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Cloud services: challenges and opportunities for the insurance sector

Cloud computing technology is seen as key enabler of agility and data analytics allowing firms to get quick access to new business models and technologies such as Artificial Intelligence and Machine Learning. Given that data processing and data analytics have historically been at the very core of the business of insurance undertakings, the relevance of cloud computing for the sector is no surprise.

Based on EIOPA's thematic review on the use of Big Data Analytics in motor and health insurance, in 2018 cloud computing services were already used by 33% of insurance undertakings, with a further 32% saying they would be moving to the cloud over the next 3 years (i.e. by 2021).

At the European Insurance and Occupational Pensions Authority (EIOPA), our view is that we should be able to strike a balance between enhancing financial innovation and ensuring consumer protection and financial stability.

This is also true for cloud services, which are becoming common place in Europe's financial sector. Today, cloud outsourcing services have become more standardised, allowing services to be provided to a larger number of different customers in a highly automated manner and on a larger scale.

However, although services can offer the insurance sector the advantages of economies of scale, flexibility, operational efficiencies and cost-effectiveness, they also raise challenges. This includes issues related to operational resilience, data protection and location, security issues and concentration risk; large suppliers of cloud services can become a single point of failure when many undertakings rely on them.

Understanding how new technologies and business models drive new risks and opportunities is crucial, as is insurance regulation that is fit for purpose.

Earlier this year, EIOPA issued guidelines for cloud outsourcing with a view to providing clarification and transparency to users of cloud services, to reduce the risk of possible regulatory arbitrage. The guidelines also foster supervisory convergence regarding the expectations and processes applicable in relation to cloud outsourcing.

The guidelines were developed following a public consultation with stakeholders. They are principle-based and cover a number of key areas, such as the pre-outsourcing analysis, covering risk and materiality assessments of outsourcing arrangements and contract clause requirements. In the area of governance, the guidelines cover documentation requirements, including notification, to supervisory authorities. The

guidelines also address the management of access and audit rights, the security of data and systems, sub-outsourcing, monitoring and oversight, and exit strategies.

Looking ahead, and taking into consideration the upcoming Digital Finance Strategy of the European Commission, EIOPA will consider issuing further guidance on outsourcing in other activities / areas of the insurance value chain, with the aim to clarify supervisor expectations in this area, improve the governance of such processes and provide transparency to the market, without lowering standards.

Digital finance is an important driver of Europe's financial services. However, innovation cannot be at the detriment of consumers, nor can it call into doubt the security and resilience of Europe's insurance industry. EIOPA will therefore continue to work with a range of stakeholders to further the European digital agenda and create a Europe fit for a digital age. ●