

IAIS Consultation

Print view of your comments on "**Draft Issues Paper on the Use of Big Data Analytics in Insurance**" - Date: 14.10.2019, Time: 14:26

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Question	
	Q1 General comments on the draft Issues Paper
Answer	<p>GFIA appreciates the opportunity to comment on the issues paper, the effort of supervisors and the over-all balance provided in the paper. GFIA especially appreciates the openness to stakeholders exhibited by the IAIS' Market Conduct Working Group.</p> <p>Here are some general comments for consideration:</p> <ul style="list-style-type: none">• The paper should more explicitly recognise the benefits of insurers' use of big data analytics (BDA).• Many of the possible risks discussed in the paper, such as biases resulting in discrimination and reduction of access to insurance, lack evidence and may be mitigated by the use of BDA, in any event.• Algorithms are able to take in more information, which de-emphasises the reliance on any one data point and should improve accuracy.• The paper should explore the benefits of more personalised retail insurance products, potential risk mitigation and targeted marketing.• Some of the supervisory concerns mentioned in the paper, such as industry consolidation, non-compulsory insurance products and the issues surrounding genetic data, are not BDA specific concerns.• The supervisory concerns mentioned in the paper can be, and are being, addressed under current supervisory standards.• The paper should emphasise that the best way to address any residual supervisory concerns is through a dialogue between supervisors and the companies proposing the innovations.• More emphasis should be placed on the importance of supervisors holding start-ups to the same standards as traditional insurance companies.
	Q2 General comments on the Executive Summary
Answer	<p>It would be beneficial to frame the use of BDA as a natural extension of the practices and tools that have traditionally been used in insurance. Insurers are moving from actuaries using traditional data and simple techniques to actuaries using additional data and more complex techniques. The constant through the change is the presence of the actuary to ensure the outcomes are appropriate as governed currently by regulation and actuarial professional standards. This framing represents the reality that this is not rogue actors making unfounded decisions with no guidance, but rather a guided evolution of techniques in keeping with other insurance innovations of the past.</p>
	Q3 Comment on Paragraph 1
Answer	
	Q4 Comment on Paragraph 2

Answer	
	Q5 Comment on Paragraph 3
Answer	
	Q6 Comment on Paragraph 4
Answer	
	Q7 Comment on Paragraph 5
Answer	
	Q8 Comment on Paragraph 6
Answer	Affordability is an issue insurance markets face. However, risk-based granular pricing signals the need for greater resilience/risk-reduction responses where high premiums reflect the nature of a given risk. BDA, which is a tool that more accurately assesses risk than traditional underwriting and rating models, sends important financial signals to people and businesses that encourage them to change their behavior and invest in measures to improve their risk profile. Supervisors limiting how insurers apply BDA to keep insurance affordable for high-risk customers in the short-term could lead to long-term adverse customer outcomes, such as encouraging development in high-risk flood and earthquake areas.
	Q9 Comment on Paragraph 7
Answer	
	Q10 Comment on Acronyms
Answer	
	Q11 General comments on Section 1: Introduction
Answer	
	Q12 General comments on Section 1.1: Background and purpose
Answer	
	Q13 Comment on Paragraph 9
Answer	
	Q14 Comment on Paragraph 10
Answer	
	Q15 Comment on Paragraph 11
Answer	
	Q16 Comment on Paragraph 12
Answer	
	Q17 Comment on Paragraph 13

