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Regulating for innovation in Africa

Cross-country synthesis note

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Executive Summary

This document outlines the findings across a series of studies commissioned by FSD Africa on the state of insurance innovation and regulation in eight countries in Sub-Saharan Africa (SSA): Ethiopia, Ghana, Kenya, Malawi, Nigeria, Rwanda, Uganda and Zimbabwe. It aims to inform regulatory authorities across the continent in the quest for balancing the mandate for market development and innovation with that of consumer protection.

>> Innovation snapshot

Cross-cutting challenges to market development highlight untapped market potential. Across the study countries, low insurance penetration rates persist. Though the share of life insurance premiums in total premiums is growing, the market is for the most part still dominated by non-life insurance, and compulsory insurance plays a strong role. The result is that the voluntary retail insurance market still reaches a limited number of policyholders, and that large population segments such as rural inhabitants, informal sector workers and MSMEs remain un- or underserved. This indicates substantial untapped market potential in all the study countries.

More – and different – innovation needed. While innovation is present in all the study countries, each country is at a different stage along the innovation journey, depending on its unique country and market context. Some insurers have started to digitalise their processes and client engagement journey, and COVID-19 has provided an added impetus to do so. Some are implementing or pursuing alternative distribution partnerships, and some are doing market research to help target new market segments such as MSMEs. Partnerships with insurtech firms are emerging to help streamline internal systems and processes. On the whole, however, the cross-country innovation assessment shows that innovation is not yet entrenched in the fabric of the market or leveraged to reach underserved target market segments at scale.

>> Key constraints to innovation

Various elements of the enabling environment or ecosystem shape the current innovation picture.

Structural constraints

Each country faces constraints in the broader country context that set the parameters for innovation and should be carefully considered when designing a regulating for innovation approach. The portrait assessments identify three structural constraints that hold across the study countries:

- *Cost of mobile data inhibits digital insurance innovation and distribution.* While many citizens have mobile phone access, data costs and connectivity constrain the full extent to which mobile phones can be leveraged for distribution.
- *Low awareness and lack of trust impede uptake.* Limited consumer trust is a key factor noted by stakeholders across the study countries. This may be linked to low awareness and financial literacy, a poor claims payments track record for industry, or low client value in compulsory insurance lines.
- *Large technical and STEM skills gap.* Insurance technical skills (underwriting and actuarial) are a constraint in all the study countries. More broadly, the sample countries face constraints in the technical skills that are necessary to facilitate digital innovation.

Market constraints

Across the study countries, innovation is also inhibited by a mix of constraints in the operations of the market. Four themes stand out from the portrait assessments:

- *Limited knowledge of the retail target market.* Few companies invest in large-scale consumer research to better understand underserved target market segments' needs and realities.
- *Limited corporate drive for innovation.* Many insurers are complacent in their existing market segments and there is a reluctance at board level to invest in innovation, given the need to produce short-term investment returns.
- *Difficulties in establishing viable partnerships.* Though the importance of partnerships with alternative distribution channels and technical service providers or insurtechs is acknowledged, there are often substantial challenges in

setting up and sustaining such partnerships. These are key issues for established insurers, but also for insurtechs who rely on partnerships with insurers.
- *Funding constraints for insurtechs.* Insurtechs face the additional challenge of being at a relative disadvantage to other fintechs to attract investment.

These constraints are exacerbated by the skills shortage in the market noted under structural constraints.

Regulatory constraints

Regulatory frameworks were not identified as a major barrier to innovation in any of the target countries. Market players acknowledge regulatory authorities' efforts to develop tiered licenses and accommodate digital distribution. Nevertheless, a few notable gaps and challenges remain:

- *Uncertainty on treatment of digital.* Lack of clarity on remote onboarding, servicing of policies, and alternative distribution partnerships.
- *Limited licence options.* Traditional licence categories (typically insurers, brokers and agents) do not explicitly cater for new types of (tech) service providers and alternative distribution channels.
- *Test and learn space not yet well established.* Regulatory sandboxes, where implemented, are not yet gaining significant traction.
- *Microinsurance regulation not showing enough results.* The microinsurance frameworks issued across the study countries remain underutilised and have not led to large-scale uptake of insurance among the low-income population.

Supervisory system constraints

All the study countries have embarked on supervisory process and systems improvements over the past years, in recognition of the fact that slow licensing and product approval processes can be a bottleneck to innovation. Nevertheless, there are three key areas in which the supervisory system continues to pose constraints to innovation:

- *Communication efforts not yet serving optimal purpose*. While regulators do engage with industry on key issues and upcoming regulation, such engagement is often not centred on innovation topics; neither does it extend to prospective market players in the distribution and tech sector.
- *Innovation mandate for the most part not yet translating into dedicated institutional capacity*. In most countries, supervisory capacity is constrained. Those tasked with innovation have to balance that mandate with numerous other responsibilities.
- *Monitoring systems not yet set up for granular monitoring of innovation.* Regulators monitor few market development indicators beyond the penetration rate and number of policyholders and face capacity constraints in updating their monitoring frameworks and systems.

>> Imperatives for regulators and supervisors

While not all of the constraints are within the power of insurance regulators to address, they nevertheless have an important role in supporting innovation for inclusive insurance market development. Updating or issuing new regulation is only one way to fulfil this role; all the study countries to some extent already use market engagement and communications as a tool, alongside work to streamline supervisory systems and processes.

Key actions to address structural constraints

Regulators can implement three core actions to address the structural constraints identified:

- *Collaborate with the market to build consumer awareness and trust*. Regulators have a key role to convene and coordinate consumer awareness efforts with industry, and to enforce market conduct practices that build trust.
- *Leverage broader government coordination structures to address structural constraints affecting the insurance market*. While financial sector coordination structures exist in most countries, advocacy is needed to include insurance innovation-relevant topics on the agenda. Where relevant, coordination also needs to extend beyond the financial sector.
- *Build and attract scarce skills to insurance*. The regulator can directly support insurance and innovation skills building via its convening role. It can also advocate for and attract scare skills to the insurance sector via its market and public engagement activities.

Key actions to address market constraints

To address the main market constraints encountered across the sample countries requires a multi-pronged approach to promote more targeted product and distribution design, encourage and smooth the way for partnerships and help unlock funding for innovation. None of this necessarily requires regulatory change: it can be achieved through guidance and proactive two-way engagement with a range of current and prospective market participants. Again, there are three key actions:

- *Help the market to better understand harder-to-reach market segments*. Use moral suasion, coordination and engagement activities to promote market research.
- *Use proactive market engagement to prompt innovation and encourage partnerships*. Host innovation events and establish platforms for engagement that cut across the traditional insurance sector, potential alternative distribution partners and tech players. Build relationships and partnerships with innovation accelerators or hubs to do so.
- *Promote certainty by issuing guidance on partnership agreements and regulatory treatment of non-traditional players*. Help to overcome the funding and partnership constraints faced by tech players by clarifying the requirements and processes for regulatory compliance, including the formation of partnerships with licensed insurers.

Key actions to address regulatory constraints

There are two ways in which regulators can help address the remaining regulatory constraints to innovation:

- *Close remaining gaps regarding digital distribution and licence categories*. Initially, consider a test and learn environment within which to accommodate players who do not neatly fit into traditional licence categories. Over time, consider updates to the applicable licence categories.
- *Reconsider sandbox design to ensure it is fit-for-purpose*. Where sandboxes have been established, conduct a formal evaluation to better understand the challenges encountered and redesign future implementation for bigger success.

Key actions to address supervisory constraints

Addressing supervisory system constraints is the area where regulators may see the greatest, or most immediate, opportunities for action. Each country faces unique supervisory system challenges that will inform the biggest-win opportunities in the local context. Nevertheless, the assessment of cross-country supervisory system constraints highlights four cross-cutting imperatives:

- *Earmark capacity to innovation, and coordinate across departments*. Setting up a dedicated innovation unit or team with a primary mandate to promote market development and innovation is a key way of ensuring that the market development mandate is actioned. However, this is not always feasible; neither is it the only way to build an innovation culture. Interdepartmental structures and coordination should be leveraged to ensure that innovation facilitation is entrenched throughout the organisation.
- *Adapt and streamline the supervisory approval process*. Despite the gains already made, more can be done to streamline approval processes – through better process guidance, system upgrades (see below), as well as supervisory staff training on risk assessment.
- *Broaden the monitoring framework for innovation*. More granular and outcomes-orientated monitoring is needed to equip supervisors in the task of effectively supporting responsible innovation. This calls for an assessment of current and potential indicators and data sources to inform a phased plan for expanding the market monitoring framework.
- *Invest in upgrading supervisory systems*. Paper-based or part-digital systems contribute to slow turnaround times and a lack of integration of information for market monitoring and supervision purposes. Thus, there is a need to invest in supervisory system upgrades – or to iron out challenges where such upgrades are already underway – as foundation for supporting all the other supervisory imperatives.

Development support role

While regulators can implement some of these actions autonomously, they will benefit greatly from technical assistance and process coordination support to develop and successfully implement a fit-for-context action plan. The FSD Network, together with other relevant development partners operating in the study countries, have valuable on the ground presence, experience and relationships to help support this agenda. The R3Lab, in turn, has a technical assistance role to work with regulators and development partners at the country level, as well as a regional convening role to facilitate coordination and peer exchange across countries.

