From clicks to claims: emerging trends and risks of big techs' foray into insurance[1]

Executive summary

The insurance value chain offers big techs many opportunities to enter into the insurance market. The value chain spans product design, pricing, underwriting, marketing, sales and distribution, claims management and post-sale policy servicing. Big techs can leverage their technological advantages, for example in data analytics or artificial intelligence, and their access to large datasets to offer services in any part of the insurance value chain, either as licensed insurance entities, in partnership with incumbent insurers or as service providers. While this development can bring benefits to insurers in terms of operational efficiency or expanded market reach, and to consumers through improved customer experience and convenience, it can also give rise to new risks such as excessive market power or concentration in a handful of big techs.

This paper provides an overview of big tech firms' involvement in the insurance business and the applicable regulatory frameworks for the different activities they perform. It examines big techs' involvement in the insurance sector as risk carriers, intermediaries or service providers. It is based primarily on publicly available information from 18 big techs in 14 jurisdictions and related regulatory issuances in those jurisdictions. Interviews with selected insurance regulatory authorities were held to supplement the publicly available information.

Big tech entities that act as insurance risk carriers or underwriters are licensed as insurers, and are therefore subject to the same prudential and conduct rules as incumbent insurers. We identified five big techs that own and control licensed insurance companies, primarily operating in the non-life and health insurance sectors. Although these insurers are relatively small, both in terms of the big techs' overall businesses and local insurance markets, they seem to be actively exploring growth opportunities. Apart from outright ownership of licensed insurers, some big techs have obtained supervisory approvals to hold substantial interests in licensed insurers. Big techs appear to leverage their insurance subsidiaries or shareholdings in at least three ways – seizing early opportunities to lead digital insurance in local markets, nurturing insurance entities to benefit their own ecosystems and experimenting with insurance innovation.

Big tech entities that act as insurance intermediaries are typically registered or licensed as such and the relevant conduct rules apply. In our sample, all but two big techs have an intermediary registration or licence to sell insurance products, leveraging their core digital service platforms. The integration of insurance products or services into the customer journey of big techs' businesses or platforms is a form of embedded insurance. Embedded insurance offered by big techs generally involves products that are closely linked to their non-insurance products or services. There is another set up that can be characterised as an "insurance marketplace". This arrangement involves big techs partnering with a number of insurers to offer, through their one-stop online insurance shopping platform, a wide range of insurance products that are not directly linked to their other digital services.

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Currently, big techs' largest footprint in the insurance sector is as service providers. They mainly offer four types of service – technology (eg cloud computing), data, healthcare and marketing services. Like other financial sector players, insurers rely significantly on big techs for technology services. Uniquely in insurance, given the prominence of data in core pricing and underwriting activities, some big techs may provide data to insurers from their vast consumer data pool as third-party data vendors. Healthcare is an area in which big techs and insurers intersect on health insurance, and more partnerships and market developments are expected to take place. Finally, big techs' large customer base offers an enticing advertising or marketing opportunity for insurers or intermediaries even if those big techs are not involved in insurance selling.

There is a noticeable difference in terms of the business focus of big techs in North America versus those in Asia. US big techs primarily operate as global service providers, while big techs in China focus on local markets, acting as insurers, intermediaries and service providers. In other Asian jurisdictions, big techs are expanding their activities as insurance intermediaries and insurers near their local markets. These regional differences can be attributed to a number of factors, including the level of development of the local insurance market, digital infrastructure and customer behaviour, the local regulatory environment, as well as big techs' own business model.

Insurance activities of big techs are covered under existing insurance regulatory requirements though none are specific to big techs. The requirements that apply to big techs' insurance activities range from prudential and conduct requirements that apply to licensed insurers, to conduct rules that apply to insurance intermediaries, as well as operational resilience requirements imposed on insurers for their exposures to big techs as service providers. Certain jurisdictions have issued dedicated guidelines on the licensing of internet insurers and the operation of digital insurance, which may address areas of regulatory concern arising from big techs' activities as digital insurers and intermediaries. Besides financial stability and prudential risks, such concerns include conduct risks due to the potential speed and scale of any mis-selling practices, and ambiguity relating to the accountability of different parties involved in such cases.

As big techs' regulated insurance activities (as risk carriers or insurance intermediaries) continue to grow, a new big tech-specific regulatory approach might be warranted. Big techs' involvement in insurance and financial services more generally entails additional risks compared with traditional players. Potential risks to financial stability originate not only from the provision of financial services in combination with commercial activities but also from significant linkages with traditional financial institutions as service providers. Financial stability concerns also arise from big techs' tendency towards excessive concentration in the provision of both financial and technology services. These risks are not fully addressed by existing sectoral financial regulations and a regulatory rethink is warranted. Given the global nature of big techs and their cross-sectoral operations, international standards to regulate big techs' activities across the financial services sector in a comprehensive and coherent manner may be helpful to avoid any regulatory blind spots, as well as enhanced cooperation amongst financial sector authorities, competition commissions and data governance regulators.

In the meantime, it is important for insurance supervisors to continue monitoring big techs' insurance activities. A careful review of existing regulatory requirements, to determine whether they fit the nature and risk profiles of big techs, may become necessary. It is important to pay attention to the regulatory perimeter of marketing or distribution of insurance products by big techs and fair use of big techs' data for insurance purposes. The increased complexity of service provisions and concentration risk may not be adequately addressed in existing outsourcing regulations and opaque tie-ups between big techs and insurers may pose challenges for supervision.