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# The Road to **Innovation**

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# About this toolkit

Digital innovation can be a game changer in the quest for developing inclusive insurance markets – but it also entails risk. Striking the balance to protect consumers while facilitating innovation is an ongoing journey for regulators and supervisors in Africa.

## What is the best approach to support innovation, and how to go about it?

This toolkit offers practical advice and examples on how to take stock of the current state of innovation, identify what holds back innovation, and choose and implement a fit-for-context combination of tools to take innovation to the next level.

## Who should read this toolkit?

- Any regulatory authority wanting to fulfil a market development role
- Donors and advisors supporting regulators in this quest

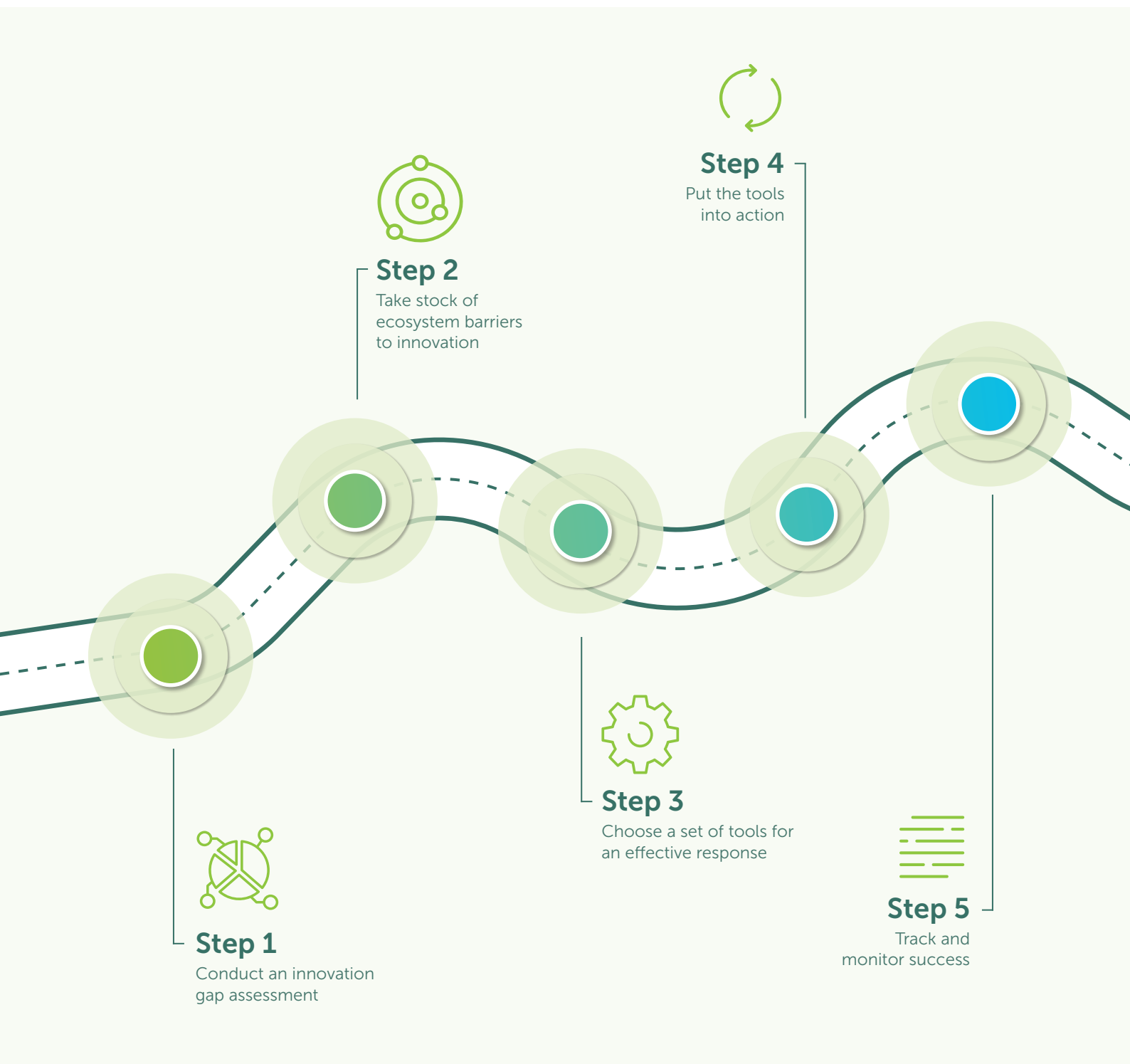
This toolkit is part of FSD Africa’s Risk, Resilience and Regulatory Lab – R3Lab in short – a platform for capacity building and peer exchange amongst regulators.

