Nuovi modelli di business e tecnologia per l’industria assicurativa

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Agenda

InsurTech: Risk and opportunities for the industry and consumers

- Investment into InsurTech

Digital Agenda in the Regulation

- What drives regulation
- Central Bank Digital Currencies

InsurTech: Risk and opportunities for the industry and consumers

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InsurTech: Risk and opportunities for the industry

Opportunities

- More accurate pricing of risks - Possible costs reduction
- Differentiation opportunities for the company – Product development cycles can be faster with external partners
- Better consumer experience and reduced price could lead to better consumer satisfaction
- More efficient claims handling and fraud prevention - Possibly reduced claims through preventive measure

Risks

- Increased competition - Threats to the sustainability of incumbent business models
- Loss of market power as technology firm holds relationship - Potential for loss of internal know-how in the long run- Information oligopolies can develop
- Uncertainty related to new and untried technology/business models - Potential conduct risks could arise
- Reputational risk, cyber risks, data protection, IT security, legal risk - Potential new types of fraud - Issues related to outsourcing/oversight

Source: EIOPA "Discussion paper on the (re)insurance value chain and new business models arising from digitalisation!", aprile 2020.

InsurTech: Risk and opportunities for consumers

Opportunities

- Increased competition
- Better risk assessment - Less damage through preventive measures
- Better quality of services and users experience
- New and tailor-made products and services - Possibility of covering new risks, improving inclusion

Risks

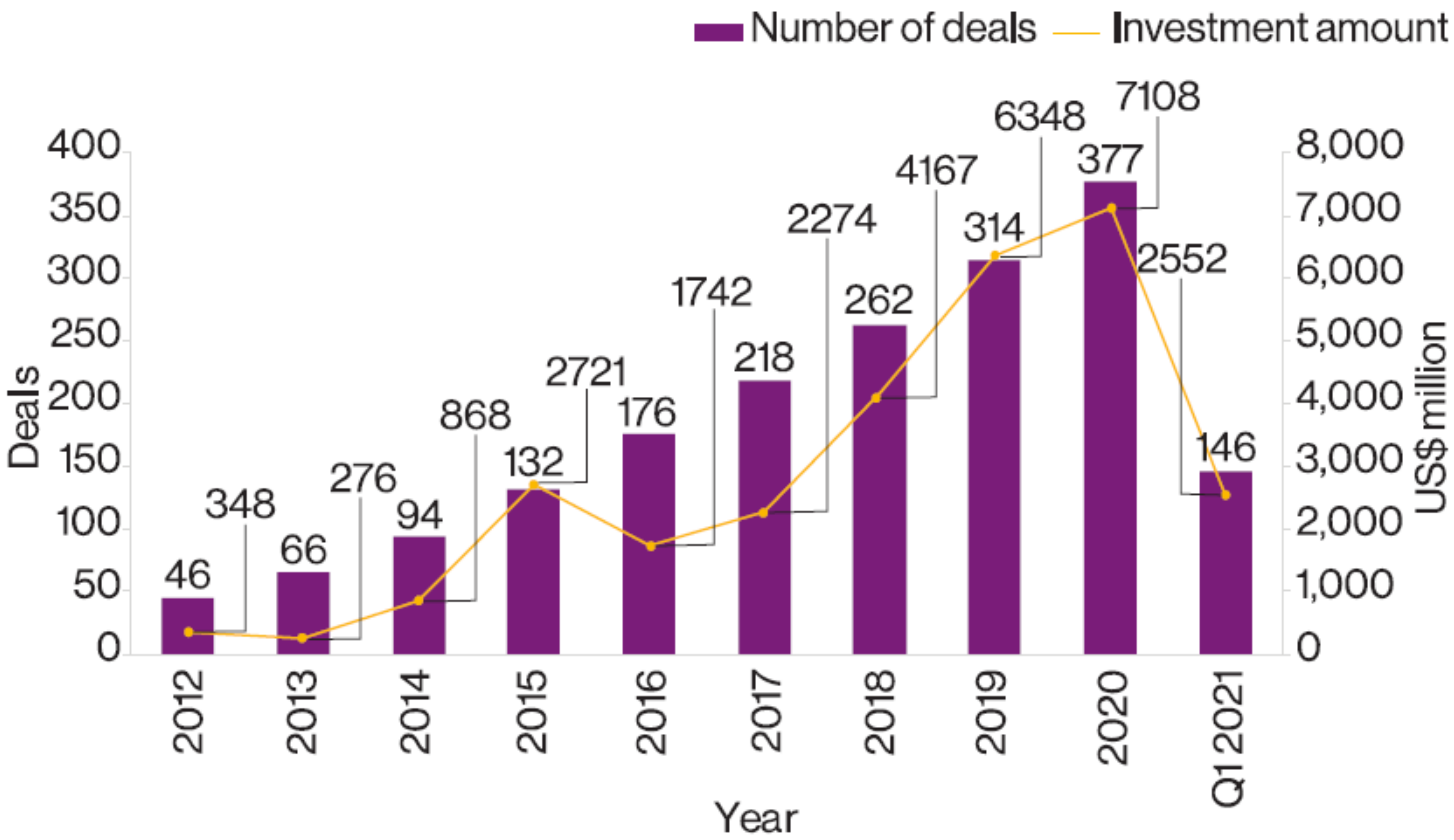
- Data protection and privacy
- Discrimination/financial exclusion - Lack of transparency
- Focus on price instead of coverage
- A monopoly position of the platform provider - Increased IT-risks/cyber-risks

