

Study on the role of digitalisation and innovation in creating a true single market for retail financial services and insurance

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Tallinn

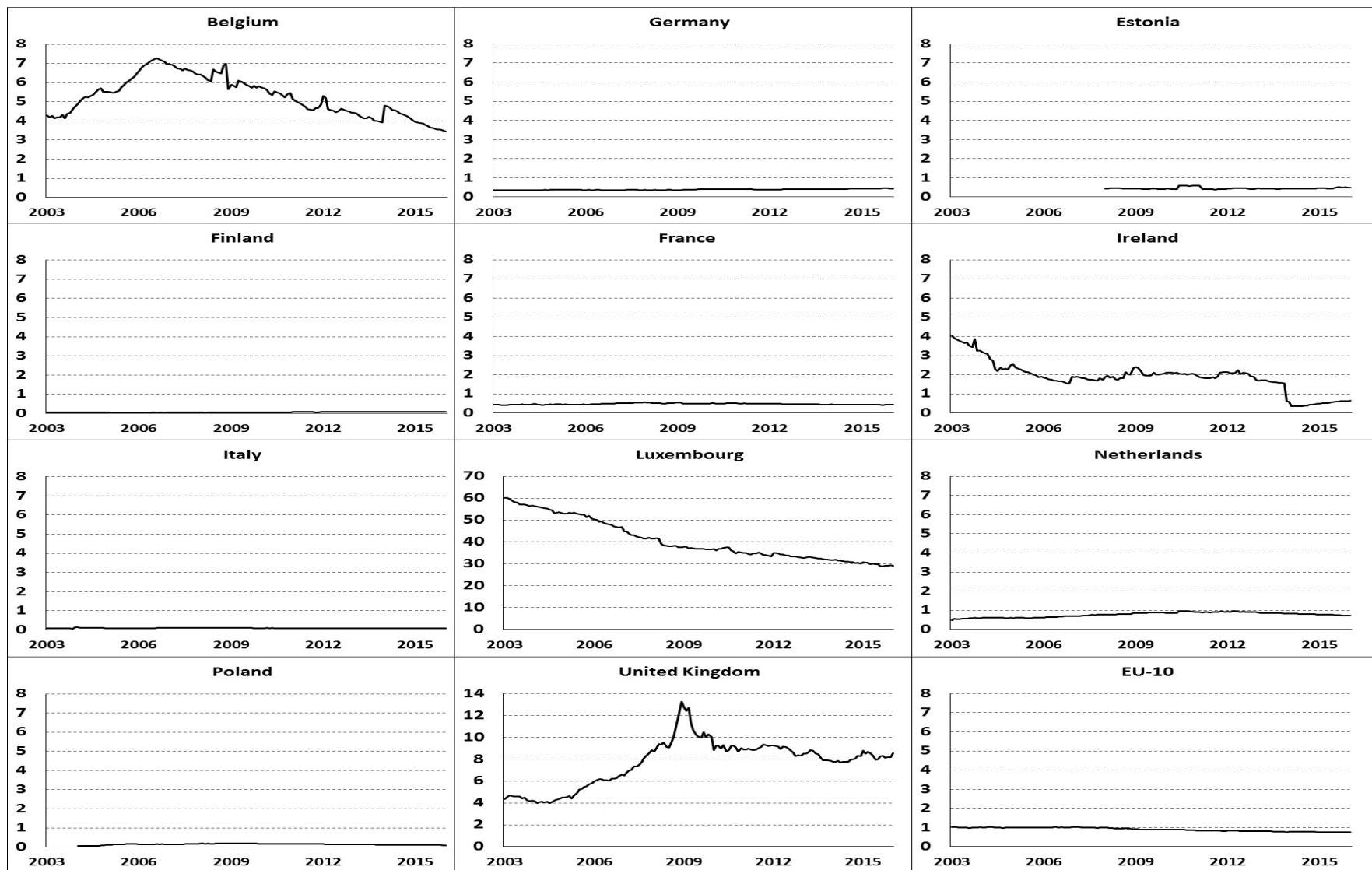


Context

Dynamics in cross-border activities

- Direct cross-border sales have been negligible to date
- Exceptions:
 - Luxembourg (loans and accounts) due to the significant number of cross-border commuters
 - UK for housing loans, mirroring the high volume of UK real estate purchased by overseas buyers

Cross-border activities in household loans (in %)



Two types of barriers

Natural barriers

Geographical distance

Different languages

Different habits

Structural barriers

Differences in
regulations

Differences in
taxation

Differences in
institutional
frameworks

Differences in
infrastructures
and technologies

Three types of digitalisation and actors

Types of digital transformation

Products

Manufacturing processes

Distribution processes



Three types of actors in digital transformation

Traditional providers
(banks and insurers)

New companies (FinTech
and InsurTech)

Companies traditionally
active in other sectors

How and under which forms can digitalisation overcome these barriers?

