REALISING SOCIETAL BENEFITS OF BIG DATA AND INSURANCE INVOLVES COMPETITION AND PRIVACY TRADE-OFFS

Zurich, 14 March 2018 – The use of big data analytics in insurance offers significant societal benefits, as improved understanding of risks can inform risk reduction and enhance insurability. However, individuals, firms and regulators face complex trade-offs when balancing the benefits and risks of using personal data from digital sources to calculate insurance premiums.

The research report Big Data and Insurance: Implications for Innovation, Competition and Privacy of The Geneva Association highlights that the societal and regulatory debate about the appropriate use of personal data and the implications of the ongoing digital transformation in the insurance industry has only just begun. In this context, policy choices can have far-reaching consequences for the future face of the industry, its socio-economic relevance and the value it creates for its customers.

Anna Maria D’Hulster, Secretary General of The Geneva Association, says: “In many instances, better data makes it possible to better align premiums and risks and to reduce the overall cost of insurance. This has great economic and societal benefits. New approaches to encourage prudent behaviour can be envisaged through big data, thus new technologies allow the role of insurance to evolve from pure risk protection towards risk prediction and prevention. However, the use of big data in insurance also raises trade-offs with respect to competition, individualisation of products and customer privacy.”

Concerns about privacy and data protection refer to the importance of balancing the benefits of tailored products and individual risk assessment with the right to privacy whilst ensuring fairness and avoiding discriminatory effects. The use of big data and automated decision-making to influence risk behaviour may be perceived as interfering with the right of self-determination of individuals.

In regard to individualisation of insurance products, whilst the use of data to inform ever more sophisticated risk-pricing can lead to personalised pricing for policyholders, this could potentially mean on one hand that individuals with high risks can no longer afford insurance. On the other hand, better understanding of risk through enhanced use of data also facilitates the development of new types of coverage and enhances the insurability of existing and emerging risks.

With respect to competition, as digital technologies and the value of data shape the insurance landscape, insurers face competition throughout their value chain not only from InsurTech firms but also from large technology companies. The situation could become problematic if technology firms with platform business models leverage their unique access to customers and their data to drive competitors out of the market, or engage in regulatory arbitrage to exploit the regulatory differences of an unlevelled playing field.
PRESS RELEASE

Benno Keller, Special Advisor on Digital and Innovation and author of the report, comments: “The challenges with big data usage demonstrate the importance of building trust to enhance consumers’ willingness to share their personal data with their insurers. Regulation, in particular regarding access to and use of personal data, should strike a difficult balance between ensuring privacy and promoting competition, innovation and welfare for individuals and society.”

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Read the full report: Big Data and Insurance: Implications for Innovation, Competition and Privacy
Read the 4-page research brief

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About The Geneva Association
The Geneva Association is the leading international insurance think tank for strategically important insurance and risk management issues. It is a unique platform for dialogue between leaders of the insurance industry and key decision-makers at the international and national levels to evidence the important social and economic role of the insurance industry.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator.

The Geneva Association membership comprises a statutory maximum of 90 chief executive officers (CEOs) from the world’s top insurance and reinsurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policy-makers, regulators and multilateral organisations.

Established in 1973, The Geneva Association, officially the International Association for the Study of Insurance Economics, is based in Zurich, Switzerland and is a non-profit organisation funded by its membership.

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