Insurance innovation dialogue:
Cross-cutting insights and emerging best practice from 8 African countries

Date: 28 July 2022
Presentation Outline

- Project rationale and approach
- Market development and innovation snapshot
- Imperatives
- Conclusion
Project rationale and approach
Innovation is key to increasing insurance penetration in Africa

- Insurance penetration in sub-Saharan African (SSA) at 2.78% versus the global average of 7.3%.
- Changing this trajectory requires innovation supported by a conducive innovative ecosystem

Regulator’s role important for innovation: More regulators globally have a market development mandate and to act on this, they need to:

- Regulate responsibly
- Promote market development: proactively engage, encourage and support innovation
- Ensure protection: assessing innovation risk and regulatory gaps that could harm consumers
**Project objective and approach**

**Project background:** FSD has set up the R3 (Risk, Resilience, Regulatory) Lab which acts as a platform for capacity building and peer exchange amongst regulators.

**Project objective:** Inform the work of the R3Lab by (i) assessing the state of innovation in eight countries in SSA, (ii) taking stock of the challenges or barriers to further innovation, and (iii) suggesting tailored innovation promotion action plan recommendations for each country.

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**Assessment of six ecosystem factors**

- Underlying infrastructure
- Talent pipeline
- Access to finance
- Market engagement
- Regulatory environment
- Supervisory support for innovators
Market development and innovation snapshot
**Innovation snapshot**

Diverse range of innovations present across the studied countries

**Insurtechs**
- 66 insurtechs across the 8 studied countries

**Distribution partnerships**
- MNOs
- Banks
- Digital platforms
- Retail companies
- Churches
- Cooperatives

**Use of technology**
- WhatsApp chatbots
- Mobile apps
- IoT Technology
- Artificial Intelligence

**Product innovation**
- Public-private agricultural insurance
- Microinsurance for informal MSMEs
**Market development snapshot**

Level of innovation differs by country based on market context and largely corresponds to market development clusters.

<table>
<thead>
<tr>
<th>Innovation Commencing</th>
<th>Nascent market development</th>
<th>Market development gaining traction</th>
<th>Market development becoming entrenched</th>
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| Penetration Rate (%)   | 0.41 | 2   | 0.3 | 1.6 | 3.6 | 0.79 | 1 | 2.3 |
| % of adults covered by insurance | 10  | 2   | 1.98 | 17 | 34  | 1.4  | 22.7* | 24.5 |

*percentage of households

Source: Cenfri forthcoming (2022)
Imperatives for regulators and industry
Structural Imperatives

**Structural constraints**

- High mobile data costs
- Low awareness and lack of trust
- Large technical and STEM skills gap

**Imperatives**

1. Collaborate with the market to build consumer awareness and trust
2. Leverage broader government coordination structures to address structural constraints affecting the market
3. Build and attract scarce skills to insurance

**Examples for building staff and market innovation skills**

**Uganda case study:** The IRA in Uganda has undertaken proactive internal capacity building which includes:

- Training of communications department
- Training of the product approval committee

**Rwanda case study:** Rwanda’s government has reduced visa requirements to attract skilled professionals and has encouraged Pan-African institutions to operate in the country and help build skills that will benefit the insurance sector.
Market Imperatives

**Market constraints**
- Large untapped market with limited understanding
- Limited investment in innovation
- Difficulties in forming and sustaining partnerships
- Limited funding for insurtechs

**Imperatives**
1. Information generation to better understand harder-to-reach market segments
2. Use proactive market engagement to prompt innovation and encourage partnerships
3. Promote certainty by issuing guidance on partnership agreements and regulatory treatment of non-traditional players

**Examples for proactive market engagement: Kenya’s BimaLab experience**

The BimaLab is an initiative between the regulator and other insurers with the objective of assisting innovators to:
- Refine their value proposition
- Determine commercial viability
- Provide opportunities to scale solutions through partnership
Regulatory Imperatives

Examples on closing license regulatory gaps:
Providing guidance on technical service provider licensing

Ghana’s Insurance Act enables the regulator to grant licenses to technical service providers (TSPs). The NIC issued TSP guidelines to applicants on:

- Navigating the application process
- Subsequent compliance requirements

1. Close remaining gaps regarding digital distribution and license categories
2. Reconsider sandbox design to ensure it is fit-for-purpose

Regulatory constraints

- Lack of clarity on remote onboarding, servicing of policies, and alternative distribution partnerships
- Limited license categories
- Regulatory sandboxes not yet gaining traction
- Microinsurance frameworks underutilized
Supervisory Imperatives

Supervisory constraints

- Concerted effort to streamline supervisory process, but challenges persist
- Communication efforts not yet serving optimal purpose
- Monitoring systems not yet set up for granular monitoring of innovation

Imperatives

1. Earmark capacity to innovation and coordinate across departments
2. Adapt and streamline the supervisory approval process
3. Broaden the monitoring framework for innovation
4. Invest in upgrading supervisory systems

Examples

Ghana’s Innovation Hub
The Innovation Hub manages internal digital solutions aimed at enhancing NIC’s operational efficiency. It also assists in evaluating new innovations and technology solutions to shield the industry from high risks.

Zimbabwe’s Product Approval Committee
IPEC has a product approval committee that consists of all its departments*. The product approval process, is guided by a framework which all stakeholders must follow.

* such as Actuarial, legal, finance, insurance, and pensions departments
Conclusion
Pathway to implementation

Implementation of recommendations requires a 5-stage action plan cycle

1. Decide objectives & strategy
   - Identify specific actions, assign responsibilities and timelines

2. Compile workplan

3. Implement
   - Include designated departments and committees working to implement actions across the specified timeframes
   - Proactive monitoring and evaluation needed to assess implementation of successes and challenges

4. Monitor

5. Iterate
   - To ensure buy in and shared responsibility across departments
   - Iteration of cycle will need feedback loops to be built in so that learnings gained can inform future adaptation
Key takeaways

Easy to implement tools can be leveraged to better position regulators to support innovation

Market development mandate is a growing trend and early indications suggest that this has been effective in both creating the right incentives for market development as well as creating the dedicated capacity to drive it.

- **Regulators** have the tools to make significant strides to support innovation such as:
  - Bilateral communication
  - Transparency and consistency of product approval
  - Coordination between departments to better leverage existing skills
  - Non-legally binding guidance

- These tools can be implemented through relatively 'easy', low-cost interventions to create a transparent environment for innovators.

- But should be supported by key regulatory changes, such as increasing license categories
- Market development departments should not be seen as the sole owners of this responsibility, but they are the engines that support and engage the rest of the regulator and market.
Thank you

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