Source: EIOPA "Discussion paper on the (re)insurance value chain and new business models arising from digitalisation!", aprile 2020.

Investment into InsurTech

InsurTech funding reached an all-time high raising US$2.55 billion across 146 deals. Compared to Q4 2020, total funding grew by 22% as investment activity steadily bounced back.

We continue to see the growth of InsurTech in new geographies: in 2020, InsurTech from 38 different countries raised investment



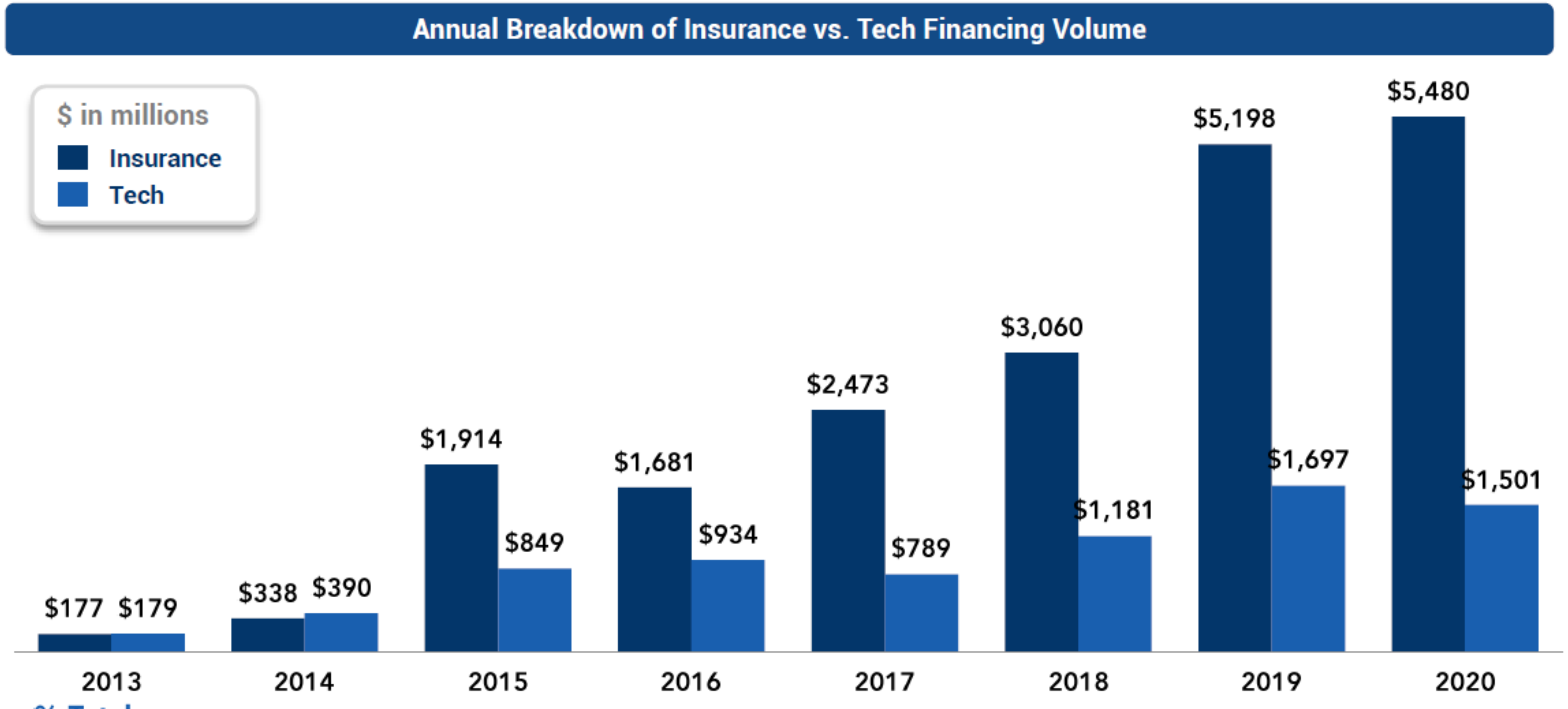
Annual InsurTech funding trends including transaction volume and dollar amount, 2012 – 2021

