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EUROPEAN INSURANCE
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Robo-advice from insurance perspective

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FinTech HO2020 project Mid-Term Workshop, 15 November, Bucharest

- 1. Setting the scene**
- 2. EIOPA's work on robo-advice**
- 3. Looking to future**

Digitalisation impacts all the stages of the insurance value chain



Product design and development	Pricing and underwriting	Sales and distribution	Post-sale services and assistance	Claims management
<ul style="list-style-type: none">• Usage-based insurance products• Tailor-made product and services• New products (e.g. cyber insurance)• Predictive modelling of disease development patterns	<ul style="list-style-type: none">• Enhanced risk assessments• New rating factors• New claims drivers and predictive models• Price optimisation practices• Churn models	<ul style="list-style-type: none">• Automated advice• Disintermediation of sales processes• Sophisticated customer relationship management (CRM) systems• Increased frequency and customer interaction: “Next best action”	<ul style="list-style-type: none">• Smartphone applications• 24/7 service, accessible from any location• Chatbots• Safety warnings in case of flood, storm, hail, etc. based on geolocation data	<ul style="list-style-type: none">• Enhanced fraud analytics• Optical character recognition (OCR) to estimate repair costs from images or videos• Automated segmentation of claims by type and complexity• Automated invoice verification and payment process

- In order for consumers to make informed choices, they need **information at the right time and in the right form** for them -- taking into account how consumers use and process information
- A focus on **key features** (nature, risks, costs) throughout the product lifecycle is critical
- **Digitalisation is transforming both the timing and form of information exchanges**
 - o Information is easily accessible for consumers in a digital environment
 - o Makes information more appealing and easier to understand for consumers
 - o Digital environment offers advantage of having more timely, convenient and reliable information in a cost efficient fashion
 - o Dynamic information that allows 'on the fly' simulations to understand the relations between variables

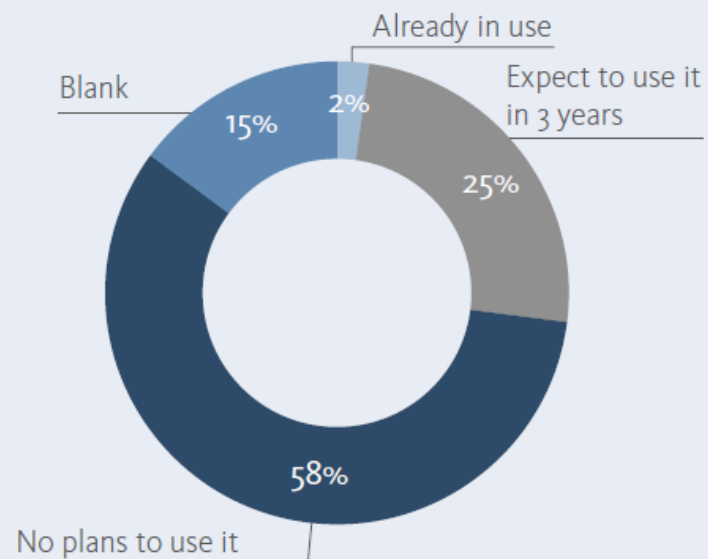
- **Demands and needs test**
 - Object: specify the demands and needs of the consumers
 - Purpose: Provide the consumer with objective information about products corresponding to the demands and needs allowing to make an informed decision
- **Assessment of suitability**
 - Sales with advice
 - Object: Consumer's knowledge and experience in the relevant field, and financial situation, including ability to bear losses, and investment objectives, including risk tolerance
 - Purpose: Recommend product that are suitable for the consumer
- **Assessment of appropriateness**
 - Consumer opts for sale without advice/waives the right to receive advice
 - Object: Only consumer's knowledge and experience in the relevant investment field
 - Purpose: Determine whether envisaged product is appropriate for the consumer
- **Sales without advice („Execution only“)**
 - Member State option under the IDD
 - Initiative comes from the consumer
 - Limited to non-complex products
- **Advising consumer throughout the product lifecycle**
 - On-going questions about the product; support on claims handling; support on submitting complains; managing policies; general information on office hours/locations etc.

