THE GENEVA ASSOCIATION

INSURANCE FOR A BETTER WORLD

Regulatory Considerations for Digital Insurance Business Models

Issue brief

March 2021

Regulatory Considerations for Digital Insurance Business Models

Dennis Noordhoek, The Geneva Association

The Geneva Association

The Geneva Association was created in 1973 and is the only global association of insurance companies; our members are insurance and reinsurance Chief Executive Officers (CEOs). Based on rigorous research conducted in collaboration with our members, academic institutions and multilateral organisations, our mission is to identify and investigate key trends that are likely to shape or impact the insurance industry in the future, highlighting what is at stake for the industry; develop recommendations for the industry and for policymakers; provide a platform to our members, policymakers, academics, multilateral and non-governmental organisations to discuss these trends and recommendations; reach out to global opinion leaders and influential organisations to highlight the positive contributions of insurance to better understanding risks and to building resilient and prosperous economies and societies, and thus a more sustainable world.

Acknowledgements

This issue brief is based on a survey of insurers and reinsurers in July and September 2020. The Geneva Association is very grateful to all insurers that participated in the survey, members of the Public Policy & Regulation Working Group, as well as representatives of the regulatory and wider insurance communities that contributed to the case studies.

Our special thanks go to Maya Zamor (Prudential Financial), William Vidonja (Insurance Europe), Shantell Isaac (MetLife), Xinyu Gong (PICC), Ben Howarth (Association of British Insurers) and Kenichiro Namiki (The General Insurance Association of Japan).

Photo credits:
Cover page— Peshkova / Shutterstock.com

Geneva Association publications:
Pamela Corn, Director Communications
Hannah Dean, Editor and Content Manager
Petr Neugebauer, Digital Media Manager

Suggested citation:
The Geneva Association. 2021. *Regulatory Considerations for Digital Insurance Business Models.* Author: Dennis Noordhoek. March.

Contents

1. Executive summary

The COVID-19 pandemic and subsequent lockdowns forced many insurers to accelerate the transition to digital business models. In many countries, this transition has been remarkably successful, however, the crisis also highlighted the critical role played by national regulatory frameworks in both hindering and facilitating the shift to digitalisation in the insurance industry.

COVID-19 lockdowns highlighted the critical role of national regulatory frameworks in both hindering and facilitating the shift to digitalisation in the insurance industry.

Digitalisation is not a goal in itself, but provides insurers and their customers with benefits that are particularly useful in situations where in-person interactions cannot take place, played out in its fullest form during the COVID-19-induced lockdowns. Digitalisation drives an increase in speed and efficiency, irrespective of where the customer is located, and promises improved customer service and satisfaction.

These benefits, however, can only be reaped if certain conditions are met. Regulatory frameworks and policy play important roles in creating an environment that is conducive to digital insurance business models, rather than (unintentionally) hindering digitalisation. Against this backdrop, this paper explores regulatory barriers to the digitalisation of insurance business models.

In order to better understand the role and impact of regulation in digitalisation, The Geneva Association conducted a survey of insurers, the results of which form the basis of this paper.

Key findings

1. **Insurance regulatory frameworks** are perceived to be much less conducive to digitalisation than macro-level factors, such as government policies, digital infrastructure and local culture.

2. **The three most commonly cited regulatory barriers** are paper document delivery provisions, insurance distribution regulation, and a lack of telehealth provisions for medical exam procedures.

3. **Regulatory barriers to digitalisation** resulted in additional costs for 60% of insurers during COVID-19 lockdowns, with 50% of insurers reporting lost sales and/or operational impacts.

4. **Engagement and cooperation** between regulators and the insurance sector, and a technology-agnostic regulatory framework, are the two most common factors for conducive regimes.

Countries where insurers reported few barriers have in common strong cooperation between regulators and the insurance sector and a technology-agnostic supervisory framework.

The findings of the survey, and the additional case studies presented in this paper, support continued efforts to develop a regulatory and policy environment that is more conducive to the digitalisation of insurance. Regulators should adopt a technology-agnostic framework ready to accommodate future technological developments, while regulatory relief provided during lockdowns to allow for electronic signatures would need to be made permanent, and potentially extended across product categories. More work is needed in the area of electronic identities, which requires efforts from both insurance regulators and the wider policymaking community.

We invite regulators and policymakers to collaborate with the industry to identify hurdles to digitalisation and find ways to remove obstacles while still meeting regulatory objectives. We also encourage regulators to deepen exchanges with their peers, particularly in countries that have a thriving digital insurance ecosystem, such as Singapore and China.

