



Czech Republic

New Technologies And Regulation In Insurance – View from „new“ Europe

For AIDA, Warsaw, April 12

2018

Outline

❖ **World, insurance, fintechs and regulation**

- Some sources of recent wisdom
- 5 highlights and trends to continue

❖ **Video refreshment – Last 25 years**

❖ **Insurance industry and its regulation - test by GDPR**

- Motivation
- Scope of exercise
- Major takeaways

❖ **Calibration issues**

- Structure of costs
- Implied revenues streams and industrial structure of insurance
- Consumer protection implications

World, insurance, fintechs and regulation

Some sources of recent wisdom

❖ Official

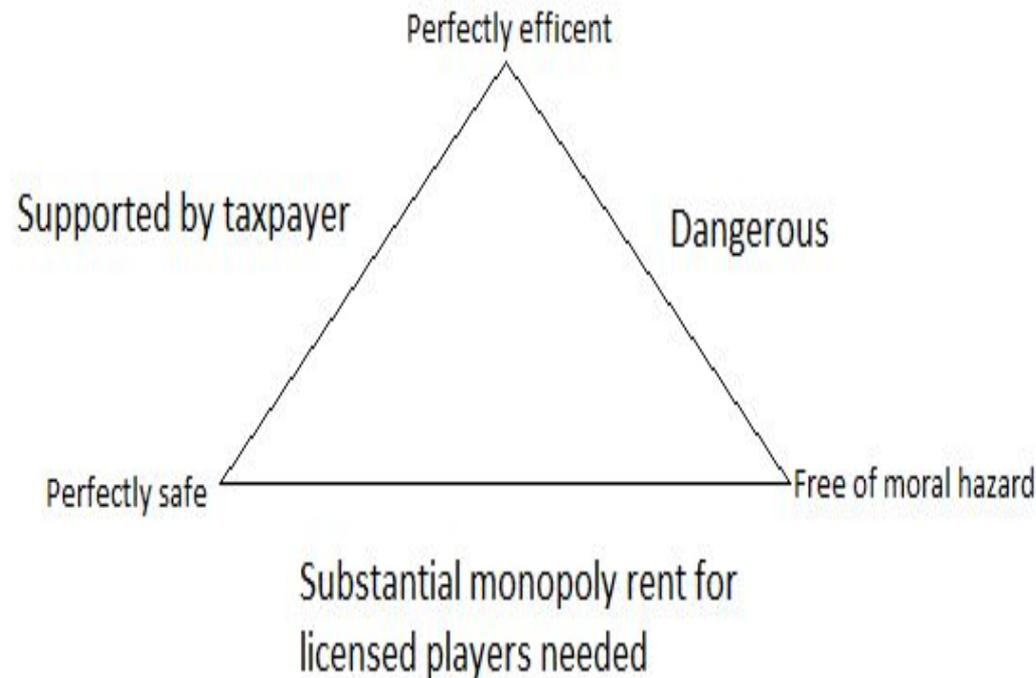
- EU: “FinTech Action plan: For a more competitive...”, March 2018
- ECB: Y. Mersch, i.e. “Virtual or virtueless...”, Feb 2018
- Industrial and WEF: “Beyond Fintech: A Pragmatic Assessment...”, April 2017
- OMFIF March 2018 event in Prague on cryptocurrencies and fintechs

❖ Generali Austria, CEE and Russia Holding (Holding)

- Knowledge from 11 countries
- Practical experiences
- Occasional questionnaires
- Processes and teams driven from holding
- 14 ths. employees

World, insurance, fintechs and regulation

Highlights 1



Regulation/Supervision of financial sector has always been an attempt to reconcile mutually exclusive goals.

World, insurance, fintechs and regulation

Highlight 2

- ❖ **Fall of margins and commoditization of products**
 - ❖ **Higher bars for consumer experience**
 - ❖ **Importance of platforms and their ownership**
 - Monetisation tool – not only from data, but from attention concentration
 - ❖ **Ability to mimic human behavior including thought processes**
 - Virtual reality
 - Bionics
 - Chatbots...
- Technological process is difficult to forecast, but social development is much less predictable.

World, insurance, fintechs and regulation

Highlight 3

<u>Weighted shares (each country have same weight)</u>							
	EU			Local			
Country	Share	Cons/Tarrif etc.	Other	Share	Cons/Tarrif etc.	Tax	Other
Bulgaria	43%	0%	43%	57%	7%	0%	50%
Croatia	67%	0%	67%	33%	0%	0%	33%
Czech Republic	50%	0%	50%	50%	17%	0%	33%
Hungaria	14%	0%	14%	86%	29%	0%	57%
Poland	29%	14%	14%	71%	57%	14%	0%
Romania	14%	0%	14%	86%	43%	0%	43%
Serbia	33%	0%	33%	67%	0%	0%	67%
Slovakia	22%	0%	22%	78%	33%	22%	22%
Slovenia	100%	0%	100%	0%	0%	0%	0%
Share	41%	2%	40%	59%	21%	4%	34%

Notes: IDD and GDPR future legislation and several minor acts in Romania excluded from domestic acts counts

World, insurance, fintechs and regulation

Highlight 4

- ❖ **Risk pooling and better management of risks** – Positive to neutral due to financial/accountant regulatory framework improvements
 - ❖ **Liquidity buffer provisions to middle class, SMEs and firms in general** – better and, hopefully more understandable, products with likely higher costs of provision
 - ❖ **Investment into fundamentally good long-term, illiquid projects** – weakened by higher capital requirements
- Keep in mind that more complex regulation favors the large entities at the expense of competition.