About This Note

Innovation plays a key role in the development of insurance markets as it enables industry players to reach underserved segments and promote household and business resilience. The need to facilitate innovation is increasingly being incorporated into regulators' market development mandate.[1]

Regulatory responses to innovation need to build a conducive environment for innovation while also protecting consumers against any undue risks. To do so, regulatory approaches are expanding to consider a wider range of tools at the regulator's disposal than regulation alone. Four categories of tools are relevant:[2]

- **Regulatory adjustments** can help to close gaps or remove regulatory grey areas but take time to implement. In the interim, non-legally binding guidance can already help to create the certainty needed to trigger innovation, and a test and learn approach can be implemented to facilitate innovation.
- Clear, efficient and transparent **supervisory systems and processes** streamline market entry and product innovation and reduce the compliance risks industry face when innovating.
- **Proactive market engagement** provides industry with regulatory certainty on the allowance for and application of innovation, allows regulators to actively listen to industry's primary challenges, and allows regulators to nudge industry towards innovation.
- **Monitoring** of appropriate and feasible indicators aligned to the innovation objectives enables regulators to better understand market trends, engage industry on pain points, learn and adapt.

>> Project overview

Financial Sector Deepening (FSD) Africa launched the Risk, Resilience and Regulatory Laboratory (R3Lab) initiative in 2022 to support collaboration, technology and insurance supervisory capacity building in order to improve insurance regulatory effectiveness in Africa.

As input into the design of the R3Lab strategy, FSD Africa has commissioned a pan-African study to develop portraits on the state of insurance innovation and regulation across eight countries in SSA: Ethiopia, Ghana, Kenya, Malawi, Nigeria, Rwanda, Uganda and Zimbabwe.

Apart from presenting a snapshot of the level of market development and innovation, each country portrait reviews the key drivers or constraints in the innovation ecosystem, with a specific focus on the role to date of the regulatory framework and supervisory system in enabling innovation. From the above, each portrait concludes on the regulatory and supervisory imperatives for entrenching innovation at scale.

This note synthesises the findings and recommendations across the eight insurance innovation portraits to highlight cross-cutting opportunities, challenges and imperatives for regulators, as primary audience, as well as industry players and development partners.

>> Structure

- **Section 1** sketches a cross-country insurance market development and innovation snapshot.
- **Section 2** assesses the key barriers or drivers of innovation across the innovation enabling ecosystem in the study countries.
- **Section 3** then derives imperatives for market and regulatory actors to address the key barriers and capitalise on the opportunities for innovation as highlighted in Section 2.
- **Section 4** concludes on the role for the R3Lab to support this agenda at the regional and country level.

[1] For example, Ghana established its market development mandate in 2021 and Kenya has a dual protection and market development mandate as of 2020. Both jurisdictions view innovation as key to market development.

[2] https://cenfri.org/wp-content/uploads/Regulating-for-innovation-toolkit.pdf

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- Insurance Regulatory Authority **Kenya**
- Pension and Insurance Unit, Reserve Bank of **Malawi**
- National Insurance Commission **Nigeria**
- Insurance and Pensions Department, National Bank of **Rwanda**
- Insurance Regulatory Authority, **Uganda**
- Insurance and Pensions Commission, **Zimbabwe**

Any errors and omissions are that of the authors.

1 Insurance market and innovation snapshot: a cross-country comparison

The eight study countries are at different stages of insurance market development and each insurance market has unique features. This section discusses cross-country tends as well as differences in the state of market development in the study countries. Thereafter, it takes stock of the state of innovation across the sample in the context of the overall level of insurance market development.

Box 1. Definition of market development and innovation

This document focuses on insurance market innovation in the context of broader insurance market development. It is important to clarify the difference between the two terms upfront:

- The definition of 'market development' is context dependent, but in general the term refers to the process of growth, development and increasing sophistication of the insurance market to promote access to insurance and better serve the risk transfer and risk management needs of the economy[3].
- The term 'innovation' is broadly defined as the introduction of something new, be it an idea, method, device, or process[4]. Thus, innovation in insurance is a broad concept that includes but goes beyond fintech or digital technology-based innovation.

As such, innovation is an important part of insurance market development more broadly.

>> State of market development

The table below indicates the penetration rate, as the single indicator most often used as a proxy for market development, as well as the reach of the insurance market, (measured in terms of the percentage of adults with insurance according to the latest available survey date) in each of the study countries:

	Insurance penetration rate (premiums as % of GDP)	**Insurance uptake** (% of adults)
Ethiopia	0.38%	10%
Ghana	1%	22.7%
Kenya	2.3%	24.5%
Malawi	2%	2%
Nigeria	0.3%	1.98%
Rwanda	1.6%	17%
Uganda	0.79%	1.4%
Zimbabwe	3.6%	34%

Table 1. Key statistics across the sample countries

Source: Various, as captured in underlying country portraits

[3] This definition draws on the definition quoted in the A2ii Insurance Market Development KPI Handbook.

[4] As defined in the Merriam-Webster dictionary (merriam-webster.com/dictionary/innovation.

There are a number of cross-cutting market features and trends among the portrait countries:

Low penetration rates persist. All the countries studied reported penetration rates below the 2.78% average for SSA, except for Zimbabwe which had a penetration rate of 3.6% as of 2020 (Signé, 2021; Cenfri, 2020). In most of the study countries, the penetration rate has been relatively stable or has even seen a slight decline in recent years.

Market dominated by non-life insurance; life growing off low base. Non-life insurance premiums exceed life insurance premiums in all the target countries. For example, non-life insurance makes up 88% of gross written premiums in Rwanda and around 95% in Ethiopia (BNR, 2021; SIGMA, 2020). A low share of life premiums is one of the core indicators of low market development (Chamberlain, et al., 2017; Thom, et al., 2019). However, the share of life insurance is growing in all the study countries. For example, life insurance premiums have grown by almost 40% since 2017 in Kenya (IRA, 2021).

Compulsory insurance remains a key driver of uptake. Across the target countries, most of the uptake has been driven by compulsory insurance which consists of primarily non-life insurance products such as health and motor insurance. For example, two thirds of Kenya's general insurance premiums consist of medical (33.4%), which includes the National Health Insurance Fund (NHIF), and third-party motor insurance (33.7%) (AKI, 2021). In Ethiopia, compulsory insurance, notably motor insurance, accounts for nearly 80% of GWP (AEI, 2020). The underdeveloped nature of the voluntary retail market is another indicator of low market development.

Limited voluntary retail reach. The strong role of compulsory insurance means that voluntary retail reach is limited in all the sample countries. For example, only 6% of Ghanaians have an insurance product outside of the compulsory National Health Insurance Scheme (Thom, et al., 2018). In Kenya, likewise, the NHIF accounts for a significant proportion of total uptake (20.6%) (CBK, KNBS, & FSDK, 2021). Similarly, the rise in Rwanda's insurance uptake from 9% in 2016 to 17% in 2020 was driven largely by the compulsory Rwandan national health insurance programme (AFR, 2020). In Zimbabwe, where 34% of adults have insurance, 20% of the surveyed population had compulsory motor insurance (Cenfri, 2020; IPEC, 2020). In Uganda, where compulsory insurance is not as widely taken up, a mere 1.4% of adults have any form of insurance (FSD Uganda, 2018).

Result: *large underserved market potential*. The low reach means that all the individual country portraits indicate that large target market groups such as MSMEs, smallholder farmers, women and often even salaried employees remain largely underserved. This indicates substantial untapped market potential in all the study countries.

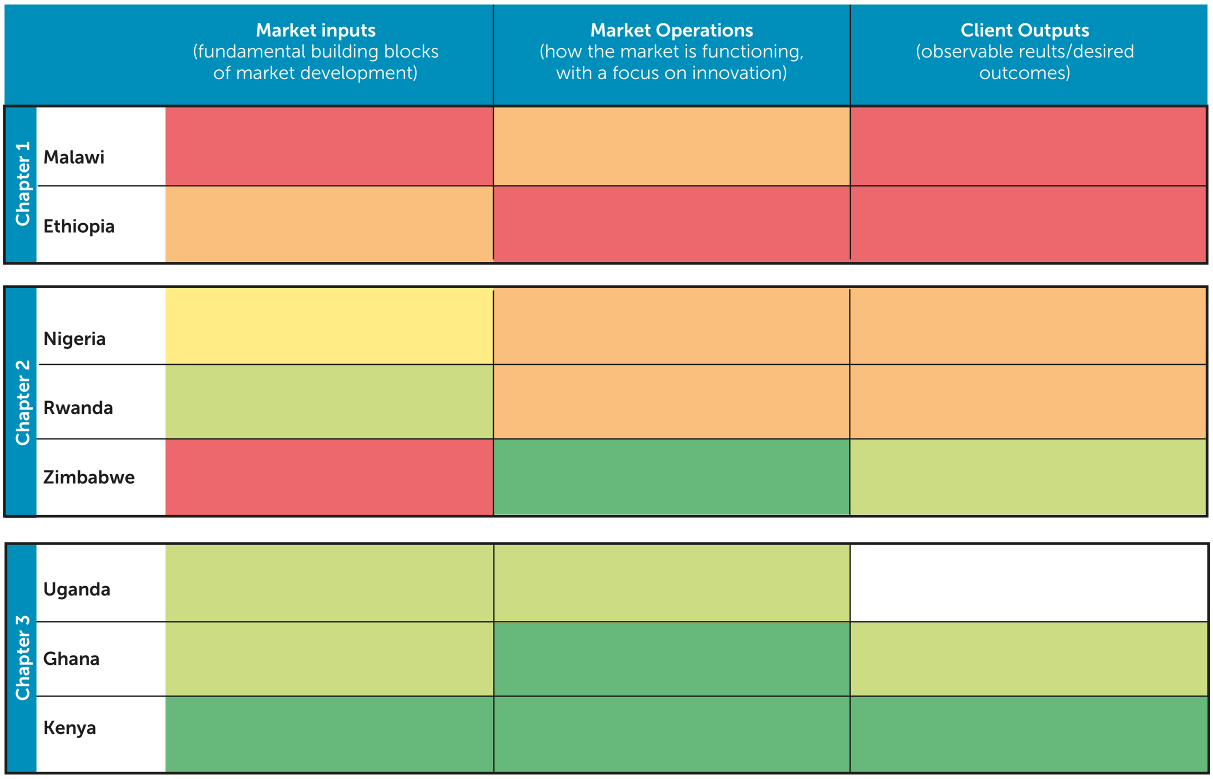
Cross-country nuance. While the trends above hold across the sample, a closer look also reveals considerable variation between the study countries. To form an understanding of the level of insurance market development in the target countries in relation to one another that is more multi-faceted than reflected in the insurance penetration rate or insurance reach alone, the findings of each country assessment were organised using the market development framework and accompanying dashboard as outlined in the A2ii market development handbook for SSA insurance supervisors (Beyers, et al., 2022). The dashboard combines indicators on market inputs, market operations and market outcomes (including innovation) to derive an overall rating on the level of market development.

