

White paper

# Digital responsibility and solidarity in the insurance industry



Taking responsibility. Strengthening solidarity.

**The ethical principles of fairness, autonomy, transparency and personal privacy, as well as our understanding of solidarity, are all affected by digital transformation and need to evolve.**

**This white paper spotlights the insurance business as a way of contributing to the debate around digital responsibility in Switzerland. The focus is ethical principles for companies, government and consumers, designed to encourage forward-looking action in the digital age.**

# Contents

Digital responsibility and solidarity  
in the insurance industry

- 05 Background
- 09 Principles for the insurance  
business in the digital age
- 17 Responsibilities of insurance  
companies, government and  
consumers
- 31 Final remarks

# Background

Digitalisation is permeating all areas of our lives and fundamentally changing society in the process. Particularly affected by the changes – in varying degrees of intensity – are all insurance-related areas, first and foremost health and old-age provision. Increasing self-tracking is making increasing volumes of personal data available. This data on people's individual situation and potential exposure to risk enables highly personalised insurance models and lays the basis for behaviour-dependent or risk-based premiums – which also means that they could transform the current social and political understanding of solidarity in a social insurance context.

For example, increasingly widespread health tracking could lead to a situation where a premium discount was more accepted or even expected in return for health-conscious behaviour. Changing values could potentially impact society's expectations in terms of the design of social insurance schemes resting on the principle of solidarity. In private insurance, we have to examine the approach to unequal treatment (differentiation or discrimination). The risk of big-data-driven processes is that socially unacceptable differentiation (for example on the basis of sex) could creep in because of the use of certain algorithms, even though the characteristic in question

(e.g. sex) is not used directly in the calculation of premiums. On the other hand, big data also provides ways of using special algorithms to prevent or at least systematically reduce discrimination.

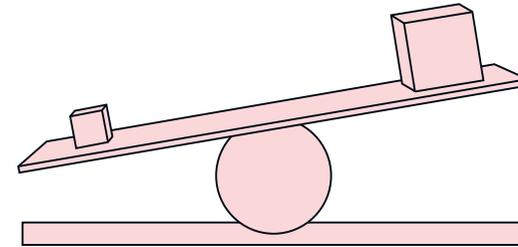
At the same time, however, algorithms cannot explain what types of differentiation are seen as acceptable by society (depending on the insurance these might include place of residence, age and risk behaviour) and where there is consensus on non-discrimination (e.g. sex). This requires a discussion in society – a discussion that can also involve ethical questions. It will be particularly important to observe how the notions of self-determination and solidarity evolve in a digital environment. In light of the experience with the Covid-19 pandemic, these questions are highly topical.

This white paper will describe ways for companies, consumers and government to assume digital responsibility in the insurance environment while still having leeway for forward-looking action. The paper deliberately adopts the view of the three stakeholder groups – companies, consumers and government – to be able to describe the impact, for example on the principle of solidarity, from as many angles as possible. However, this white paper is

also designed to show that digitally responsible behaviour is only possible when the stakeholders work in concert. Among other things, this is because each group has a different influence. Therefore, companies, consumers and government must work together if they are to assume digital responsibility in such a way that the effects it has on solidarity proves to be an opportunity for society.

# Principles for the insurance business in the digital age

The responsibility and role of companies, consumers and government are addressed along four principles: Fairness, autonomy, transparency and protection of personal privacy. Digitalisation is changing these principles. They are also connected with the notion of solidarity. It is therefore important to monitor potential effects on solidarity within our society.

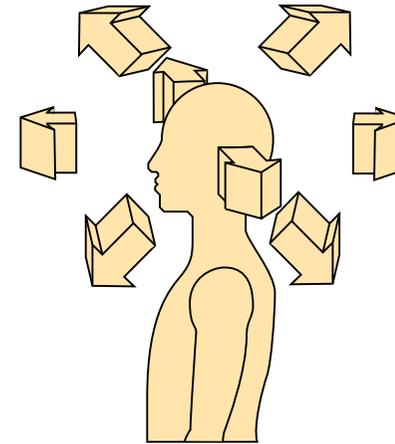


## 1. Fairness

On the one hand, fairness means that consumers should be able to assume that business will be conducted with integrity. In the specific context of private insurance, fairness particularly means risk appropriateness. This means that any differentiation in price and offering is related to the insured risk rather than being primarily geared to the willingness to pay of those demanding the product. In social insurance the emphasis is less on fairness in terms of risk than on solidarity-related aspects. This affects primarily the means of funding (e.g. a risk-independent per-capita premium) and guaranteed access to a socially defined level of insurance benefits. We thus see “fairness” in the context of social insurance as solidarity-

based financing – in particular through a community of healthy and sick people, old and young or rich and poor.