2. Digital business models and their rationale

As the COVID-19 pandemic unfolded, insurers had to change the way they work almost overnight. Many insurers continued to service customers by moving to a digital modus operandi, although the ease and speed with which this happened varied widely from country to country. Digital transformation is high on insurers' strategic agenda, yet the sector as a whole has been slower to change compared to other segments of the financial sector, not least due to the specific regulatory and policy environment.[1]

According to a survey conducted by Willis Towers Watson, many insurance executives cite regulatory requirements among the most pressing barriers to digitalisation.[2] Many of these barriers became more obvious during the pandemic as businesses were forced into a digital transition in response to COVID-19 lockdowns. Building on our survey results, this paper considers the regulatory barriers to the digitalisation of insurance, but also how effective cooperation between regulators/ supervisors and the industry has enabled digital transition in response to COVID-19.

2.1 The insurance value chain

The COVID-19 crisis has forced many insurers across the globe to accelerate their digitalisation efforts.[3] Digitalisation, where technically feasible, affects all elements of the insurance value chain (see Figure 1).[4] However, as COVID-19 lockdowns mostly affected the way insurers work and interact with their customers, the focus of this paper is on distribution and sales, underwriting, contract signing and policy issuance, as well as post-sales activity such as policy administration and claims management.

1 Merger Market 2017.
2 Willis Towers Watson 2017.
3 Hay 2020.
4 Eling and Lehmann 2018.

Figure 1: The insurance value chain.

Source: Adapted from Swiss Re & Eling and Lehmann[5]

2.2 Digital transformation and digitalisation defined

Digitalisation is now widely regarded as imperative to achieving quantum leaps in efficiency and improved customer experience. Before diving into the topic, it is important to define what we mean by digitalisation and digital transformation. Eling and Lehmann have carried out research on the topic of digitalisation in insurance and defined it as 'the integration of the analogue and digital worlds with new technologies that enhance customer interaction, data availability and business processes'.[6] More broadly, digital transformation can be viewed as the combination of changes in strategy, business model, organisation, processes and corporate culture through the deployment of digital technologies with the aim of improving competitiveness.[7]

2.3 Benefits of digital transformation

The digitalisation of insurance business models clearly offers significant benefits for both customers and insurers, including an increase in speed and efficiency, location-independent interaction (hence the ability to reach customers who are underserved in the analogue world) and improved customer service and satisfaction, as well as automated claims payments and additional means of fraud detection.[8] It is worth noting that in certain cultures, customers prefer in-person advice, particularly for more complex products. Specific impacts of digitalisation on elements of the insurance value chain are elaborated in Table 1.

> The digitalisation of insurance business models offers significant benefits for both customers and insurers, including an increase in speed and efficiency, location-independent interaction and improved customer service and satisfaction.

5 Swiss Re 2014; Eling and Lehmann 2018.
6 Eling and Lehmann 2017.
7 Back et al. 2016.
8 Ibid.

Table 1: Impacts of digitalisation on elements of the insurance value chain

Element of the value chain	Processes involved	Impact on the value chain
Marketing	• Research on markets and consumers to support product development • Analysing target groups • Development of product pricing • Advertising and communication strategies	• More data available for better customer segmentation (big data) • Improved cross-selling capabilities
Product development	• Product pricing (actuarial)	• Better and more granular risk-appropriate pricing • Prevention and protection services
Sales	• Customer acquisition • Product sales	• Automated sales via chatbots/AI • Location-independent sales (video) • Additional and enriched information channels • Issuance of electronic policies
Underwriting	• Handling of application • Risk assessment • Assessing details of insurance policy/ contract	• Better and more efficient risk assessments through AI/image processing • More data for risk assessment (with the potential for elimination of information asymmetry) • Deployment of telematics that generate data on customer risk • Automated underwriting • Digital contracts
Servicing	• Responding to customer requests	• Risk mitigation and prevention services • Automated responses to customer inquiries • Location-independent insurer/customer interaction via video call or live chat for service inquiries
Claims management	• Claims settlement • Fraud investigation	• Automated claims assessment and payment (AI) • Improved fraud prevention capabilities (big data)

Source: Adapted from Eling and Lehmann[9]

9 Eling and Lehmann 2018.

For the purposes of this paper, it is important to be aware that the benefits of digitalisation can only be realised if certain conditions are met. Insurers need to have the IT infrastructure[10] and operate in an environment that is conducive to digital business models (i.e. no policies or frameworks that hinder digitalisation at the macro level; ability to rely on affordable and fast broadband internet connections). Finally, the insurance regulatory framework needs to allow insurance processes to be conducted electronically.

2.4 Regulation and digital insurance business models

In order to digitalise insurance business models, it is important that the process shown in Figure 1 can be completed electronically, without the need to revert to paper documents or wet-ink signatures at any point. As our survey results show, many jurisdictions have requirements in place that prevent one or multiple stages of the process being conducted electronically, including the need for wet signatures, paper information provision and the issuance of paper policies. Examples of obstacles to digitalisation include the European Union Insurance Distribution Directive (IDD), which includes a default paper requirement.[11] In a similar vein, the European Packaged Retail and Insurance-based Investment Products (PRIIPS) regulation includes a provision on paper document issuance.

