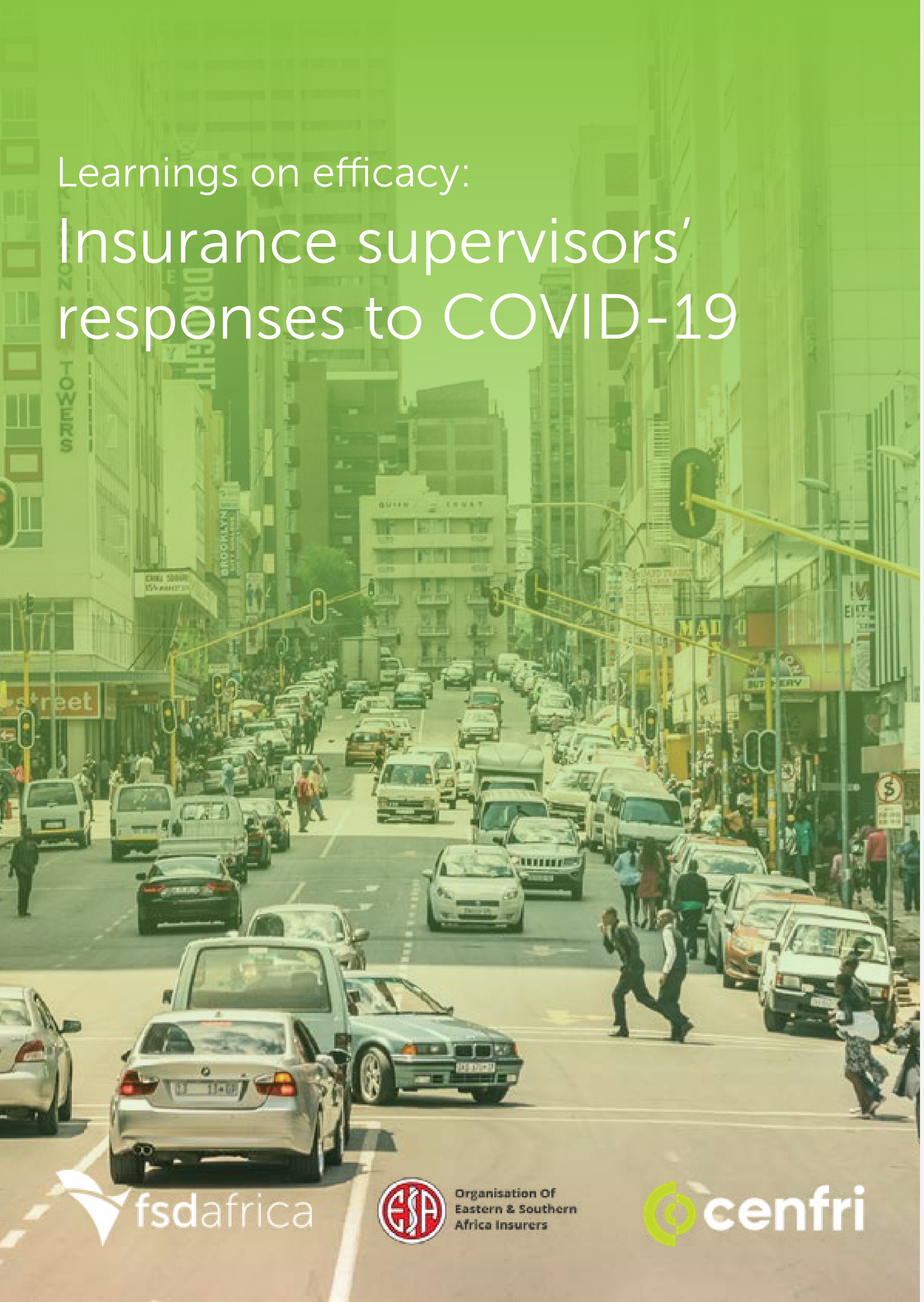


Learnings on efficacy:

Insurance supervisors' responses to COVID-19

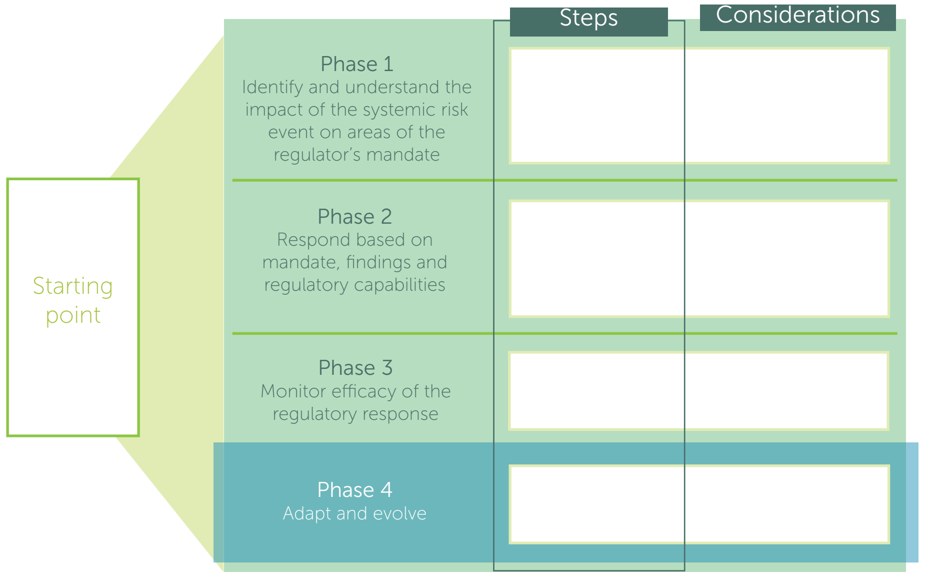
fsdafrica

Organisation Of Eastern & Southern Africa Insurers

cenfri

The regulatory response framework

COVID-19 has had a substantial disruptive impact on economies and insurance industries across sub-Saharan Africa and offers a unique opportunity to learn which regulatory responses have been most effective in responding to a systemic risk. We conducted research across 31 countries to propose a response plan and tangible guide for insurance regulators faced with a risk that has the potential to affect the industry they supervise considerably. This plan is the regulatory response framework, illustrated below.



Starting point

(regardless of specific systemic risk)

Continuous considerations remain relevant irrespective of/beyond the particular risk and inform the regulator's best course of action across every phase of the framework.

Regulatory mandate

Regulatory mandate frames what the regulator must do (its role, key responsibilities and objectives) and informs and is relevant to every phase of the regulatory response framework.

Scope of powers

Regulators are constrained in what they can and cannot do by the laws that govern their jurisdiction. These laws also delineate how responsibilities are divided among different regulators in the financial sector and beyond.

Regulator resources and capacity

The resources and capacity of the regulator (for example, number of staff, level of skills and access to and adoption of technology) determine what the regulator can and cannot do and play a role in how effective any of its activities across the phases of the framework are.

Relationship with industry and extent of industry's compliance and capacity

Whether or not industry can act in accordance with the regulator's instructions/recommendations is also determined by the strength of the regulator's relationship with industry members as well as their soundness and resources preceding the occurrence of the systemic risk.

The regulatory response framework

Stakeholder interviews reveal that it is important for regulators to have a plan to follow when a systemic risk occurs in order to ensure proactive engagement, appropriate responses and continuous monitoring of the measures that have been put in place.

Starting point
(regardless of specific systemic risk)

- Regulatory mandate
- Scope of powers
- Regulator resources and capacity
- Relationship with industry and extent of industry's compliance and capacity

Phase 1. Identify and understand the impact of the risk in relation to regulatory mandate

Steps	Considerations
Identify and understand the systemic risk	Who has the primary responsibility to respond?
Gather information and understand industry's needs and concerns	How can a regulator gather information? - Bilateral communication with regulated entities - Engagement with industry associations - Routine quarterly and annual reports - Additional reporting requirements (including annexures to routine reports and ad hoc surveys) - On-site (or virtual) inspections
Analyse the information to understand the impact of the risk	To what extent can the regulator benefit from the following factors? - Staff capacity/skill - Suptech

Some regulators have small teams dedicated to analysing data submitted by industry, which makes the process lengthier. As a result, it takes almost a year and a half to put together and identify current trends, after which annual reports are prepared.