Answer	
	Q18 Comment on Paragraph 14
Answer	
	Q19 Comment on Paragraph 15
Answer	
	Q20 Comment on Paragraph 16
Answer	<p>The accessibility and affordability concerns associated with greater individualisation in underwriting and rating from BDA are similar to the concerns associated with telematics devices, such as usage-based insurance, and to the concerns expressed for decades as insurers' traditional rating algorithms became more sophisticated. Insurers are used to managing these concerns. Greater opportunities to segment the market also provide opportunities for new or incumbent insurers to specialise in certain market segments. GFIA also notes that most insurance lines offer many ways to tailor insurance coverage to make it more affordable, the most obvious being different limits above any statutory minimums and deductibles.</p>
	Q21 Comment on Paragraph 17
Answer	<p>For decades, insurers have been working to refine their underwriting and rating practices to offer consumers insurance at prices that reflect their unique risk profiles. BDA is just another innovation to help insurers achieve that objective. Other innovations before it are actuarial science, statistical modeling and telematics. While the previous innovations brought significant change to the market, consumers always benefited from more product choice and more pricing options. Very few people became uninsurable. Although there are indeed possible risks to the use of BDA, GFIA does not see any reason for the IAIS to assume at this time that the use of new techniques will cause detriment to consumers.</p>
	Q22 Comment on Paragraph 18
Answer	<p>Jurisdictions have usually defined "fairness", which may differ based on their own balancing of social and political norms. Accordingly, GFIA urges the IAIS not to adopt or reference any particular standard out of its total legal context. For example, the concept of "disparate impact" in the U.S. is advocated by some, but opposed by many and has not been legislated by the states. In addition, linking to a single U.S. regulator's action on a highly controversial matter, when it is only one of 50 plus regulators in the U.S., would give a false impression of the true state of the law and regulatory standards in the over-all U.S.</p>
	Q23 Comment on Paragraph 19
Answer	<p>The fact that privacy laws fall out of the remit of insurance supervisors does not mean that supervisors should not be aware of the impact of these laws on the use of technology and, more specifically, BDA tools in insurance. Supervisors should help other policymakers understand the unique and appropriate use of data by insurers and so help to draft constructive laws and apply them to support competition and beneficial innovation in insurance.</p>
	Q24 General comments on Section 1.2: Approach and structure
Answer	
	Q25 Comment on Paragraph 20
Answer	

Q26 Comment on Paragraph 21

Answer

Q27 General comments on Section 2: Sources, collection and processing of data in insurance

Answer

Q28 General comments on Section 2.1: Sources and collection of data

Answer

Q29 Comment on Paragraph 22

Answer

Supervision of various data elements differs among jurisdictions with regard to the data elements and for what purposes they are used. For example, it may be appropriate to use a data element for pricing but not for the decision to provide cover, such as age of the auto driver.

Q30 Comment on Paragraph 23

Answer

Q31 Comment on Paragraph 24

Answer

Not enough attention is provided to the importance and prevalence of upfront notices and permissions to access data already provided by insurers. Many countries have privacy laws that address access to data as well as dedicated regulators for enforcing those laws, including consent provisions. People are used to using phones with GPS technology and telematics devices so they understand the nature of the data being generated and potentially shared. GFIA does urge, however, that insurance regulators actively engage in the drafting and implementation of privacy laws to assure that appropriate and efficient access and use by insurers is permitted for legally permissible purposes.

Q32 Comment on Paragraph 25

Answer

Q33 Comment on Paragraph 26

Answer

Q34 Comment on Paragraph 27

Answer

Q35 Comment on Paragraph 28

Answer

Yes, data collected from a telematics device falls within an insurance context. While information posted on someone's social media account is not for an insurance context, people understand that by posting this information on certain social media sites, the information becomes available to other parties. However, GFIA is not aware of widespread use of social media information for pricing and underwriting. The European Insurance and Occupational Pensions Authority made a similar finding (page 27).

Q36 General comments on Section 2.2: Processing of data

Answer

Q37 Comment on Paragraph 29

Answer

Q38 Comment on Paragraph 30

Answer

Q39 Comment on Paragraph 31

Answer

Q40 Comment on Paragraph 32

Answer

Q41 Comment on Paragraph 33

Answer

Insurers have been improving their data and models so that their underwriting and rating practices, as accurately as possible, reflect a customer's risk profile. BDA is one of the latest innovations in modeling.