With technological developments and changing customer expectations happening at a fast pace, it is challenging for regulators to keep up.[12] As the objective of insurance regulation can be described as ensuring financial stability on the one hand,[13] and protecting the interests of policyholders on the other,[14] regulators have to balance innovation with meeting their supervisory objectives. Obstacles to digitalisation do not only arise from insurance regulatory provisions. Data protection and privacy regulation, for example, can limit the use of data[15] and data localisation provisions can pose restrictions on international data flows.

> Obstacles to digitalisation do not only arise from insurance regulatory provisions. Data protection and privacy can limit the use of data, and data localisation provisions can pose restrictions on international data flows.

10 In 2019, global annual expenditure on digital technology by the insurance sector is estimated at USD 185 billion, compared to over USD 1 trillion spent on technology by the 161 largest retail and commercial banks. https://www.accenture.com/_acnmedia/pdf-102/accenture-banking-does-digital-leadership-matter.pdf

11 Insurance Europe (year unknown).

12 OECD 2017.

13 Skipper and Kwon 2007.

14 OECD 2018.

15 Hay 2020.

3. Survey results

In order to better understand how regulatory and policy frameworks are affecting insurers' ability to shift to a full digital business model, The Geneva Association carried out a survey among insurers in 16 countries during July and September 2020. Twenty-seven responses were received, covering the following jurisdictions: Argentina, Canada, China, Germany, Hong Kong SAR, India, Ireland, Italy, Japan, Malaysia, Myanmar, Singapore, Spain, Thailand, the U.K. and the U.S. Participating insurers include: composite insurers (31%); P&C insurers (23%); life & health insurers (31%); and reinsurers (15%). Where possible, country-specific references are shown in an aggregate way.

3.1 Conduciveness to digital insurance business models

Insurers participating in the survey were asked to rank the factors most conducive to digital insurance business models, giving insight into the facilitating role of insurance regulatory factors versus other factors.[16]

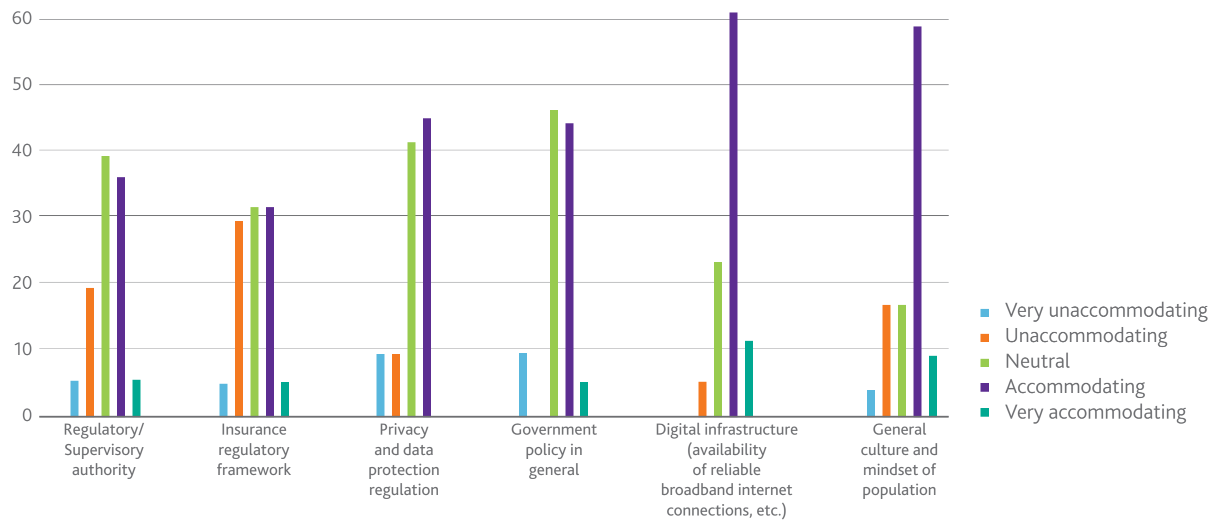
Overall, government policies, digital infrastructure, privacy and data protection, and general culture and mindset of the population were not perceived as hindrances to digital business models. However, one third of the respondents said the insurance regulatory framework was unaccommodating and created barriers to digitalisation while one fifth said the regulatory/supervisory authority was unaccommodating to digital insurance models.

> A third of respondents said the insurance regulatory framework was unaccommodating and created barriers to digitalisation and one fifth said the regulatory/supervisory authority was unaccommodating to digital insurance models.

Concerns included a lack of flexibility in the application of existing regulations on affirmative consent (for electronic delivery) and insurance document delivery, the compulsory use of paper and conservatism of the regulatory authority to only permit face-to-face sales practices for certain products (such as unit-linked). In some Latin-American countries, insurers that self-rated as 'digitally advanced' perceived the regulatory framework as less of a barrier than other insurers in the same jurisdiction. Figure 2 presents an overview of how different elements were perceived.

16 It is important to note that answers given to these questions are shaped by country-specific cultural and institutional factors.