Box 2. Overview of market development categories

According to the A2ii Supervisory lexicon Market KPIs Development Pillar, market development encapsulates three levels of indicators:

- **Market input** indicators measure the fundamental building blocks of insurance market development, including: market opportunity in the broader business environment and in light of the broader level of financial development in the country; the state of the insurance and legal regulatory framework; the financial soundness, competence, governance and culture of insurance firms; the level of information and data; and the overall scale of market opportunity/potential demand.
- **Market operations** indicators measure how the industry's "wheels are turning' and how the market is functioning. These indicators are influenced by the market inputs. Relevant indicators include competition, market performance, and level of innovation.
- **Market outcomes** indicators capture observable results that arise from market inputs and market operations. They reflect the development objectives or desired outcomes, such as growth in access to insurance. Relevant indicators include the state of market growth, access and outreach to new target market segments, as well as product affordability, diversity and suitability and client value.

To compare the level of market development across the sample countries, the portrait authors evaluated each country on each element of the market development framework. On this basis, we see three clusters of countries emerging:



		Market inputs (fundamental building blocks of market development)	**Market Operations** (how the market is functioning, with a focus on innovation)	**Client Outputs** (observable reults/desired outcomes)
Chapter 1	Malawi	🟥	🟧	🟥
	Ethiopia	🟧	🟥	🟥
Chapter 2	Nigeria	🟨	🟧	🟧
	Rwanda	🟢	🟧	🟧
	Zimbabwe	🟥	🟩	🟢
Chapter 3	Uganda	🟢	🟢	
	Ghana	🟢	🟩	🟢
	Kenya	🟩	🟩	🟩

Table 2. Country clusters for evaluated level of market development

Note regarding colour grading: Red indicates highest barriers/lowest level of assessed development across the sample, ranging up to green. These are indicative ratings relative to the sample.

Source: Author's own based on underlying portraits

Variation depending on country context. The colour scheme in the table above indicates the variation in assessed level of development across the three categories of market development that were evaluated. Cluster one represents those countries where market development is relatively nascent: they each still face foundational challenges across the three categories, indicated in red and orange. For cluster two, market development is starting to gain traction, though there is considerable variation, depending on the unique country context. Cluster three groups those countries in the sample that score highest on all three categories, as those where market development is starting to become most entrenched across the sample.

Imperative for innovation. In summary: While it is clear from the discussion in this section that the different countries have different insurance market contexts and different levels of development, there are still considerable gaps in reach, penetration and development across all the study countries. This suggest that "business as usual" is not translating to broadly inclusive insurance markets. Making significant inroads into the voluntary retail market to serve the needs of underserved market segments requires innovation. The next sub-section maps the state of insurance market innovation across the study countries.

>> State of innovation

Different stages of innovation. While innovation is present in all the study countries, each country is at a different stage along the innovation journey, depending on its unique country and market context. Based on the assessment of the level of innovation in each country portrait, we again see three clusters emerging:

- **Innovation commencing**. In Ethiopia and Malawi, innovation is commencing, but still constrained by fundamental insurance market development challenges. For example, in Ethiopia, some innovation is occurring in the agricultural and life/micro insurance segment, largely driven by donor funding (Lung, 2021; Smith & Chamberlain, 2010). In Malawi, insurers are starting to embrace alternative distribution channels and the COVID-19 pandemic served as a catalyst for digital product innovation. However, in this cluster, industry-led innovation has been slow to take root as local insurers have been constrained by severe constraints such as skills shortages in insurance, lack of capital and low access to basic technology infrastructure (Stakeholder Interviews, 2022).

- **Gaining traction**. In Rwanda, Nigeria, and Uganda innovation is gaining traction, but it is taking time to change mindsets within industry, or structural constraints persist. For example: In Rwanda, incumbent insurers are beginning to innovate in digital product solutions but remain largely risk adverse towards partnering with alternative distribution channels and fintechs. Of those that do partner, their outdated infrastructure hinders integration with fintechs/insurtechs, but many are making upgrades (Stakeholder Interviews, 2022; AFR, 2020). In Nigeria, innovators such as insurtechs struggle to access funding to power their innovations due to high competition for seed funding in the fintech space, and alternative distribution innovation that has worked well elsewhere, notably in mobile money has struggled to get off the ground (Stakeholder Interviews, 2022). In Uganda, the portrait showed that, while COVID-19 triggered some process innovation and digitalisation, insurers remain reluctant to invest in innovative ventures (Stakeholder Interviews, 2022).

- **Gathering momentum**. In Kenya, Ghana and Zimbabwe innovation is gathering momentum, even if it has not yet reached scale. For example: Kenya is making progress on digitalisation and innovation efforts, including by leveraging MNO networks . The number of insurtechs in the market is also increasing. However, incumbent insurers dedicate fewer resources to innovation in comparison to business-as-usual. A similar picture holds in Ghana. In Zimbabwe, market players have been proactive adopting new innovation and piloting new products and distribution approaches, but innovation is held back by infrastructure constraints and macroeconomic instability (see the box below for more detail).

The diagram below maps the level of innovation as assessed for each country portrait against the level of market development as discussed above. Overall, the level of innovation correlates with the level of market development as outlined above (that is, the countries plot across the diagonal). This underlines the importance of developing an enabling broader market ecosystem to sustainably enable and encourage innovation. There are two exceptions: in Uganda, the level of innovation lags the level of market development, whereas in Zimbabwe, as further considered in the box below, the unique country context has meant that the market is seeing innovation above the assessed level of market development.

		State of the market		
		Nascent market development	Market development gaining traction	Market development becoming entrenched
Market innovation	Innovation commencing	*Malawi* *Ethiopia*		
	Innovation gaining traction		*Nigeria* *Rwanda*	*Uganda*
	Innovation gathering momentum		*Zimbabwe*	*Ghana* *Kenya*

Figure 1. Country clusters of level of innovation, plotted against market development classification
Source: Authors' own, based on country portrait assessments

Box 3. Zimbabwe's unique drivers of innovation
As will be clear from the analysis in Section 2, Zimbabwe faces notable challenges in its macroeconomic and political environment that undermine consumer's ability to pay and consumer trust, and that have impacted the regulatory environment and the level of relevant skills available to industry.

These constraints fed into the relatively low evaluated market development score for Zimbabwe. Yet, innovation is relatively high in Zimbabwe in comparison to the other countries. Insurers have been innovating significantly in digital product solutions and processes (machine learning and big data analytics for predicting claims and managing fraud) and have also started to use IoT technology to enhance their product offerings (Stakeholder Interviews, 2022). Alternative and digital distribution channels are used extensively, creating a diverse range of touchpoints to reach the population.

These trends speak to the necessity for innovation in the face of adversity: Zimbabwe had a relatively well-developed insurance market prior to hyperinflation, but the population has increasingly become poorer and informalized, plus lost trust. For insurers to maintain or build back their customer base, they have had to innovate.

More – and different – innovation needed. On the whole, the cross-country innovation assessment shows that, though there are examples of innovation in each study country, innovation is not yet entrenched in the fabric of the market or leveraged to break into underserved target market segments such as informal sector workers, rural inhabitants or MSMEs. This holds true for established insurers as well as insurtechs:

- **Incumbent insurers largely innovate to improve efficiency and better serve their existing customer base**. Across the board, the portraits found that many insurers are risk averse towards innovation and focus innovation on improving product services and processes for current clients. The innovation that is present is primarily focussed on digitalisation of processes to better serve existing customers. For example, in Kenya, there are ongoing efforts to digitalise and enhance efficiency for existing clients, catalysed by the need for social distancing during the COVID-19 pandemic. Insurers developed these initiatives to speed up claims processing and provide end-to-end enrolment, so the innovation is not necessarily geared towards attracting new consumers but meant to augment the experience of existing clients (Stakeholder Interviews, 2022). In Nigeria, AIICO Insurance launched a new corporate website and e-business portal to enhance the quality of service for existing consumers, while Custodian Insurance introduced the first insurance ChatBot, again to help established customers with transaction-related queries using Artificial Intelligence (Ikemefune, 2021). In all the study countries, insurers indicate that they struggle to develop and successfully distribute insurance products tailored to underserved market needs. For example, in Ghana there is considerable innovation in life insurance, but products targeting MSMEs are rare (NIC, 2019).