Digitalisation is making growing volumes of personal data available. This allows people's individual risk situation to be taken into account more fairly and helps avoid blanket discrimination or exclusion. On the other hand, by way of instruments for determining individual risk and individualised offerings, digitalisation also creates the possibility for socially unacceptable differentiation. With the ability to refine risk assessments in this way and make more accurate forecasts based on artificial intelligence, we need to review what we understand by discrimination in order to safeguard fairness in the future. It is the job of all the stakeholders to hold this discussion together. Only this way can societal consensus evolve on the role of solidarity, appropriate differentiation and a more precise definition of any socially unacceptable forms of discrimination.

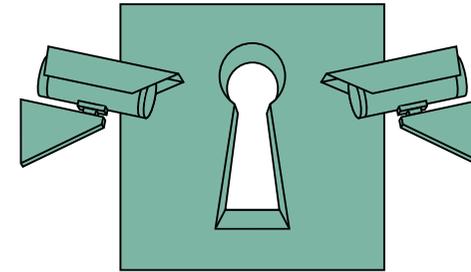
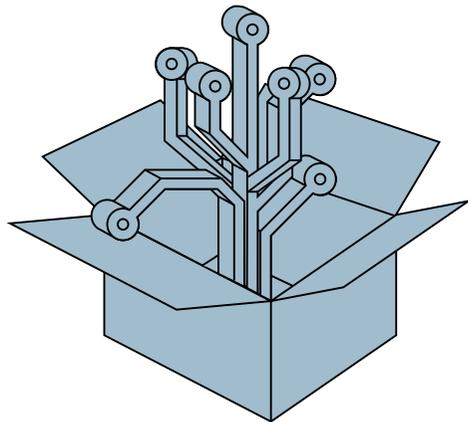


## 2. Autonomy

In the context of data-based services, autonomy means that consumers have the power to make decisions and act on a self-determined basis. For this to work, consumers must be given a choice and have the skills required to make a decision. The choices they have might be in terms of different insurance solutions or services, but also of different channels for communicating with the provider. Furthermore, consumers must be increasingly enabled to assess the effects of the new ways data is being used.

### 3. Transparency

Consumers, institutional customers and potential customers should be given access to easily understandable information about the storage, use and disclosure of their data. They should also be shown the extent to which their data is taken into account for decisions and recommendations. With regard to insurance, this mainly concerns the processes involved in evaluating and taking out insurance as well as decisions on insurance benefits and/or access to services during the insurance period. This refers to the duration of the insurance contract as well as, under certain circumstances, to the time thereafter, insofar as legal claims can be asserted.



### 4. Protection of personal privacy

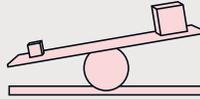
People's privacy is affected if data is not processed on an anonymised basis. Questions of self-determination arise. Also important from a data protection point of view is the business context in which the data was/is captured and used. The use of personal data should therefore be declared transparently.

Digitalisation makes it easier to collect and share personal data such as personal details and data on health or behaviour (e.g. exercise, driving behaviour). This leads to a large volume of personal data which is per se sensitive personal data. In an increasingly digital insurance environment, data security means that personal data must be protected against manipulation, loss, unauthorised disclosure and public exposure. The technical possibilities for hacking data have also increased – there is essentially a higher risk of cyber crime. Everyone involved has to commit to data security.

## Principles for the insurance business in the digital age

### FAIRNESS

Integrity of business conduct, risk-appropriate funding in private insurance, solidarity-based funding in social insurance.



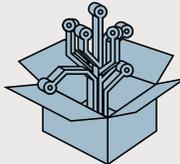
### AUTONOMY

Consumers empowered to be able to decide for themselves.



### TRANSPARENCY

Information on the storage, use and forwarding of data and its role in decisions and recommendations.



### PERSONAL PRIVACY

Safeguards to prevent manipulation, loss, unauthorised forwarding or public exposure of personal data.