This toolkit builds on a set of eight insurance innovation country portraits conducted by the R3Lab.



# Regulating for innovation: the road to success

There are five main steps along the road to regulate for responsible innovation.  
This toolkit covers each in turn:




# Starting point

## Understand where the innovation journey is at

### Conducting an innovation gap assessment

The starting point is to understand the current state of the market, level of innovation and what the gap is.

This has two components:

 **1. Understand the current state of the insurance market**

 **2. Document the current state of innovation**  
This has two parts:

**Key indicators to be on the lookout for:**

1. Penetration rate
2. Total premium trends
3. Target market reach: number of policyholders; % of adults covered
4. Landscape of providers: number; types; market shares
5. Distribution landscape: main channels; scope for alternative distribution

**A. Take stock of instances of innovation across the insurance life cycle in the existing insurance sector:**





**B. Assess the state of insurtech innovation**

  
How many insurtechs are there?

  
Which products?

  
Which partnerships?

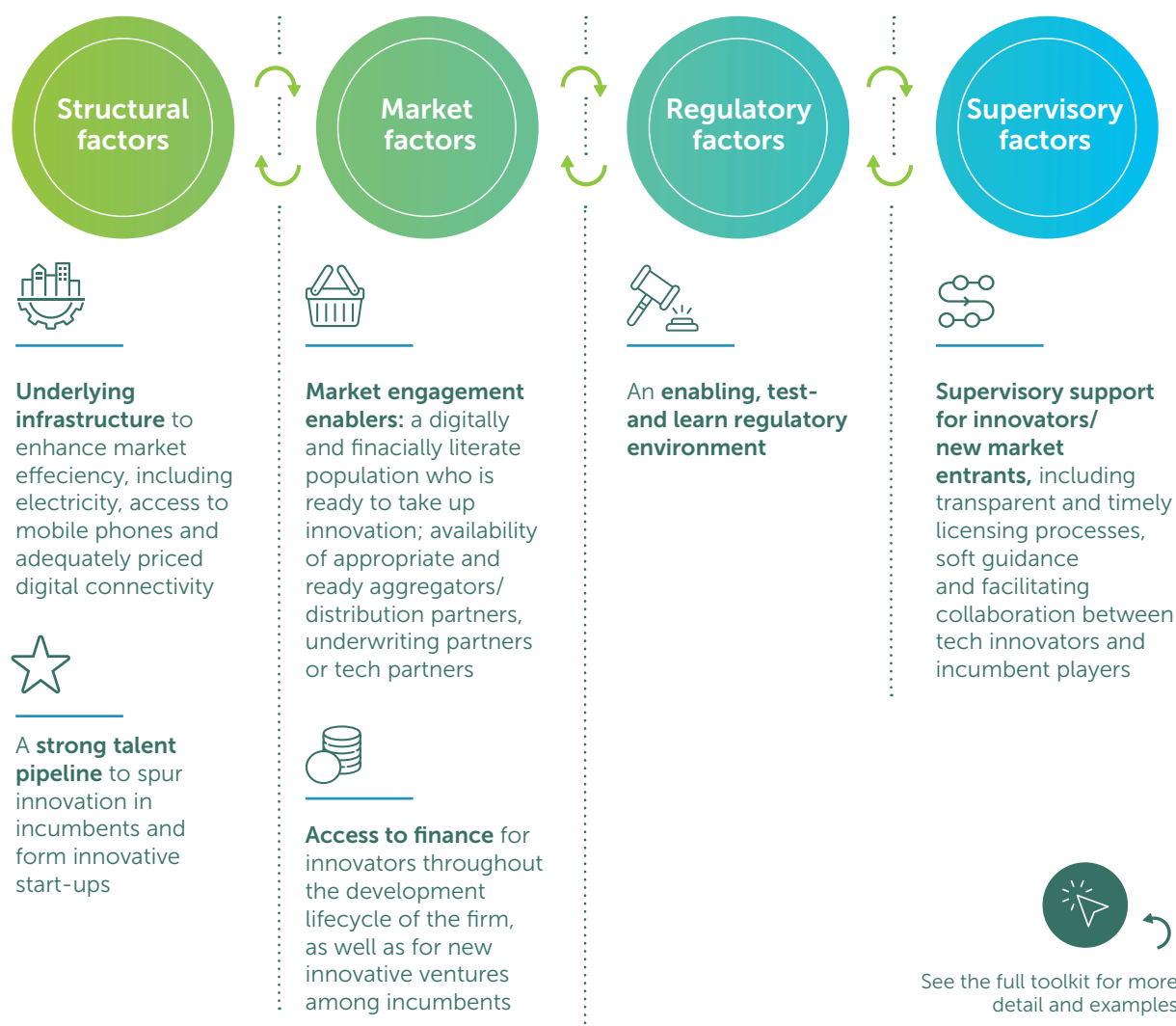
 **3. Conclude on the innovation gap**  
Given the current market picture, what is the need for innovation?  
How far does innovation already go to meet that need? What are the gaps?

