

Insurtech UK

Insurtech UK consultation response to FCA's call for input: Open Finance

About Insurtech UK:

Insurtech UK is a trade association of over 100 members, associate and partner members. This mainly consists of insurtech startups which cover the full spectrum of the sector; including intermediaries such as MGAs and brokers, as well as non-regulated businesses such as platforms, claims and analytics technology providers. We also have members who are traditional insurers and service partner members who are from a range of professions who serve the insurance market.

Introduction:

Insurtech UK's mission is to transform the insurance industry through the use of technology and to make the UK the global leader for insurance innovation. One of the ways in which the UK insurtech sector is driving innovation is through creating insurance products which are more consumer friendly. By becoming more transparent around pricing and improving the customer journey through better interfaces, simpler policies and faster claims processes, consumer trust in insurance is increasing and consumer outcomes are improving.

Insurtech UK understands that these same principles have driven the FCA's consideration to introduce Open Finance. Insurtech UK believes that these principles could further increase transparency in the sector and accelerate innovation, both of which will ultimately prove beneficial for consumers.

However, Insurtech UK feels that various questions remain around Open Finance in respect to the insurance sector that need careful consideration. Integrating Open Finance principles seamlessly and effectively into an industry of this size and unique nature would be incredibly complex. It is not simply the case of applying the principles of Open Banking to other aspects of finance. They are not directly transferable to the insurance industry because there are no 'standard' terms, conditions or coverage for individual policies. There are also some potential unintended consequences for consumers in relation to insurance that the FCA should consider before it proceeds with adoption.

Q4: Do you agree with our assessment of the potential benefits of open finance? Are there others?

Insurtech UK agrees with the principle that the greater accessibility and transparency around certain elements of consumer data could help stimulate further innovation within the insurance industry and improve consumer outcomes. There are potential opportunities that would give insurance providers and intermediaries more information to assess their end customers' needs. These additional insights could improve the accuracy of their risk

assessment, leading to improved pricing of products that are better tailored to customer requirements.

The data sets could also lead to innovations such as the design of products covering new risks, or risks that previously have not been well covered by the market. This could improve competition in the sector, as it would open up data to businesses who could utilise it to create better insurance products. Insurtech UK believes that consumer outcomes are improved when consumers have access to a greater range of targeted insurance solutions that fit their ever-changing needs, and any consensual sharing of information which could be used to create better insurance products is welcomed.

However, Insurtech UK believes that some of the suggested policies outlined in paragraph 3.8 of the Call for Input could potentially harm consumers and businesses. Insurtech UK would like to highlight some initial concerns raised amongst some members about the following policies:

Personal financial management dashboard

The consultation notes at several points the potential to create a personal financial management dashboard. Insurtech UK understands the desirability for a 'single front door' for a consumer's financial data and history to be available to them, especially as it is common for individuals to have multiple 'live' insurance policies with several providers.

While it could be beneficial for consumers to see all of their insurance products in one place, this creates practical challenges. Creating an Application Programming Interface (API) that passes all the security tests for every single insurance provider and every single insurance policy that they offer will be a big challenge, and this is something the FCA will need to monitor closely because of the heightened risk that accompanies the greater centralisation of customer data. However, Insurtech UK recognises that this challenge could also incentivise innovation, and would welcome clarity around how these obstacles could be overcome.

Auto-Switching

Insurtech UK has strong concerns around the introduction of automatic switching for the insurance sector. A more effective switching process is certainly supported by our members, but automatic switching would damage the innovation currently happening in the insurance market and could lead to worse customer outcomes.

Insurance is not a homogenous product like water or energy, it is a service. The insurance experience varies massively between different providers; ranging from the policies themselves (e.g. scope of cover) to the speed of the claims and fulfilment service to assess and pay out claims.

Auto-switching does not recognise that insurance products can offer completely different things to fit the changing needs of the 21st Century consumer. For example, within the motor insurance market, products range from the standard year-long policy to one where you can pay by the hour, or for every mile you drive.

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This is just one example of the huge range of flexible and targeted insurance solutions available to consumers, and it is difficult to see how these range of solutions would be covered by the binary choices that would determine the switching process. Clearly, the simplest option for auto-switching would be pricing.