## Responsibilities of insurance companies, government and consumers



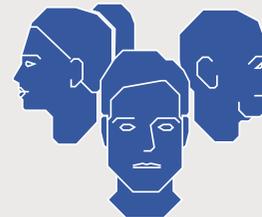
### Companies

Using digitalisation as an opportunity to create value and individualised offerings, while taking digital responsibility in terms of potential consequences for society.



### Government

Guaranteeing a framework for companies and consumers in order to support digital transformation while preventing socially undesirable discrimination.



### Consumers

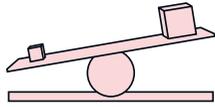
Taking personal responsibility for the data provided (with the help of data portals) to autonomously allow or restrict data processing for a particular purpose.

# Responsibilities of insurance companies, government and consumers



## 1. DIGITAL RESPONSIBILITY: THE ROLE OF COMPANIES

In this section, the term “companies” refers in particular to insurance companies. Their role will be discussed on the basis of the four principles presented above. In addition there will be a discussion of various ways in which digitalisation can be used as an opportunity, and how digital responsibility can be borne jointly with regard to the potential impacts on society.



## 1.1 What factors work in favour of fairness and solidarity in an increasingly digital insurance environment?

**Integrity of business conduct:** Companies commit to fair business practices, also with regard to the handling of data-based information on insurance relationships with individual customers.

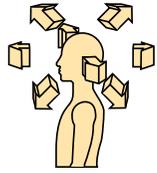
**Greater premium differentiation based on individual risk:** Digitalisation and the increasing availability of personalised data make it possible for private insurance companies to differentiate premiums (more strongly) on the basis of individual risk profiles or risk behaviour. It is the responsibility of companies to create a clear and understandable process for this and to explain the differences in their offerings in order to maintain or even increase customer trust. The basic principle of insurance – balancing risks in the collective and over time – is not jeopardised by the formation of sub-collectives that are as homogeneous as possible. The insurance model does not require cross-subsidy from low risk to high risk. However, it must be realised that excluding high-risk groups

can become a societal problem which ideally the entire private insurance industry should help solve.

**Broader access to offerings:** Consumers with higher risks should also be able to look into and choose different options for (private) insurance contracts – possibly at higher premiums in accordance with the risk (individual premium pricing).

**Preserving diversity of offering:** In a future environment characterised by more data sharing and monitoring, private insurance companies will be able to deliberately provide standardised offerings with higher premiums and stronger balancing mechanisms in addition to individualised, risk-based offerings. This way they can also cater to customers who are sceptical about behavioural monitoring or who reject it entirely.

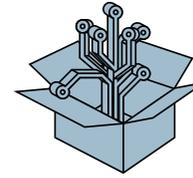
**Digitalisation for more efficient processes:** In social insurance, companies primarily use digitalisation to deliver more efficient and needs-based processes and better cost management.



## 1.2 What measures maintain and strengthen consumer autonomy?

**Access to new digital channels:** Companies offer consumers non-discriminatory access to a wide range of insurance offerings. Particularly in the digital transformation phase, companies promote access to new and digital channels and help customers use them with confidence.

**Incentive schemes for sharing data:** Companies can use incentive schemes to encourage consumers to share their behavioural data (e.g. exercise data, driving data). In doing so, they ensure a balance between the degree of data collected and the value added for consumers.



## 1.3 How can the transparency of processing procedures be ensured for consumers when personalised data is becoming increasingly easy to access and use?

**Easily understandable information on data:** Information on the use, storage, possible transfer and purpose of data is provided for consumers in an appropriate form. This particularly applies when data is processed on an automated basis.