World, insurance, fintechs and regulation

Highlight 5

- ❖ **Assets 4.0, Human 4.0 etc.** – decrease the amount of risks (shrinking market), value of large statistical samples (selection bias)
- ❖ **Return of growth, newly rich emerging markets, wealth effects, return to normal macro** – increase market, return of products based on positive fixed income, increased social sensitivity to many issues may create barriers vis a vis some industries
- ❖ **Virtual reality** – real emotions of virtual world outcomes call for real insurance in addition to recognized risks of digitalization etc.
- ❖ **Population aging** – new demand for real mass middle-class focused saving products but with growing regulatory requirements and political sensitivity

Video refreshment

- ❖ **25 years of Czech Generali capturing the most important technology changes**

Insurance industry and its regulation – test by GDPR

◆ Largest EU individual data protection initiative

- Universality – both regulated and non-regulated entities covered
- First initiative clearly addressing challenges of digital age only
- Highly visible and of the interest of general public

◆ Easy accessibility to country experiences on Holding level

- Project driven from Prague
- Easy to add few Qs to project groups on country level
- Easy to require clarifications if necessary

◆ Complexity of regulations

- Despite beginning as EU directive local legislation needed
- Local supervision, enforcement and possible punishment within EU limits

Worthwhile getting a feedback even on implementation side of initiatives related to new technological developments before pursuing next ones.

◆ Fees rules assuring strong motivation of industrial players to comply

Insurance industry and its regulation – test by GDPR

❖ All 9 EU Holding members

- Austria, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia
- Covering over 40 legal entities
- Country employment from over 4 hundreds to over 4 thousands employees

❖ 11 separate questions (some more complicated) covering

- Legal preparations on a country level
 - GDPR supervisory issues
 - Estimations of costs for preparation and additional costs of working under GDPR (in terms of euros and employment)
 - DPO office structure
- In some cases additional questions asked and in response evaluations judgement was needed.
- Existence of lenient period
 - Potential fines rules

Without going into details (and disclosing 2017 figures)

- ◆ **Much higher clarity on rules preparations than on enforcement with the exception of existence and length of „lenient period“**
 - Significant majority typically clear on rules issues despite legislation delays
 - Significant majority unclear on both controlling approaches and fee rules
 - Only one country unclear on (non)existence and length of lenient period

- ◆ **Industry association perceived as useful almost in all countries**

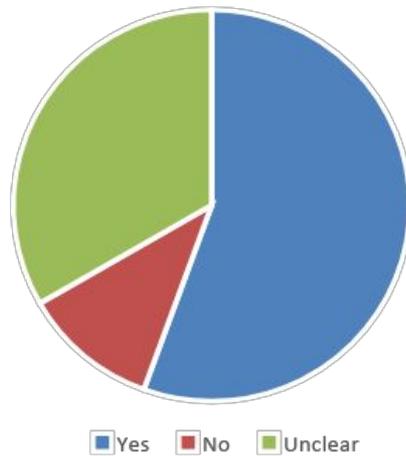
- ◆ **EU rules on fines possibly not driving future practice (or not known)**

- ◆ **Clear efficiency of scale for larger Holding presence in a country**
 - Scale positively correlated with costs but less than proportional (regression of different scale and cost measures confirm this robustly)

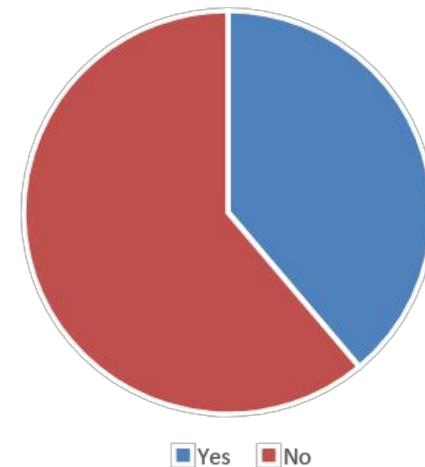
The GDPR will be implemented in most of Holding countries without major hiccups. In enforcement the significant role of judiciary to be expected.

Insurance industry and its regulation – test by GDPR

Rules and supervisory institution ready?



Clarity of control approaches?



The inconsistencies on enforcement approaches across countries expectable.

Calibration issues

❖ Digitalisation implies costs structures much closer to those of information goods

- In distribution variable (marginal costs) likely to decline for less complex products relative to costs of development and etc.
- Lock-in, i.e. customer relationship, likely to increase in significance
- Development and regulatory costs/relationship will increase in significance on a local levels

❖ Attention, space etc. costs and network effects

- Not only marketing costs but how many applications on limited size mobile screen is one going to have? Costs of installed application per screen?