- **Insurtech sectors are still nascent, with a B2B focus**. Except for Kenya, the insurtech sector in all the study countries is at a nascent stage, with limited growth (see the box below for more detail). Where insurtechs are present, they likewise focus on improving business processes for insurers, rather than reaching into underserved market segments. For example, in Ethiopia, the limited number of insurtechs all offer business-to-business (B2B) services aimed at the established insurance market (Cenfri, 2019). In Ghana, half of the insurtechs in the Insurtech Accelerator Programme serve the B2B segment (Ghana Portrait, 2022).

Box 4. The role of insurtechs in innovation

As noted at the outset of this document, insurance innovation is not limited to digital technology innovation. Nor is it solely driven by insurtech players. Nevertheless, insurtechs are an important part of the overall innovation landscape.

Across the study countries, we see that the insurtech sector is not yet large. According to a 2019 stock-take of insurtechs in Africa, there were 25 unique insurtech initiatives in Kenya, but the rest of the sample countries each had only a few recognised insurtechs (as opposed to fintechs more broadly).These insurtechs are largely orientated towards providing services to insurers as their primary clients, rather than at launching client-facing ventures. This is in line with the expected development progression of fintech sectors, in which B2B services tend to grow faster initially. Kenya's relative success encouraging insurtechs demonstrates that ongoing support to the sector will enable further growth and allow customer-facing (B2C) insurtechs to also develop.

As such, insurtechs are currently relatively peripheral in contributing directly to market outcomes such as inclusion and penetration, and are likely to remain so for over the short to medium term. However, insurtechs, and other tech providers, remain crucial to the overall development of the market for three key reasons:

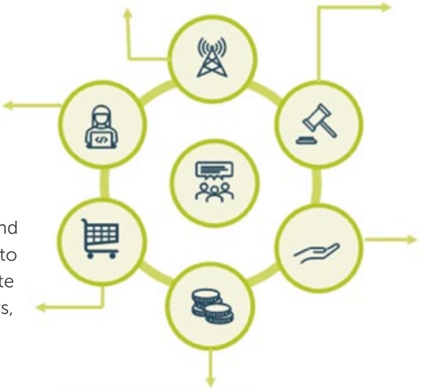
- B2B providers have the potential to substantively improve the efficiency of traditional providers, improving client experiences and value.
- B2C providers may not, in most cases, take significant market share, at least not in the short term. However, the increased actual and perceived competition, combined with the demonstration of opportunities, insurtechs provide to traditional providers act as a strong push factor for established players to invest more into innovation.
- Tech players are increasingly important partners to traditional providers through the provision of risk management or mitigation technologies, data collection and analysis and value-added services.

What explains the innovation picture? To fully understand the innovation dynamics across the study countries, one needs to understand what drives the state and nature of innovation in a particular country context. In the following section we examine various elements of the enabling environment or ecosystem that shape the current innovation picture.

2

Innovation Ecosystem

To assess the extent to which market environments are enabling, and to understand the cross-country similarities and/or differences in innovation, the eight country portraits considered six factors that drive or hamper innovation. These six factors, as outlined in the diagram below, together form the innovation enabling ecosystem:



Underlying infrastructure to enhance market efficiency, including electricity, access tomobile phones and adequately priced digital connectivity

A enabling, test-and learn regulatory environment

A strong talent pipeline to spur innovation in incumbents and form innovative start-ups

Supervisory support for innovators/new market entrants, including transparent and timely licensing processes, soft guidance and facilitating collaboration between tech innovators and the incumbent market players.

Market engagement enablers: a digitally and financially literate population who is ready to take up innovation; availabiliy of appropriate and ready aggregators/distribution partners, underwriting partners or tech partners

Access to finance for innovators throughout the development lifecycle of the firm, as well as for new innovative ventures among incumbents

Figure 2. Innovation enabling ecosystem elements

Source: Authors' own, drawing on EY (2019)

Common constraints to innovation. From the assessment of the six ecosystem elements across the eight countries we identify four constraints to innovation that hold across the study countries, each of which is discussed in turn below:

- Structural constraints
- Market engagement constraints
- Regulatory constraints
- Supervisory system constraints

2.1. Structural constraints

Each country faces constraints in the broader country context that set the parameters for innovation and should be carefully considered when designing a regulating for innovation approach. These structural constraints cut across a number of the ecosystem enablers. The discussion below outlines three challenges raised in most of the study countries: data costs, a lack of trust in/awareness of insurance and structural constraints to technical insurance and STEM skills.

Cost of mobile data inhibits digital insurance innovation and distribution. Though most of the study countries have relatively high internet or cell phone penetration, the high cost of mobile data was identified as a significant barrier to digital insurance innovation and distribution. For example, in Kenya, Zimbabwe, and Ghana smartphone ownership was relatively high, which opens up the possibility for innovative digital insurance solutions (Sunday, 2021; Vinga, 2020; NCAGSS, 2020). However, innovation efforts in all three countries are impacted by high data costs (Ngila, 2021; Stakeholder Interviews, 2022; Cenfri, 2020).

Low awareness and lack of trust impede uptake. Stakeholders consulted for each of the portraits highlighted a lack of consumer knowledge of insurance as a significant barrier. This is confirmed by available consumer research. In Rwanda, for example, FinScope survey results show that 32% of the population do not know how insurance works (AFR, 2020). In

Ethiopia, 49% of surveyed households stated that the primary reason for not adopting insurance was never having heard of it (World Bank, 2018). Moreover, demand-side surveys show that consumers across several of the study countries see limited value in having insurance and trust in insurance is generally low. This links to low awareness, but also suggests that insurers have a poor track record in building trust through positive user experiences.

For example, Rwandan insurance clients highlighted several negative experiences, including cumbersome claims procedures or a miscommunication and misunderstanding of new insurance products, and in Ghana a significant proportion of adults still have low confidence in insurance due in part to cumbersome claims procedures (World Bank, 2019; NIC and GIZ, 2020). Furthermore, limited awareness, compounded by low value-added benefits of vehicle insurance, pushes consumers in Nigeria to purchase fake motor insurance certificates purely to meet vehicle insurance requirements (This Day Live, 2021). Macroeconomic conditions or specific instances of insurer failures can also undermine trust, as the box on Zimbabwe below illustrates. In response, insurance regulators are making deliberate efforts to raise awareness and build trust. For example, Ghana's NIC has launched a nationwide Insurance Awareness Campaign in partnership with GIZ and industry associations (Stakeholder Interviews, 2022).

Box 5. Repairing the insurance industry's reputation

The portrait assessments show that trust in the insurance sector, once lost, can be hard to regain. For example:

Nigeria has a long-standing problem with fake insurance certificates issued to meet the compulsory third party vehicle insurance requirements. Less than a third of vehicles owned are covered by legitimate insurance policies compared to thousands more of fake polices that are purchased simply for the sake of compliance. This weak compliance has resulted in reduced market share and as much as 530 billion lost annually to fake third party providers (This Day Live, 2021). As consumers derive very little value from vehicle insurance, and authorities are unable to verify whether insurance is "real" or not, the proliferation of fake certificates has undermined trust in compulsory motor insurance and, with that, the insurance market more broadly.

Zimbabwe's history of hyperinflation has undermined trust in any insurance products that are not designed to be inflation-adjusted. Trust was also undermined by a controversial event in 2011 where millions of Zimbabweans lost their mobile life insurance cover after a dispute between EcoNet and its partner, TrustCo, led to the discontinuation of the EcoLife insurance product (Leach & Ncube, 2014). To repair the image of the industry and raise awareness, the insurance regulator, IPEC, has launched several initiatives, including a series of weekly consumer education radio programmes on consumer rights and responsibilities, bi-annual consumer newsletters, social media posts on consumer awareness and training of members of the media to promote insurance awareness. It is, however, noted that rebuilding trust is a long-term endeavour (IPEC, 2020)

Large technical and STEM skills gap. All the portraits highlight limited available insurance technical skills (underwriting and actuarial) as a challenge. Moreover, countries faced difficulties in retaining the limited skilled labour they do have due to high demand for skills from other sectors and/or high rates of emigration. For example, in Nigeria and Zimbabwe stakeholder consultations suggested that many skilled insurance professionals have opted to work abroad (Stakeholder Interviews, 2022). Most countries also face broader constraints in STEM skills, particularly technical skills in IT, with knock on effects for innovation in the insurance space relying on digital technology. Several efforts are underway to address the skills gap. For example, the IRA Kenya is supporting students to undertake postgraduate actuarial studies in the UK, while the NIC in Ghana has had an Actuarial Capacity Development Committee since 2012 (IRA, 2021; Vetter & Aggrey-Fynn, 2015). Start-up, innovation and accelerator hubs in all the studied countries also work to improve the digital and innovation skills of innovators, although this is not necessarily insurance- or financial sector-specific.

2.2. Market constraints

Across the study countries, innovation is also inhibited by a mix of market forces. The following themes stand out from the portrait assessments:

- Limited knowledge of the retail **target market**
- Complacency on the part of insurers in their current market segments and a reluctance at board level to **invest in innovation**, given the focus on short-term investment returns.
- Difficulties in aligning partnership incentives and process challenges to enter into and sustain **viable partnerships**.

