

**INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS**



**PRINCIPLES ON THE
SUPERVISION OF INSURANCE ACTIVITIES
ON THE INTERNET**

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This document was prepared by the Working Group on Electronic Commerce/Internet in consultation with members and observers.

This replaces the *Principles on the supervision of insurance activities on the internet* (October 2000)

Principles on the supervision of insurance activities on the internet

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1. Introduction

1. The development of electronic commerce, particularly on the Internet, presents insurance supervisors and regulators, as well as insurers and insurance intermediaries, with new kinds of opportunities, challenges and questions. The use of the Internet will undoubtedly affect the ways in which insurance companies, intermediaries and insurance supervisors function in the future. For example, the number of cross border insurance transactions will increase.

2. In principle, there are considerable benefits for insurers, intermediaries and consumers alike from the development of the Internet. The use of information networks has the potential to make the offering of insurance products more efficient and less costly than before. Insurance companies and intermediaries are provided with the technical capability to reach many millions of potential policyholders with good quality information on their products and services. Consumers increasingly have access to more and more sophisticated programmes for searching for, identifying and purchasing insurance products.

3. However, whilst the Internet creates a new environment in which insurance products can be advertised, sold and delivered, it does not alter the fundamental principles of insurance, insurance intermediation and insurance supervision. It is a new medium through which to transact business.

4. Current concerns over the security of concluding contracts over the Internet are being addressed, but there remain substantial risks to consumers. Sales over the Internet extend the opportunities for insurance fraud, money laundering and mis-selling of insurance products. It presents insurance supervisors with new challenges in delivering the level of protection that consumers in their jurisdiction expect. In particular, it raises questions for consumers and insurance supervisors alike over the applicable contract law, and means of redress where there is a dispute between the insurer and insured. Unless consumers are confident that these issues

are adequately addressed the full potential of the Internet as a channel for distributing insurance products may not be realised.

5. One of the most important tasks of insurance supervision is the protection of policyholders and potential policyholders through the maintenance of efficient, fair, safe and stable insurance markets. The Internet does not change this basic premise. Where it helps is in offering insurance supervisors a new kind of medium for cooperation.

6. This paper proposes an environment for the supervision of insurance activities on the Internet which aims at ensuring that relevant information is available to consumers, insurers, intermediaries and insurance supervisors. Due to the extremely fast development of electronic commerce, the framework for the supervision of insurance activities on the Internet needs to be regularly reviewed.

2. Supervision and risk management of insurance activities on the Internet

7. Insurance supervisors should require that the sale, purchase, and delivery of insurance products over the Internet are conducted in a secure environment, and that policyholders are adequately protected. The primary responsibility for the supervision of insurance activities rests with the supervisor in the jurisdiction in which the insurer (or intermediary) is established and from which it conducts its Internet activities. The *IAIS Insurance Core Principles and Methodology* (October 2003) and the principles listed in this paper should be applied for the supervision of insurance activities on the Internet.¹

8. Insurers, in particular, should give close consideration to the risks involved in electronic commerce. It is the overall responsibility of the board of directors and senior management to evaluate risks and produce a risk management plan for the insurance company. The management should incorporate changes in the insurer's operating environment.

9. Insurers and insurance intermediaries should closely examine and maintain control mechanisms to manage identified risks arising from insurance activities on the Internet.² In the context of the Internet, the key non-technical and operational risks to be considered include:

- strategic risks which arise when a company engages in a new business strategy; this does not consider all the implications that electronic commerce will have on other parts of the organisation or the insurer as a whole
- operational risks that arise as a result of a failure or default in the information technology infrastructure
- transaction risks such as risks of any unauthorised alterations or modifications to texts, information or data transmitted over computer networks between an insurer and its client, or vice versa. This may also include difficulties surrounding the collection of premiums.

1 Where the regulation of certain insurance activities on the Internet is the responsibility of another regulatory body, the supervisor should cooperate with that regulatory body to ensure that policyholders' interests are protected.

2 For further information, refer to the IAIS issues paper *Risks to insurers posed by electronic commerce* (October 2002).

- data security risks are considered to be the risks of losses, unintentional changes or leaks of information or data in computer systems
- connectivity risks, which are the risks that a failure in one part of the system may impact all or other parts of the system
- conduct of business risks, which relate to the fact that insurance laws and regulations have been developed with the view that business will be conducted on a person to person basis, with paper documentation. Electronic commerce poses many new issues with attendant risks in this respect.

In addition to the above, legal and reputation risks may arise from the conduct of insurance activities on the Internet. Without proper attention to the former, transactions may conceivably be repudiated or deemed null and void.

