

TERMS OF REFERENCE

ESG Integration by Insurance Regulators in Kenya, Nigeria, and Uganda

1. Introduction

The insurance sector in Africa is very exposed to economic sectors and corporate clients with high levels of environmental, social and governance (ESG) risk. Most of the large infrastructure projects in Africa, which typically carry significant ESG challenges, require insurance. However, ESG risks are, generally, not considered during underwriting, capital management and risk management decisions by insurers. The interest, activity, and commitment of the African insurance sector to proactively address ESG issues and to engage within the sector, and outside the sector with experts, policymakers, and businesses, is currently minimal.

The African insurance sector is not contributing to, or influencing, ongoing discussions on the integration of ESG issues in underwriting or asset management. Regulators and supervisors contribute to this by not requiring insurers to consider ESG issues. An adequate response from supervisors to both the risks and opportunities from ESG related exposures will support the objectives of insurance supervision of protecting policyholders, contributing to financial stability, and promoting the maintenance of a fair, safe, and stable insurance market. Furthermore, supervisors are in a well-placed position to influence national-level strategies that can support sustainability.

The important role of insurance companies and regulators in driving global sustainability agendas has led to an increase in expectations of this sector with respect to responsible business conduct. Regulators and supervisors in Africa need to improve their capabilities to identify, monitor, assess and contribute to the identification, reporting and mitigation of ESG risks in and through the insurance sector.

The assessment of regulatory aspects particularly preparedness and knowledge of regulators and supervisors on ESG principles and goals is crucial. There is need to assess regulatory capacity and resources to formulate, implement and enforce ESG principles in Africa. This will improve ESG corporate governance, ESG reporting and sustainable finance activities by insurers in the region.

In that regard, FSD Africa is seeking the services of a specialized regulatory consultants to assist insurance regulators in Kenya, Nigeria, and Uganda to integrate ESG principles in their supervisory process. The purpose of this consultancy is to build an enabling supervisory environment for ESG regulation and disclosure through the formulation of proportional and fit-for-purpose supervisory instruments to promote effective and consistent supervision of the insurance industry. The consultant will perform this assignment in three phases.

- Phase 1 - Focus countries - Kenya and Nigeria

The consultant will be required to create awareness of ESG in the insurance industry including planning for enabling environment creation. The consultants will also be required to scope and provide guidance on incentives to integrate ESG into the insurance market. This phase will focus on ESG awareness and capacity-building workshops with key industry members in Kenya and Nigeria. The consultant will also be expected to define requirements for building an enabling environment and design interventions with the regulators in Kenya and Nigeria. The consultant will be required to produce ESG workshop materials including facilitating workshops facilitation.

The consultant will provide updated ESG toolkits and guidance notes and a report on prioritized and agreed interventions to be considered when building an enabling environment for ESG integration.

- Phase 2 - Focus countries - Kenya and Nigeria

The consultant will be required to develop and implement an ESG regulation roadmap in partnership with the regulators. The consultant will be expected to work with the regulators on the first draft of ESG regulations including working with the regulator on planning rounds of stakeholder engagements on intervention ideas. The consultant will also develop a detailed regulatory roadmap for the full implementation of the ESG regulation (or similar). The consultant will be required to deliver the following.

- a) ESG regulations (or similar) for ESG-related considerations on investment decision making, underwriting, disclosures, and reporting.
- b) ESG regulation roadmap

- Phase 3 - Focus country - Uganda.

The consultant will be required to assess the current status and regulatory practices of the insurance regulator and industry in Uganda in relation to ESG risks to identify gaps and areas of improvement in the prevailing regulations, policies, and initiatives. This will involve desktop reviews and interviews with key stakeholders, and result in a comprehensive diagnostic report. The consultant will be expected to build on the work already done in Kenya, Nigeria and Ghana but be mindful to incorporate changes in global best practice as well as regional developments. The consultant will be required to develop an ESG toolkit and ESG-focused guidance to support the supervisor in integrating ESG principles and targets into the supervision of the insurance sector. This support will include capacity building and training of the regulator in Uganda. The consultant will be required to deliver the following.

- a) Diagnostic report.
- b) ESG toolkit.
- c) ESG guidance note.

2. Background

Financial Sector Deepening Africa (FSD Africa)

FSD Africa is a specialist development agency working to make finance work for Africa's future by strengthening financial markets across sub-Saharan Africa. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators, and policy makers to design and build ambitious programmes that make financial markets work better for everyone. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya. It is funded by UK aid from the UK government.

