

EIOPA Discussion paper on Blockchain and Smart Contracts

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Consultation replies (in cooperation with UNI Europa Finance)

Question 9

Going through the discussion paper and especially the chapter about ‘Blockchain and smart contracts-related risks for undertakings’ (p. 22), we as representatives for the employees working on the insurance sector, are somewhat surprised by the lack of reflection and attention given to the working conditions in the sector as a result of increased blockchain and smart contract use. While there is a reflection about companies coming to rely increasingly on technical personnel with a specific skillset, these will not be the only employees coming into regular contact with these services if they gain wide usage in the sector.

Non-technical personnel will most likely also have to use these tools, albeit on a less frequent basis, and their training in the use of these tools should therefore in our view also be carefully considered. As it stands, there isn’t any wording in the discussion paper about how general staff are provided with the skills and knowledge to effectively work with these tools and how their training could/should be structured. And while most employees in the insurance sector already have a solid foundation of IT knowledge, we are still discussing somewhat complex tools that would need specific training. This is, as also mentioned in the paper, further compounded by possible interoperability issues between the legacy systems and the new tools, as well as the increased cyber-security demands.

After all, even the MIT Technology Review has shown how Blockchain technology is no longer as tamper proof as initially anticipated

(<https://www.technologyreview.com/2019/02/19/239592/once-hailed-as-unhackable-blockchains-are-now-getting-hacked/>). And with staff being trained in how to properly use the new tools, consumer protection would also continue to remain high. This increased need for further training also comes into play in the point mentioned on p. 23 concerning compliance risks in relation to IDD and crypto assets. Where crypto-assets tend to be quite volatile investment products, most advisors would need specific training in order to best advise their clients about possible risk scenarios etc.

Building on what is stated above concerning skills, we can see in our contact with insurance employees that the quick pace in digitalization and automation are already affecting them and their work. Many employees see the development as something they cannot cope with and are leaving the sector as a result. This further highlight the need of skills and training of employees to keep up with the digital development.

The paper raises the valid point that new advanced technology will need much explanation and information to be given to customers. The risk of misunderstandings is also raised in the paper. The task to explain and make sure the customers are well informed will be placed on the employees providing the service and raises further concerns regarding to skills and training, p.21, 23.

The risk of fraud and money laundering, and the risk of the customers data and privacy rights are also raised in the paper. These risks might lead to more control functions in the insurance companies to make sure that these risks are limited. It is important that, since the sector is already very regulation heavy and that the task to comply with control mechanisms and regulation is the responsibility of the employees, that an employee perspective is taken into concern in such discussions, p.21, 23.

From an employee perspective, knowing that they already are having high levels of workload and stress due to compliance, we agree that the technique of Blockchain has the potential, if adopted in a good way, to reduce administrative burdens on workers. This also connects to Regtech and that Blockchain can have a positive effect on coping with regulatory demands, if combined with skills and training.

Question 10

The paper makes a good reference to the Digital Finance Strategy and the timeline for the Commission to assess the developments in DLT and blockchain. However, the reference should be transferred completely – namely the Strategy also calls for an

adequate risk assessment before that development happens (in point 4.2).

In the context of the showcased risks, a primary additional risk can already be seen in the framing of the competence needs in the paper – that it is only consumers that would need to increase their level of literacy and their awareness on consumer protection. In fact, this will be needed across the sector, and first and foremost to finance sector employees.

Additional risks could arise in the sense of ethical considerations and data protection issues, the latter which are found to be secured throughout the paper, but only theoretically. In a wider context, and similarly to the open insurance and open finance initiatives, this initiative is also missing a proper social impact assessment that could take a deeper dive into the effects that will be brought about to consumer protection, employment, inclusion etc. On the latter, for example, the paper mentions the lack of bank account as a reason why these technologies would have a positive impact on inclusion, but it does not consider the lack of advice as element of exclusion.

While such a wider analysis on the social impact may be beyond the competences of EIOPA, it is in the competences of the European Commission, and it could be raised to support the alignment with the Digital Finance Strategy.

Question 16

In addition to the already highlighted barriers, the consideration of DLT and blockchain in the context of the sustainable finance agenda is also relevant, given for example the massive energy consumption that they invoke. There have been initiatives, included also in the Digital Finance Strategy, that aim to explore the sustainability side of this discussion.

Furthermore, there are mentions on the IDD and the suitability assessment in the paper, but it would be beneficial to consider potential changes to the fit-and-proper and the definition of insurance distribution.

Next, it would be interesting to consider the recently proposed ‘value for money’ methodology and how it would interact with the analysis of this paper, in the context of POG and target market requirements.

Lastly, and in a wider context, similarly to the open insurance discussions, how a leveled playing field in regulatory context would be achieved is also a concern.