 See the full toolkit for more detail and examples

# What causes the gap?

## Taking stock of the ecosystem dynamics that shape innovation

The level and nature of innovation is shaped by several factors in the broader **innovation ecosystem**. The next phase is to understand how these factors interplay to explain the innovation picture as seen in Step 1:



### How to go about assessing the ecosystem?

**Speak to various stakeholders** – understand what’s driving their behaviour

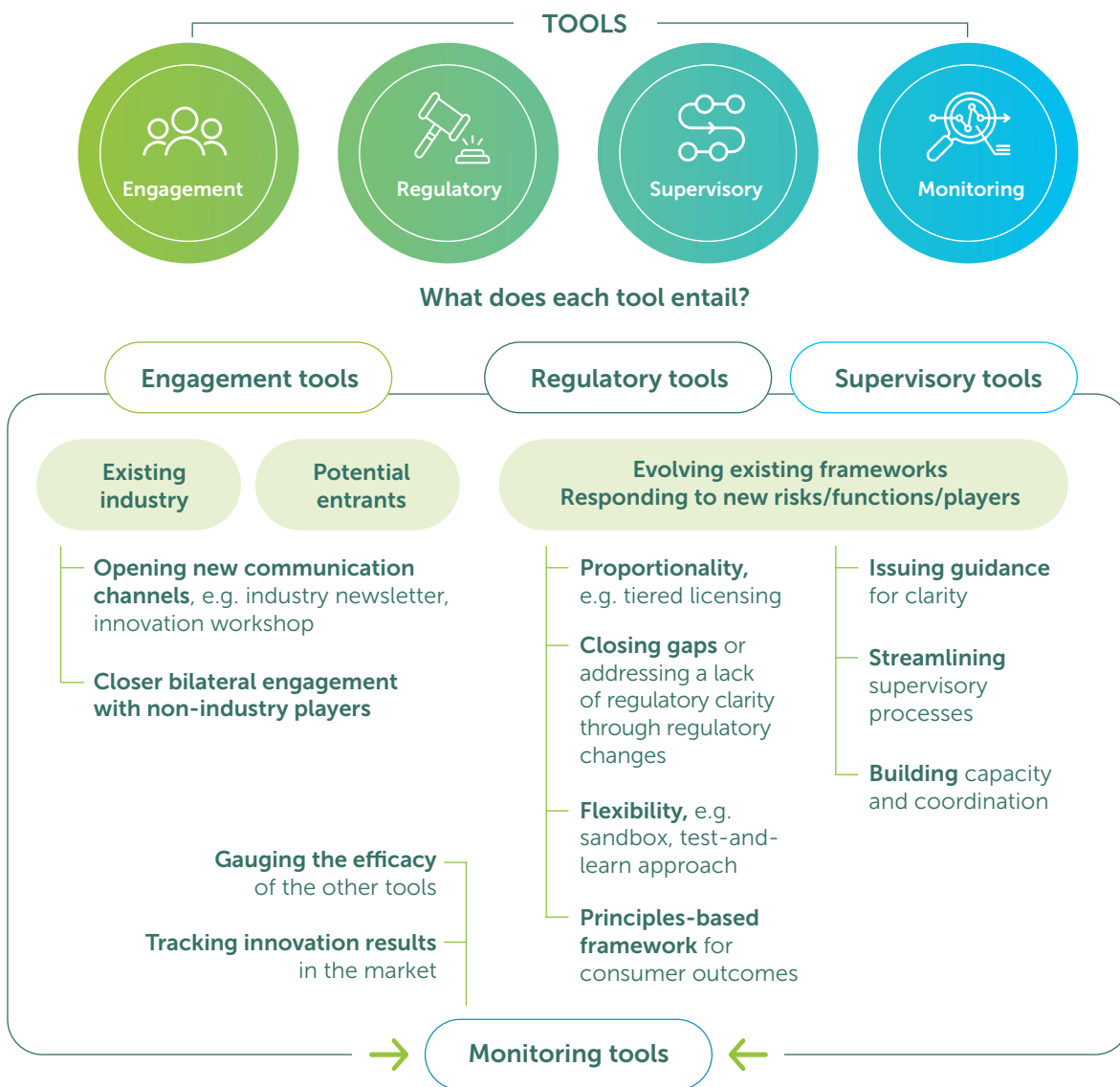
**Desk review** – look at indicators and trends in infrastructure, education, finance

