High-level principles on the use of suptech

Suptech, or the use of innovative technology by supervisory agencies to support supervision, is a practice that is picking up pace around the world. As within the insurance sector itself, using technology for insurance supervision has the potential to streamline processes, reduce costs and lead to better-quality services. At the same time, the use of technology can create new risks and unintended outcomes.

The Global Federation of Insurance Associations (GFIA) has therefore set out to collect its members' experiences of the use of suptech in their respective jurisdictions. In general, insurers believe that the use of suptech should be in line with general supervisory conditions, such as materiality and proportionality. Additionally, the following six principles would help to make the most out of the expected benefits, while minimising the risks of using suptech.

1. Set up a structured dialogue between the supervisor and the financial sector on the use of supervisory technology. Having a regular dialogue between the sector and supervisor can help reach a better understanding of the aims supervisors have with their use of technology and can provide supervisors with more insight into any practical difficulties that insurers experience around the use of suptech. By setting up a forum for discussions on suptech, insurers can have an active role in shaping the direction in which suptech is developing or can even take part in sandbox projects to test new-use cases. In the dialogue, supervisors should put effort into harmonising the suptech with insurers' regtech (the use of innovative technology by insurers to support compliance with law and regulation) to maintain compatibility between the two.

2. The use of suptech needs to have a clear and achievable objective. It should always serve the interests of the three following stakeholder categories, taking the utmost care not to harm their interests:

    - Policyholders
    - Supervisors
    - Insurers

    A clear objective will help to increase the support of insurers and prevent superfluous supervisory data collection.

3. The use of suptech should reduce rather than increase the administrative burdens on insurers. Furthermore, supervisors should also take care to prevent rising supervisory costs. In order to achieve this, aspects such as interoperability, avoiding overlapping data requests, and planning requests in advance should be sufficiently taken into account. This is to reduce the operational burden for the industry and reduce, or at least maintain, its current cost. The use of new technologies

to streamline requests and reporting by supervisors is very much encouraged by the insurance industry. To reduce costs and burdens, supervisors should always try to make more use of existing supervisory data and test data before adding new supervisory instruments.

4. While data protection, data quality and cyber security concerns must be paramount in the use of suptech, to the extent possible, supervisors should share insights that result from suptech initiatives with insurers and society at large. By sharing these insights, the supervisor can enhance the support for its supervision from the industry.

5. The use of suptech should be treated with caution by supervisors because having real-time insights could lead to role confusion. A supervisor should supervise, not lead the company or take the role of the company's board or management. This caution should be applied in all uses of suptech, but especially when applying real-time supervision.

6. The context of data should be considered in a supervisor's decisions on intervention. The industry wants to avoid a situation in which the increased collection and automated analysis of data leads to more frequent supervisory intervention. Therefore, the decision of supervisors to intervene should not be taken based on raw insurance data alone but should also take into account the context within which this data was generated.

GFIA believes that following these six principles will create a first step towards reaping the potential benefits and minimising the risks of using technology in insurance supervision. The sector stands ready to further discuss and work together with the supervisory community in order to streamline processes and make sure the use of suptech is beneficial for all stakeholders.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 43 member associations and 1 observer associations the interests of insurers and reinsurers in 66 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than $4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.