Figure 2: Conduciveness of regulatory and societal elements to digital insurance business models



Source: The Geneva Association

The regulatory authority and/or the insurance regulatory framework in some jurisdictions were considered to be more conducive to digitalisation, in particular Brazil, China, Malaysia, Singapore, Canada, Hong Kong SAR, India, Spain and the U.S.

3.2 Specific regulatory barriers to digitalisation

Respondents were asked which specific regulatory and policy provisions served as a barrier to digitalising their businesses, and whether temporary regulatory relief was provided during the first wave of the pandemic.

Paper document delivery provisions were the most frequently reported barrier, with 46% of participating insurers indicating this as an issue – it was seen as a hurdle in Argentina, Canada, China, Germany, India, Japan and the U.S. Regulatory relief for this barrier was reported in two specific cases, Brazil and Japan.

The next ranked barrier was insurance distribution regulation. This was considered a barrier by 44% of respondents, including those in Argentina, Canada, Germany, Hong Kong SAR, Thailand, the U.S. and the U.K. Of the participating insurers, 24% indicated that regulatory relief was provided (including in Canada, Hong Kong SAR, India, Singapore, South Africa and the U.S.) and that relief was most widely granted in this area compared to others.

> Paper document delivery, insurance distribution regulation and medical exam requirements were the most commonly reported barriers to digitalisation.

Medical exam requirements, or the absence of telehealth provisions, either prevented or negatively affected efforts to digitalise for 46% of surveyed insurers. This barrier was reported in Argentina, Canada, China, Germany, India, Japan, the U.K., the U.S. and Singapore. Authorities in Brazil, Canada, Japan, Singapore and some states in the U.S. provided regulatory relief.

Provisions around wet-signature requirements, or the inability to use electronic signatures, was reported as a barrier by nearly 40% of respondents, including insurers in Argentina, Canada, India, Japan, Spain and the U.S. Respondents from Brazil, Canada, Japan and the U.S. indicated that the relevant authorities in their jurisdictions provided regulatory relief from such requirements.

A third of the respondents indicated that they faced hurdles to entering into insurance contracts digitally, including in Germany, Hong Kong SAR, India, Japan, Spain, Thailand and the U.S. In three jurisdictions (Brazil, Hong Kong SAR and some U.S. states) regulatory relief was provided. Figure 3 summarises the hurdles faced and

Figure 3: The extent to which regulatory provisions posed a barrier to digitalisation (% of respondents)

Source: The Geneva Association

the extent to which relief was provided. Relief included measures such as easing wet-signature requirements, allowing electronic know your customer (eKYC) enrollment and digital execution of contracts and claims.

3.3 Commercial and operational implications

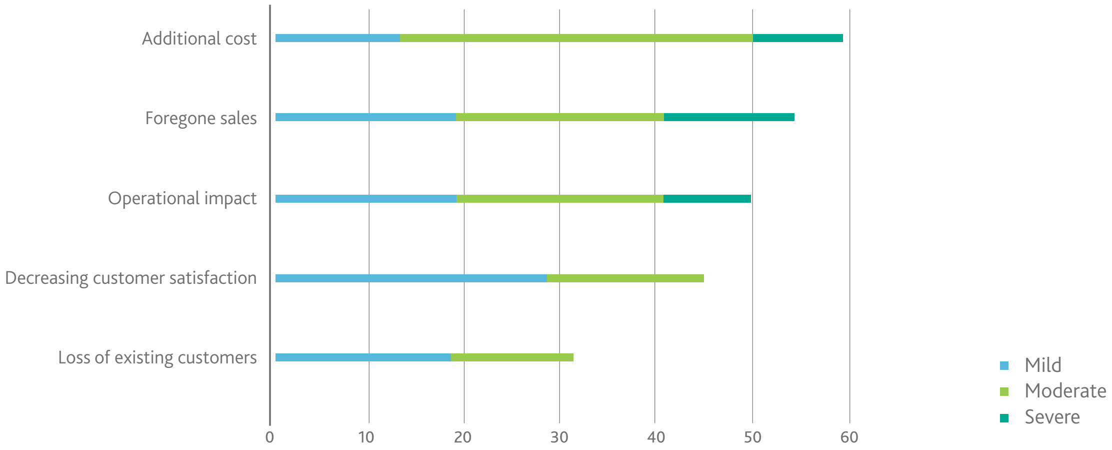
Respondents were asked to indicate the commercial and operational impact on their business from their inability to conduct digital business in the midst of the pandemic (Figure 4). Commercial impact relates to loss of revenue and customers, while operational impact refers to the inability to continue operating certain business functions, such as corporate service centres. Nearly 60% of participating insurers were confronted with additional costs,[17] while only a small proportion (14%) did not incur extra costs. Additional costs could include the expense of enabling digital transition (such as IT infrastructure) but also, and more relevant to this study, costs related to regulatory and reporting requirements.