But to believe that customers only choose their insurance product by price is a misleading assumption which disregards the businesses who are working to improve the insurance experience, as well as the customers who actively look for the best insurance cover to fit their specific needs. It would be extremely difficult to enable a comparison based on other product features which cannot be quantified, such as the accessibility of the user interface, the quality and response of customer service or the speed of the claims process. Doing so would inevitably lead to attempts to standardise insurance products which are significantly different. Auto-switching could provide the wrong choices for customers to choose an insurance policy which better fits their specific needs.

Additionally, Insurtech UK believes that auto-switching would lead to pricing becoming the unilateral determinant for consumer choice of an insurance product. The historic focus on pricing within the insurance market has arguably been detrimental for innovation and consumer outcomes; primarily because of dual pricing, a measure the FCA itself has said is 'harmful'¹ and has taken active steps to remedy.

Auto-switching could also decrease financial literacy amongst consumers, because it is incentivising consumers to take a less active role in choosing their policies. The FCA has noted research² that suggests that consumers make better decisions and improve their financial literacy through experience, rather than description. Auto-switching encourages consumers to do precisely the opposite of this. The FCA should therefore consider a switching process which incorporates a broad range of the policy's details to ensure that the consumer has the necessary information to choose an insurance product which best fits their needs.

Q5: What can we do to maximise these benefits (given the considerations set out in paragraphs 3.12 to 3.17)?

Insurtech UK believes that the suggested proprietary information outlined by the FCA in paragraph 3.12 could be useful. There is scope of course to include more consumer data, and Insurtech UK believes that information such as settlement history, data for financial means tests and payment of premiums history could also be helpful for insurtech businesses.

Q7: Do you agree with our assessment of the potential risks arising from open finance? Are there others?

¹ <https://www.fca.org.uk/news/press-releases/fca-sets-out-proposals-tackle-concerns-about-general-insurance-pricing>

² <https://www.fca.org.uk/insight/learning-experience-financial-services>

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Whilst supportive of the principles of Open Finance where feasible for the insurance industry, Insurtech UK does foresee a number of risks associated with these principles and the unintended consequences that the implementation of these principles could have both on consumers and the industry itself. Insurtech UK would like to particularly raise the following concerns:

Exclusion

Insurtech UK agrees with the FCA's analysis in paragraph 4.3 that the greater sharing of data could lead to customers with certain characteristics being excluded from certain markets. The insurance sector is unique in that there is no such thing as a 'set price' for a policy. Every single policy price can vary due to the provider's risk assessment of individual consumers and their distribution channels. Insurance providers are unable to base pricing on a consumer's race or gender, due to discrimination laws, but Open Finance could lead to the open sharing of other consumer characteristics, which creates specific ethical concerns where insurance cover is mandatory, such as motor insurance. The FCA needs to ensure that it has solutions to the challenges that arise from the greater understanding of the risk profile.

Implementation

The consultation itself notes in paragraph 3.17 that features of the insurance market may make Open Finance more challenging to implement. Insurtech UK agrees with this. If insurers are required to allow third parties access to data about their customers' insurance products, the challenge to standardise historical data from legacy systems and the accuracy of this historic information could create a series of unintended consequences for the sector.

A major concern could be the legal liability of firms that provide inaccurate data extracted from legacy systems. If businesses create new and innovative insurance products based upon inaccurate data, this could have a serious commercial impact, but more importantly it would decrease the quality of these products, which would be detrimental to consumers.

The FCA should consider how it can ensure the accuracy of this consumer data from legacy systems and what the implications are of businesses using this information. A potential solution to this could be for the principles of open finance to be introduced prospectively, rather than retrospectively. However, this solution would omit historical data which could prove pivotal for improved products and consequently consumer outcomes.

Q21: How should these set of principles be developed? Do you have views on the role the FCA should play?

Insurtech UK welcomes the FCA's suggestion within the consultation to provide an industry forum to help identify opportunities and risks for open finance. Insurtech UK signed a Statement of Intent with the Department for International Trade on the 11th June 2019, in which it agreed to explore the possibility of a cross-industry working group for the benefit of the UK insurance sector. Open Finance has been raised as a potential topic for this working

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group, so Insurtech UK would like to extend an invitation for the FCA to coordinate an insurance industry forum on open finance through this cross-industry working group.