- **Growing number of firms** offering automated tools - “robo-advisors”
- **Human interaction replaced** by algorithms that provide advice
- **‘Hybrid’ models** seems to be currently more common, (i.e. tools that combine automated advice with an element of human advice)
- Robo-advice has been in use for quite some time for simpler products, and now beginning to be used **for more complex financial products** such as disability insurance
- Overall scale of the market appears to be **still quite limited**

ROBO ADVISORS

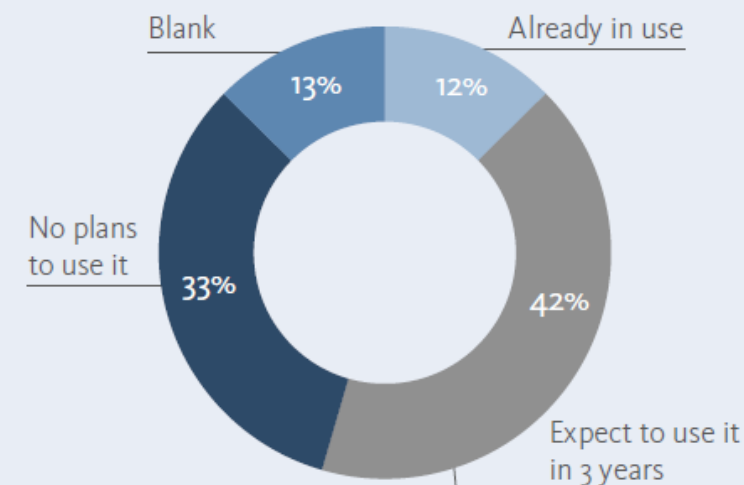


Figure 14 – Robo-advisors penetration in insurance



Source: EIOPA BDA thematic review

Figure 15 – Chatbots penetration in insurance



Source: EIOPA BDA thematic review

Potential risks and benefits



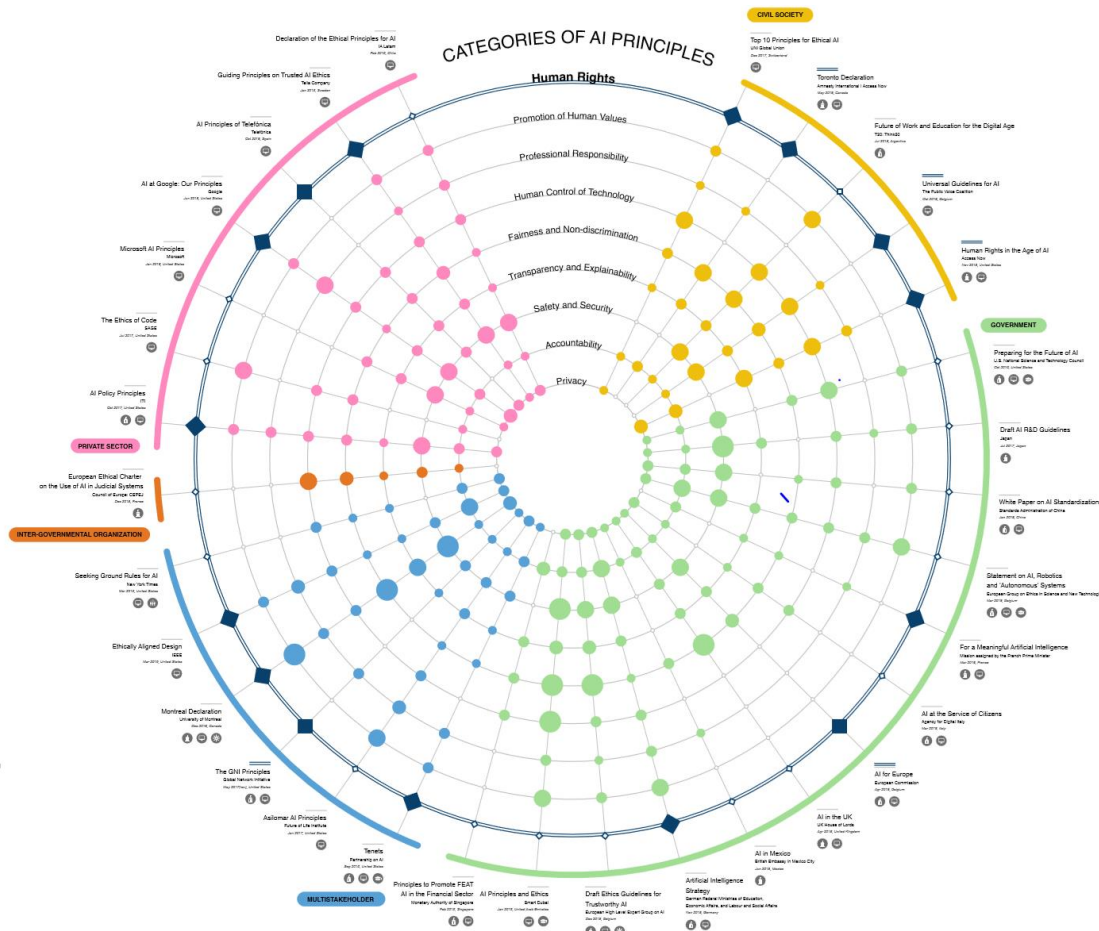
Risks	Benefits
<ul style="list-style-type: none">• Consumers having limited access to information and/or limited ability to process that information	<ul style="list-style-type: none">• Reduced costs for both consumers and financial institutions, reducing barriers to entry, creating new cross-border opportunities
<ul style="list-style-type: none">• Flaws in the functioning of the tool due to errors, hacking or manipulation of the algorithm	<ul style="list-style-type: none">• Easy access to more products and services to a wider range of consumers and wider client base for financial institutions
<ul style="list-style-type: none">• Legal disputes arising due to unclear allocation of liability	<ul style="list-style-type: none">• Improved quality of the service provided
<ul style="list-style-type: none">• Inability to talk to a human advisor to guide the consumer through the process	<ul style="list-style-type: none">• Higher consistency of advice
