IRA regulating for innovation

CASE STUDY

INSURANCE REGULATORY AUTHORITY OF UGANDA

fsduganda
Financial Sector Deepening

UKaid
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Introduction

The enactment of a new Insurance Act, which came into operation in early 2018, expanded the Insurance Regulatory Authority (IRA)'s mandate from market soundness and consumer protection to also include market development. As part of this new mandate, the IRA is committed to encourage and facilitate innovation in its market. However, encouraging innovation may introduce new risks, thereby leading to conflict between the different mandates. To strike the right balance, the IRA recognised that it needed to update some of its existing supervisory processes and regulations, plus introduce new tools to steer its interaction with the market.

To assess the changes and adaptations that it needed to make, the IRA required an understanding of the challenges and barriers to innovation in its market. The IRA therefore partnered with FSD Uganda and Cenfri to, through an interactive, consultative process, conduct a market innovation gap assessment to identify the specific challenges the market was facing, a regulatory assessment and an institutional assessment of the IRA to identify adaptations and new tools that could be adopted that would fit within the realities, processes and constraints of the IRA.

From this initial assessment, completed in mid-2019, the IRA has focused on four major areas to enhance the enabling environment for innovation in Uganda:

1. Increasing its available communication channels to both existing industry players and potential new entrants that focus on engagement and discussion around innovation.
2. Increasing direct engagement with the fintech sector.
3. Evolving the product approval process.
4. Adapting regulation and enhancing licensing options with the regulatory sandbox guidelines.

Objective

This case study outlines the IRA Uganda's regulating for innovation journey, from the initial assessment through to the actual implementation approach followed. In so doing, it aims to demonstrate how a fit-for-purpose supervisory approach to enabling innovation can be developed and implemented, taking into account the contextual realities of the market and the regulator. The objective is to serve as an illustration case on how such an approach can be applied in practice and to evaluate the lessons learned from the project.

Steps along the regulating for innovation journey

The technical assistance provided to the IRA consisted of three phases, namely an assessment phase, followed by an implementation phase, and concluded by means of an evaluation phase. The main activities undertaken during each phase are depicted in Figure 1.

Figure 1: Activities undertaken in each phase of the technical assistance provided to the IRA.

The rest of this case study first sets out the assessment process followed to arrive at the regulating for innovation framework adopted by the IRA, then outlines the ensuing implementation process. Finally, it identifies key lessons learned to conclude on the impact of the project.

Assessment

Key challenges to innovation

An innovation gap assessment was conducted to determine the state of innovation in the Ugandan insurance industry as well as what the barriers are to innovation. The assessment consisted of an analysis of FinScope 2018 data, a comprehensive regulatory review, consultations with industry players and potential market entrants as well as interviews with the IRA.

FinScope 2018 data shows that most Ugandans face insurable risks and are using informal mechanisms to cope with these risks. Despite need in the market, uptake of insurance remains very low at approximately 1.4%. The low uptake levels seem to be a function of the limited value that insurance products offer consumers as opposed to a lack of affordability, given that a significant proportion of adult Ugandans earn more than USD10 per day, yet only a fraction of them is insured. Despite a sizeable target market that is reachable and can afford insurance, limited innovations are taking place in the insurance industry.

To investigate the reason for limited market innovations, a workshop was held, and widespread interviews were conducted with licensed players, potential market entrants as well as the regulator to ascertain what the barriers are to innovation in the Ugandan insurance market. Figure 2 depicts the main barriers to innovation as identified in the stakeholder interviews.