Over half of the respondents experienced foregone sales and 50% experienced an operational impact (23% moderate and almost 10% severe). Almost a third (32%) reported a loss of existing customers, albeit mostly to a very mild extent. However, at the time of the questionnaire, the full extent of commercial and operational impacts had yet to be seen as many will only fully materialise over a longer time period.

Nearly 60% of participating insurers were confronted with additional costs, over half of the respondents experienced foregone sales and 50% experienced an operational impact.

17 Additional costs related to policy and regulatory barriers to conduct digital business.

Figure 4: Commercial and operational impacts experienced by insurers



Source: The Geneva Association

4. Case studies

This section examines four countries in more detail. China and Singapore were selected as insurers indicated few, if any, barriers to digitalisation while the U.K. and the U.S. are important insurance markets and merit a closer look.

4.1 China

Even though participating Chinese insurers reported a few policy and regulatory barriers to digitalisation, commercial and operational implications were virtually non-existent. The most significant barrier cited by Chinese insurers was data protection regulation. Other, less significant barriers include medical exam requirements, KYC requirements and prescriptive sales and marketing requirements. Barriers to digitalisation mainly affected business lines that involve in-person meetings or require medical examinations. For off-the-shelf products, however, no regulatory or policy barriers were reported. In fact, the Chinese regulatory community is regarded as an important driving force for digitalisation, as demonstrated by the February 2020 China Banking and Insurance Commission (CBIRC) COVID-19 notice, instructing insurers to actively promote business through digital channels.

According to the survey, implications were limited to (a slight) increase in cost and minor operational impact. China ranked first on conduciveness to digital frameworks as all components (regulatory and other government-policy-related factors) were either ranked as 'accommodating' or 'very accommodating'. The three above-mentioned categories combined position China as a digital challenger among the countries surveyed. Against this backdrop, we took a closer look at China's regulatory and institutional environment.

China's digitalisation strategy

Large-scale digitalisation of the insurance business in China started long before COVID-19 and is closely linked to the central government's digitalisation strategy, which reduced the need for abrupt adaptation measures resulting from the pandemic. In the 2017 five-year plan for the development of China's insurance industry, the CBIRC pointed out that insurance companies should improve their innovative capabilities, service provision and increase their use of the internet and big data to digitally transform the industry. Following the decision in 2018 to elevate the development of a digital economy to a national strategy, China's digital economy started to grow rapidly, including insurance. More recently, in May 2020, the CBIRC issued a guideline aimed at promoting the digitalisation of property insurance. The guidance stipulates that by 2022, 80% of non-life insurance sales (including automobile, agricultural, accident, short-term health and home insurance) should be conducted online and encourages firms to spur digitalisation across the value chain. Similar initiatives are on the way for other types of insurance, including life.

Large-scale digitalisation of insurance in China started long before COVID-19, reducing the need for abrupt adaptation measures resulting from the pandemic.

In August 2020, the CBIRC launched a three-year action plan aimed at fostering high-quality development of the insurance industry between 2020 and 2022. A major pillar of this action plan is the increased use of digital technology, big data, cloud computing, blockchain and artificial intelligence. As China is leading the development of fifth generation mobile networks (5G), equipment and rollout, the use of the Internet of Things (IoT) is expected to increase rapidly in the next few years, which will contribute to further digitalisation and automation of processes and customer interaction.

4.2 Singapore

Insurers in Singapore reported a decline in sales during the first wave of the COVID-19 pandemic. Although the economic situation is likely an important cause, the survey results indicate that customer preferences for purchasing insurance through face-to-face channels is also a contributing factor. For life insurance, for example, new business premiums declined by 13% in the first half of 2020 compared to the same period in 2019.[18] The survey findings, however, suggest there are very few regulatory and policy barriers to digitalisation for insurers. This corresponds well with the insignificant reported impact on insurers. More generally, Singapore's policy, regulatory framework and culture are perceived to be very conducive to digital business models. Singapore therefore ranks highly among the countries included in this study, meriting a closer look at its success story.

Digitalisation strategy of the Monetary Authority of Singapore

Singapore's strategies to facilitate digitalisation and innovation are notable. This innovative stance in the area of digitalisation is underlined by the survey results. The Monetary Authority of Singapore (MAS) nurtures innovation through several schemes to support the digitalisation efforts of financial institutions, including the Financial Sector Technology and Innovation (FSTI) scheme and Digital Acceleration Grants (DAG). These aim to support firms when adopting digital solutions, in order to enhance their productivity, strengthen operational resilience and improve risk management. Another important element is that the rules and requirements imposed by MAS are technology agnostic, which means that during lockdowns, insurers could readily switch their operations to digital channels using their chosen technologies, as long as appropriate controls were in place to safeguard business resilience and policyholder interests.

The Monetary Authority of Singapore takes a technology-agnostic regulatory approach. During lockdowns, insurers could readily switch their operations to digital channels as long as appropriate controls were in place.

