



Central Bank of Ireland's Digitalisation in Insurance Survey¹

June 2023

210.95

149.16

23.26

1.41%



¹<https://www.centralbank.ie/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/communications>

What has happened?

As part of the Central Bank of Ireland's (CBI) future focused strategic theme, understanding the future of the insurance sector and the potential impact of emerging risks are key considerations. Addressing the risks and opportunities posed by digitalisation is a priority for the CBI.

The CBI issued a survey in October 2022 to help understand the implementation and impact of digitalisation across the insurance value chain. The survey represents approximately 70% of the Irish Insurance sector, with 44 life, non-life and reinsurance firms taking part. It consisted of 42 questions based on current and future digitalisation, and its effect on the insurance value chain.

From this, the CBI sought to identify the risks and opportunities that arise from digitalisation. Secondly, the CBI wanted to gauge the extent to which these risks and opportunities have been integrated within a firms' business strategy and system of governance.

Key Findings

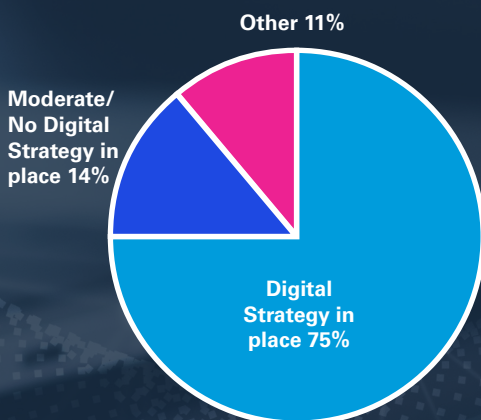
The majority of firms have a digital strategy or are planning on developing a strategy.

01.

75% of participants stated that they have adopted a digital strategy that has already been, or is planning to be, integrated into their risk management framework.

However, 14% of participants have no digital strategy and no plans to develop one. The CBI note it is good practise to integrate a digital strategy into a firm's wider business model, governance, and risk management frameworks.

Implementation of Digital Strategy

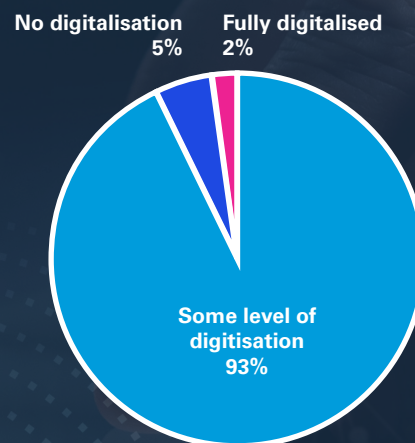


02.

Digitalisation is especially evident in pricing, underwriting, claims management, and post-sales servicing, where cloud computing and Application Programming Interfaces (APIs) are already widely used.

The survey indicates the potential growth in digitalisation over the next 3 years, with 93% aiming for some digitalisation in this time frame.

Goals for digitalisation over the next 3 years



03.

95% of firms reported support from their wider group for the growth of their digital strategy.

In this regard, 74% reported that the unique aspects of their Irish firm have been integrated into the digital strategy. The CBI noted it is good practise for a digital strategy to consider the specificities of the firm and the market it operates in.

04.

86% of firms have a commercial relationship with "BigTech", where the use of cloud computing and Artificial Intelligence (AI) is often facilitated.

It is important the potential risks when outsourcing services to a third party are considered. The CBI highlight that governance principles should be in line with EIOPA's "Guidelines on outsourcing to cloud service providers"² and that vulnerabilities to critical business services are identified in line with the CBI's "Cross Industry Guidance on Operational Resilience"³.

²https://www.eiopa.europa.eu/system/files/2020-04/guidelines_on_outsourcing_to_cloud_service_providers_en.pdf

³<https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp140/cross-industry-guidance-on-operational-resilience.pdf>



Risks and Opportunities

There are several new risks and opportunities that present themselves through digitalisation.

The main risks and challenges involved with digitalisation are cyber security, data and privacy management, operational resilience and skills shortages. Firms should consider potential capacity issues if they plan to scale up the level of digitalisation within the firm.

Digitalisation risks are currently identified through firms' existing risk management frameworks. Tools such as risk workshops, engagement with group and Own Risk and Solvency Assessments (ORSA) were noted in the survey. In line with Solvency II requirements, the ORSA should contain a current analysis of digitalisation risk as well as a forward-looking analysis, where appropriate. However, 24% of respondents reported that they did not include any forward-looking view on digitalisation risks.

The CBI note that due to the developments in digital technologies, a regular review of oversight responsibilities may be necessary. In the survey, firms indicated that responsibility for digitalisation risks usually lies with a specific individual such as the Chief Executive Officer (CEO), Chief Operating Officer (COO) or the Chief Technical Officer (CTO).

The board of directors is ultimately responsible for managing digitalisation risks. However, the survey showed that one third of the board members and/or senior management have not been trained in the relevant area within the last two years. This included firms where a digital strategy is already in place or there are plans to implement one. The CBI highlighted the importance of regular, engaged board discussion if digitalisation risks are material.

Customer Experience and the convenience of products and services being available from any location at any time were the main opportunities identified within the survey. However, 50% of those who reported customer experience as an opportunity noted that they almost exclusively adopt digitalisation in the back office, rather than in customer facing processes. Other opportunities noted include an increase in efficiency and reduction in costs, an increase in sales, enhanced risk mitigation and prevention and improved regulatory compliance.

Conclusions & Next Steps

The survey provided the CBI with valuable information regarding the current and expected future digitalisation across the insurance industry in Ireland.

- Overall, most survey participants are integrating or are planning on integrating digitalisation within their business models. However, the Irish insurance industry appears to be at a relatively early stage.
- Digital maturity is moderate and more concentrated in established digital technologies. The initial focus of digitalisation is to improve efficiency of current processes within the firm.
- Results show an incremental increase in digitalisation over the next 3 years, rather than transformative.

Although digitalisation presents new opportunities across the insurance industry, there comes an increased responsibility on firms to manage the associated risks appropriately. New risks arising from digitalisation need to be managed efficiently with a clear strategy in place and ensuring compliance with the necessary requirements.

- In the context of increased digitalisation, a firms' sustainability over the longer term should be considered.
- Firms should reflect on the appropriateness of their overall approach to managing digitalisation risks and ensure compliance with relevant regulation.
- Where digital technologies, such as cloud computing and AI, are facilitated by third parties, the risks associated with such an arrangement should be identified and dealt with in line with CBI guidance.

How KPMG can help you?

With our combined Insurance, Technology, Risk and Regulatory expertise, KPMG is uniquely placed to support your firms' digitalisation journey. Key contacts have been included below.

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