

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



PRINCIPLES ON THE SUPERVISION OF INSURANCE ACTIVITIES ON THE INTERNET

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Principles on the Supervision of Insurance Activities on the Internet

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1. Background

1. The development of electronic commerce, particularly on the Internet, presents insurance supervisors and regulators with new kinds of opportunities, challenges and questions. The use of the Internet will undoubtedly affect the ways in which insurance companies, intermediaries and insurance supervisors function in the future. For example, the number of cross border insurance transactions will increase.

2. In principle, there are benefits for insurers and consumers alike from the development of the Internet. The use of information networks has the potential to make the offering of insurance products more efficient and less costly than before. Insurance companies and intermediaries are provided with the technical capability to reach many millions of potential policyholders with good quality information on their products and services. Consumers increasingly have access to more and more sophisticated programs for searching for, identifying and purchasing insurance products.

3. However, whilst the Internet creates a new environment in which insurance products can be advertised, sold and delivered, it does not alter the fundamental principles of insurance and insurance supervision. It is a new medium through which to transact business.

4. Current concerns over the security of concluding contracts over the Internet are being addressed, but there remain substantial risks to consumers. Sales over the Internet extend the opportunities for insurance fraud, money laundering and the miss-selling of insurance products. It presents insurance supervisors with new challenges in delivering the level of protection that consumers in their jurisdiction expect. In particular it raises questions for consumers and insurance supervisors alike over the contract law applicable, and means of redress where there is a dispute between the insurer and insured.

5. One of the most important tasks of insurance supervision is the protection of policyholders and potential policyholders. The Internet does not change this basic premise. Where it helps is in offering insurance supervisors a new kind of medium for cooperation.

6. This paper proposes an environment for the supervision of insurance activities on the Internet which aims at ensuring that relevant information is available to consumers, insurers and insurance supervisors. Due to the extremely fast development of electronic commerce, the framework for the supervision of insurance activities on the Internet needs to be regularly reviewed.

2. Supervision of insurance activities on the Internet

7. Insurance supervisors should require that the sale, purchase, and delivery of insurance over the Internet is conducted in a secure environment, and that policyholders are adequately protected. The primary responsibility for the supervision of insurance activities rests with the supervisors of the insurers' home jurisdictions.

8. IAIS members are encouraged to adopt and implement the following principles.

<p>Principle 1: Consistency of approach</p>
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<p>The supervisory approach to insurance activities on the Internet should be consistent with that applied to insurance activities through other media.</p>

9. Insurance supervisors should seek to apply standards of consumer protection to Internet related activities equivalent to those applied to the provision of services off-line. They should not constrain the legitimate use of the Internet.

10. Insurance supervisors should be prepared to provide guidance on the circumstances under which they will seek to assert supervisory authority over Internet activities. Factors that may support an assertion of authority may include evidence that:

- a. an internet site is targeted at residents and/or risks within the supervisor's jurisdiction;
- b. insurance services are, in practice, being provided via the Internet site to residents in the supervisor's jurisdiction; and
- c. attempts are made to present information to potential policyholders within the supervisor's jurisdiction through proactive means, e.g. e-mail.

11. Factors that may support a decision not to assert supervisory authority over Internet activities may include evidence that:

- a. the insurer or intermediary clearly states that the services are offered to persons and risks outside the supervisor's jurisdiction;
- b. the Internet site contains a list of those jurisdictions in which the insurer or intermediary is entitled to provide services and the list does not include the supervisor's jurisdiction; and

- c. the insurer has in place effective systems and procedures that are designed to prevent sales to residents in the supervisor's jurisdiction.

Principle 2: Transparency and disclosure

Insurance supervisors should require insurers and intermediaries over which they exercise jurisdiction to ensure that the principles of transparency and disclosure applied to Internet insurance activities are equivalent to those applied to insurance activities through other media.

12. The level of consumer protection should not be dependent on the medium used for insurance activities. The same basic principles of transparency and disclosure should apply for the Internet as for other media.

13. For example, the information provided to consumers should be broadly equivalent to that which would be expected in a traditional transaction, and should always be adequate for a consumer to make an informed decision on whether or not to avail of the services offered.

14. In order to protect the consumer, insurance supervisors should require that insurers and intermediaries over which they exercise jurisdiction and which offer insurance products over the Internet display certain minimum information on their Internet sites. In addition to the information that is mandatory in the jurisdiction in which services are being offered, the minimum information should generally include:

- a. the address of the insurer's head office, and the contact details for the supervisory authority responsible for the supervision of the head office;
- b. contact details for the insurer, branch or intermediary, and for the supervisory authority responsible for the supervision of the business, if different from the above;
- c. the jurisdictions in which the insurer or intermediary is legally permitted to provide insurance services;
- d. procedures for the submission of claims and a description of the insurer's claims handling procedure; and
- e. contact information on the authority or organisation dealing with consumer complaints.

Principle 3: Effective supervision of Internet activities based on cooperation

Supervisors should cooperate with one another, as necessary, in supervising insurance activities on the Internet.

15. The regulation of Internet activities based purely on actions capable of being taken within a single jurisdiction is often inadequate. It is evident that the regulation and supervision of Internet activities requires a greater degree of cooperation amongst insurance supervisors. Therefore insurance supervisors should have the ability to cooperate with one another, for example in providing assistance when needed or in dealing with cases of abuse in each other's markets.

16. Internet operations are highly dependent on system reliability and integrity and, as a result, are vulnerable to operational risks. Insurance supervisors should require that their supervised companies that offer insurance services over the Internet have sufficient control systems in place (including security, confidentiality, control of personal data, back-up and record-keeping systems) to transact that business in a proper manner. Supervisors should look closely at any outsourcing arrangements to ensure that appropriate contracts are in place and that risks are being addressed effectively.

17. The exchange of information between supervisory authorities is a key element in pursuing effective supervision of Internet activities. The Internet can be an effective tool for exchanging basic information.

18. Insurance supervisors should generally make the information listed below available on their own websites:

- a. Structure and organisation chart of the supervisory authority, including contact information;
- b. A listing of relevant insurance legislation;
- c. A list of supervised insurance and reinsurance companies, including contact information or a central point within the supervisory authority from whom such information can be easily obtained; and
- d. A link to the website of the IAIS.

19. Insurance supervisors may also consider making available the information listed below available on or through their own website:

- a. Texts of the relevant insurance legislation;
- b. A list of licensed intermediaries, including contact information;
- c. The Annual Report of the supervisory authority;
- d. Annual insurance statistics;
- e. Links to the websites of other relevant supervisors in the same jurisdiction; and
- f. Other information, as the supervisor deems relevant.