacted by these changes.**

Data processing lies at the very heart of the insurance business. Insurers collect and process data to analyse risks that individuals wish to cover, to tailor products accordingly, to value and pay claims and benefits, but also to provide new services as well as to improve customers' experience.

New consumer needs and demands, linked to the transformation of people's lifestyle and attitudes, are incrementally emerging from the development of Big Data analytics. In this challenging evolving world where innovation is the key, **insurers need to embrace change and adapt accordingly to meet customers' needs** while at the same time strengthening mutual trust between insurers and their customers.

Description of the phenomenon

The FFA agrees with the description of the Big Data phenomenon as presented in the Discussion Paper. Nevertheless, it is important to emphasize that **the use of large data sets (Big Data) tools is not the monopoly of a specific category of companies** but can be observed both in traditional market players and new market entrants to stimulate innovation in the financial sector.

Big Data in the insurance sector is used for a large range of purposes from the improvement of customer knowledge to enhance the insurer-customer relationship to the development of prevention (for example by establishing risks mapping), including the tailoring of products and the provision of new services based on customer needs in compliance with the defined regulatory framework on the protection of personal data at European and national level.

Big Data tools generate new opportunities for insurers to tailor products to fit customer needs with more personalised coverage and services and facilitate innovation by using diverse sources of relevant data. **Insurers are already able to assess risks with complex segmentation, using Big Data is only a way to improve the knowledge of the risk.**

Regulatory framework applicable to Big Data

The insurance sector is among the most regulated sectors. This regulation is of benefit for consumers as well as companies since it provides a sound legal framework which contributes to enhance consumer protection and trust in the market. However, this legal framework also needs **to provide companies with a stable set of rules allowing innovation** and, as a consequence, growth to foster competition at global level. In this respect, it may be noted that the use of Big Data

analytics in the insurance sector already fall under a high number of legislations: the Solvency II directive (2009/138/EC), the General Data Protection Regulation (2016/679), the Insurance Distribution Directive (2016/97/EU), the ePrivacy directive (2002/58/EC), etc. which all together contribute to the establishment of a strong consumer protection framework. In this context, any new **regulatory initiative in this field might bear the risk to hinder innovation without any additional value for consumers**, especially given that such legislations need to be combined and applied as a whole whereas sometimes drafted independently from one another.

It is of particular relevance with regards to personal health related data. In the European Union, the General Data Protection Regulation, which entered into force in May 2016, has strengthened the protection of personal data related to health. In addition, the recommendations of the Council of Europe, even if they are not binding, have contributed to a more robust EU framework. In some Member States, **the use of health data might be further regulated, like in France where a strict regulatory framework is in force.**

In France, access to public health data, even when anonymised, is very restricted under the French legislative framework with the law No. 2016-41 of January 26, 2016 to modernize our health system: access can be allowed only after the validation of the French Data Protection Authority (CNIL) and the National Institute of Health Data (INDS).

Potential benefits and risks for consumers and financial institutions

Big Data is expected to enable companies of all kinds to improve decision-making, enhance efficiency and to create new products and services. The impact of Big Data on insurance markets has already started and will continue to be more and more significant. Big Data technologies might not only offer insurers the opportunity of both a deeper and better understanding of consumers but also the possibility to more accurately price the risks consumers wish to cover (connected cars for instance with “Pay How You Drive” insurance). Big Data technologies offer also a **great opportunity for insurers in terms of risks prevention.**

For example, recently different ehealth initiatives have been launched by insurers. Some insurers have started partnerships with specialised start-ups that allow coaching and prevention for health and wellbeing purposes (cf. Internet of Things). In France, 98% of insurance contracts fall under the law No. 2013-1203 of 23 December 2013 on Social Security Financing which forbids insurers to use any kind of personal data related to health in their activities, such as risk assessments and pricing. Moreover, regarding genetic data the French law (Public Health Code, Penal Code and Insurance Code) forbids insurers to ask customers or potential customers about their genetic data or to take into account any genetic information that a customer would give. In this context, data is not used for pricing but **rather to reward customers with commercial offers from partners based on their behaviour.**

Another example is that Big Data is used in **risk-mapping for prevention purposes**: based on non-personal data, maps can be drawn with risk frequency in a specific area (e.g. to prevent flood damages). This tool could allow insurers to provide protection (by taking measures to reduce the likelihood of floods and/or the impact of floods in a specific area, such as restoring flood plains and

wetlands) and preparedness (providing instructions to the public on what to do in the event of flooding).

Better technology and data analysis also leads to better fraud detection. Insurance fraud is not an insignificant crime. Detected and undetected fraud is estimated to account for up to 10% of claims every year in Europe. This raises the premium of the vast majority of honest customers. **Digitalisation and the use of data analytics are making it easier to catch the fraudsters.**

For motor insurers, telematics represents a growing and valuable way to quantify driver risk. Instead of pricing decisions on vehicle and driver characteristics, telematics gives the opportunity to measure the quantity and quality of a driver's behaviour. This can lead to savings for safe or infrequent drivers, and transition of the burden to policies that represent a higher liability. For instance some European insurers are reducing customers' motor insurance premiums based on analysis of their driving behaviour using connected telematics tools. Most of the time, the discounts are for drivers between 18-25 years old, who usually pay the highest premiums. To encourage young drivers to stay safe behind the wheel, a connected device installed in the car measures among others: speed, acceleration, breaking and turns. Once the device is fitted and the contract signed, a reduction is immediately applied. The discount is adjusted based on driving results: good driving habits can diminish insurance premiums. Customers can view their driving record online and use the results to improve how they drive. Sometimes a recorder to determine the reasons for an accident and locate the vehicle in case of theft is also associated.

Benefits of digital innovation in the motor insurance sector for the society are many: the use of Big Data by motor insurance can serve society in various cases by **reducing the number of dangerous driving practices** and by diminishing the number of litigious cases brought to court thanks to **clearer understanding of what happened during the accident.**

Parametric insurance is **another good example of Big Data and benefits for the customer and the society, thanks to the access to satellite "more granular" data.** Contrary to a classical insurance contract, parametric insurance is a contract in which the insurer accepts, in advance, to pay out an agreed sum to the insured in case of an extreme event, itself also agreed upon in advance. As such, there is no need for an evaluation of the insured's loss. Satellite images and Big Data analytics together with automation and digitalisation are enhancing the development of parametric insurance: the only piece of information needed is a precise event which itself triggers the payment.

The advantages of this type of insurance for farmers in developing countries who cannot afford to pay for the high claims handling costs associated with smaller farmers is clear: the payment is triggered based on weather data, meaning no need for a loss adjuster, which greatly limits claims handling costs and accelerates the entire process. This type of parametric insurance is booming today, mainly because of climate change: various scenarios by the Intergovernmental Panel on Climate Change (IPCC) predict a 4-degree Celsius increase in the world's average temperature by 2100, which will lead to more and more extreme weather events. That being said, about one third of European countries' GDPs are weather-sensitive.

Possible evolution of the market

Fintech are more and more relying on data-driven business models. Most of the successful Fintech are today in China/Asia with the question of their internationalisation likely to arise sooner or later. Fintech innovation is part of the global competition aiming at continuously providing customers with tailored and improved products and services, **we encourage the ESAs to consider the developments in third-countries with a view of a balanced approach also taking into account the competitiveness of the EU economy.**

In conclusion, the FFA would like to stress that insurance is a highly regulated sector and Big Data tools are already controlled at both European and national levels. It is essential to not hinder innovation while respecting consumer's data privacy.

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