Source: Quarteriy InsurTech Briefing Q1 2021 - Willis Towers Watson

Allocation of Investment by Insur vs Tech

Insurance ventures continue to raise more funding than technology ventures providing new capabilities to insurers:

- **larger investments required in insurance ventures for customer acquisition**
- **in some cases, for risk-bearing capital**



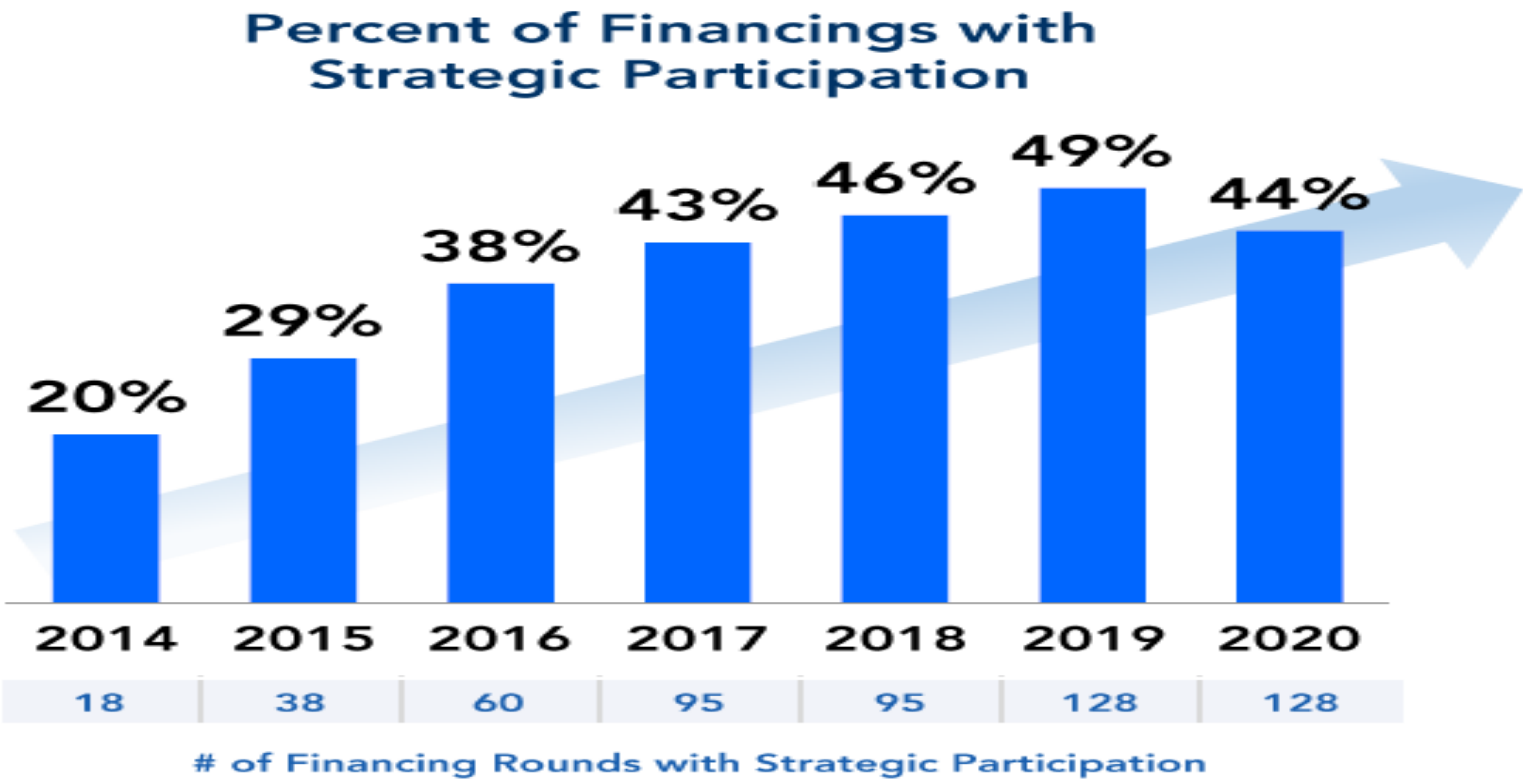
% Total

	2013	2014	2015	2016	2017	2018	2019	2020
Ins.	50%	46%	69%	64%	76%	72%	75%	78%
Tech	50%	54%	31%	36%	24%	28%	25%	22%

Source: FT Partners 2020 ANUUAL INSURTECH ALMANAC

Allocation of Investment by type of Investors

In the last several years has increased the role of strategic investors, often (re)insurance companies



Source: FT Partners

Digital Agenda in the Regulation

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What drives regulation on Digital Agenda (1/3)

To reverse widening inequality, keep a tight rein on automation

Daron Acemoğlu

https://www.imf.org/external/pubs/ft/fandd/2021/03/COVID-inequality-and-automation-acemoglu.htm

Automation accounts for much of the loss of shared growth, along with such factors as globalization and the declining power of labor relative to capital (Acemoglu and Restrepo 2019)

With the next phase of automation rapidly unfolding, driven by machine learning and artificial intelligence (AI), the world's economies stand at a crossroads. AI could further exacerbate inequality. Or, properly harnessed and directed through government policies, it could contribute to a resumption of shared growth

Despite the bewildering array of new machines and algorithms all around us, the US economy today generates very low total factor productivity growth—economists' headline measure of the productivity performance of an economy

The government should provide incentives that tilt the composition of innovation away from an excessive focus on automation and more toward human-friendly technologies that produce employment opportunities

Four decades ago, renewable energy was prohibitively expensive, and the basic know-how for green technologies was lacking. Today renewables make up 19 percent of energy consumption in Europe and 11 percent in the United States, and costs have declined in the same ballpark as fossil-fuel energy (IRENA 2020).

What drives regulation on Digital Agenda (2/3)

Brussel effects
Anu Bradford of Columbia Law School