Methodologies

Segments covered

Retail banking

Payments

Current accounts
Saving accounts

Consumer loans
Housing loans

Non-life insurance

Motor insurance

Property insurance

Health insurance

Two dimensions

- **Current picture**
- **Prospects (required conditions):**
 - Scenario 1: Business as usual
 - Scenario 2: Development of cross-border sales in specific pockets
 - Scenario 3: EU integrated market

93 interviews in 11 countries (March 2016-June 2016) to assess both the current picture and the prospects

Country	Banks	Insurers	Brokers/agents	Other financials	Tech companies	FinTechs	Regulators & supervisors	Total
Belgium	4	3	1	2	::	::	::	10
Estonia	3	1	3	::	::	::	2	9
Finland	2	1	4	::	::	::	2	9
France	1	2	2	::	::	3	2	10
Germany	1	::	::	1	::	3	2	7
Ireland	5	::	::	::	::	::	2	7
Italy	4	1	1	1	::	1	2	10
Luxembourg	1	1	::	::	::	2	3	7
Netherlands	2	1	::	2	::	1	2	8
Poland	4	::	4	::	::	::	1	9
United Kingdom	2	::	::	2	2	::	1	7
Total	29	10	15	8	2	10	19	93

Four focus groups that involved 53 experts to assess prospects

- The 53 experts were consultants, regulators, practitioners, academics and consumer representatives
- Two focus groups in Brussels, the "**European policy ecosystem**"
- Two focus groups in London, the "**main European FinTech scene**"

Key findings: types of consumers and providers engaged into cross-border sales

High diversity of providers engaged in cross-border sales

Segments

Payments

Current and savings accounts

Consumer and housing loans



Types of providers

Platforms that provide payment products linked to online current accounts

Some FinTech companies are very active

- Unsecured consumer loans: FinTech firms
- Housing loans: specialised banks and specific departments of large banks