**Regulatory review** – are there specific gaps and barriers or is there a lack of regulatory clarity in the regulation relevant for innovation?

**Institutional assessment of the supervisory authority** – how do internal systems and processes work, for example licensing or product approval? How do these facilitate or hold back innovation?

# Tools for regulating and enabling innovation

Armed with an understanding of what the innovation gap is and what causes it, the next step is to understand the set of tools that you can use to respond to the innovation gap. There are four types of tools available:



## **Tip: Think beyond regulatory tools – a cost-benefit approach**

Though regulation is often the first tool that comes to mind, supervisory and engagement tools are vital to address barriers to innovation that either do not stem from legislation or do not require regulatory amendment to be implemented. Ongoing monitoring, in turn, is important to gauge the success of interventions under the other tools, and to inform updates. Regulation may also take a long time and be resource intensive. It is therefore essential to consider a combination of regulatory, supervisory, engagement and monitoring tools in any regulating for innovation strategy, mindful of the **costs** and **benefits** of each.

Let's now unpack each step in turn



# Unpacking the toolbox: Engagement tools

## What it is

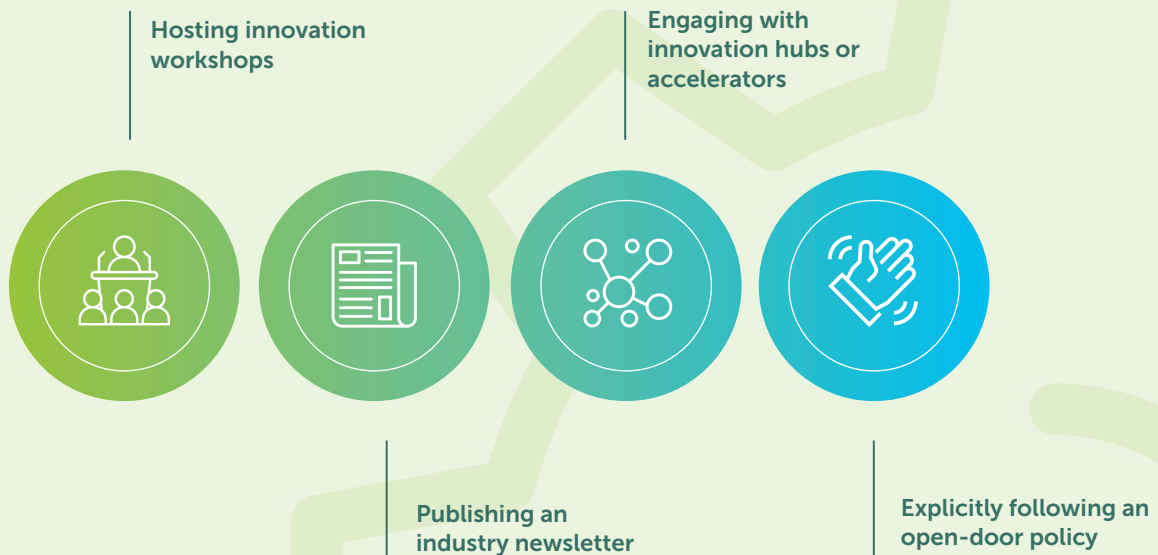
Engagement tools entail proactive engagement with, and signalling to, the market. Topics include:

- **Why is there a need for innovation?** Examples of innovation from elsewhere
- **What is the regulatory scope and supervisory processes** within which the market can innovate?

