Keynote speech from Jonathan Dixon, Secretary General
Fintech Developments: Disruption or Dividends?
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(Check against delivery)

Thank you for the warm welcome.

I would like to begin by thanking Dr Moses Cheng, Chairman of the Insurance Authority of Hong Kong and Mr. Clement Cheung, CEO of the Insurance Authority (IA), for inviting me here today. I am very glad to be joining you for a second time, following last year's inaugural Forum, and to engage with so many insurance leaders from the region.

I also appreciate the opportunity to share with you the IAIS perspective on Fintech developments, representing the various views of insurance supervisors from around the world.

Before delving into the topic of Fintech, given that this Forum takes place so soon after our IAIS committee meetings and Annual Conference in Abu Dhabi last month, it would be remiss of me not to take a few moments to share with you some of the major milestones we reached last month.

2019 Milestones

2019 was a significant year for the IAIS. We celebrated our 25th anniversary – over that time the IAIS has progressed from an informal gathering of insurance supervisors to being the global standard setter for insurance supervision and an integral part of broader efforts to make the global financial system more resilient. It was a real testament to our commitment to setting robust global standards that we were able to take so many significant steps forward in Abu Dhabi regarding the IAIS' contribution to the post-financial crisis reform agenda.

The **first** of these accomplishments is a substantially revised set of Insurance Core Principles (ICPs) – the go-to reference document for insurance supervisors around the world. This brings to fruition a multi-year, broad-ranging review of our supervisory material. The IAIS now has in place a set of stable and comprehensive standards that reflects all major market and supervisory developments impacting the insurance sector.

The **second** substantial achievement was the adoption of ComFrame – the first global framework for the effective and globally consistent supervision of Internationally Active Insurance Groups (IAIGs). In response to an increasingly globalised insurance sector, we now have – for the first time – a globally agreed set of supervisory requirements tailored to the activity and size of these global groups. This will help supervisors to address group-wide risks and avoid cross-border supervisory gaps.

Third, the IAIS adopted the Holistic Framework for assessing and mitigating systemic risk in the global insurance sector. This includes an enhanced set of supervisory policy measures that have a particular macro-prudential focus, as well as an annual global monitoring exercise, by the IAIS, designed to help with the early detection of potential systemic risk and a collective discussion among global supervisors on a coordinated response.

Last, but not least, Abu Dhabi also saw a significant step forward in the development of a global Insurance Capital Standard (ICS), the quantitative component of ComFrame. The ICS aims to support a common language for supervisory discussions of group solvency of Internationally Active Insurance Groups and to enhance global convergence among group capital standards. The ICS has been a multi-year journey, with six annual field-testing exercises since 2013. With the agreements reached last month, ICS Version 2.0 will enter a five-year "monitoring period", during which it will be used for confidential reporting to group-wide supervisors, discussion in supervisory colleges, and further analysis by the IAIS. Stakeholder feedback, in particular from participating insurance groups, will remain critical during this period. This, together with feedback from supervisors, further technical analysis and an economic impact study, will help us further refine and improve the ICS prior to its implementation as an international standard.

As you can tell, 2019 was a busy year, with major accomplishments. However, this is not the time for the IAIS to be slowing down. Not only must we now shift to an important focus on the implementation of these agreed reforms, but we must also look to the next horizon. Earlier this year, we set our vision for the next 5 years, with the approval of our 2020-2024 Strategic Plan. We have identified important trends and developments – including, importantly, FinTech, but also cyber risk, climate risk, the importance of conduct and culture, and the challenge of sustainable development – all of which have the potential to reshape the insurance sector in which we operate in the coming years.

FinTech – Issues, challenges and opportunities

Which brings me to Fintech – the focus of this afternoon's discussion.

There is no doubt that FinTech brings significant potential for societal good and welfare, especially in the developing world.

This is an opportunity that we, as a global community of insurance supervisors, are keen to enable. It is incumbent on us to be part of the solution to sustainable development. In doing so, we recognise the need to work in collaboration with other partners, including in the insurance industry. That is why I was very glad to see the recently published paper by the Insurance Development Forum (IDF) on *"how technology can help bridge the protection gap"*.

The paper provides important examples of how technology can facilitate the expansion of product innovations, such as parametric insurance to cover weather-related hazards. The paper also highlights how the increasing volume and granularity of risk-relevant data, combined with improvements in analysis and modelling, may enable ever swifter, more accurate and more cost effective insurance products to provide vital post-disaster liquidity. A critical question highlighted by the IDF is whether the existing regulatory structure welcomes new players and partnerships – such as mobile network operators, commercial satellite companies and tech firms – to allow for innovations needed to overcome barriers to closing the protection gap.

This is a challenge that the IAIS takes very seriously. Around the world, 1.7 billon adults are underserved with respect to financial services, including insurance. In many countries, FinTech is already helping the unbanked and small businesses to access finance: from rural households in China, who can invest in a money market fund on their smartphone, to retailers in India, who can accept new forms of payments from their customers, to smallholder farmers able to insure themselves against climate risks for the first time.

In advanced economies too, consumers stand to benefit. New market entrants can offer innovative services more efficiently than ever before due to fully-digital business models and the use of new technologies. Greater competition and diversity of providers can create a more efficient and resilient financial system. Incumbent insurers are rapidly adapting to the new environment with various strategies, ranging from partnership with InsurTech firms to in-house innovation.