❖ Centralization vs. blockchain

- **The future costs structure likely to exhibit even more pronounced efficiencies of scale on a country levels.**
Centralization of activities has been historically efficient decrease of costs driver.

Calibration issues

❖ Oligopolies/duopolies on local level with additional niche players call for alliances

X-states

- Persistent role of states and their regulation together with commoditization of less complex products calls for promotion of alliances both within and across EU states to achieve specialization and cost efficiencies
- Even more so to enable innovation and widespread use and transfers of new products in distribution networks of large traditional finance players consistent with WEF observations.
- Network effects are additional driver of this development.

❖ 4.0 society generates new opportunities for innovation

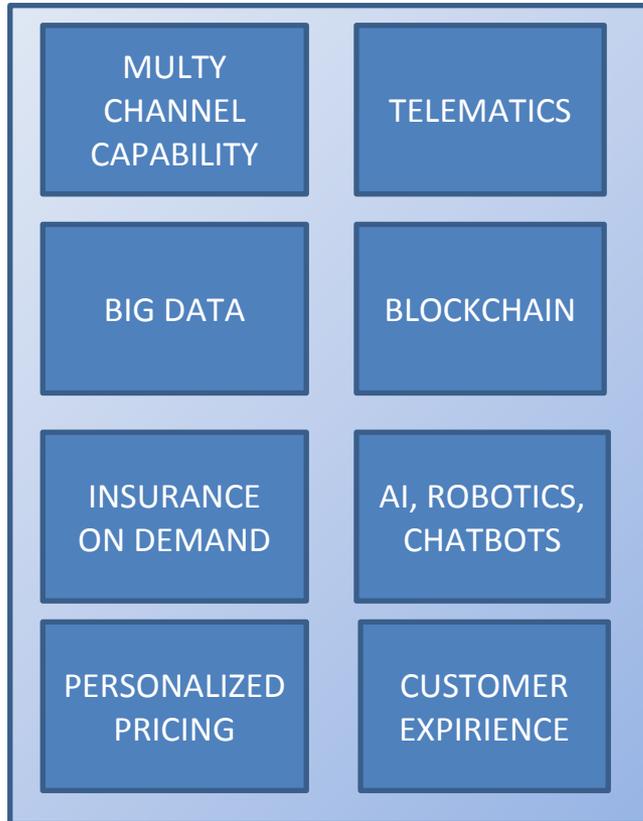
- The role of innovation centers internalized within large group will increase in order to use the new opportunities. **Solutions based on within group incubators and/or across state and financial groups alliances more likely to lead to widespread innovations if monopolization or duopolization can be prevented.**

- ◆ **Lock-in prominence likely to increase to become larger threat of consumers' freedom than security**
 - Attention to lock-in and network implication often neglected in the world of co-operating oligopolies
 - Ownership not only of the data but more prominently of patterns of his/hers behavior by consumer of crucial importance
 - Security likely to be enhanced by algorithm based solutions

- ◆ **Rules must enable innovation**
 - Consumer has no interest in being forced to amend his contracts in written form or even by physical signature on tablet/pad
 - As a matter of fact, new communication tools and developments should enable our clients to some equivalent of “virtual handshake” with trusted counter-part

Conclusions - Innovation vs. Regulation?

Non-disruptive (internal) Innovation



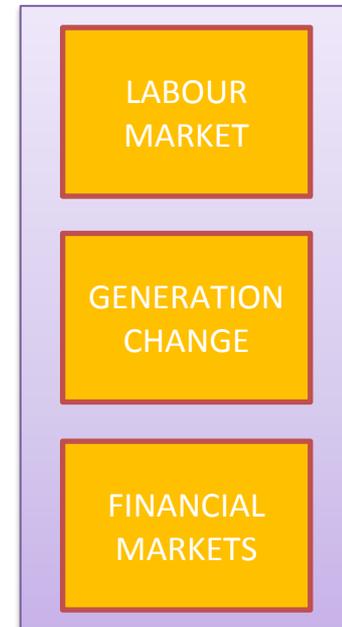
Regulation



Disruptive Innovation



External Markets



Conclusions - Needs of industry

More prominence needed

◆ EU standards, *i.e.*

Clouds
Sandboxes for innovation centres
Digital signature or distant
contract closing
Identity definition capturing behavior

◆ Procedural rules, *i. e.*

Standards of control processes
Fines

◆ Rights and standards to share information on security incidents

Less attention

◆ Blockchain

Can prove itself, but un-proportional
attention given so far
Problems to it must involve combination of
Security and anonymization need

◆ Formal requirements in detail

Development goes too fast ahead

◆ Financial stability concerns

Insurance is not banking, no significant
insurance group collapsed in the Great
recession at the large expense to taxpayer



Virtue of clarity for the industry with such a long horizon as insurance cannot be overestimated.

One Pleasant Face To End With!



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