Such communication helps to reduce uncertainty and prompt ideas.

## How it works

Examples:



**Important!** Engagement should extend not only to incumbent market players, but also to potential new entrants and those partnering with insurers to provide an innovative offering, such as aggregators, technical service providers or insurtechs.

See the full toolkit for more detail and examples





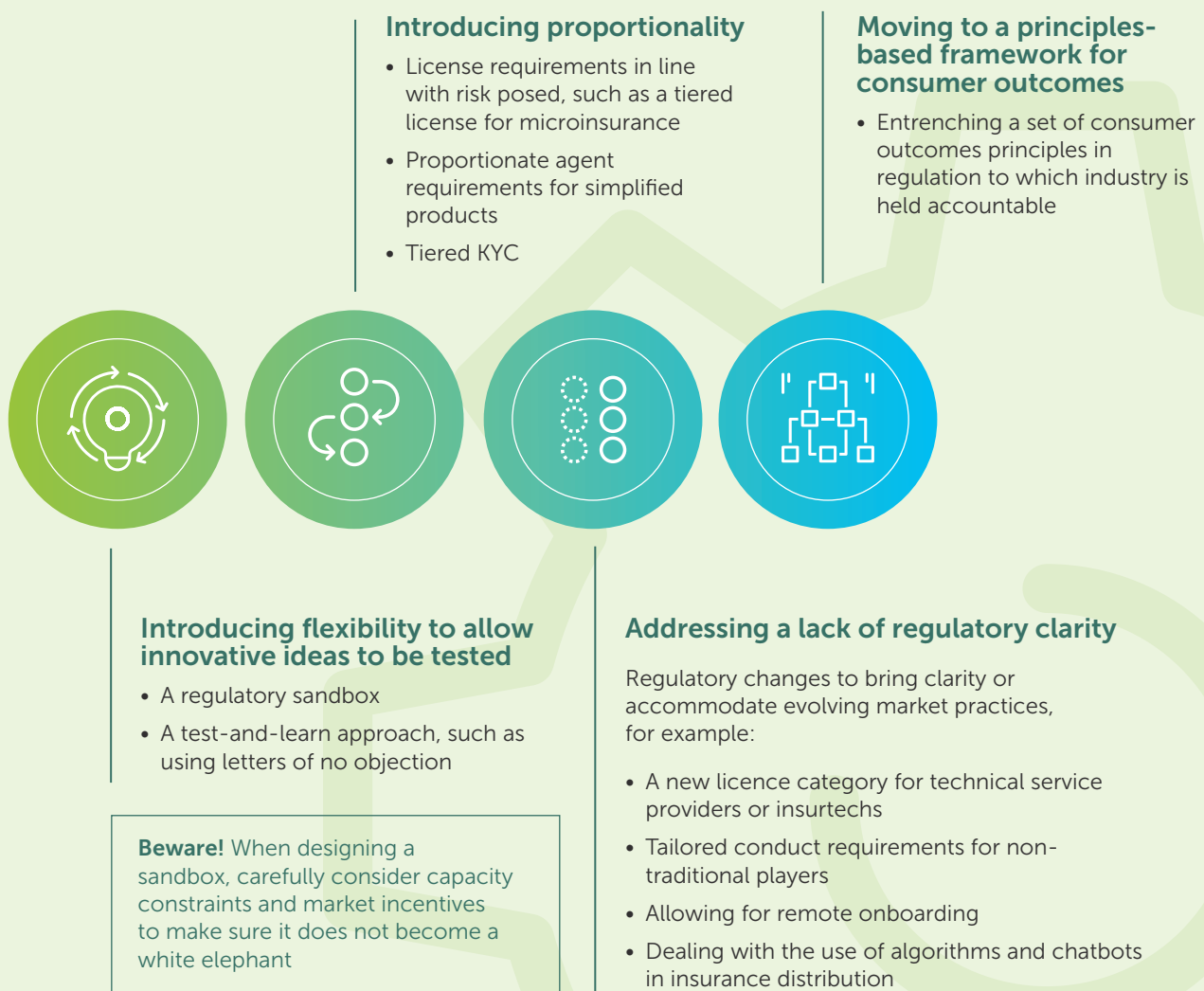
# Unpacking the toolbox: Regulatory tools