Different types of consumers engaged in cross-border sales

Segments

Payments

Current and savings accounts

Consumer and housing loans

Car insurance

House insurance

Health insurance



Types of consumers

Younger and high-income consumers

- Expatriates, cross-border commuters
- Consumers looking for higher yields

- Expatriates, cross-border commuters
- Consumers with thin credit files

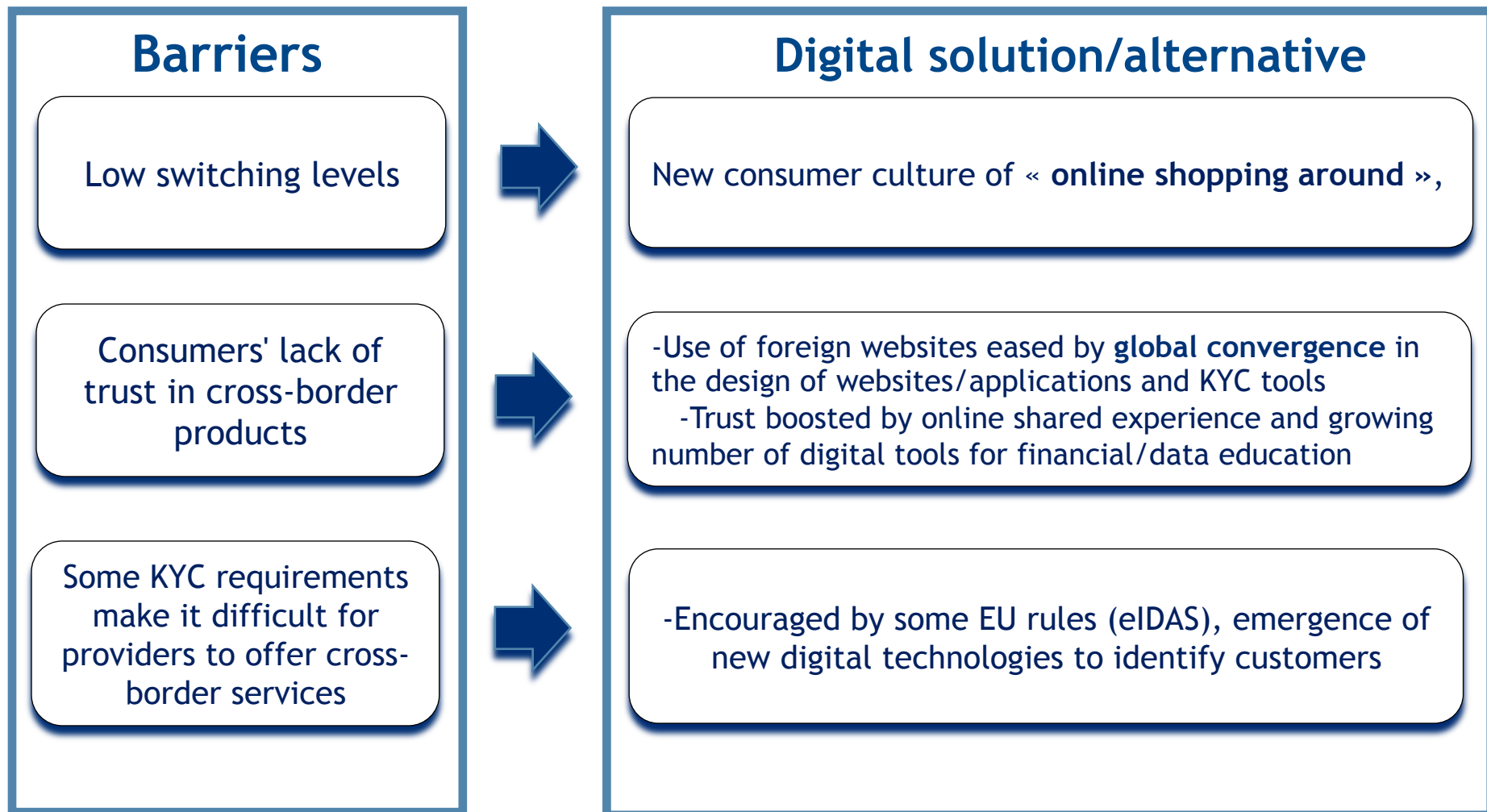
- Expatriates, cross-border commuters

- Holiday foreign home-owners

- Frequent travellers and health "tourism"

Key findings: digital solutions and trends that can overcome specific barriers

Contribution of digitalisation to overcome barriers to cross-border sales



Contribution of digitalisation to overcome barriers to cross-border sales

Barriers

Need for face-to-face advice and assistance



Time needed to acquire (non-resident) consumers



Still high proportion of cash used in many EU28 countries



Digital solution/alternative

-Video-calls or robo-adviser are gradually replacing personal advisers (assistance anywhere/anytime)

-Digitalisation is increasing the speed of acquisition
-Slower for some segments such as housing loans

Digital solutions are available to process cross-border transfers of money that have similar attributes to cash

Contribution of digitalisation to overcome barriers to cross-border sales

Barriers

Little/no financial data is available for many consumers



Processes to exchange domestic data on claims history remain limited across countries



Fragmentation across countries persists in recovery and claims processes



Digital solution/alternative

-Use of algorithms that can process unstructured data (provided by social media data) to perform scoring/pricing
-Global characteristics of social media data

-For insurance, use of alternative data such as the one produced by the Internet of Things (vehicle telematics, smart home solutions, etc) allows better understanding of the behaviour of (non-resident) consumers

-Big data analytics can contribute to higher prevention for insurance (less frauds, better behaviour) and credit (early warning schemes)