These are key issues for established insurers, but also for insurtechs who rely on partnerships with insurers. Insurtechs face the additional challenge of being at a relative disadvantage to other fintechs to **attract investment**.

These constraints are exacerbated by the skills shortage in the market noted above. Below, each is discussed in turn.

Limited investment in innovation by incumbent insurers. Across the portrait countries, insurers flagged constraints in obtaining board approval for substantial internal investments in innovation, as the high associated risks make it difficult to guarantee a return on investment in the short term. Many insurers are conservative in their investment decisions and complacent in their current market segments, and only in some instances is competition starting to disrupt traditional market practices. Therefore, R&D and innovation has not been a priority and innovative ideas struggle to attract sufficient investment. For example, despite the level of innovation in Kenya, only 10% of insurers' resources are reported to be spent on innovation (AKI, 2021). In Ethiopia, limited access to capital and risk aversion from boards were flagged as key constraints to innovation (Stakeholder Interviews, 2022)

Limited understanding of needs and realities of underserved market segments. Related to the investment constraints, we see that, in most of the study countries, insurers are not yet doing extensive market research to better understand the needs, realities, perceptions and user experiences of underserved market segments. The product development focus is largely on off the shelf products, rather than bespoke approaches tailored to specific customer segments.

Difficulties in forming and sustaining viable partnerships. Partnerships between insurers, aggregators with a footprint and reach into the underserved market, and technical service providers or innovators such as insurtechs are essential for successful inclusive insurance market development. There are several examples of alternative distribution partnerships across the study countries[6]. On the whole, however, alternative distribution channels remain underutilised. Experience in the portrait countries show that innovation efforts often break down due to challenges in cultivating effective and mutually beneficial partnerships. Insurtechs are particularly hamstrung by partnership constraints, as they are dependent on insurer and aggregator partnerships to take ideas to market. At least three partnership challenges are noted in the portraits:

- Partnerships are challenged by incumbent insurers' conservative approach/complacency and **high level of risk aversion**. In Ghana, for example, only one insurer has partnered with insurance brokers to develop new products. In several countries, insurtechs express challenges in convincing insurers to enter into partnerships, or in navigating the legal requirements of entering into a partnership even if there is in-principle agreement.

- The fact that many insurers have **legacy systems** that do not easily integrate with third party systems such as those used by insurtechs is also noted as a partnership challenge. For example, the Nigerian, Rwandan, and Zimbabwean portraits showed that a significant proportion of insurers were either unable to remotely onboard clients and digitally process claims due to internal infrastructure constraints or were impeded from doing so due to the high cost of investing in ICT infrastructure.

- Finally, partnerships between insurers and mobile network operators (MNOs) have faced specific challenges, given the **balance of power** between MNOs as holders of a large customer base and insurers. For example, Kenya is a

[5] In a survey conducted to test the impact on users, 63% of users ruled out the use of similar products in the future and 42% indicated that they are dissatisfied with insurance (Leach & Ncube, 2014).

[6] For example, Malawian and Zimbabweans insurers have been partnering with organization such as churches, banks, supermarkets, and medical aid schemes to reach a wider consumer base (Stakeholder Interviews, 2022; Old Mutual, 2022)). In Ghana, Hollard partnered with the e-commerce platform Jumia and in Kenya, Britam partnered with the Kenya Tea Development Agency (Mkhize, 2021; Britam, n.d.)

leading market for mobile money on the continent, but insurers have been hesitant to partner with MNOs[7].

Limited funding for Insurtechs. Though several countries have set up funding ventures and campaigns for start-ups and fintechs, insurtechs have struggled to compete for funding. For example, Nigeria's fintechs received the highest total funding in Africa in 2020, amounting to USD 747 million, but the bulk of this funding was dedicated to paytechs and other fintechs, rather than insurtechs (Findexible, 2021). A similar phenomenon is seen in Ethiopia where, in contrast to Nigeria, funding is starting from a low base. Ethiopia has obtained almost USD4 million in fintech funding but insurtechs have struggled to compete with payments and credit fintechs (Disrupt Africa, 2021). This has been attributed to a low demand for insurance in the country as well as difficulty in partnering with foreign investors due to localisation requirements (Stakeholder Interviews, 2022). Though not all innovation emerges from insurtechs, they do play a significant role in bringing innovative insurance product solutions to the market. Thus, insurtech funding constraints ultimately impacts the overall level of innovation in the market.

2.3. Regulatory constraints

Regulatory frameworks were not identified by industry stakeholders as a major barrier to innovation in any of the target countries. Market players acknowledge regulatory authorities' efforts to develop tiered licenses[8] and accommodate digital distribution[9]. Nevertheless, a few notable gaps and challenges remain. The analysis identifies four cross-country regulatory constraints:

Lack of clarity on remote onboarding, servicing of policies, and alternative distribution partnerships. More clarity is needed to enable remote onboarding and servicing of policies, as well as to navigate partnerships with alternative distribution partners. Insurers in several of the study countries flagged that such uncertainties have affected their ability to fully leverage alternative distribution channels and utilise digital solutions for customer onboarding. For example, in Ethiopia, the definition of "digital insurance services" as allowed for in a recent regulatory amendment is vague, creating uncertainty in the market or what is and is not allowed. In Zimbabwe, likewise, there is regulatory uncertainty regarding the use of digital signatures on agreements.

Limited license categories. Except for Ghana, none of the portrait countries have dedicated license categories that speak to new types of players that do not neatly fit into the insurer, broker or agent category, such as technical service providers (TSPs), insurtechs or cell captives. Neither is there a consistent approach to clarify the role of such players and create a level playing field between different types of players. Even where insurtechs partner with insurers, they may provide some insurance or intermediary services that would require regulation[10]. Lack of clarity on their regulatory treatment was raised as a constraint in most of the portraits[11].

Regulatory sandboxes not yet gaining traction. While the development of regulatory sandboxes in several of the study countries[12] is noted as a positive development that signals the regulator's intent to facilitate innovation and that can help to provide a pathway to entry for non-traditional market players, the portrait assessments revealed that these sandboxes are by and large not yet gaining traction and have so far offered less benefit to participating providers than envisaged. Few applicants have been able to meet the requirements and the implementation of the sandbox has proven taxing on regulatory capacity. For example, Rwandan insurtechs have found the requirements to participate in the sandbox complex and have expressed confusion on the correct legal pathway to follow to test their products. In Kenya, there were considerable delays from launch to the selection of the first cohort of participants. In Uganda, it was noted that the implementation of the sandbox requires more staffing capacity and resources than was anticipated. Moreover, stakeholders noted that the desired outcomes of the sandbox were not clear upfront. As a result, only two applicants from the initial cohort entered the sandbox, of which only one graduated with a product ready to take to market.

[7] Arguably, the only real successful MNO distribution models are where the MNO is the insurance provider - either with a license (Econet in Zimbabwe) or as part of a joint venture (for example aYo in Ghana and Uganda).

[8] For example, through microinsurance licenses in Nigeria, Ethiopia and Kenya or regulatory allowances for Takaful insurance in Nigeria and Ethiopia.

[9] For example, Kenya's enabling of e-signatures and the web aggregator guidelines issued by NAICOM in Nigeria.

[10] As most frameworks only allow for insurer, broker or agent licenses, there isn't a "ready" category for them to fall into. The result is that they either register as a broker (when they sell to the public) or is merely regarded as a service provider to the insurer. While the latter may be conducive to innovation in the short-term, over time it can create consumer protection risk if they provide outsourced insurance functions without being subject to regulation and oversight.

[11] It must be noted that insurtech licencing is a double-edged sword and that opinions on this is split across stakeholders. Some would appreciate more explicit licensing categories, while others prefer to operate outside of explicit regulation, to avoid additional regulatory burden.

[12] Only Rwanda, Uganda, and Kenya have active regulatory sandboxes, whereas Nigeria's sandbox is currently under development.

The challenges experienced in sandbox intake and throughput imply that there is still an unmet need for a test and learn approach that will trigger innovation at scale.

Microinsurance frameworks underutilised. All the study countries have implemented a microinsurance regulatory framework. While the implementation of a microinsurance licence is acknowledged as a proactive step to encourage inclusive insurance innovation, the space created is not taken up enough in the study countries. This was noted as a particular challenge in the Ethiopia and Nigeria portraits. Focusing market development efforts largely on microinsurance also risks defining the focus on regulating for innovation too narrowly. Similar to a sandbox, a microinsurance framework risks becoming a white elephant if it is not integrated with a broader and multi-pronged approach to support responsible innovation.

2.4. Supervisory system constraints

Concerted effort to streamline supervisory processes, but challenges persist. As with the regulatory framework, the portrait assessments note considerable progress in supervisory systems that bode well for innovation. All the study countries have embarked on process and systems improvements over the past years, in recognition of the fact that slow licensing and product approval processes can be a bottleneck to innovation.

Box 6. Improving product approval efficiency in Uganda

In an earlier regulating for innovation assessment conducted in 2019, Ugandan insurers noted uncertainty around rules and procedures regarding the product approval process, including on required documentation as well as the turn-around time for product approval (Cenfri, n.d.). In response, the IRA Uganda issued new product approval guidelines. The IRA has also streamlined its product approval process to enhance efficiency. As part of this process, the product approval committee as well as industry players were trained on how to use and implement a product risk assessment tool (Stakeholder interviews, 2022). During the consultations for the Uganda portrait, market players reported that they no longer have uncertainty on the product or licensing approval process (Stakeholder interviews, 2022).