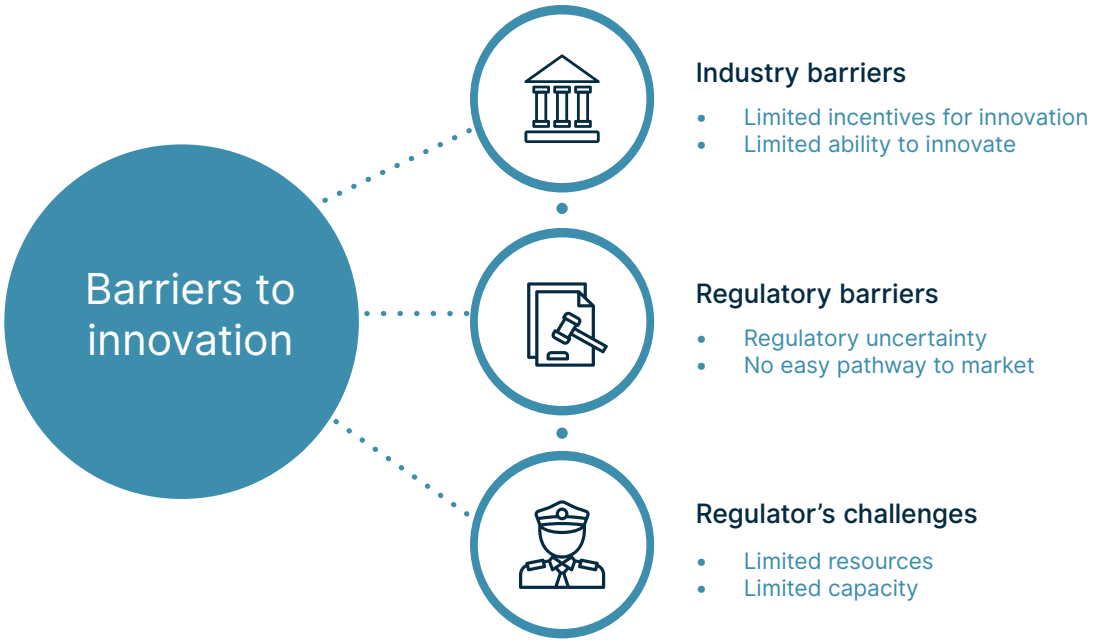

Figure 2: Barriers to innovation as identified in stakeholder interviews and institutional assessment

As indicated in Figure 2, the assessment identified three levels of barriers to innovation: industry barriers, regulatory barriers as well as challenges faced by the regulator.

- **Industry barriers:** limited innovation incentives and limited ability to innovate. Many providers have a limited appreciation of the need for and benefits of innovation and, consequently, do not prioritise strategic or business development plans to utilise or

encourage innovation. They are comfortable serving their current market base and have, thus far, faced limited competitive pressure to innovate by breaking into new market segments. Further, providers lack the ability to innovate as they have limited access to capital, infrastructure and skills.

- **Regulatory barriers:** regulatory uncertainty and no easy pathway to market. There is uncertainty in the market as to whether online sales are permitted. There is also ambiguity around which documents to submit to the IRA for product approval, how the process works, as well as the time periods involved. In addition, potential entrants who could disrupt the status quo through innovation are struggling to enter the market. There are currently no exemptions or lowered compliance options for innovators like fintechs or start-ups that cannot yet comply with the capital, partnership or managerial experience requirements.
- **Regulator's challenges:** limited resources and limited capacity. The IRA has limited capacity as it is still in the process of recruitment and expanding its staff complement. Additionally, it has limited financial resources at its disposal.

In creating the recommendations for the IRA, consideration was given to which tools would address these barriers to innovation and be realistic to implement within the regulator's capacity and resources.

Recommendations

Based on the innovation gap assessment, regulatory review, consultations with the IRA and the IRA's institutional capacity assessment, five innovation action plan recommendations were identified. The recommendations were developed specifically to suit the IRA and address the innovation shortcomings in the market.

Recommendation 1

- Proactive communication with the industry.
- Proactive two-way engagement with current and potential market players to signal, build awareness, convene and facilitate around market innovation.

Recommendation 2

- Innovation entrenched as strategic priority.
- Understanding and broad adoption of the principles of innovation within the IRA.

Recommendation 3

- Enhanced product approval process.
- Effective product approval to ensure transparency and regulatory certainty, thereby building an entry pathway for innovative products.