When the European Union comes up with some new tech regulation, it can quickly spread around the world

The textbook example for the "Brussels effect" is the eu's General Data Protection Regulation (gdpr), which went into force in 2018 and swiftly became the global standard

Digital services are, often "indivisible". It would be too expensive for big tech firms to offer substantially different services outside the eu.

As a result, most have adopted the General Data Protection Regulation, Europe's strict privacy law, as a global standard.

Europe is both gnome and giant in the tech world.

The continent has lots of cutting-edge technology but hardly any significant digital platforms. It accounts for less than 4% of the market capitalisation of the world's 70 largest platforms (America boasts 73% and China 18%).

- At the same time, the eu is a huge market, with a population of more than 500m, which no tech titan can ignore. It contributes about a quarter of the revenues of Facebook and Google.

But the Brussels effect may be less effective than in the past

- If GDPR took the world by storm, it was partly because US Congress not only failed to come up with any data-protection legislation of its own, but also did not bother to co-operate with lawmakers in Brussels. This is changing with the Biden Presidency

What drives regulation on Digital Agenda (3/3)

“we have what we call the GAFA [Google, Apple, Facebook, Amazon] in the US, the BATX [Baidu, Alibaba, Tencent, Xiaomi] in China and GDPR in Europe” Emmanuel Macron

Since online platforms play a central role in society and democracy at large, said Thierry Breton, commissioner for the internal market, “we are organising our digital space for the next decades.”

New AI rules could backfire. European tech firms will have to obey even though their size and power is limited, and possibly the cost of regulation is higher for smaller company than for the US giants

The eu’s rules on AI are meant to focus on the riskiest applications of AI

- Some will be banned outright, including services that use “subliminal techniques” to manipulate people
- Others, such as facial recognition and credit scoring, are considered “high-risk” and so subject to strict rules on transparency and data qualityAs with gdpr, penalties for violations are stiff
  - up to €30m ($36m) or 6% of global revenues, whichever is higher (in the case of a firm as big as Facebook, for example, that would come to more than $5bn).