Supervisory authorities have also started to digitalise their own operating systems and their engagement with the market. For example, NAICOM in Nigeria digitalised their product approval process and set up a web portal for industry engagement. However, there are teething pains and, despite notable progress in streamlining supervisory systems and processes, market players in many of the study countries still flag engagement with supervisors, supervisory response times or challenges in navigating supervisory systems as challenges to innovation.

Box 7. Teething pains in Nigeria's supervisory system digitalisation

An earlier insurance market diagnostic study (Hougaard, et al., 2018) flagged delays in the product approval process as a constraint to innovation in Nigeria, despite the Insurance Act stating that feedback on product approval ought to be provided within 30 days of submission. To improve process efficiency, NAICOM streamlined the product approval process by developing an online portal through which documentation and product and process applications could be submitted. NAICOM also introduced a digital chatbot on their website to improve user experience (Stakeholder interviews, 2022). However, these new measures have faced some challenges: applicants have not been able to submit all required documentation on the portal and there have been operational challenges in circulating the documents submitted across NAICOM departments. Moreover, the NAICOM portal and website on occasion give error messages and absent links and NAICOM email addresses periodically fail to deliver emails (Stakeholder interviews, 2022). The above problems have undermined the accessibility of the regulator to the market, which has a knock-on effect on innovation.

There are three key areas in which the supervisory system continues to pose constraints to innovation:

Communication efforts not yet serving optimal purpose. As noted at the start of this document, open, responsive and proactive outwards communication with industry is a key tool through which regulators can facilitate and prompt innovation. Though country portraits note that significant progress has been made, the COVID pandemic has provided setbacks and disrupted the flow of regularly scheduled forums for regulator-market engagements. Moreover, while many regulators from the target countries have open communication with licensed insurers, prospective new entrants find the regulatory and licensing process daunting, even where supervisors have an open-door stance. For example, while market players report that the NIC in Ghana and the IRA in Kenya are approachable, prospective market entrants such as insurtechs still find it challenging to navigate the supervisory landscape and know who or how to engage with the regulatory authority (Stakeholder interviews, 2022). In most of the study countries, there have also not been proactive engagement with the fintech ecosystem. Moreover, some regulators, such as the insurance departments in the BNR in Rwanda and the NBE in Ethiopia, do not yet have an explicit market communication strategy driven by a communications team or department. While frontline staff do have a core role in communication, dedicated communications staff have specific communication skills, and having an explicit communications strategy means that efforts across the organisation can be better coordinated to ensure that communication opportunities are proactively created and leveraged.

Innovation mandate for the most part not yet translating into dedicated institutional capacity. While most of the study countries do have market development, research or other departments where inclusive insurance and innovation efforts are housed, most countries do not yet have dedicated teams tasked with innovation, and much of the regulating for innovation work is done by frontline supervisory or actuarial staff. Where dedicated units or teams have been set up, it has helped to focus efforts on inclusion and served as a hub for coordination on innovation across other departments[13]. For example, the NIC in Ghana set up an Innovation Hub which has the responsibility of developing and managing internal digital solutions that are aimed improving the operational efficiency of the NIC. Moreover, the Innovation Hub plays a role in evaluating new innovations and technology solutions developed by insurers and insurtechs to ensure that they do not pose too great of a risk to the insurance industry (NIC, 2021).

Monitoring systems not yet set up for granular monitoring of innovation. Finally, the portraits show that reporting systems and indicators do not yet allow supervisors to track the level of market innovation in a granular fashion, and do not yet feed through to inform the supervisory strategy/response. In most instances, the insurance penetration rate is tracked as catch-all indicator of market development. Some regulatory authorities also consider insurance uptake figures from FinScope or similar surveys. In countries with specific efforts to enhance innovation, such as the BimaLab in Kenya or the sandbox in Uganda or Kenya, output indicators are tracked in terms of applications and throughput, or number of market engagement events, and targets in this regard are included in the authority's annual workplan. However, no country yet has a comprehensive and outcomes-based innovation monitoring plan that considers a variety of data sources.

[13] Note, however, as will be discussed in Section 3.4, that dedicated capacity does not mean that other departments should not also engage in supporting innovation.

3 Imperatives For Action

The cross-country analysis in this note has reconfirmed the need to broaden and deepen innovation to build more inclusive insurance markets in Africa but has shown that innovation is held back by fundamental constraints at various levels. To 'break the barrier' to move to the next level of insurance market innovation in Africa, there is a need to[14]:

- Understand new market segments better
- Make alternative distribution channels/partnerships work
- Continue to digitise systems and services
- Build, attract and retain relevant skills;
- Entrench insurtechs as strategic partners in the insurance market; and
- Build consumer trust through positive claims experiences

While most of these efforts lie with the market, there is much that regulators can do to address the constraints in the innovation-enabling ecosystem that will help to make market change a reality. In so doing, they can wield a range of regulatory, supervisory, engagement and monitoring tools.

The sub-sections below set out concrete imperatives for regulatory action for each of the categories of innovation ecosystem constraints.

3.1. Key actions to address structural constraints

Regulators can implement three core actions to address the structural constraints identified in Section 2.1:

1. Collaborate with the market to build consumer awareness and trust. Insurance regulators have a core role to coordinate and prompt market action to build awareness and trust. While some of this can be achieved through public awareness campaigns, it is more powerful to use the customer engagement journey to build trust. The regulator can use its strategic market engagement efforts and moral suasion to challenge the market to conduct more targeted market research, tailor customer journeys, and can engage with industry associations on the scope for developing shared infrastructure to support claims processes. This will simultaneously address the market constraint of limited knowledge of specific target market needs.

Box 8. Prompting insurers to build consumer awareness and trust

In Uganda, the IRA introduced innovation awards to increase their market engagement with insurtechs and incumbent insurers. The innovation awards reward key innovators in the market for their insurance innovations (Stakeholder Interviews, 2022). Though meant to increase their engagement with market players, the innovation awards also serve to increase visibility of insurance as well as build trust with consumers in awarded insurance providers.

2. Leverage broader government coordination structures to address structural constraints affecting the insurance market. Though structural constraints relating to infrastructure, network connectivity or data costs are outside of the control of the insurance regulatory authority, it is able to use its seat in inter-governmental engagement forums to advocate for change that would be relevant to insurance market innovation, or to otherwise engage and advocate in government circles to make the insurance perspective heard in broader policy agendas. This may require Memoranda of Understanding to be set up between different regulatory authorities, the set-up of a cross-regulatory forum, or inserting insurance as agenda point in existing forums. Entrenching effective coordination is a long-term endeavour. Over the short-term, the most important action may be just to establish contact and start the exchange of ideas.

[14] As different countries are at different stages of market development, achieving the above may mean first focusing on the basic building blocks for some, while in other contexts more sophisticated strategies are needed.

Box 9. Advocating for the use of airtime in premium collection

One area of inclusive insurance innovation requiring intergovernmental coordination is the question of the use of mobile money or airtime for insurance premium purposes:

- In Nigeria, central bank guidelines prohibit the use of airtime in transactions including the payment of insurance premiums. This has significantly impacted the viability of m-insurance (Hougaard, et al., 2018). This constraint has been a topic of discussion in financial inclusion coordination forums but has not been solved through existing coordination forums to date.
- In Kenya, the Financial Sector Regulator Forum (FSRF) has been designed to facilitate information sharing, cooperation and collaboration on regulation and supervision across financial sector regulatory authorities (Stakeholder interviews, 2022). However, the forum does not yet have an explicit innovation mandate and, hence, has not given attention to cross-jurisdiction matters such as recurring deductions on mobile money for premium payment purposes. Nor does it formally involve non-financial sector regulators such as the data protection or telecommunications regulators.

Both these examples underline the importance for coordination structures to have the mandate to act on the topics discussed, and to involve all relevant authorities and departments.

3. Build and attract scarce skills to insurance. As the examples noted in Section 2.1 illustrate, regulators can also help to build and attract skills to the insurance industry and the regulator itself. Concrete actions include seconding supervisory staff to authorities in other jurisdictions, dedicated staff training on innovation topics and hosting industry-wide innovation forums. The supervisor can also proactively engage innovation incubators or hubs and university graduate programmes to market the insurance sector to young innovators. Furthermore, it can offer short courses on insurance for potential innovators and entrepreneurs and provide tailored guidance to help demystify the process for regulatory approvals.

Box 10. Building staff and market innovation skills

Uganda's new Insurance Act of 2017 gave the IRA a market development mandate in addition to the mandate of ensuring consumer protection and market soundness (de Waal, et al., 2019). As part of entrenching this mandate within the supervisory system, the IRA has undertaken proactive internal capacity building, including training of the communications department and training for the product approval committee (FSD Uganda, 2018). This showcases the IRA's commitment to upskill and capacitate its staff to better drive the innovation agenda.

In Rwanda, the government substantially reduced visa requirements to attract skilled professionals and technical skills to the country (Rwanda National Security Service , n.d.). Government is also working proactively to build technical skills: it has incentivised and encouraged prominent Pan-African tertiary institutions such as the African Institute for Mathematical Sciences (AIMS) to operate in Rwanda (Rwand Portrait, 2022). While not directly targeted at the insurance sector, these broader efforts can also support the skills needs of the insurance sector.