## What it is

Anything that involves changing or issuing regulation or legislation

## How it works

Regulatory tools can be wielded to do **four main things**:



See the full toolkit for more detail and examples







# Unpacking the toolbox: Supervisory tools

## What it is

Any action by the regulator that does not entail changes to regulation:

- Non-legally binding guidance
- Adaptations to supervisory systems and processes

## How it works

There are three types of supervisory tools:

### Issuing non-legally binding guidance to promote clarity, e.g.

- Explain what implementation of data protection means for insurance
- List what acceptable activities for technical service providers are

### Building capacity and coordination, e.g.

- Earmarking a team to oversee innovation
- Setting in place structures to coordinate across departments and with other regulatory authorities



### Streamlining supervisory processes, e.g.

- Reducing the time and bureaucracy for licensing and product approval
- Instituting a product innovation committee
- Digitalisation of supervisory systems – leveraging supotech as a way of enhancing the process, use of data

See the full toolkit for more detail and examples





# Unpacking the toolbox: Monitoring tools

## What it is

- Expanding what the authority monitors on an ongoing basis – beyond traditional indicators such as penetration, premium volumes and solvency
- Tracking progress in the implementation of each of the other tools
- Taking note of the effects in the broader market

## How it works



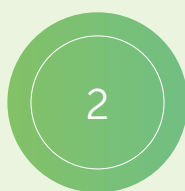


# Unpacking the toolbox: Monitoring tools (continued)

## What are the monitoring methods in the toolbox?



**Regulatory reports analysis**  
– draw indicators from current reporting templates, and update templates where relevant



**Complaints analysis** – analyse aggregate complaints data collected by the regulator, ombudspersons or consumer associations



**Social media monitoring** – listen to the collective voice of consumers



**Mystery shopping** – observe actual behaviour of company staff or third parties



**Industry engagement** – direct interaction and dialogue with companies and associations to gather intelligence

## Choose your method depending on the supervisory objectives:

Supervisory objectives ↻	Monitoring methods ↻				
	1	2	3	4	5
Monitor indicators of consumer risk	✓	✓	✓	✗	✗
Monitor sales and marketing practices	✗	✓	✗	✓	✓
Monitor products in the market	✓	✗	✓	✓	✓
Monitor consumer complaints	✓	✓	✓	✗	✗
Monitor consumer sentiments towards a provider	✗	✗	✓	✓	✗
Monitor emerging consumer issues	✗	✗	✓	✓	✓