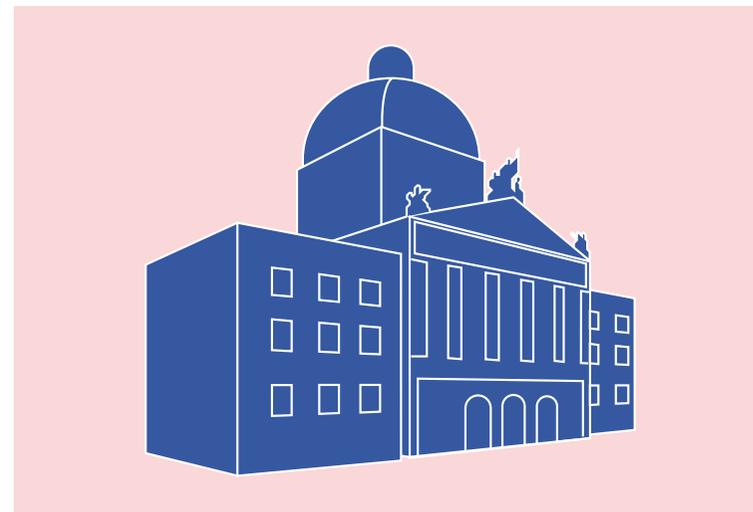


## 1.4 What precautions do companies take to protect the privacy of consumers?

**Explaining the purpose of data usage:** Companies inform consumers in a transparent and easily understandable way about the legal basis and specific purposes of the data usage and the conditions for any possible transfer of data to third parties.

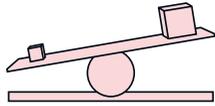
### **Protecting data from misuse and unauthorised**

**access:** Companies protect their customers' data from improper access by unauthorised persons or organisations. In particular, they take precautions to reduce cyber risks such as breach of confidentiality, theft and manipulation. When processing sensitive personal data and using innovative technologies, the need for additional security measures is determined and implemented.



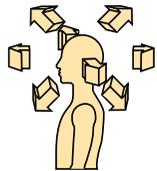
## **2. DIGITAL RESPONSIBILITY: THE ROLE OF GOVERNMENT**

The term “government” in this context refers to government authorities and political institutions that determine or help shape the framework for economic activity in the private insurance sector. The aim below is to show what prerequisites can be applied in the context of the different roles of companies and consumers to facilitate digital transformation and at the same time prevent socially unacceptable discrimination.



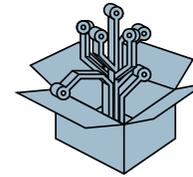
### 2.1. What factors work in favour of fairness and solidarity in an increasingly digital insurance environment?

**Data-based pricing:** Government authorities promote consumer understanding for the principles of risk-based pricing. They promote efforts to write contracts in universally understandable language.



### 2.2 What measures maintain and strengthen consumer autonomy?

**Choices and transparent price differences:** The competent government bodies ensure that appropriate choices are available to consumers. Price differences between different service packages or digital and analogue channels should be proportionate.



### 2.3 How will transparency for consumers be ensured when personalised data is increasingly available and used?

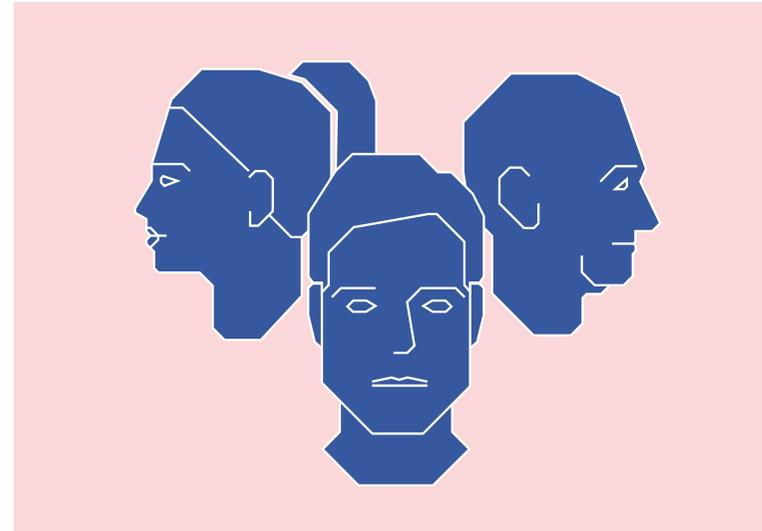
**Terms and conditions formulated in contemporary language:** The regulator promotes easily understandable language in terms and conditions and similar documents (such as data privacy statements). The regulator creates scope for new formats and approaches that match the special requirements of the digital world (e.g. use of pictograms, etc.).



## 2.4 By what means does government support the efforts of companies and consumers with regard to data security?

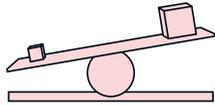
**Ombudsman's offices as the point of contact for matters concerning privacy:** The government promotes options for consumers to seek advice, including on questions of digitalisation, via existing ombudsman services.