Q42 Comment on Paragraph 34

Answer

Explaining algorithms to supervisors and consumers is not an issue unique to BDA. Insurers have been managing it for decades. Disclosure to supervisors should likely be more detailed than to consumers. Preferably, supervisors should structure and encourage upfront dialogue with companies so as to make this disclosure as efficient and effective as needed. Disclosure to consumers will need to be more general to make the information more useful to them and to protect insurers' intellectual property and encourage investment in beneficial innovation. GFIA also notes that supervisors usually have a full tool kit of measures to require disclosures to them and to enforce the relevant standards.

Q43 Comment on Paragraph 35

Answer

Predicting future losses to determine insurance prices is challenging with the constant potential for error. This issue is not unique to BDA. It presents itself in traditional rating practices as well as telematics. Paragraphs 35-37 also seem to be entirely speculative. Real world examples would be useful to readers.

Q44 Comment on Paragraph 36

Answer

Q45 Comment on Paragraph 37

Answer

GFIA disagrees with the use of the UK example under paragraph 37, which suggests unlawful discrimination against certain customers. It is unlawful to price insurance based on ethnicity in the United Kingdom, and insurers will always act within the law. The example in question from a BBC report is based on flawed research, which produced misleading results caused by a variety of different factors, which are not taken into account in the article. For example, quote engines often put up prices automatically as an anti-fraud measure when people adjust details, as it is designed to identify where inaccurate details are entered or implausibly changed – in this example, changing the names, address or IP address in succession. After the article's publication, the insurer in question issued an explicit denial that it uses name as a factor in its pricing and, as this would be unlawful, it is telling that there has been no follow-up from the UK Equality and Human Rights Commission.

Q46 Comment on Paragraph 38

Answer

Q47 Comment on Paragraph 39

Answer

Insurers' governance under existing standards for use of data should generally be sufficient, in the absence of information to the contrary.

Q48 General comments on Section 3: The use of big data analytics across the insurance product lifecycle

Answer

Q49 Comment on Paragraph 40

Answer

Q50 Comment on Paragraph 41

Answer

Q51 Comment on Paragraph 42

Answer

Q52 General comments on Section 3.1: Product design, marketing, sales and distribution

Answer

Q53 General comments on Section 3.1.1: Personalised insurance cover

Answer

Q54 Comment on Paragraph 43

Answer

Q55 Comment on Paragraph 44

Answer

In paragraphs 44-46, language should be added to better describe the potential safety benefits of usage-based insurance, which provides immediate feedback to consumers about issues such as speed and rapid braking.

Q56 Comment on Paragraph 45

Answer

Q57 Comment on Paragraph 46

Answer

Q58 Comment on Paragraph 47

Answer

Q59 General comments on Section 3.1.2: Targeted marketing

Answer

Q60 Comment on Paragraph 48

Answer

Q61 Comment on Paragraph 49

Answer

Q62 Comment on Paragraph 50

Answer

It should be encouraged for insurers to become more effective partners with their customers in understanding their risk and mitigating it. BDA provides the opportunity to do so, including providing tailored advice, products and services to millions of personal insureds, for example to prevent flooding, which also has larger social benefits.

Q63 Comment on Paragraph 51

Answer

Paragraphs 51-53. Product differentiation is an opportunity for intermediaries and direct insurers to engage with their customer and provide more information on product offerings. These opportunities do not exist as much when products are standardised, which is why, in many jurisdictions, there is limited understanding of the coverage provided by insurance. Through intermediaries, product/price comparison websites or directly from an insurer, consumers can easily get the information that they need to find coverage options and make an informed purchase.