Recommendation 4

- Increased menu of available license.
- Enable easier entry of potential disruptors to the market and improve the IRA's ability to effectively regulate new types of players by broadening licensing categories.

Recommendation 5

- Targeting and monitoring innovation.
- Improve efficiency of reporting and data collection and rethink the appropriate indicators to track market development and innovation.

Figure 3: The IRA's recommended approach to Regulating for Innovation

The recommendations in Figure 3 were workshopped with the IRA to identify which ones the IRA would take on board, taking into account the regulator's:

- **Strategic priorities–** which recommendations aligned most closely with the IRA's key strategic priorities?
- **Timelines–** which recommendations were possible to implement in the short, medium and long term?
- **Resource constraints–** which recommendations required less resources to implement and which were more resource-intensive?

Implementation

Based on the workshop with the IRA, four focus areas were identified:

1. Increasing its available communication channels to both existing industry players and potential new entrants that focus on engagement and discussion around innovation.
2. Increasing direct engagement with the fintech sector.
3. Evolving the product approval process.
4. Adapting regulation and enhancing licensing options with the regulatory sandbox guidelines.

> Recommendation 1: Increasing its available communication channels to both existing industry players and potential new entrants that focus on engagement and discussion around innovation.

A key starting point for the IRA to implement the proactive communication recommendation was to build-up and capacitate its communications department.

Why is proactive communication important?

Proactive communication with industry is an accessible tool that wields significant power and can have far-reaching impact. Two-way engagement is vital because the regulator may not have a full view of industry's evolving needs and it is thus important for industry to be able to provide feedback to the regulator as well as vice versa.

It was recommended that the communications department operates under senior management, and that communications operations and strategy across all departments fall under its purview. The department cannot achieve what is necessary to orchestrate a cross-cutting, proactive multi-stakeholder engagement plan without an explicit mandate and senior leadership. At the time, technical staff were performing communication-related tasks and building up the communications department would free up technical resources. During the course of the technical assistance, the communications department grew from one to three full-time staff members.

The following activities were conducted as part of actioning this recommendation:

Launching an industry innovation newsletter. The IRA's communications department developed and launched its first industry newsletter, centred round the topic of innovation.

The quarterly newsletter is aimed at:

- Building awareness of and encouraging innovation
- Updating industry on the latest innovation developments
- Keeping industry informed of the latest regulatory changes

Figure 4: IRA innovation newsletter

The industry innovation newsletter is the ideal tool through which the IRA can demonstrate its open-door policy as well as clear up any perceived regulatory grey area concerns that industry may have, and that may be deterring innovators from entering the market.

To date (March 2021), the IRA has published four industry innovation newsletters – in February, May, and October 2020 and in February 2021. Newsletter tracking insights reveal that it is progressively reaching more stakeholders (the latest newsletter reached between 1,580 and 1,998 recipients in comparison to the initial newsletter reaching 389).The newsletter continues to drive a significant amount of traffic to the licensing and other documents available for industry to download from the IRA's website.

Training the IRA's communications department. The training centred around the IRA's communication goals and included:

- Exploring what the IRA wanted to achieve, who they wanted to target, what content they wanted to include and how they would measure success.
- Focusing on communicating ideas, information, and news in anticipation of the industry's future needs.

- Operating mailing software such as Mailchimp.
- Collecting and building stakeholder intelligence.
- Measuring the successes of its communication efforts.

The IRA is now committed to maintaining its mailing list for direct contact with industry and is proactively communicating on a regular basis. The IRA's proactive communication with industry proved particularly useful during the national lockdown period as a result of COVID-19. Interviews with incumbents revealed that their engagement with the IRA was "vibrant" and that they felt that communication from the IRA was "smooth" and "responsive".

Recommendation 2: Increasing direct engagement with the fintech sector

Forming a formal partnership with The Innovation Village. The partnership with The Innovation Village, home of innovators and potential future market entrants, allows for the IRA to engage directly with fintechs.