**Promoting development of data security labels:** Government can promote the development of labels certifying that a company manages its data securely. These labels could serve as a guide for consumers and should be voluntary for companies and organisations.



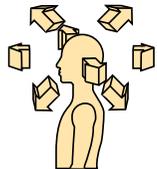
## 3. DIGITAL RESPONSIBILITY: THE ROLE OF CONSUMERS

In this context, the term “consumers” refers to existing or potential customers for insurance solutions and related services. When consumers provide data they act on their own responsibility but expect a benefit in return.



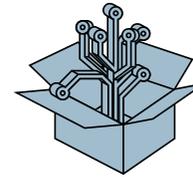
### 3.1 What factors work in favour of fairness and solidarity in an increasingly digital insurance environment?

**Voluntary solidarity contribution:** In an increasingly individualised environment brought about by digitalisation, consumers can increase their solidarity with others by paying a voluntary solidarity contribution into a fund.



### 3.2 How can consumers maintain or strengthen their autonomy?

**Data portals:** When required, consumers use third-party data portals where they can manage their data. They have an overview and control over what data they provide or have provided to whom and for what purpose.



### 3.3 How can consumers ensure transparency when personalised data is increasingly available and used?

**Responsible use of data:** Consumers become accustomed to handling their data with control and assurance. Other actors support them in this if required. They decide independently what data they want to share and for what purposes. If necessary, they exercise their rights, for example to restrict data processing, object to data processing, or to have their personal data corrected or erased.

# Final remarks

This white paper is designed to provide further food for thought for the stakeholders involved and stimulate an ongoing social and political debate on matters of digital responsibility and the significance of solidarity in an insurance environment. It makes no claims to conclusively describe developments in digitalisation and their influence on the insurance environment. Instead it is intended to stimulate public debate and encourage the participating stakeholders to think further about future activities in this area.

This white paper was compiled by a working group consisting of various stakeholders with different perspectives on the topic. Those participating were representatives of the insurance industry, universities, associations, consumer and data protection organisations, and think tanks. The following organisations and individuals were involved:



## **ABOUT THE DIGITAL RESPONSIBILITY AND SOLIDARITY WORKING GROUP**

The stakeholder dialogue on digital responsibility and solidarity in insurance was initiated by the Sanitas Foundation in the first half of 2018 as a discussion platform for various stakeholders in business, academia and society. The diverse members of the group are interested in the influence of digitalisation in the field of insurance, looking from different angles into a framework for digital responsibility and solidarity in an environment increasingly dominated by data.

Over a period of around two-and-a-half years representatives of insurance, universities, associations, consumer and data protection organisations and think tanks met around every quarter. They discussed the issues with input from experts in various disciplines. To structure the discussions, the group introduced the principles of fairness, autonomy, transparency and protection of personal privacy. For each of these four principles, basic ideas from the perspective of each stakeholder fed into the discussion. The different points of view and interests sometimes resulted in differing viewpoints, meaning that a largely iterative process was necessary to agree on a set of propositions that was right for those involved. This

way, this white paper was produced on a step-by-step basis with the aim of providing stimulus for further debate on matters of digital responsibility and the significance of solidarity in the insurance environment. The white paper thus concludes the process, but at the same time is designed as a point of departure for other initiatives and debate at a social and political level.

### MEMBERS OF THE WORKING GROUP

**Thomas Bähler**, Managing Director x-tention Informationstechnologie AG  
**Bruno Baeriswyl**, Independent Privacy Expert  
**Nicole Bertsch**, Data Protection Officer Zurich Switzerland  
**Tobias Caluori**, Head of Corporate Development Sanitas health insurance  
**Felix Gutzwiller**, Foundation Board Chairman Sanitas health insurance  
**Pirmin Meyer**, Head of Public Affairs Zurich Switzerland  
**Stefan Pabst**, Senior project manager W.I.R.E.  
**Raphael Rollier**, Head of Innovation and Product Management, swisstopo  
**Hato Schmeiser**, Managing Director of the Institute of Insurance Economics (University of St. Gallen)  
**Babette Sigg**, Consumer's Forum Switzerland kf, Executive President  
**Lutz Wilhelmy**, Risk & Regulation Advisor Swiss Re

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