<ul style="list-style-type: none">• Accessible only to digitally and financially savvy users	<ul style="list-style-type: none">• Increasing the accessibility of advice



What do we want to achieve?

- **Protection of policyholders and beneficiaries and financial stability**
- **Promotion of sound financial innovation**
 - level playing field / technological-neutrality
 - understand shifting risks of new technologies and business models
 - strengthen supervision and cooperation between NCAs
- **Multistakeholder approach:**
EIOPA InsurTech Roundtables
- **Multidisciplinary approach:**
EIOPA InsurTech Task Force

Principles of digital responsibility in insurance



Categories of AI principles / themes

- Human Rights
- Professional responsibility
- Human control of technology
- Fairness and non-discrimination
- Transparency and explainability
- Safety and security
- Accountability
- Privacy

Source: Harvard Law School: <https://clinic.cyber.harvard.edu/2019/06/07/introducing-the-principled-artificial-intelligence-project/>

- A proper disclosure and financial advice, based on an assessment of customers' demands and needs is fundamental to the insurance business
- Although current regulation is technology-neutral, it was mainly designed in the area of offline world in mind
- **Are EU disclosure and distribution rules calibrated right for consumer protection and the facilitation of the Single Market in the digital world?**
- More empirical evidence might be needed for that (e.g. *ex post* consumer testing on consumer journeys in online environment on different insurance products or input gathering through coordinated mystery shopping/"surfing" activities)



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Thank you

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