Suptech can facilitate the collection and analysis process.

Stakeholder interviews indicate that the majority of insurance supervisors already had online data submission platforms in place before the pandemic and that some of these systems allow supervisors to do an automated basic analysis of the data.

Phase 2. Determine and implement appropriate response(s)

Phase 3. Monitor the efficacy of the regulatory response

Phase 4. Adapt and evolve

Phase 1 enables the regulator to make an informed decision about how to respond to the systemic risk.

Following an initial assessment of the nature of the risk, the regulator must consider how responsibilities are assigned and who has primary responsibility for understanding and responding to the risk (e.g., a specific department, a specially-created task team, working group or cross-cutting body involving collaboration with other regulators).

Regulators engage directly with regulated entities through its normal supervisory activities. During a time of crisis, increased bilateral communication enables a regulator to assess what the impact has been on specific regulated entities and to understand what those entities required from the regulator.

Industry associations are representative bodies of various segments of an insurance industry and an important source of information for regulators. During COVID-19, many regulators increased their engagements to gain a more holistic understanding of the impact on the industry and what responses industry needed from the regulator.

Regulatory returns form the foundation of a regulator's understanding of the state of its industry. Routinely collected information by regulators is tracked over time to identify industry norms and developments.

Regulators can apply additional requirements to the industry as a whole or to specific regulated entities only, depending on the nature of the risk and what the regulator wants to measure.

To understand the impact of COVID-19, some regulators used additional mechanisms (e.g. targeted annexures to routine reports, additional reporting templates, solvency stress tests).

The process of adding to/amending regulatory returns differs among jurisdictions and may require considerable time and effort to do.

Social distancing requirements in response to COVID-19 meant that regulators had to suspend in-person on-site inspections. As a result, some regulators conducted inspections virtually, by requiring that regulated entities share relevant documents with the regulator.

The regulatory response framework

Stakeholder interviews reveal that it is important for regulators to have a plan to follow when a systemic risk occurs in order to ensure proactive engagement, appropriate responses and continuous monitoring of the measures that have been put in place.

While Phase 1 focuses on building an understanding of the impact of the risk,
during Phase 2, the regulator decides which avenue of response is most applicable and implements this (set of) response(s) based on the understanding developed in Phase 1.

Starting point

(regardless of specific systemic risk)

- Regulatory mandate
- Scope of powers
- Regulator resources and capacity
- Relationship with industry and extent of industry's compliance and capacity

Steps / Considerations

Phase 1. Identify and understand the impact of the risk in relation to regulatory mandate

Phase 2. Determine and implement appropriate response(s)

Decide which avenue of response is most applicable

Avenues of response:

- Inform and engage with industry and public
- Make a (non-binding) recommendation to industry
- Issue a legally binding document

Phase 3. Monitor the efficacy of the regulatory response

- Compliance of industry
- Whether response provides adequate assistance to industry
- Until when temporary measures implemented are needed

How can the tools used to gather information be used to monitor the efficacy of the regulator's response?

Phase 4. Adapt and evolve

Regulators disseminate communications to industry and the public when it needs to clarify its position on an issue or test its expectations for industry (that it is planning to codify via either of the other two avenues).

Regulated entities can decide whether or not to heed non-binding recommendations on the basis of their needs/the impact on their business. As such, regulators choose this avenue of response when it is not strictly required (in keeping with its objectives/mandate) that all industry members adhere to the stipulations. Non-binding recommendations are also appropriate when the regulator is referring to matters that are not addressed in regulation (and thus do not require legally-binding documents to amend/update).