The partnership consisted of:
- Representatives from the IRA attending The Innovation Village meet ups to signal to potential market entrants that the regulator was welcoming of innovators entering the insurance market
- The IRA promoting its open-door policy so that potential market entrants could approach the regulator in determining a pathway to market

Hosting an inaugural innovation industry workshop. The IRA hosted a virtual workshop to convene the regulator, licensed industry players, potential market entrants (such as fintechs) and donors around the topic of innovation in the Ugandan insurance industry.

The workshop was aimed at:
- Signalling to industry and potential market entrants that innovation is a priority for the IRA
- Providing an opportunity for industry and potential market entrants to engage with the IRA around their chosen innovation topic
- Providing an opportunity for industry and potential market entrants to network and consider potential partnerships

The inaugural innovation workshop was held virtually on 19 November 2020. Over 90 stakeholders participated in the workshop, which turned out to be a successful morning of in-depth discussions around innovation-related topics as well as networking and partnership opportunities.

At the workshop, the IRA further emphasised its commitment to promoting innovation in the Ugandan insurance market by introducing the innovation awards of 2020, where the most innovative licensed players were identified, recognised and rewarded. The awards are aimed at fostering innovation and creativity in the insurance sector and increasing access to insurance. The inaugural award ceremony was held on 18 December 2020.

Recommendation 3: Evolving the product approval process

At the start of the journey, there were often delays in the product approval process. Applications moved through the various departments on an ad hoc basis and were assessed in silos. The new process improves consistency and ensures that the incentives and objectives of different departments within the IRA are considered explicitly as part of the decision-making process.

Box 1:

Why was it necessary to enhance the product approval process?

Delays discourage innovation. A lengthy product approval process undermines and discourages innovation. Both existing industry players and potential new entrants suggested that the time taken for new products to be approved was inconsistent and there was uncertainty as to why.

Incumbents found process unclear. Stakeholder interviews suggested that market players were unclear on the exact product approval process. If there is no clarity on which documents to submit for product approval, providers may submit incomplete applications that do not contain all of the requisite documentation, resulting in a back and forth between the regulator and the insurer to complete the application. Uncertainty may also deter or delay the submission of product approval applications.

For the product approval process to provide an effective pathway to innovative products entering the market, the following actions were required:

a. A streamlined product approval process.
b. Effective coordination between IRA departments.
c. Clear communication with applicants.

The following activities were conducted under the enhanced product approval recommendation:

Both the IRA's product approval committee and industry players underwent training on how to use and implement a risk assessment tool. This risk assessment tool was developed by the International Actuarial Association (IAA) in partnership with the International Association of Insurance Supervisors (IAIS) (as outlined in the Box 2). It provides a common language for considering risk that enables industry and the regulator to communicate about the risks that new products entail in a more efficient way, leading to better outcomes.

- A trained actuary with years of experience in development and inclusive insurance was contracted to conduct training to the IRA's product approval committee on how to implement the risk assessment tool.
- Product approval meetings were then structured around the tool. This assisted committee members in identifying the key insurance risks in terms of a product and a provider, and in so doing both streamlines the process and improves internal coordination between departments.

Box 2:

What is the risk assessment tool and where does it come from?

The paper giving rise to this tool is the outcome of a joint project between the IAA and the IAIS. It provides educational material and illustrates practices that can be used by regulators to address a key question in inclusive insurance markets: how does one identify the key insurance risks in terms of a product or a provider? The paper outlines a risk assessment process, along with an assessment tool, in the form of a traffic light system in Excel, to inform, amongst others, product approval decisions. Focus is placed on risk from the perspective of inclusive insurance products and inclusive insurance providers, particularly in terms of how they meet the needs of customers. Risk scores are assigned to each element and evaluated against the risk appetite to arrive at an outcome on each element. If the risk score is below a certain threshold, it means that the regulator can proceed, and if it is above a certain threshold then mitigating action is required. If it is even higher above the threshold, then it is clear that the product or venture should not proceed.