3. Objectives and Scope

3.1. Objective

The objective of this consultancy is to create awareness, build an enabling environment, develop and implement ESG focused regulations in Africa, and specifically Kenya, Nigeria, and Uganda by addressing and integrating environmental, social, and governance (ESG) issues into their regulatory framework. The technical support will enable the regulators address ESG issues and provide strategic recommendations on how to advance adoption of ESG principles in the insurance sector. This will support in building an enabling supervisory environment for ESG regulation and disclosure through formulation of proportional and fit for purpose supervisory instruments to promote effective and consistent supervision of the insurance industry.

3.2. Scope of work

- A. Phase I** - This phase is expected to take 6 months of work from the signing of the contract. The consultant will be responsible for ESG awareness and capacity-building workshops with key industry members. The consultant will also define requirements for building an enabling environment and design interventions with the regulator. The key activities will include:
- i. In collaboration with the regulator, identify current gaps and prepare an ESG awareness presentation and workshop for key industry members in the country.
 - ii. Through the regulators, prepare to facilitate awareness and capacity-building sessions with key industry participants.
 - iii. Prioritise intervention options with regulator.
 - iv. Update the ESG toolkit and guidance notes and refine based on current status and identified needs.
 - v. Select interventions to start drafting - voluntary/ mandatory disclosures, addendums/ enhancements to existing regulations/ policies - and agree these with the regulator.
 - vi. Scope potential additional incentives to integrate ESG (e.g., actions around green bonds, interest rates, capital adequacy requirements, etc.) and determine whether they should be pursued.
- B. Phase 2** - This phase is expected to take 3 months after completion of phase 1. The consultant will develop and implement an ESG regulation roadmap in partnership with the regulator. The key activities will include:
- i. Establish international best practice related to targeted interventions as identified in Phase 1
 - ii. Align with guidance from international reporting standards including the GRI, IFRS Sustainability Reporting Disclosures, and the TCFD
 - iii. Understanding the approach and experiences from other countries at different stages of their regulatory roll-out (e.g., South Africa, Jordan, Hong Kong)
 - iv. Work with the regulator on the first draft of ESG regulations/ similar
 - v. Work with the regulator to plan first round of stakeholder engagements on intervention ideas.
 - vi. Develop a detailed regulatory roadmap for the full implementation of the ESG

regulation (or similar) and workshop with regulator.

- C. Phase 3** - This phase is expected to take 3 months of work from the signing of the contract. The consultant will be required to assess the current status and regulatory practices of the insurance regulator and industry in Uganda in relation to ESG risks to identify gaps and areas of improvement in the prevailing regulations, policies, and initiatives. The consultant will be required to develop an ESG toolkit and ESG-focused guidance to support the supervisor in integrating ESG principles and targets into the supervision of the insurance sector.

4. Deliverables

The deliverables under this contract are as follows:

- a) Phase 1
 - i. Inception report containing the project implementation strategy and workplan.
 - ii. ESG workshop training materials.
 - iii. Updated ESG toolkits and guidance notes
 - iv. Report on prioritised and agreed interventions to be considered when building an enabling environment.
- b) Phase 2
 - i. Draft ESG focused regulations
 - ii. ESG regulation roadmap
- c) Phase 3
 - i. Diagnostic report covering the key findings, recommendations and areas indicated in scope of work.
 - ii. ESG toolkit
 - iii. ESG guidance note.

5. Timelines

The project shall be implemented under a 12-month consultancy contract. The consultant shall provide periodic update reports on the progress of implementation of the project as per the deliverables above and the work plan set out.

a) Phase 1 - Kenya and Nigeria

| Item | Timeline |
|--|--|
| Inception Report | Within one month of signing the contract |
| ESG workshop training materials | Within the first two months of contract signing and after key stakeholders' consultation |
| Updated ESG toolkits and guidance notes | Two weeks before the end of the 5 th -month of the consultancy period |
| Report on prioritised and agreed interventions | Two weeks before the end of the 6 th -month of the consultancy period |

b) Phase 2 - Kenya and Nigeria

| Item | Timeline |
|-------------------------------|---|
| Draft ESG focused regulations | By the end of the 9th-month of the consultancy period |
| ESG regulation roadmap | By the end of the 10th-month of the consultancy period |
| Final Project Report | Two weeks before the end of the 12th -month of the consultancy period |

c) Phase 3 - Uganda

| Item | Timeline |
|-------------------------------|--|
| Inception Report | Within one month of signing the contract |
| Diagnostic report | By the end of the 2nd-month of the consultancy period |
| ESG toolkit and Guidance Note | By the end of the 3 rd -month of the consultancy period |