Interaction with the industry

Part of Singapore's success results from the fact that potential issues were quickly identified, facilitated by the culture of dialogue and ongoing interactions between the regulator and insurers. MAS works closely with the industry and monitors areas that would benefit from further digitalisation, both in terms of customer experience and insurers' operational efficiency. Not only did the regulator engage with the industry to understand its digitalisation needs, MAS also increased its surveillance of insurers' business continuity measures, outsourcing arrangements and capital adequacy, while pre-emptively raising attention to heightened cyber risk though supervisory circulars. Beyond digitalisation, COVID-19-related insurance relief measures for policyholders were designed in close collaboration with the industry.

MAS's response to regulatory barriers experienced by insurers

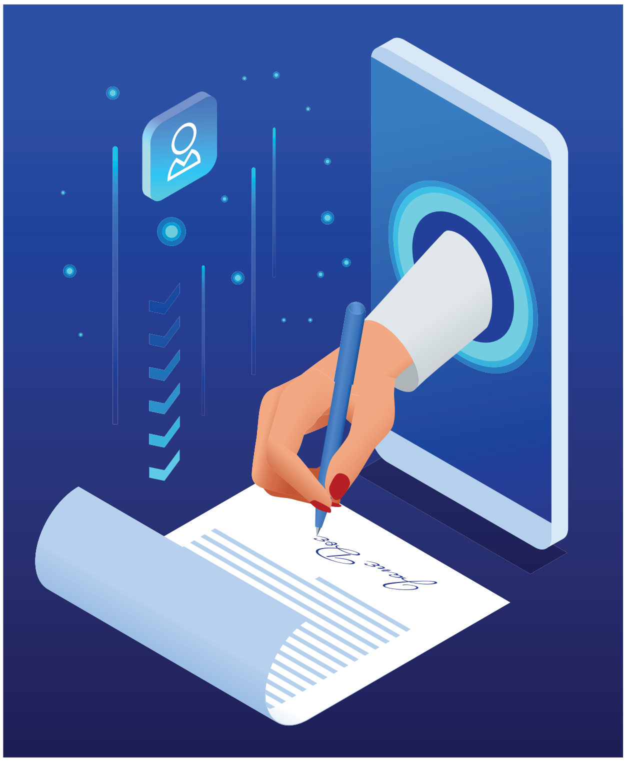
Despite an overall smooth digital transition in Singapore, some barriers were reported, including insurance distribution regulation, medical exam requirements and data protection and privacy regulation. With regard to distribution regulation, relief was provided for several regulatory provisions, including a grace period for insurance agents who had yet to fulfill the (health insurance and general insurance) exam requirements. This provision enabled agents to conduct regulated activities during the grace period. Furthermore, prevailing regulations had prohibited sales of certain types of insurance products (mainly in

18 Life Insurance Association Singapore 2020.

the areas of accident and health) over the phone; this prohibition was temporarily lifted.

The survey results indicate that insurers' medical exam requirements for underwriting were a barrier during lockdowns. Upon verification with MAS, it became apparent that the regulatory framework provides insurers with flexibility regarding health screenings for underwriting purposes, without the need for prior regulatory approval. As medical providers had to defer non-essential health services due to movement restrictions, MAS encouraged insurers to find alternatives to ensure that insurance coverage and services remained available while still managing underwriting risks. Insurers adopted various measures in lieu of formal medical examinations at their discretion. Examples include the use of self-reported medical information and issuance of policies with exclusions or loadings until receipt of requisite medical evidence at a later date.

The final cited barrier was data protection and privacy regulation. In Singapore, the Personal Data Protection Commission (PDPC) oversees and administers the Personal Data Protection Act (PDPA). Under the PDPA, organisations are mandated to make sure that data under their control is protected against unauthorised access and use. For insurers, this means they need to ensure sufficient controls are in place, for example by restricting access to sensitive data and implementing certain system access restrictions for staff working remotely. The PDPC extended compliance deadlines during the pandemic in order to ensure a smooth transition.



4.3 United States

In the U.S., insurance regulations vary by state insurance authority. Generally, the movement restrictions caused by the COVID-19 pandemic did not cause significant disruption to insurance business activities. Since the onset of the pandemic, state and federal governments identified insurance as an essential service, allowing insurers to continue relevant 'in-person' operations. Insurers were also able to successfully transition most of their operations and customer interactions quickly to remote working. Further, most state insurance authorities were accommodating to the needs of insurers and granted temporary relief to insurers, e.g. by encouraging remote training and examinations for product licensing. Other accommodations included allowing temporary product licensing, encouraging the use of e-signatures and e-delivery to the extent permitted under law, allowing delays in regulatory filings and providing waivers for remote online notarisations.

Nonetheless, more work is needed to allow insurers and consumers to fully benefit from the digitalisation of insurance businesses. Insurance authorities and the industry are engaging to make some pandemic-related temporary relief measures permanent, and amend antiquated policies and regulations as necessary to reflect the current needs and expectations of consumers. We now consider the wider policy framework in the U.S. at the federal and state levels.