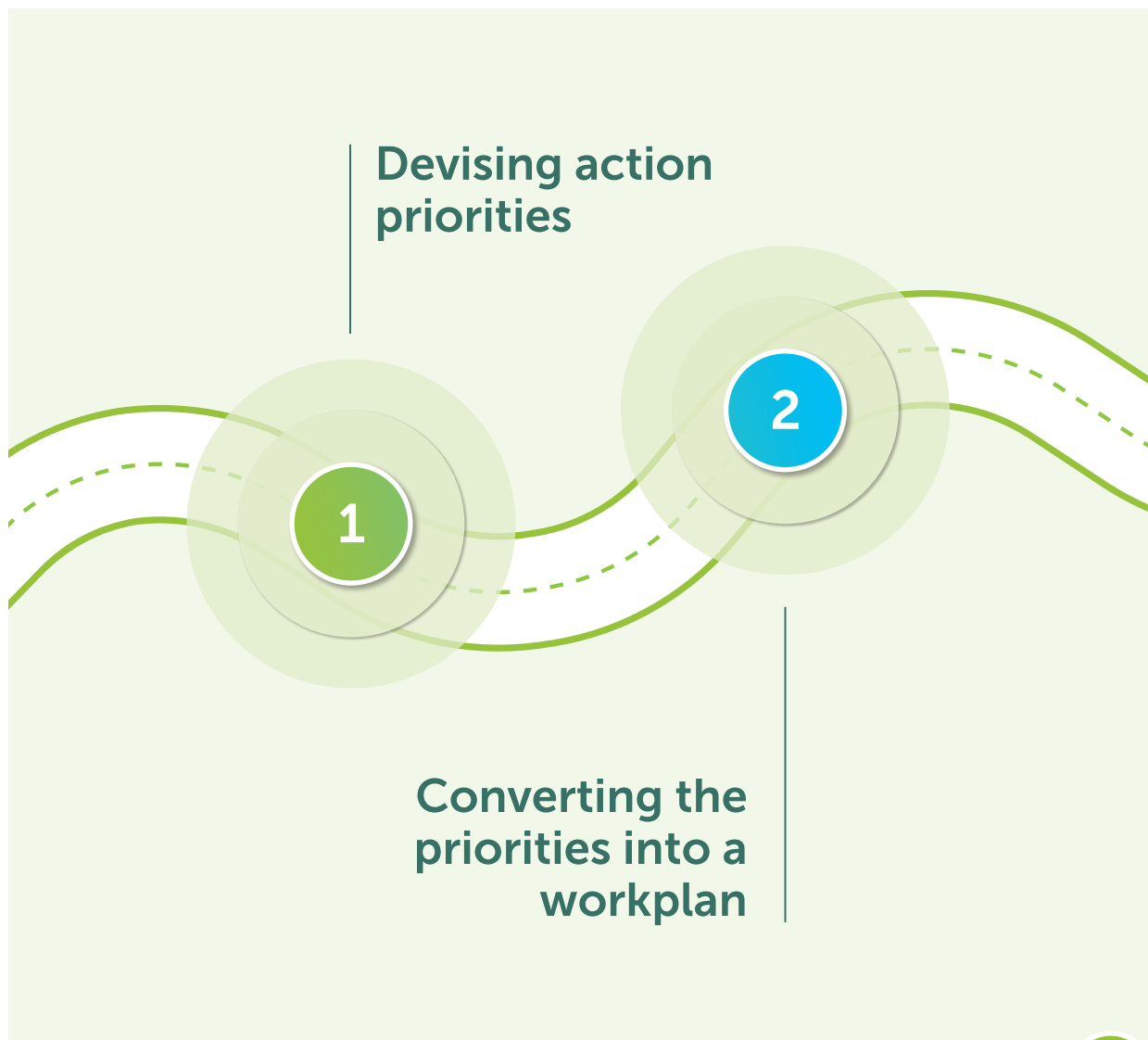
## Putting the tools into action

**Toolkit check-point. Based on the previous steps:**

- ✓ You know what the innovation gap and barriers are and have a list of things that can be done in response
- ✓ You've taken stock of the range of tools at your disposal

## What now?

There are two key steps to put the tools into action:




Let's now unpack each step in turn



# Devising action priorities

Determining your priorities is the first part of putting the tools into action. It entails three steps:

- 1  


**Identify needs in context** – from the gap and ecosystem assessment, what are the key things needed for innovation to thrive and how can the various regulatory tools address that?
- 2  


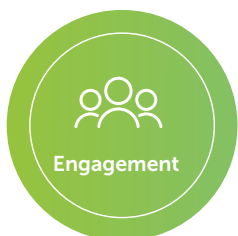
**Pinpoint priorities** – set an action plan to address the innovation gap that leverages a combination of tools across the toolbox
- 3  


**Assess capacity** – understand what the resources and constraints are within the supervisor that set the realm of the possible. Which team will implement the action plan?

## What if it's outside your control?

Some of the ecosystem factors (such as infrastructure, market engagement or access to finance) will be outside of the regulator's direct control, so then the question becomes how you can wield your engagement tool with the market, or coordinate with other government departments, to nudge and encourage those who are able to make a difference to take action.