Insurance is, at its core, a data business. Accordingly, digitisation of insurance models has the potential to deliver significant dividends: create efficiencies in the insurance value chain, enable better risk assessment and product innovation, and lead to increased customer choice and greater access to financial services. At our Annual Conference in Abu Dhabi last month, Dr Moses Cheng shared with us how the IA is seeking to maximise these dividends by supporting insurers in Hong Kong to step-up the pace of InsurTech adoption in nearly all stages of the insurance product life cycle.

However, these innovations are not without risk. The extensive disruptions to traditional models that we are witnessing could unintentionally result in poor outcomes for consumers and may expose the sector to increased vulnerabilities such as heightened interconnectedness and cyber risks. In responding to these developments, whether as policymakers, supervisors or industry – we all find ourselves confronted with the same question, namely how do we strike an appropriate balance between risk and benefit – disruption and dividend – considering the scale and pace of technological innovation?

The IAIS is accelerating our examination of how best to support our diverse membership to respond to this question, through multiple initiatives and platforms.

I would like to share with you a brief snapshot:

First, we leveraged FinTech expertise from across our membership by establishing a virtual FinTech Forum. The Forum provides a platform for experts from supervisors to share practical experiences and insights on a range of technological innovations impacting the insurance sector, such as the use of alternative data, smart contracting through distributed ledger technologies, P2P insurance and the impact of technology on supervisory tools and resources.

To give an example of how this works in practice: the Dutch Central Bank recently shared in the Forum their newly published guidelines on the responsible use of artificial intelligence (AI). Members were then able to consider the applicability of these guidelines in a number of practical scenarios, such as the use of AI for fraud detection in claims handling processes and more granular pricing in disability and health insurance. Similarly, in 2018, the Monetary Authority of Singapore introduced a set of principles to promote fairness, ethics, accountability and transparency (FEAT) in the use of AI and data analytics in finance – the sharing of this in the FinTech Forum has contributed to a consideration of these issues more broadly through the IAIS structures.

Looking ahead to next year, the Forum will look more closely at the potential implications of AI and Machine Learning and adjacent technologies such as telematics, on the work of insurance supervisors and the IAIS' ICPs. The Forum also intends to reach out more widely to a larger community of experts, such as through innovation festivals, visits to innovation labs and other similar platforms focusing on insurance-specific innovations to help our members broaden their surveillance capabilities and remain abreast of FinTech developments.

Second, the IAIS invites a diverse range of insights from technology, academic, industry and consumer stakeholders through digitally themed events. Our Annual Conference in Abu Dhabi last month was organised around the theme of *Supervision in a Digital Era*.

Earlier in the year, we convened a workshop with the FSB’s Financial Innovation Network in London. At this workshop, we explored a range of developments. One specific development that sticks out to me was how the UK’s Financial Conduct Authority is adopting a thematic approach to the use of sandboxes by encouraging sandbox participants to focus on solving specific consumer related challenges, such as financial inclusion and protection gaps for vulnerable customer groups. A particular focus for the FCA is the use of data for improving customer outcomes.

Third, the IAIS’ working groups continue to look at developing supervisory guidance on the risks, trends and opportunities posed by FinTech. For example, the IAIS’ Market Conduct Working Group recently published a draft issues paper on the use of big data analytics in insurance, with a specific focus on the potential risks and benefits for customers associated with the increasing use of algorithms and advanced data analytics by insurers.

The draft paper acknowledges that big data analytics can result in a number of benefits for insurers and customers alike. The granularity of data from multiple sources can lead to more personalised and affordable insurance products, increased choices and more efficient servicing for customers. Insurers can also benefit from BDA by expanding their distribution reach, ensuring more accurate pricing and lowering their cost margins due to operational efficiencies, claims savings and better fraud detection.

On the other hand, the paper cautions that the complexity and opacity of algorithms could require supervisors to clarify their expectations on appropriate levels of transparency and insurer accountability for customer outcomes resulting from algorithm-based decisions. In this regard, we have seen some helpful developments from our members. In addition to the Dutch and Singapore guidelines mentioned earlier, for example, the French Law for a Digital Republic enacted in 2016 obliges fair, clear and transparent disclosures to customers on contractual decisions based on algorithms. More recently, in 2019, the European Commission published its Ethics Guidelines for Trustworthy AI, and the European Insurance and Occupational Pensions Authority (EIOPA) set up a Consultative Expert Group on digital ethics in insurance.

On the need for supervisory guidance we have seen a few common themes emerge that are equally relevant to our members in both developed and developing jurisdictions. These include data protection and the fair and ethical use of data, the entry of third party cloud providers and other non-traditional players such as BigTech companies into the insurance sector, and affordability and inclusion challenges. The IAIS recognises that insurance supervisors have a significant role to play in facilitating innovation for greater societal benefits while ensuring prudent, fair and responsible use of technology in the interests of policyholders. To achieve this, it will be important for our members to strengthen outreach with data protection and competition authorities, data scientists, consumer advocates and industry experts to form collective and coordinated responses to these overarching themes.

Lastly, we also recognise the importance of working with our peers in other standard setting bodies and the Financial Stability Board (FSB). It is clear that innovation is not unique to insurance. We will work to explore cross-sectoral issues and welcome the release yesterday of FSB papers on *"BigTech in finance: Market developments and potential financial stability implications"* and "*Third-party dependencies in cloud services: Considerations on financial stability implications*", to which the IAIS contributed an insurance sector perspective.

In closing, I would like to return to a question we asked the audience last month at our Annual Conference: "How should supervisors respond to supervising in a digital era?"

The number one answer was build skills and capacity! That is why we are here today - and that is why the IAIS values the important learnings from our regional members and stakeholders.

I look forward to exploring these issues further with you.

Thank you