3.2. Key actions to address market constraints

To address the main market constraints encountered across the sample countries will take a multi-pronged approach to promote more targeted product and distribution design, encourage and smooth the way for partnerships and help unlock funding for innovation. None of this necessarily requires regulatory change: it can be achieved through proactive two-way engagement with a range of current and prospective market participants. Again, there are three key actions:

1. Help the market to better understand harder-to-reach market segments. Though regulators may not have the resources to conduct research themselves, they can help to address the barrier on limited knowledge and understanding of underserved market segments by identifying information gaps and proactively working with the market and development partners to develop approaches to address these. Through its convening power, the regulator can share research on insurance reach and risk experience and coping strategies by different market segments and nudge industry on areas where further research is needed. It can also circulate best-practice examples from elsewhere in the region or internationally on tailoring products and processes for financially excluded consumers. For example, at the time of publishing the Ugandan portrait, FSD Uganda was conducting research in collaboration with the Ugandan Insurance Association on the insurance needs of micro enterprises, especially market vendors. The research was undertaken to help inform the tailoring of products to serve this underserved segment. Such research can be shared in broader forums facilitated by the regulatory authority, as discussed below.

2. Use proactive market engagement to prompt innovation and encourage partnerships. The insurance regulator has a strong role to outwardly communicate (through various channels, including social media), convene the market and raise relevant topics to catalyse dialogue and apply moral suasion to overcome the investment and partnership barriers to innovation. Such communication should be bi-directional, to create opportunities to also hear from the market. It is important that such engagement does not only extend to existing insurers, but also to prospective aggregators and the insurtech/fintech community, to create the space for partnership formation and to help trigger more disruptive competition. Collaboration with the already-existing network of accelerators and innovation hubs in the various study countries is important to help facilitate partnerships, secure funding for innovation, and help prospective players to navigate regulatory entry.

Box 11. Proactive market engagement

As part of its regulating for innovation action plan, the IRA in Uganda is pursuing a broad-ranging engagement strategy through hosting of innovation awards and innovation workshops, quarterly publication of an innovation-focused newsletter and scheduled press briefings. It is also exploring partnerships with innovation accelerators (Stakeholder Interviews, 2022).

In **Rwanda**, the FintecHub started Fintech Fridays. These are meet-ups for local fintechs that are also attended by regulatory staff and people from key Ministries and other Government institutions. The Government of Rwanda's draft Fintech strategy also includes an explicit emphasis on convening and engaging fintechs (MINICT, 2022). Both of these initiatives, though not insurance sector-specific, have application in insurance.

Another avenue is setting up a dedicated accelerator initiative. To date Kenya and Nigeria have launched formal BimaLabs and Ghana has launched an InnoLab.

Box 12. Kenya's BimaLab experience

Kenya's BimaLab is an initiative between the insurance regulator, IRA, and two other Insurers. The objectives of the programme are to help innovators refine their value proposition, determine commercial viability, and provide opportunities to scale their solutions through partnership (Prudential, 2021). BimaLab allows entrants to gain advice and guidance from key players within the BimaLab (such as key insurance partners, other regulators and the IRA).

A cohort of 20 start-ups participated in the first incubation program and eight were shortlisted for an intensive six-week training and mentorship program. Out of the eight that were shortlisted, three firms qualified to receive financial support from Prudential and an opportunity to test their products in a regulatory sandbox. In the second cohort in 2021, 12 firms entered, of which two ultimately met the requirements (Stakeholder Interviews, 2022).

3. Promote certainty by issuing guidance on partnership agreements and regulatory treatment of non-traditional players. To help promote partnerships, the regulator can also issue guidance on the elements to be covered in partnership agreements. Furthermore, the portrait assessments highlighted the need for guidance on the regulatory treatment of non-traditional market players within the current regulatory framework[15] – while the process of considering the appropriate regulatory treatment is ongoing, as will be discussed below. As guidance is non-legally binding, it can be issued without a long lead time and be responsive to market needs and trends[16].

3.3. Key actions to address regulatory constraints

Apart from the engagement strategies referenced above, there are two specific ways in which regulators can help address the remaining regulatory constraints to innovation as discussed in Section 2.3:

1. Close remaining gaps regarding digital distribution and licence categories. Specific allowance for digital client onboarding and processes was flagged as an area of uncertainty in a number of the portrait countries, as was a lack of dedicated treatment of new types of players, such as insurtechs, that do not neatly fit into traditional licence categories. Closing this gap requires dedicated work in each country context to update or issue the appropriate regulatory instruments that not only cater for current realities, but also anticipate or provide scope for unknown further developments. It is important not to clamp down in a way that stifles development, but to take note of the nature of activities and the corresponding consumer protection risks, and to create a fit for purpose regulatory home for innovative services, ventures and partnerships. Doing so does not necessarily require updates to legislation or subordinate regulation straight away – or even at all. Issuing non-legally binding guidance allows regulators to communicate a position, interpret regulatory requirements in light of emerging market trends and crystallise compliance implications. This can be done swiftly and without major resource requirements, as it is done on the back of the existing regulatory framework. Over time, specific elements to incorporate or change in regulation can then be considered, notably an update of licence categories or incorporating specific provisions for insurtechs and insurtech partnerships within the current licence categories.

Box 13. Providing guidance on technical service provider licensing

Under Section 110 of Ghana's Insurance Act of 2021, the NIC can issue a license to technical service providers (TSPs) to operate in the insurance sector **(Republic of Ghana, 2021)**. The NIC issued guidelines for TSPs to provide guidance to applicants on how to navigate the application process, as well as the subsequent compliance requirements **(NIC, 2021)**.

2. Reconsider sandbox design to ensure it is fit-for-purpose. There is an increasing trend among insurance regulators, also beyond the eight study countries, to implement a regulatory sandbox to allow piloting of innovative ventures under certain conditions. A sandbox can be a useful tool to create a safe space for non-traditional players to test their products and to facilitate partnership formation. They also present a test and learn opportunity for regulators. However, as the discussion in Section 2.3 showed, the portrait countries' experience with regulatory sandboxes has so far been lacklustre. Where sandboxes are in place, a dedicated exercise is needed to evaluate the success so far. On that basis, there is need for a critical consideration of the design to improve success. With that goes a need for greater clarity to the market on the purpose of the sandbox and criteria for entry. Regulators also need to proactively work with industry associations as well as innovation hubs outside of the insurance industry to generate interest and identify potentially relevant prospective applicants. As such, this action feeds into the proactive market engagement strategy outlined in Section 3.2.

3.4. Key actions to address supervisory system constraints

Addressing supervisory system constraints is the area where most regulators may see the greatest, or most immediate, opportunities for action. Each country faces unique supervisory system challenges. Hence, each regulatory authority needs to do a full diagnostic of their supervisory system and institutional structure to understand where the biggest-win

[15] The IRA in Kenya noted that such guidance is planned for Kenya.

[16] The importance of non-legally binding guidance is also entrenched in the draft Rwanda Fintech Strategy.

opportunities in the local context lie. Nevertheless, the assessment of cross-country supervisory system constraints highlights four cross-cutting imperatives[17]:

1. Earmark capacity to innovation, and coordinate across departments. There is a need for regulatory authorities to reconsider institutional structure and how innovation/market development mandate can be entrenched within and across departmental structures through earmarked capacity and explicit coordination. For some countries, this will entail forming dedicated innovation units or teams. For others, it may be more appropriate to designate an innovation champion in each department, with coordination across champions through an innovation committee, or through a central innovation mandate hosted in a relevant department such as the market development or research department . The innovation champion can then drive and coordinate the innovation agenda within the mandate of the specific department, while the coordination mechanism will ensure that the dots are connected at organisational level . Thus, whilst dedicated capacity with a mandate is critical, such a team should not be seen as the only responsible party for supporting innovation and market development. Rather, they need to function as an engine to empower and encourage other departments to also support innovation. A responsible innovation mindset should ideally permeate throughout the regulator as it manifests in all activities.

Box 14. Ghana's Innovation Hub

In Ghana, the NIC created an innovation hub tasked with the development and management of internal digital solutions aimed at enhancing the operational efficiency of the NIC. The Innovation Hub also assists in evaluating new innovations and technology solutions developed by regulated entities to ensure that there is sufficient comfort that these innovations do not expose the industry to too high risks (NIC, 2021). It was set up to directly address the Commission's explicit market development mandate bestowed under the 2021 Insurance Act. The Innovation Hub, the PR Unit and the Research Unit are coordinated by the office of the NIC's commissioner and are in constant communication.

Source: Ghana Portrait

2. Adapt and streamline the supervisory approval process. As the discussion in Section 2.4 has shown, turnaround times and seamless integration of steps in the licensing and product approval processes remain challenging in many countries, despite significant progress already in recent years. Further streamlining processes can be achieved through the establishment of inter-departmental approval groups (as for example in Zimbabwe) and through more proactive and regular communication with applicants on progress along the approval process. One tangible action that has proven useful in Uganda is to train supervisory staff in proportionate risk assessment to help streamline the product approval or licensing process (as previously discussed in Box 6). The International Actuarial Association, in association with the International Association of Insurance Supervisors (IAIS) developed a risk assessment tool for use by non-actuaries with the objective of making the approval process more consistent, robust and risk-sensitive. This tool is ideal for application as part of a regulating for innovation strategy. After conducting a training course on the tool for supervisory staff, it is recommended that the training also be rolled out to market players as input into product and partnership decisions and design. In that way, a consistent risk-based framework is established to inform innovation efforts within the market, as well as the evaluation of such efforts by the regulator.

[17] The need for coordination as highlighted in Section 3.1 is equally relevant when it comes to supervisory imperatives. Effective inter-regulatory and inter-departmental coordination plays a core role to support optimal supervisory systems to facilitate innovation.

