

EIOPA public consultation on the ‘Discussion Paper on blockchain and smart contracts in insurance’

Fields marked with * are mandatory.

Introduction

1. Background and rationale

European Insurance and Occupational Pensions Authority (EIOPA) is launching a public consultation on the [‘Discussion Paper on blockchain and smart contracts in insurance’](#).

Blockchain and other distributed ledger technologies (DLTs), when properly used, have the potential to transform the functioning of a wide range of industries, including the insurance industry in Europe. Potential impacts are currently being explored across sectors and by a variety of organisations.

EIOPA is expecting from interested parties their views on this Discussion Paper.

EIOPA will assess the feedback to this Discussion Paper in order to better understand blockchain developments in the insurance sector as well as the risks and benefits related to them.

2. Responding to this discussion paper

EIOPA welcomes comments on the [‘Discussion Paper on blockchain and smart contracts in insurance’](#).

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please respond to the questions in the EU Survey Tool by 29 July 2021.

Contributions not provided using the survey or submitted after the deadline will not be processed and therefore considered as they were not submitted.

3. Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the EU Survey Tool.

Standard confidentiality statements in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to European Parliament, Council and Commission documents and EIOPA's rules on public access to documents.

Contributions will be made available at the end of the public consultation period.

Data protection

Please note that your personal contact details (such as names, email addresses and phone numbers) will not be published. They will only be used to request clarifications, if necessary, on the information you supplied.

EIOPA will process any personal data in accordance with Regulation (EU) 2018/1725 on the protection of national persons with regard to the processing of personal data by Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC. More information on how EIOPA will treat your personal data can be found in the privacy statement.

Information about the respondent

* First name

Esko

* Last name

Kivisaari

* Email

esko.kivisaari@financefinland.fi

* Do you agree that your response is published in EIOPA website?

- Yes
 No

* Country

Finland

* Name of your organisation

Actuarial Association of Europe, AAE

Type of your organisation

- Insurance of reinsurance undertaking
- Insurance intermediary
- Technology company
- Industry association
- Consumer association
- Academia
- Other (please specify)

Please specify

Professional body of European actuaries

Questions to stakeholders

1. In addition to those described in this paper, can you report other blockchain and smart contract use cases or business models in the EU or beyond, that might be worth to look at from supervisory/consumer protection perspective?

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2. Please describe your own blockchain/smart contract use case/business model and challenges you have faced in implementing it, if any.

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3. Are you aware of practical examples of crypto-assets use cases in insurance? Please describe these use cases, specifying the types of crypto assets concerned (e.g. payment-type, investment-type, or utility-type) and explain whether they are already being implemented or they are still at a proof-of-concept / early stage of development.

- Yes
- No
- I don't know

Please explain your response

As a professional organisation we leave this question to be answered by other stakeholders

4. Without prejudice of your reply to the previous question, are you aware of insurance products covering the loss or theft of crypto assets being marketed to retail or commercial clients?

- Yes
- No

- I don't know

Please explain your response

As a professional organisation we leave this question to be answered by other stakeholders

5. How do you think that the investments in crypto assets by insurance undertakings will evolve during the next 3 years?

- Increase
 Decrease
 Stay same
 I don't know

Please explain

As a professional organisation we leave this question to be answered by other stakeholders

6. How do you think the European Commission's draft legislative proposal on markets in crypto assets (MiCA) will impact the use of crypto assets in the insurance sector?

As a professional organisation we leave this question to be answered by other stakeholders

7. In addition to those stated in this Discussion Paper, do you see other blockchain/smart contract use cases in RegTech/SupTech that might be worth to look at further from supervisory/consumer protection perspective?

- Yes
 No
 I don't know

Please explain

As a professional organisation we leave this question to be answered by other stakeholders

8. Please describe your own blockchain/smart contract use case/business model in RegTech/SupTech and the challenges you have faced in implementing it, if any.

Not applicable to the AAE

9a. Do you agree the potential risks for the consumers are accurately described?

- Strongly agree
 Somewhat agree
 Neither agree nor disagree
 Somewhat disagree
 Strongly disagree

9b. Do you agree the potential risks for the industry are accurately described?

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

9c. Do you agree the potential risks for the supervisors are accurately described?

