insurance europe

Insight Briefing

Big data and its big benefits for insurance consumers

Regulation must allow innovation by insurers for full benefits to be realised

Data has always been vital for insurers. In fact, since the industry began, insurers have used data to analyse the risks faced by their clients.

This process has two parts: first, when designing their products, insurers analyse past events to estimate the probability of these events occurring again. This allows them to manage the risks of offering a new insurance policy. Then, when a client buys an insurance policy, the insurer uses data to assess the risk posed by the new customer. This process is referred to as *underwriting*.

A greater volume of data and increasingly sophisticated risk modelling allow insurers to carry out more accurate risk assessments when underwriting their policies. This can provide many benefits for consumers.

For example, insurance products can be better tailored to consumers' needs and be priced more competitively; newly available data can be used by insurers to cover risks that were previously uninsurable, due to a lack of data; and insurers can use big data to analyse whether their products have worked as intended and reached the right customers or whether further development is needed.

Big data can also help insurers detect cases of fraud more efficiently and better advise consumers on how to prevent incidents from occurring and how to mitigate their impact. This improved prevention is also likely to have a positive impact on the price of insurance products.

Benefits for consumers

More tailored products and services

With pay as you drive (PAYD) motor insurance policies, insurers — with the consent of their customers — receive real-time data about a customer's driving behaviour, on the basis of which they can set insurance premiums, resulting in savings for good drivers.

Improved access to insurance

Today, the increased availability of data and technological improvements in big data analytics allow groups of high-risk consumers to negotiate premium discounts on products such as travel insurance for individuals with pre-existing medical conditions and insurance for high-risk sports.

Improved customer satisfaction

Big data results in more efficient and less burdensome processes; for instance by enabling customers to avoid the need to fill out repetitive questionnaires.

Prevention policies

Insurers can use big data to advise consumers on the prevention measures needed to make properties insurable. For example, the increasing availability of data allows insurers to offer flood insurance in high-risk areas in many countries.

Insurers can, with their clients' consent, use big data to monitor their health and provide them with lifestyle tips and health advice. Eventually, these measures could reduce the risks associated with chronic diseases and help control medical costs.

Is the use of big data regulated?

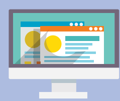
While there is no specific regulation on big data, there are already several EU rules that are relevant and applicable to its use, for example:

The **General Data Protection Regulation (GDPR)** prepares insurers and consumers well for the big data environment. It provides insurers with the right level of guidance, allowing them to mitigate the potential risks of using big data. At the same time, it provides consumers with strong protection to safeguard their personal data. For example, through the 'data minimisation' and 'purpose limitation' principles, the GDPR prevents insurers from being unduly intrusive in consumers' personal lives and putting their privacy at risk.

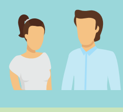
The **Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation** requires insurers to provide consumers with standardised key information documents (KID), ensuring that insurance products remain comparable in a big data environment, despite increased individualisation.

The **Insurance Distribution Directive (IDD)** regulates the distribution of all types of insurance products by all types of distributors, preventing any poor selling practices that the use of big data could have potentially facilitated. Moreover, its provisions on product oversight and governance regulate the design of new insurance products and ensure that all insurance products meet the needs of their specific target market.

The **Distance Marketing Directive for financial services (DMD)** protects consumers from abusive marketing practices that urge them to buy products they have not solicited.



The **EU Gender Directive** prohibits the differentiation of insurance premiums by gender.



The proposal for an **e-Privacy Regulation**, currently under discussion, will bring an additional layer of protection by guaranteeing the confidentiality of communications and sheltering consumers from online tracking and unsolicited commercial communications.

The **Solvency II Directive** provides insurers with an effective system of governance that ensures the sound and prudent management of their business. In order to comply with the prudential regulations for risk management, insurers must base their pricing on reliable data.

Can regulators support the benefits of big data?

While the use of big data in insurance has real growth potential, insurers are still exploring the opportunities that its use throughout the insurance value chain can offer to consumers.

To ensure consumers enjoy the full benefits of its use by insurers, any future regulatory framework should be supportive of innovation.

There is currently no need for further regulatory measures, as there is already a comprehensive framework regulating the use of big data in insurance. In fact, premature regulation could not only hamper innovation and impair the effectiveness of the insurance market, but also quickly become unfit for purpose due to technological advances and market developments.

Regulators and supervisors should instead ensure that existing rules — which already provide a framework to guarantee the responsible use of big data — are fully implemented and enforced at national level. Moreover, the exchange of information and experiences between insurers on new tools and best practices should be further encouraged.

For additional information, please contact William Vidonja, head of conduct of business at Insurance Europe (vidonja@insuranceeurope.eu, tel: +32 2 894 30 55).