[18] It may also be appropriate to have both a dedicated team and a coordination structure across departments.

[19] For example, there are plans to establish a fintech unit as central coordination mechanism in Malawi.

Box 15. **Overview of the IAA inclusive insurance risk assessment tool**

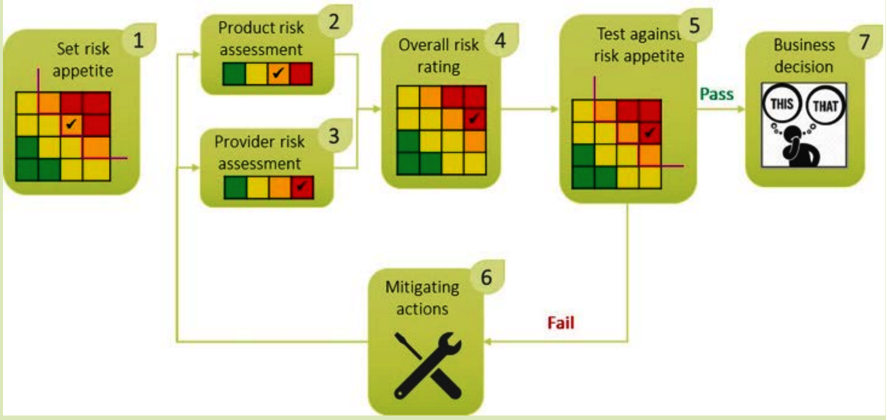


Figure 3: Product risk assessment tool process

Source: IAA, 2019

The product risk assessment tool guides users systematically through categories of potential risk, requiring the user to set a risk appetite, to give each risk category a relative weighting and then to rate the level of risks for each. It caters for two types of risk assessment:

- Product risk assessment: Risks of key areas of product features (e.g. client awareness and understanding of insurance, moral hazard and anti-selection, and fraud potential)
- Provider risk assessment: Risks of key areas of a provider's operations (e.g. prototype design, testing and rollout, customer marketing and education, claims administration and payments, and monitoring capability and reporting)

The risk ratings are aggregated into an overall risk score, which is compared against a predefined risk appetite. Where the overall risk score is too high, the process is repeated after making changes to the product or processes, until the user is comfortable that the overall risk score is an accurate reflection of the true risks and that no further risks mitigating actions can or should be taken (Yan, et al., 2018).

3. Broaden the monitoring framework for innovation. Empowering those with the mandate for innovation goes hand in hand with setting clear targets against which progress can be tracked. Across the sample, there is a need to revisit and expand the current market monitoring framework to set additional indicators that speak specifically to market development and innovation, and to consider the most appropriate and most immediately available data sources that can be used to track those indicators. The Access to Insurance Initiative, under the International Association of Insurance Supervisors' Sub-Saharan African implementation agenda for inclusive insurance, has done considerable work in this regard. The Supervisory KPIs Market Development Lexicon and Handbook published in 2022 provides a granular list of innovation and broader market development indicators, plus practical guidance for designing a context-appropriate monitoring framework. It highlights potential low hanging fruit data sources to draw on, in recognition of the fact that not all countries have the resources to embark on the design of a full new regulatory return. To successfully apply this framework requires identifying and then adopting the most appropriate set of indicators in the country context (from the broad list provided) and identifying and accessing the sources of data that can feasibly be used to inform these indicators.

Box 16. Rwanda's use of KPIs in the insurance sector

The BNR in Rwanda sets KPIs annually according to their general strategic plan. Apart from the insurance penetration rate, it also tracks the number of women and youth that have insurance, and urban vs rural coverage.

Source: Rwanda Portrait

4. Invest in upgrading supervisory systems. Enhancing the efficiency of supervisory processes and monitoring can be supported through the digitalisation of supervisory systems. From the discussion of supervisory constraints in Section 2.4, there is a need to invest in supervisory system upgrades as relevant, but to do so in consultation with the market to ensure seamless integration with industry systems. For example, Rwanda's BNR has already taken steps to digitise the reporting process. The adoption of cutting-edge suptech solutions is a policy priority for Rwanda, as highlighted in the draft Fintech Policy and Strategy.

Box 17. Use of supervisory technologies (suptech) to enhance risk and compliance monitoring

The term suptech refers to the use of technology in supervisory systems to enhance risk and compliance monitoring. Suptech has become a fundamental tool in the financial sector regulatory response to fintech (Mothibi & Rahulani, 2021). In the insurance sphere, the use of suptech has much scope to ease regulatory compliance amongst licensed financial service providers. It can also improve the reliability and timeliness of information received by regulators and policymakers to enhance supervisory efficacy and inform policy interventions.

A successful example of the use of suptech is the use of the Market Analysis and Intelligence (MAI) system for market surveillance by the Australian Securities and Investments Commission (ASIC). The MAI system obtains real-time data from all of Australia's primary and secondary capital markets and provides real-time alerts which identifies anomalies in the markets for potential investigation or are detected upon execution (Broeders & Prenio, 2018)

Within the study countries, a notable example is Ghana's real-time claims assessment. The NIC is in the process of implementing an innovative solution that includes the use of software to monitor claims around third-party motor insurance directly from the servers of insurance companies (Stakeholder interviews, 2022). By doing this, the NIC and other authorities will be able effectively monitor the validity of motor insurance and users will be able to verify the insurance status of their or another individual's vehicles.

Where new systems are introduced, it is important to invest in thorough training of supervisory staff and market players, plus to implement a phase-in programme that allows sufficient time for participants to adapt to new systems and data standards, and that sets specific and transparent metrics and timelines. The system design should also align with the existing operational and technological structures within industry. For instance, a suptech solution built on APIs to pull data from providers into the regulator is unlikely to be effective if no providers have developed or are familiar with APIs. As proposed in Rwanda, the regulator can play a leading role in actively nudging industry in the uptake of certain technologies, such as APIs, but any proposal should be feasible within existing market realities.

3.5. Pathway to implementation

The discussion above highlights key relevant actions across jurisdictions. To take these recommendations in board, each country needs to set its own regulating for innovation action plan tailored to the specific local context.

This process starts by defining the **objectives and strategy** to ensure that there is a joint vision to which all departments buy in, and shared responsibility across different departments that will each play complementary but distinct roles to support innovation and market development. This can be done by conducting a strategic retreat to work out what the priorities are, who will lead and what coordination is required. Once there is agreement on the priorities, those priorities must be converted into a **workplan** that identifies specific actions and assigns responsibilities and timelines for each, distinguishing between short-term, medium-term and longer-term activities. Once the workplan is agreed, the **implementation** phase can follow. In this phase, designated departments and committees work to implement the actions across the specified timeframes.

This is not a once-off process. The workplan needs to be considered and rejuvenated each year. To inform future iterations of the workplan towards the achievement of the impact goals set in the strategy, proactive monitoring and evaluation is needed of the implementation successes and challenges to date, including any process learnings. Feedback loops should then be built in so that the learning gained can inform future adaptation. It is important to set measurable indicators and a pragmatic measurement strategy upfront and then to track progress against targets through ongoing monitoring as well as periodic evaluations. Equally important is to create opportunities in-between the phases to engage, consult and share learning with the market.

The following diagram provides a conceptual overview of the process:

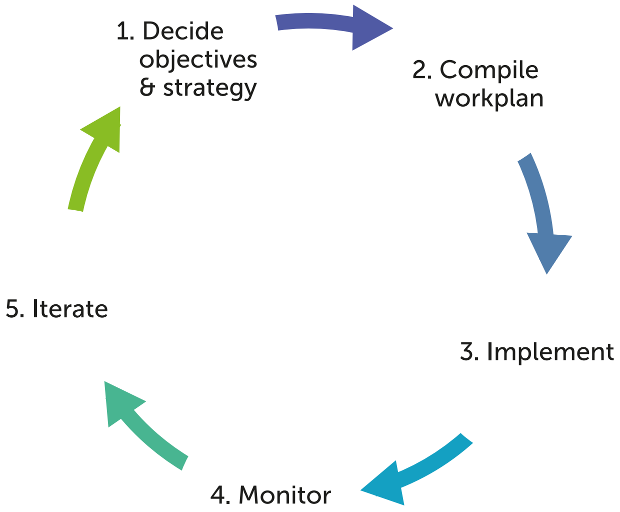


Figure 4. Action plan cycle
Source: authors' own

4 Conclusion

This note has shown that, while there are already notable examples of innovation in all the study countries, much more is needed to develop the insurance market to serve household and business resilience needs in a broad-based and efficient way. Regulators have an important role to play in supporting innovation for inclusive insurance market development and increasingly have They have a broad range of tools at their disposal to do so. Beyond regulation, all the study countries to some extent already use market engagement and communications as a tool, alongside work to streamline supervisory systems and processes. Nevertheless, gaps remain. Monitoring frameworks also do not yet empower regulators to track innovation trends in a granular fashion to inform their response.

This note has highlighted several specific actions to overcome the structural, market, regulatory and supervisory constraints in the innovation enabling ecosystem across the sample countries. While regulators can implement some of these actions autonomously, they will benefit greatly from technical assistance and process coordination support to develop and successfully implement a fit-for-context action plan. The FSD Network, together with other relevant development partners operating in the study countries, have valuable on the ground presence, experience and relationships to help support this agenda. The R3Lab, in turn, has a technical assistance role to work with regulators and development partners at the country level, as well as a regional convening role to facilitate coordination and peer exchange across countries.

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