Q64 Comment on Paragraph 52

Answer

Q65 Comment on Paragraph 53

Answer

Q66 General comments on Section 3.1.3: Sales execution

Answer

Q67 Comment on Paragraph 54

Answer

Q68 Comment on Paragraph 55

Answer

Q69 General comments on Section 3.1.4: Distribution and advice

Answer

Q70 Comment on Paragraph 56

Answer

Q71 Comment on Paragraph 57

Answer

Q72 Comment on Paragraph 58

Answer	
	Q73 Comment on Paragraph 59
Answer	
	Q74 General comments on Section 3.2: Pricing and underwriting
Answer	
	Q75 General comments on Section 3.2.1: Increased granularity in risk selection and pricing
Answer	
	Q76 Comment on Paragraph 60
Answer	
	Q77 Comment on Paragraph 61
Answer	Again, lower risk consumers paying less for insurance and higher risk consumers paying more has been a product of insurers' ongoing improvements in underwriting and rating for decades. Insurance also sends an important financial signal to higher-risk customers to change their behavior. These developments are positive.
	Q78 Comment on Paragraph 62
Answer	Contrary to this paragraph, the real world experience is that more granular pricing has actually made insurance more available and more affordable for most consumers. However, there are always a very few that are uninsurable. In those cases, governments must decide how to treat them but that should not interfere with more granular risk-based pricing.
	Q79 Comment on Paragraph 63
Answer	
	Q80 General comments on Section 3.2.2: Price optimisation
Answer	
	Q81 Comment on Paragraph 64
Answer	Paragraphs 64-68. Price optimisation has effectively ended in the U.S. with the support of the industry. Supervisors have made clear that pricing must reflect risk, a requirement that both supervisors and insurers fully agree with. Notably, in November 2018, the European Union submitted a report to the OECD, Personalised Pricing in the Digital Era – Note by the European Union, which concluded that there is “no personalised pricing in the EU on any significant scale” (page 7).
	Q82 Comment on Paragraph 65
Answer	
	Q83 Comment on Paragraph 66
Answer	
	Q84 Comment on Paragraph 67

Answer	
	Q85 Comment on Paragraph 68
Answer	
	Q86 General comments on Section 3.2.3: Underwriting
Answer	
	Q87 Comment on Paragraph 69
Answer	
	Q88 Comment on Paragraph 70
Answer	
	Q89 Comment on Paragraph 71
Answer	The risk that consumers who do not want to share certain data or who do not have the means to share certain data could be uninsurable is speculative. Improved underwriting and rating sophistication has a history of enhancing the availability of affordable insurance.
	Q90 Comment on Paragraph 72
Answer	Coverage for low risk vulnerable populations should be a concern shared by supervisors and the industry. However, that issue should be distinguished from high-risk populations whether vulnerable or not. These may in fact be uninsurable for entirely legitimate reasons. Government then should decide how they are treated, but this should not undermine risk-based pricing, which is fundamental to the solvency and competitiveness of insurers.
	Q91 Comment on Paragraph 73
Answer	Although controversial in the insurance underwriting process, in some GFIA jurisdictions, genetic data has value for health and wellness initiatives. In such jurisdictions, genetic data can also help reduce the time and invasiveness of life insurance underwriting. It should be noted that some jurisdictions that restrict genetic data use for insurance purposes do so because of societal consensus. Insurers in those jurisdictions were part of those discussions and decisions.
	Q92 General comments on Section 3.3: Claims handling
Answer	
	Q93 General comments on Section 3.3.1: Risk mitigation and loss reduction
Answer	
	Q94 Comment on Paragraph 74
Answer	
	Q95 Comment on Paragraph 75
Answer	
	Q96 Comment on Paragraph 76

Answer	
	Q97 Comment on Paragraph 77
Answer	
	Q98 General comments on Section 3.3.2: Claims processing
Answer	
	Q99 Comment on Paragraph 78
Answer	
	Q100 Comment on Paragraph 79
Answer	
	Q101 Comment on Paragraph 80
Answer	
	Q102 Comment on Paragraph 81
Answer	<p>Paragraphs 81-82. It should be emphasised that companies should not over-rely on settlement models and should always have the capability to review individual circumstances. In addition, most jurisdictions have comprehensive prudential and market conduct regulations that place governance requirements on insurers to mitigate against the risk of under-reserving or improperly handling claims. Insurers also have enterprise risk management programs and actuarial approvals. They also tend not to rely on a single model for making underwriting and claims decisions.</p>
	Q103 Comment on Paragraph 82
Answer	
	Q104 Comment on Paragraph 83
Answer	<p>Insurers are contractually required to indemnify the customer for his/her actual loss. There are also laws and regulations in many jurisdictions that require fair treatment of claimants. Accordingly, GFIA knows of no evidence to support this suspicion.</p> <p>This paragraph implies that claims optimisation of this nature is practiced and is a real risk facing consumers. Yet the statement "It is currently unclear how widespread that practice is" indicates that this practice could be nothing more than the actions of a rogue insurer or a simple fear. The IAIS should reconsider including this paragraph in the issues paper because it can hurt the insurance industry's reputation and because there is no evidence to support claims optimisation of this nature being a market practice.</p>
	Q105 General comments on Section 3.3.3: Fraud detection
Answer	
	Q106 Comment on Paragraph 84
Answer	
	Q107 Comment on Paragraph 85
Answer	