Paper document provisions

In the U.S., both federal and state laws govern the use of digital communications. Generally, these laws allow online communications and document transmission, so long as the customer affirmatively consents to receive the communications digitally and can reasonably demonstrate they can receive those communications online. However, in practice, these laws have created a cumbersome process. Many insurers in the U.S. conduct their business through secure portals where customers must often go online, sign up through a specific portal, verify their identity, and then proactively opt-in to the electronic delivery of documents.

Because both federal and state laws govern the electronic communications process, all would need to be revised before insurers could make any significant modifications to their current electronic communications processes. This is both a time consuming and complex process, requiring the support of a multitude of stakeholders.

In addition to electronic communications laws, there are additional laws and regulations that will need to be updated and harmonised in order to permit full and consistent electronic communications and transactions by insurers across the U.S. For example, some states require documentation to be delivered by 'first-class mail' and do not reference alternative communication channels. Further, several states still require wet signatures for certain insurance products and contracts and several federal agencies also require wet signatures in their regulations. It is worth noting that a number of states have made meaningful progress. To date, over 30 states have enacted laws or issued Department of Insurance Bulletins allowing for the electronic delivery of policy forms and notices. In addition, almost all states have adopted laws allowing for proof of insurance by use of an electronic device.

Medical examinations/telehealth

Medical examinations can form part of the application process for life and health insurance policies, as well as health insurance-related claims investigations. These examinations usually involve an in-person meeting carried out by medical institutions and practitioners contracted by the insurer. Since the onset of the pandemic in early 2020, the desire to continue such in-person examinations diminished and insurers and vendors changed their business processes. In some cases, insurers refrained from conducting medical examinations and in other cases they attempted to conduct them virtually, e.g. via videoconference.

The main obstacles faced by insurers in the U.S. in their efforts to virtualise medical examinations were requirements from the Health Insurance Portability and Accountability Act (HIPAA). HIPAA is strict when it comes to exchanging Protected Health Information (PHI), which is generally not permissible unless specific safeguards are met. HIPAA is administered by the U.S. Department of Health and Human Services (HHS), which published guidelines allowing some deviation from the standard HIPAA requirements in light of the COVID-19 pandemic (non-enforcement of potential penalties), but did not alleviate all of the problematic barriers related to the digital exchange of PHI.

> The pandemic experience demonstrated that U.S. insurers can conduct business digitally without sacrificing due care for customer protection and enhancing customer experience at the same time.

Overall, federal and state insurance authorities and policymakers in the U.S. provided a number of accommodations that enabled insurers to continue their operations and provide products and services to the public, while reducing in-person interaction. The pandemic and certain temporary relief have demonstrated that insurers can conduct business digitally, without sacrificing the level of due care for customer protection and enhancing the customer experience at the same time. Customer demand for digital transactions is now at an all-time high.

The U.S. regulatory system is very complex, whereby insurers are subject to both state and federal laws, regulations and supervision. The industry welcomes continued close collaboration with all of these stakeholders to make short-term emergency accommodations permanent and also to further efforts to modernise existing laws and regulations to respond to the evolving needs and expectations of consumers. Additionally, the industry is determined to continue to work with state insurance authorities to educate policymakers on necessary legal and regulatory changes to enable a seamless transition to a digital insurance framework.

4.4 United Kingdom

Based on our survey, the insurance industry in the U.K. can be considered one of Europe's digitalisation success stories. Yet, the survey results point to a number of barriers, including insurance distribution regulation. An interview with the Association of British Insurers (ABI) shed some light on these results.

In general, U.K. insurers experienced a very successful digital transition. Many are considering continuing remote business models post-COVID-19. There were a few barriers, stemming from data protection regulation (complying with data protection regulation in light of working from home, and access to customer data) as well as provisions around paper document issuance – particularly in relation to annual renewals, which are delivered via mail as stipulated by insurance distribution regulation. Regulators and the industry worked closely together and accommodations were provided to remove barriers and allow insurers time to find long-term solutions (such as working on secure access to documents, improving cybersecurity when using home networks etc.)

A contributing factor to the U.K.'s success is the fact that insurers, regulators and consumers were already relatively digitalised pre-COVID-19, hence there was no need for radical change. In fact, most insurance is purchased online, many customer interactions happen through chatbots or over the phone, and claims are increasingly lodged online. The trend in the U.K. is towards further digitalisation, and the Financial Conduct Authority (FCA) is leading the way in terms of regulatory sandboxes, open banking (with significant potential for insurers) and InsurTech more generally.

5. Conclusions and recommendations

Our survey revealed a number of commercially relevant regulatory and policy barriers to digital insurance business models, which imposed additional costs on insurers during the forced transition to digital business models during lockdowns.