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

10. Are there additional risks?

- Yes
- No
- I don't know

Please explain

Some named risks for undertakings are also risks for supervisors and consumers:

- Concentration risk and vendor/service provider risk can turn into sustainability failure (loss of long-term protection for consumers, model error risk for insurers leading to possible insolvency of some participants)
- Technology investment leading to oligopoly formation (less competition for consumers, less market diversification for supervisors)

The potential use of single-source-data and underlying requirement for all participants may develop additional bottlenecks:

- Less dynamic and individual product development due to firstly implementing new data and standards in existing blockchain standards (data enrichment, new data requests from customers for new risk parameters)
- Less competition on insurance pricing and product risk evaluation process (all participants using same parameters) leading to lower understanding of developments and trends (if no individualized data-flows can take place)
- Later detection of risks and trends due to low individual competition and research in parameter search for individualized product pricing

The new technology requires standardisation across multiple insurance related industries, especially if enabled and regulated from a regulator's perspective with low need for specialty (or niche) requirements.

Here we see the potential risk of not using and storing all relevant and available information due to the required agreement by all (or most) participants may lead to reduction of customer's evaluation and thereby increase uncertainty (and price) for products in some special niche markets

11. Do you consider that the current regulatory and supervisory framework is adequate to capture these risks? If not, what can be done to mitigate these risks?

- Yes
- No
- I don't know

Please explain

The current regulatory and supervisory framework enables a standardised and top down view on insurance business w.r.t. development, performance, consumer pricing, compliance, fairness, sustainability, solvency and much more for most participants.

If an application like blockchain and smart contracts leads to data-monopolizing this will have effects on all of these perspectives. It may be very individual to specialised and niche insurance use-cases. This could require more detailed and individual bottom-up perspectives for regulators and supervisors, which can help mitigate the named risks at corresponding cost.

12a. Do you agree the potential benefits for the consumers are accurately described?

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

12b. Do you agree the potential benefits for the industry are accurately described?

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

12c. Do you agree the potential benefits for the supervisors are accurately described?

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

13. Are there additional benefits?

- Yes
- No
- I don't know

Please explain

Consumer:

More insurance options with less effort if trusted sources are used (automated claim/payout options).

Undertaking:

Wider range of business models due to symmetric data sharing opportunities on trusted blockchain technologies, where previously asymmetric knowledge prevented insurance offerings.

Supervisor:

More transparency on data scope and use in the markets.

14. What can be done to maximise these benefits?

Many benefits are in contradiction to other consumer/undertaking and regulatory goals. Example: generating trusted sources and revalidation of such trust certainly requires repeated reviews. This increases cost and resource needs (not a one-time cost), unless the use of a trusted source reduces costs elsewhere. As actuaries we understand that not all of the benefits can be maximised at once especially by upholding other existing insurance advantages. The effects are similar to the example of the magical triangle (quality, cost, time) used in project management. Therefore, one or some of the benefits need to be selected for specific focus to find a way of maximising these. This then requires acceptance of lowering other benefits, or even removing existing advantages in the market.

15. Do you agree the barriers highlighted in chapter 7 exist?

- Yes
- No
- I don't know

Please explain

As a professional organisation we leave this question to be answered by other stakeholders

16.1. What additional regulatory barriers do you see in EU insurance regulation?

As a professional organisation we leave this question to be answered by other stakeholders

16.2. What additional regulatory barriers do you see in non-EU insurance regulation?

As a professional organisation we leave this question to be answered by other stakeholders

17. What are in your view the main regulatory and non-regulatory barriers preventing the use of crypto assets in insurance?

As a professional organisation we leave this question to be answered by other stakeholders

18. Do you agree there is a need for coherent European approach to blockchain and smart contracts in insurance? What could be done to achieve this and specifically what EIOPA could do?

- Yes
- No
- I don't know

Please explain

As a professional organisation we leave this question to be answered by other stakeholders

19. Do you consider that there is a case for clarifying or updating the prudential rules in relation to crypto-assets if held by insurance undertakings? Please explain your response. In particular, taking into account the developments in international financial reporting standards, are you aware of examples where it is not

clear how to apply insurance prudential rules to crypto assets? Please provide those examples and specify the rules which are not clear.

- Yes
- No
- I don't know

Please explain

As a professional organisation we leave this question to be answered by other stakeholders

20. Do you agree with the proposed follow-up actions stated in chapter 8?

- Yes
- No
- I don't know

Please explain

As a professional organisation we leave this question to be answered by other stakeholders

Contact

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