Q108 Comment on Paragraph 86

Answer

Q109 Comment on Paragraph 87

Answer

Q110 Comment on Paragraph 88

Answer

Q111 General comments on Section 4: Supervisory considerations

Answer

Q112 Comment on Paragraph 89

Answer

As mentioned, most jurisdictions already have comprehensive data use and privacy laws. Similarly, most insurance supervisors have comprehensive regulations governing insurer underwriting and claims practices that would apply to BDA. To avoid duplicative or contradictory regulation, GFIA advises that prior to the IAIS releasing its supervisory guidance on BDA, it document the main laws and regulations across the world. This way, any subsequent IAIS guidance on BDA would complement the existing laws and regulations which GFIA views as robust.

The IAIS should also emphasise that upfront and ongoing dialogue between supervisors and companies is the best way to assure the benefits of innovation and provide supervisors with the confidence they need in the application of BDA. Finally, it should be noted that disclosure mandates on insurers should differ depending on whether the recipient is the supervisor or the recipient is the consumer.

Q113 Comment on Paragraph 90

Answer

Q114 Comment on Paragraph 91

Answer

Q115 General comments on Section 4.1: Suitability, affordability and availability of insurance cover

Answer

Q116 Comment on Paragraph 92

Answer

Q117 Comment on Paragraph 93

Answer

Consumers want products and prices tailored to their needs. By insurers meeting these needs, consumers will have more confidence in the market. The potential consequences to a relatively few very high-risk customers will not hurt overall consumer confidence.

Q118 Comment on Paragraph 94

Answer

History shows that granular customisation has led to the same or more product and pricing choices for consumers.

Q119 Comment on Paragraph 95

Answer

Q120 Comment on Paragraph 96

Answer

Q121 General comments on Section 4.2: Governance and oversight of algorithms

Answer

Q122 Comment on Paragraph 97

Answer

Paragraphs 97-100. GFIA takes the view that existing governance standards are sufficient to assure good governance of the use of BDA. Premature intervention could hamper innovation and impair the effectiveness of the insurance market and could quickly become unfit for purpose due to technological advances and market developments. Regulators and supervisors should ensure that existing rules are fully implemented and enforced. Supervisors should continue their efforts to monitor the impact of the use of big data on markets and consumers, and work together with stakeholders, including the insurance industry, to support innovation that benefits consumers.

To the extent there are new concerns, supervisors should engage in ongoing dialogue between supervisors and companies as the best approach, not new governance standards or more intrusive supervision.

Q123 Comment on Paragraph 98

Answer

Q124 Comment on Paragraph 99

Answer

Q125 Comment on Paragraph 100

Answer

Q126 General comments on Section 4.3: Third party risk management

Answer

Q127 Comment on Paragraph 101

Answer

Q128 Comment on Paragraph 102

Answer

Q129 Comment on Paragraph 103

Answer

Q130 General comments on Section 4.4: Issues around privacy, ownership and sources of data

Answer

Q131 Comment on Paragraph 104

Answer

Q132 Comment on Paragraph 105

Answer

Q133 Comment on Paragraph 106

Answer

If insurers do not own the data, regardless of who does, insurers should have access to the data with the driver's consent for underwriting, claims, fraud fighting and marketing, as all of these functions are necessary to insurance and legally permissible.

Q134 Comment on Paragraph 107

Answer