In light of these findings, and the lessons learned during the COVID-19 pandemic, the following recommendations for regulators and supervisors could make for a good first step towards more digitally conducive regulatory frameworks. In addition, insurers can take measures aimed at mitigating the adverse commercial implications of regulatory barriers.

Recommendations for regulators and supervisors

1. **Implement a technology-agnostic regulatory framework to ensure regulation is able to accommodate future technological developments.**

- Change provisions on wet signatures and allow for electronic signatures. In some jurisdictions this would mean making the relief provided during the pandemic permanent, while in other cases this would mean extending existing electronic signature provisions beyond 'simple' products to those sold through in-person meetings.
- Enable digital ID verification and support digital on-boarding of customers.
- Widen the possibilities for medical exams by including telehealth provisions.
- Remove default paper document requirements and introduce electronic acknowledgement of document receipt.

2. **For some jurisdictions, adapt data and privacy protection regulation in order to eliminate hurdles to teleworking.** As many countries have shown, this can be done without compromising on privacy and data protection.

3. **Enhance cooperation among supervisors and regulators, as well as with the insurance industry.**

   Deepen international regulatory cooperation and coordination on digitalisation, including the exchange of best practices, potentially facilitated by the International Association of Insurance Supervisors.

Recommendations for insurers

1. **Make better use of opportunities to digitalise within current regulatory and policy frameworks.**

   The survey results revealed that different insurers perceive the same regulatory frameworks differently – insurers that self-rated as digitally advanced considered the policy and regulatory framework in place to be less restrictive than insurers that did not see themselves as 'digital'.

Different insurers perceive the same regulatory frameworks differently – insurers that self-rated as digitally advanced considered the regulatory framework in place to be less restrictive than insurers that did not see themselves as 'digital'.

2. **Exchange with digitally-advanced peers and the regulatory and policymaking community on digital matters.**

   Increased engagement with peers, but also with technology firms (FinTechs), may help insurers to accelerate digital transformation within the boundaries of current regulatory and policy frameworks. Engaging with regulators and policymakers on digital matters would improve mutual understanding and pave the way for the removal of barriers.

3. **Be innovative in leveraging technology to strengthen compliance.**

   Distribution of less complicated (non-life) products through digital channels is commonplace in many markets. However, sales of more complex products traditionally reliant on in-person meetings suffered during the lockdowns. As much as regulatory changes would help facilitate the digital distribution of these products, insurers would need to demonstrate to regulators that distribution through digital channels does not impair the pursuit of regulatory and compliance objectives.

References

Back, A., S. Berghaus, and B. Kaltenrieder. 2016. *Digital Maturity and Transformation Report 2016.* IWI-HSG and Crosswalk. https://www.digitaleschweiz.ch/wp-content/uploads/2016/06/digital-maturity-transformation-report-2016-mit-best-practices.pdf

Eling, M., and M. Lehmann. 2018. The Impact of Digitalisation on the Insurance Value Chain and the Insurability of Risks. *The Geneva Papers on Risk and Insurance—Issues and Practice* 43: 359–396.

Hay, L.J. 2020. COVID-19: *Customer and Digitization in Insurance.* https://home.kpmg/xx/en/home/insights/2020/05/covid-19-customer-and-digitization-in-insurance.html

Insurance Europe. Year unknown. *Examples of Regulatory Obstacles to Digital Innovation in the Insurance Industry.*

Life Insurance Association Singapore. 2020. *Press Release: Life Industry Records 13 Percent Decline in Sales Due to COVID-19 Pandemic.*

Merger Market. 2017. *New Horizons: How Diverse Growth Strategies Can Advance Digitalisation in the Insurance Industry.*

OECD. 2017. *Technology and Innovation in the Insurance Sector.* https://www.oecd.org/pensions/Technology-and-innovation-in-the-insurance-sector.pdf

OECD. 2018. *The Institutional Structure of Insurance Regulation and Supervision.* www.oecd.org/finance/The-Institutional-Structure-of-Insurance-Regulation-andSupervision.pdf

Skipper, H.D., and W.J. Kwon. 2007. *Risk Management and Insurance – Perspectives in a Global Economy.* Malden, MA: Blackwell Publishing.

Swiss Re. 2014. *Digital Distribution in Insurance: A Quiet Revolution.* Sigma No. 2. https://www.swissre.com/institute/research/sigma-research/sigma-2014-02.html

Willis Towers Watson. 2017. *On a Digital Highway without Speed Limits, how can Insurers Keep Pace?*

Digitalisation provides insurers and their customers with benefits that are particularly useful when in-person interactions cannot take place – a situation that played out in its fullest form during the COVID-19-induced lockdowns. Regulatory frameworks and policy play an important role in creating an environment that is conducive to digital insurance business models. This issue brief presents the results of a Geneva Association survey of insurers to help clarify the impact of regulation on digitalisation in insurance.

The Geneva Association

International Association for the Study of Insurance Economics
Talstrasse 70, Zurich, Switzerland
Tel: +41 44 200 49 00

www.genevaassociation.org