10. Internet operations are highly dependent on system reliability and integrity. Insurance supervisors should require that insurers and intermediaries apply effective internal control mechanisms to their insurance activities on the Internet. In particular, they should require that supervised companies that offer insurance services over the Internet have sufficient control systems in place (including security, confidentiality, control of personal data, back-up and record-keeping systems) to transact that business in a proper manner. Supervisors should look closely at any outsourcing arrangements to ensure that appropriate contracts are in place and that risks are being addressed effectively.

11. IAIS members are encouraged to adopt and implement the following principles:

Principle 1: Consistency of approach

The supervisory approach to insurance activities on the Internet should be consistent with that applied to insurance activities through other media.

12. Insurance supervisors should seek to apply standards of consumer protection to Internet-related activities of insurers and intermediaries equivalent to those applied to the provision of services off-line. They should not constrain the legitimate use of the Internet.

13. Insurance supervisors should be prepared to provide guidance on the circumstances under which they will seek to assert supervisory authority over Internet activities. Factors that may support an assertion of authority may include evidence that:

- a. an Internet site is targeted at residents and/or risks within the supervisor's jurisdiction
- b. insurance services are, in practice, being provided via the Internet site to residents in the supervisor's jurisdiction
- c. attempts are made to present information to potential policyholders within the supervisor's jurisdiction through proactive means, e.g. e-mail.

14. Factors that may support a decision not to assert supervisory authority over Internet activities may include evidence that:

- a. the insurer or intermediary clearly states that the services are offered to persons and risks outside the supervisor's jurisdiction
- b. the Internet site contains a list of those jurisdictions in which the insurer or intermediary is entitled to provide services and the list does not include the supervisor's jurisdiction
- c. the insurer has in place effective systems and procedures that are designed to prevent sales to residents in the supervisor's jurisdiction.

Principle 2: Transparency and disclosure

Insurance supervisors should require insurers and intermediaries over which they exercise jurisdiction to ensure that the principles of transparency and disclosure applied to Internet insurance activities are equivalent to those applied to insurance activities through other media.

15. The level of consumer protection should not be dependent on the medium used for insurance activities. The same basic principles of transparency and disclosure should apply for the Internet as for other media.

16. For example, the information provided to consumers should be broadly equivalent to that which would be expected in a traditional transaction, and should always be adequate for a consumer to make an informed decision on whether or not to avail of the services offered.

17. In order to protect the consumer, insurance supervisors should require that insurers and intermediaries over which they exercise jurisdiction and which offer insurance products over the Internet display certain minimum information on their Internet sites. In addition to the information that is mandatory in the jurisdiction in which services are being offered, the minimum information should generally include:

- a. the address of the insurer's head office, and the contact details for the supervisory authority responsible for the supervision of the head office
- b. contact details for the insurer, branch or intermediary, and for the supervisory authority responsible for the supervision of the business, if different from the above
- c. the jurisdictions in which the insurer or intermediary is legally permitted to provide insurance services
- d. procedures for the submission of claims and a description of the insurer's claims handling procedure
- e. contact information on the authority or organisation dealing with dispute resolution and/or consumer complaints.

Principle 3: Effective supervision of Internet activities based on cooperation

Supervisors should cooperate with one another, as necessary, in supervising insurance activities on the Internet.

18. The regulation of Internet activities based purely on actions capable of being taken within a single jurisdiction is often inadequate. It is evident that the regulation and supervision of Internet activities requires a greater degree of cooperation amongst insurance supervisors. Therefore insurance supervisors should have the ability to cooperate with one another, for example in providing assistance when needed or in dealing with cases of abuse in each other's markets.

19. The exchange of information between supervisory authorities is a key element in pursuing effective supervision of Internet activities. The Internet can be an effective tool for exchanging basic information.

20. Insurance supervisors should generally make the information listed below available on their own websites:

- a. Structure and organisation chart of the supervisory authority, including contact information
- b. A listing of relevant insurance legislation
- c. A list of supervised insurance and reinsurance companies, including contact information or a central point within the supervisory authority from whom such information can be easily obtained
- d. A link to the website of the IAIS.

21. Insurance supervisors may also consider making available the information listed below available on or through their own website:

- a. Texts of the relevant insurance legislation
- b. A list of licensed intermediaries, including contact information, or a link to such a registry
- c. The Annual Report of the supervisory authority
- d. Annual insurance statistics
- e. Links to the websites of other relevant supervisors in the same jurisdiction
- f. Other information, as the supervisor deems relevant.