6. Invitation to Tender

FSD Africa are inviting proposals from suitably qualified consultant(s). Your proposal should contain:

- i. CV of the consultant(s) not exceeding 3 pages.
- ii. A summary of your experience in demonstrated expertise on ESG issues in the insurance sector.
- iii. A description of your understanding of the role of the selected consultant(s) as outlined in the Terms of Reference highlighting how you intend to provide the services within the suggested timeline.
- iv. Samples of similar work to demonstrate capacity to carry out the assignment and testimonials from previous clients and/or employers.
- v. An estimated budget for both professional fees and reimbursable expenses- see Annex 1

Submitted proposals should not exceed 10 pages (excluding annexures). The review will be based on the main proposal. This should be sent by email to FSD Africa at bids@fsdafrica.org by **noon (EAT) on 29th December 2023** under a subject line reading 'Invitation to tender: ESG Integration by Insurance Regulators in Kenya, Uganda and Nigeria'. Applications received after the deadline will not be considered.

7. Basis of award

Mandatory requirements

| |
|---|
| Undertaken at least 2 comparable assignments in the last 10 years on ESG issues in the insurance sector. |
| Experience working with the insurance sector within the region (experience may include research or other project work). |
| a proven record of strong analytical and drafting skills, experience designing and conducting interviews, and project management. |
| Relevant qualifications in insurance, actuarial science, development studies, risk management, project management or any other related field. |
| Understanding/interpretation of the task set out in the terms of reference including detailed work plan |
| Most economically advantageous |

Selection will be made based on the following criteria:

| Item | Timeline | Weighting (%) |
|---------------------------|--|---------------|
| Experience | Undertaken at least 2 comparable assignments in the last 10 on ESG issues in the insurance sector. | 20 |
| | Experience in the broader financial sector but without specific experience in the insurance market will be considered but will earn a maximum of 20 points. | |
| | Proven record of strong analytical and drafting skills, experience designing and conducting interviews, and project management. | 20 |
| Skills and qualification | At least a master's degree or equivalent post-graduate and/or professional qualifications in insurance, actuarial science, development studies, risk management, project management or any other related field | 10 |
| Methodology | Understanding/interpretation of the task set out in the terms of reference including a detailed work plan | 20 |
| Fee basis and total costs | <p>Most economically advantageous, where the computation will be based using the below formula.</p> <p>$FS = 30\% \times LB/BP$ where:</p> <p>FS = is the financial score</p> <p>LB = is the lowest bid quoted</p> <p>BP= is the bid of the proposal under consideration.</p> <p>The lowest bid quoted will be allocated the maximum score of 30%. Fee quoted must be inclusive of applicable withholding tax</p> | 30 |
| TOTAL | | 100 |

8. Contact

Questions or comments in respect of these terms of reference should be directed by email to: bids@fsdafrica.org on or before 12 noon (EAT) 19th December 2023 and feedback will be provided by 5 pm (EAT) 21st December 2023.

9. Applicable Taxes

As per Kenya's tax law, FSD Africa will pay the Consultant after withholding the appropriate taxes at the applicable rate between Kenya and the Consultant's country of tax residence, considering any tax treaties in force. It is the responsibility of the Consultant to keep themselves apprised of these applicable taxes. The below table provides guidance on the applicable rates as per tax regimes.

| Country | WHT Rate |
|--|----------|
| Kenya | 5% |
| United Kingdom | 12.5% |
| Canada | 15% |
| Germany | 15% |
| Zambia | 15% |
| India | 10% |
| Non-resident rate for citizens of EAC member countries | 15% |
| All other countries | 20% |

Annex 1: Proposed Fee Schedule

Costs should be shown separately in the format set out below. Fees proposed by tenderers should be inclusive of all taxes

| Consultancy fees* | Days | Fee USD/GBP | Total USD/GBP |
|--|-------------|-------------------------|----------------------|
| Xx | | | |
| Xx | | | |
| Total remuneration | | | 0.00 |
| | | | |
| Reimbursement costs** | Unit | Cost USD/GBP | Total USD/GBP |
| Xx | | | |
| Xx | | | |
| | | | |
| Total reimbursement cost | | | 0.00 |
| | | | |
| Total proposed costs | | | 0.00 |
| <i>*Fees incl of all taxes</i> | | | |
| <i>**Expenses to be reimbursed on actual costs as per FSD Africa's travel policy</i> | | | |