### Action plan examples from the R3Lab:



- Signal a pro-innovation stance
- Launch industry awards or challenges
- Regularly meet with industry and prospective new players
- Issue an innovation newsletter



- Allow for use of digital distribution/remote onboarding and digital signatures
- Create a licence category for insurtechs or technical service providers
- Update microinsurance regulations to ensure that they create the right incentives and are in line with market realities
- Create regulatory sandbox regulations



- Dedicate a team within the authority to promote innovation
- Build inter-regulatory coordination structures
- Upgrade or implement an online supervisory portal
- Streamline the licensing and product approval systems







See the full toolkit for more detail and examples



# Developing and implementing a workplan

Developing a workplan to give effect to the action priorities is the second part of putting the tools into action – it's the springboard to start to implement your list of priorities

- Formulate specific activities
- Say who is responsible for each activity
- Define the timeframe based on the priorities and a cost-benefit assessment of the tools:
  - What can be done in the short-term, what over the medium-term and what is a longer-term priority?
- Define risks and mitigating actions

	Example activity	Timeframe	Who's responsible?	Risk & Mitigation
Indicative workplan extract	 <p>Schedule regular engagements with industry and prospective players</p>	Short-term:  <6 months	<ul style="list-style-type: none"> <li>• Innovation team, liaising with Comms team</li> </ul>	Losing momentum → build into comms workplan
	 <p>Streamline approval and authorisation processes leveraging suptech</p>	Medium-term:  1 year	<ul style="list-style-type: none"> <li>• Supervisory team</li> <li>• IT</li> </ul>	Poor functionality → user testing
	 <p>Develop regulations that support innovative products and solutions</p>	Long-term:  2 years	<ul style="list-style-type: none"> <li>• Legal office</li> <li>• Policy and reg team</li> <li>• Innovation team</li> </ul>	Not in line with market needs → built-in consultation

## Key success factors for workplan implementation

- Workshop the specifics of the workplan with the team who will need to implement it – their buy-in is essential!
- Be realistic – rather implement a handful of things well than set numerous tasks that you won't get round to
- Align priorities with the authority's existing strategy and workplan
- Earmark capacity – the ideal is to have one team who is responsible for the overall implementation of the workplan, who then coordinates with specific departments given specific tasks
- Consider how the workplan can fit into existing coordination structures, such as committees, within the authority

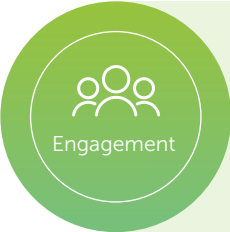





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# A framework for monitoring progress

**Take stock and adjust.** A workplan is only successful if it's effectively implemented. The final step along the regulating for innovation journey is to monitor progress and adjust the workplan as necessary.

**What does this entail?** Set specific measurable targets and indicators for each workplan activity and its corresponding data source.

	Example activity	Timeframe	KPIs	Data source
	Schedule regular engagements with industry and prospective players	Short-term:  <6 months	<ul style="list-style-type: none"> <li># engagements per annum</li> <li>% attendance by non-incumbents</li> <li>Expressed satisfaction with events</li> </ul>	<ul style="list-style-type: none"> <li>Event registers/attendance lists</li> <li>Event evaluation forms</li> </ul>
	Streamline approval and authorisation processes leveraging suptech	Medium-term:  1 year	<ul style="list-style-type: none"> <li>Decrease in product approval timeline</li> <li># new products licensed</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory authority internal system tracking</li> </ul>
	Develop regulations that support innovative products and solutions	Long-term:  2 years	<ul style="list-style-type: none"> <li>ToRs for consultation and drafting committee issued</li> <li>New regulations issued</li> <li># new innovative solutions and products</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory authority internal system tracking</li> <li>Licensing statistics</li> </ul>

## From outputs to outcomes

Beyond the activity outputs tracked in the workplan, it is important to consider what the broader outcomes are that you want to achieve. These outcomes are the impact on the market that the activities in the workplan are designed to contribute to, e.g. an increase in policyholders.

Set these in terms of the market development and innovation KPIs list outlined under monitoring tools.

Use broader data to track such outcomes – reported data by insurers; demand-side survey data; mystery shopping, etc.



See the full toolkit for more detail and examples



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# The journey continues

This toolkit offers practical inputs and examples for regulatory authorities committed to growing innovations in their markets. It covers:

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CHECKPOINTS:

- ✓ How to identify the **need** for innovation and the **gaps** in the market
  - ✓ How to take stock of the **barriers** to innovation in the broader ecosystem
  - ✓ What **tools** are available to respond
  - ✓ How to devise action **priorities**
  - ✓ How to define and implement a **workplan** to achieve the priorities
  - ✓ How to **measure success** of the specific activities and in terms of broader innovation outcomes
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How useful is this toolkit? Please share your learning as you continue on the journey.

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