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- up to €30m ($36m) or 6% of global revenues, whichever is higher (in the case of a firm as big as Facebook, for example, that would come to more than $5bn)

All high-risk services must be tested for legal conformity, but this can often be done by the provider itself

Member states are encouraged to create regulatory “sandboxes”, in which firms can try out novel services without fear of being hit by a penalty

The legislative process that will take years, perhaps even longer than the four years it took gdpr to get from proposal to adoption

Better identification of our goals

Gearing up for a lobbying battle

1) Ethical AI
2) Liability related aspects of AI

https://cerre.eu/wp-content/uploads/2021/03/CERRE_EU-liability-rules-for-the-age-of-Artificial-Intelligence_March2021.pdf

We need to better understand the consequences of both the discussion on "digital finance" / "open insurance" …. And on the "Central Bank digital currencies"

Digital: what we want vs what we do not want

want		not want
Ensure proportionate and risk-based rules, brought together under one single framework	Cyber	No one-size-fits-all approach, avoid duplication of rules
Ensure flexibility for insurers to develop innovative products tailored to new and emerging risks	AI & liability	No mandatory insurance, no separate liability regime for AI applications
Ensure any EU framework is horizontal, proportionate and risk-based, and takes into account existing rules	AI & ethics	Avoid insurance being classed as a high-risk sector
Ensure innovation-friendly, tech-neutral approach based on principle of "same activities, same risks, same rules" and a true level playing field	Digital finance	Avoid duplication of rules and regulatory barriers
Give people greater ownership of their data	Data Spaces	Need for additional clarity on practicalities

CBDCs
The race for supremacy

Economist, various edition

New powers would come with a CBDCs

CBs are concerned by the competition from crypto and “stable coins” initiatives. They fear to lose control …

… but there is a competition also among countries and CBs: China is now the most advanced and - it is no a secrete - this makes the US and other G7 countries uneasy

The least noticed disruption on the frontier between technology and finance may end up as the most revolutionary: the creation of government digital currencies, which typically aim to let people deposit funds directly with a central bank, bypassing conventional lenders.

CBDCs are simply a digital version of cash—the physical money issued by central banks. In most countries, their design will probably resemble existing online payment platforms, with one key difference: money held on a CBDC app or web site will be equivalent to a deposit at the central bank

In a world dominated by Apple Pay or Alipay, everyday transactions would depend on private companies rather than on central banks. Cryptocurrencies like bitcoin and “stablecoins” (which peg their value to the dollar or other assets) like Facebook-backed Diem (formerly Libra) are also a threat, potentially chipping away at state authority.

The Bahamas has issued digital money. China has rolled out itse-yuan pilot to over 500,000 people. The eu wants a virtual euro by 2025. Britain has launched task-force, and America, the world’s financial hegemon, is building a hypothetical e-dollar.

CBDCs Benefit and Risks

Economist, various edition

Unconstrained, “govcoins” could fast become a dominant force in finance, particularly if network effects made it hard for people to opt out.

Some benefits but a number of very difficult issues …

Cashless transactions make for faster, more reliable payments and are less susceptible to counterfeiting. Issuing digital cash is cheaper than minting coins

Officials also have an easier time monitoring how digital money is used, making it harder to fund criminal activities

However, disintermediation of the banking system might make impossible the financial magic that allows households to pair long-dated mortgage borrowing within instantaneously redeemable deposit

The architects of CBDCs are looking for ways round the problem.

- One option, which has been suggested by researchers at the Bank of England and the ECB, is to limit the amount that can be held in a cbdc
- Another idea, pointed out in a recent paper by Sarah Allen of the Initiative for Cryptocurrencies and Contracts, a research group, and 12 co-authors, is to rely on banks to manage the public’s holdings of cbdc, much as many people rely on “wallets” to hold their cryptocurrency

If these options don’t work, Who is going to finance the economy?

Huge powers (and responsibilities) in the hands of CB

More generally, how to maintain balanced power between Governments and private sectors ?

Conclusions

Insurtech might be a driver to fill the the protection gap of the Italian economy, if helps to enrich the relationship between the insurance industry (companies and distribution) and customers

Regulation will play a key role and it is essential that it is “fit and proper” and ensures a level playing field