The product approval committee structure and process have now been updated and the risk assessment tool has been formally adopted by the IRA. The committee members no longer assess product applications in silos and instead convene around the risk assessment tool. Industry has also been trained on how to use the tool to do their own risk assessment, which is to be submitted with their product approval applications. The tool has thus given the IRA and industry a common language to communicate effectively about the risks that new products entail, further adding to clear communication and transparency around the product approval process.
The tool was further updated to also assess COVID-19 risks.

The product approval guidelines were amended. The existing guidelines were formalised and amended to incorporate the risk assessment tool.

- The product approval guidelines were amended in order to provide applicants with greater certainty and transparency around the product approval process as well as which accompanying documents to submit.
- Newly approved products are now included in the annual report distributed to industry, which further adds to transparency.

Recommendation 4: Adapting regulation and enhancing licensing options with the regulatory sandbox guidelines

In order to enable easier entry of potential innovators that could disrupt the status quo into the market and to improve the IRA's ability to effectively regulate new types of players, it was recommended that the IRA enhance their licensing options to accommodate different entities that do not fit neatly within existing licenses. The IRA then elected to introduce a sandbox as part of a test and learn approach.

What is a sandbox? A regulatory sandbox is one form of test and learn. It formalises the test and learn process by defining certain criteria for innovation and then inviting prospective market players to apply for entry in the sandbox. Qualifying entrants are assigned certain concessionary treatments to allow them to test or pilot their idea to market, subject to defined safeguards.

The following activity was conducted under the enhanced licensing options recommendation:

The IRA developed and issued insurance regulatory sandbox guidelines.

- The aim of the guidelines is to establish an insurance regulatory framework for fintechs to experiment with technology and innovative products in order to improve efficiency and access to insurance without compromising consumer protection.
- Prospective sandbox entrants must submit an application with supporting documents to the IRA for authorisation to enter and test their product. The testing period is 12 months and can be extended (upon application) for a maximum of 6 additional months.
- The IRA will consider the following when evaluating an application for authorisation:
  - Risks to consumers (mis-selling, financial exclusion, data protection etc.)
  - Risks to the applicant (business model viability, operational resilience etc.)
  - The product or service offered not having previously existed or been licensed
  - The creation of a new channel for offering financial services by the platform
  - The reliance or use of a financial technology or innovation not previously tested in the jurisdiction
  - Whether the technology significantly improves an existing concept in the market
  - Suitability for the Ugandan market
  - Readiness for testing in the market
  - Ability to scale the technology once the testing period is complete

The IRA issued the formal sandbox guidelines in November of 2020. The guidelines make specific reference to this project in the preamble, stating that the project is the premise on which the guidelines are established.

Conclusion

As outlined in the previous section, the IRA implemented a number of interventions in its journey to regulate and supervise for responsible innovation.

1. Four industry innovation newsletters published
2. Inaugural (virtual) Innovation Workshop held
3. Product approval process updated to incorporate risk assessment tool
4. Product Approval Guidelines amended
5. Sandbox Guidelines developed and issued

Figure 5: The results achieved by means of the technical assistance provided to the IRA

Key success factors

Out of the implementation journey as outlined above, the following success factors are apparent:

Assessing and understanding the market. There is no one-size-fits-all approach to regulating for innovation. The tools used in one jurisdiction may not be appropriate for or yield the same results in another. It is thus essential to assess and understand the market in order to identify which tools would be appropriate to implement, taking into account the contextual realities.

Regulator as champion. Albeit with guidance, ultimately the regulator needs to drive the approach to regulating for innovation. What contributed to the success of this engagement was that the approach was developed by means of an interactive and consultative process with the IRA, and a strong commitment by the IRA leadership throughout.

Committed supporting partner. The IRA benefitted from having a committed supporting partner in FSD Uganda. FSD Uganda walked every step of this journey with the IRA and played a crucial role in supporting the IRA to implement the chosen recommendations to enhance the enabling environment for innovation in Uganda.

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