Remaining barriers

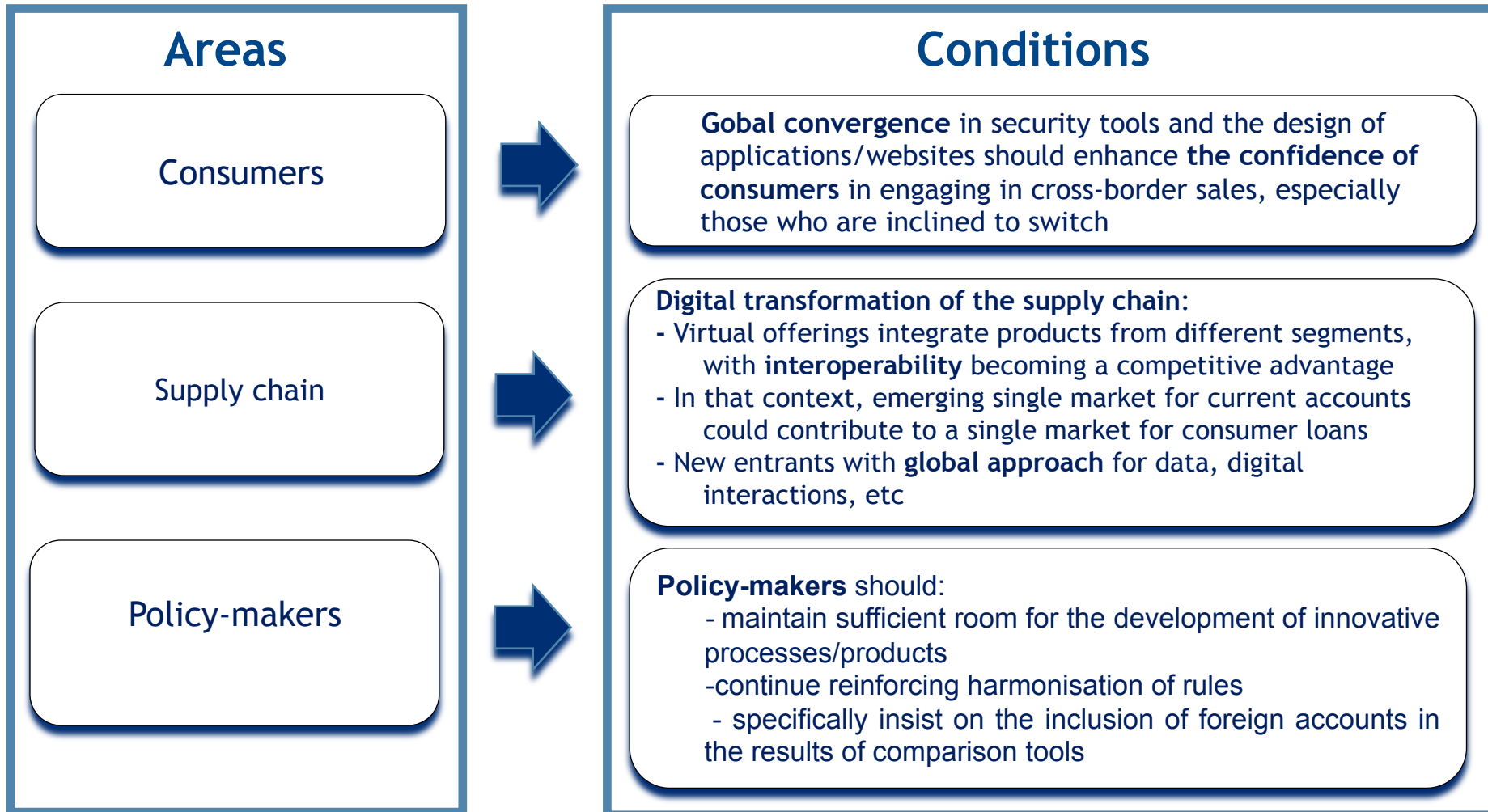
- Lack of interoperability between providers, consumers and other stakeholders, both within and across countries (particularly important for health insurance and housing loans)
- Processes for exchanging domestic structured data across countries (credit history, data on claims history for car insurance, etc) continue to be limited
- Insufficient harmonisation in some rules such as data protection, electronic signature, etc. discourages providers from engaging in cross-border sales
- Poor consistency over time and across member states in taxation rules also hinders the cross-border sales of housing loans, savings accounts and even property and car insurance

Key findings: three scenarios

Scenario 1: Business as usual (high probability)

- Lasting fragmentation in rules across the EU-28 will continue to deter both consumers and providers from entering the cross-border market
- In addition, if hybrid distribution models, including both online channels and face-to-face interactions, persist for a significant share of products, the barrier of geographical distance will not be completely removed
- The poor access of providers to non-residents' data, combined with the difficulty of consumers to obtain reliable data to compare products on a cross-border basis, will reinforce the status quo

Scenario 2: Development of cross-border sales in specific pockets (medium probability)



Scenario 3: EU integrated market (low probability)

Areas

Intermediaries and
external actors

Technologies

Data



Conditions

- Increasing use of **passports** and multiplication of **digital identity initiatives**
- Digitalisation of the processes of **external actors** (notaries, doctors, land administration, etc) and higher interoperability

By reaching **full maturity**, nascent technologies will greatly contribute to the complete digitalisation of distribution channels of all retail financial services and non-life insurances

- Search for cross-border products boosted by **true pan-European product comparison platforms** and the increasing **digital and financial literacy** of consumers
- Providers will have access to **true pan-European databases**
- Development of European bodies (private/public) that provide **exploitable alternative data** (social media, IoT, etc)