For certain responses, regulators must approach the legislature of the country to issue a gazette in order to amend what is set in legislation. Regulators will also use this avenue when they need to make changes to regulation that require that new regulation be issued or when it is pertinent that all regulated entities comply with the measures, as legally binding documents can involve some form of recourse or sanction, (e.g. a fine) if regulated entities do not comply.

Once a regulator has decided upon and implemented a response, the appropriateness of that response must be measured to enable the regulator to make efficacy-enhancing adjustments in the short term.
Phase 3 repurposes the tools used in Phase 1.

The regulatory response framework

Stakeholder interviews reveal that it is important for regulators to have a plan to follow when a systemic risk occurs in order to ensure proactive engagement, appropriate responses and continuous monitoring of the measures that have been put in place.

Phase 4 entails reviewing the entire process (across all phases) retroactively to generate learnings and improve implementation/ efficacy. Phase 4 can be applied across all three of the preceding phases (unlike Phase 3, which applies specifically to their responses as implemented in Phase 2).

Starting point

(regardless of specific systemic risk)

- Regulatory mandate
- Scope of powers
- Regulator resources and capacity
- Relationship with industry and extent of industry's compliance and capacity

	Steps	Considerations	
Phase 1. Identify and understand the impact of the systemic risk event on areas of the regulator's mandate			
Phase 2. Respond based on mandate, findings and regulatory capabilities			
Phase 3. Monitor efficacy of the regulatory response			
Phase 4. Adapt and evolve	Review process retroactively to generate learnings and improve across all phases	How can the regulator adapt and evolve across all of the preceding phases of the framework?	How do the learnings generated enable the regulator to more effectively fulfil its mandate?
	Engage with international/ financial sector best practice	What lessons can the regulator learn from other financial sector regulators'/jurisdictions' responses?	
	Implement overall learnings	How can the regulator be better prepared for the next risk?	

Stakeholder interviews reveal that the regulator's responses to previous/other systemic risks informs how it responds to the risk at hand. COVID-19, in turn, constitutes the current risk that can generate learnings and enable regulators to prepare for the next one.

Beyond learning from their own experience in responding to a systemic risk, some regulators referred to the experience of other regulators as well as international guidance/best practice in responding to COVID-19 and preparing for the next risk.

Looking ahead to future risk events, which may occur sooner than expected. Supervisors may face the next systemic risk sooner than expected, requiring that they stress-test their own preparedness. Stakeholder interviews reveal that regulators are especially concerned about the following future systemic risk events: climate risks, cyber-security and data protection, political unrest and terrorism.

Learnings on efficacy

Key learnings that emerge from an analysis of regulators' implementation of the phases in the framework

Phase 1

The need for timely data must be balanced with industry's need to not be overburdened with requests for information

Relying purely on routine quarterly and annual reports **limits the speed and scope of information collection.**

Proactive, flexible engagement to gather targeted information (especially using virtual channels) can create certainty, foster strong relationships and increase compliance to the regulator's chosen response.

Phase 2

Engagement and coordination/collaboration with other relevant authorities is crucial, irrespective of the response(s) chosen.

Informing and engaging with industry proactively, especially via digital channels, creates regulatory clarity and guidance and contributes to compliance.

RBS emerged as most effective guiding a proportionate response.

Making a (non-binding) recommendation to encourage industry to be flexible and support consumers in accordance with consumer protection mandate fosters trust.

Recommending or requiring industry to create and/or submit business continuity plans (BCPs) and/or stress tests supports Phase 1 and enhances industry's preparedness for the next systemic risk.

Phase 3

Phase 3 is not done consistently across regulators, but the benefits to implementing this phase include that the regulator who monitors is in a better position to change course to avoid inadvertent negative consequences of its responses. This is an area of major development across SSA regulators, based on the experience of COVID-19. The tools may be similar to those used in Phase 1, but the focus is different and those tools often need to be tailored to evaluate the impact of the regulator's responses.

Phase 4

Cross-cutting learnings

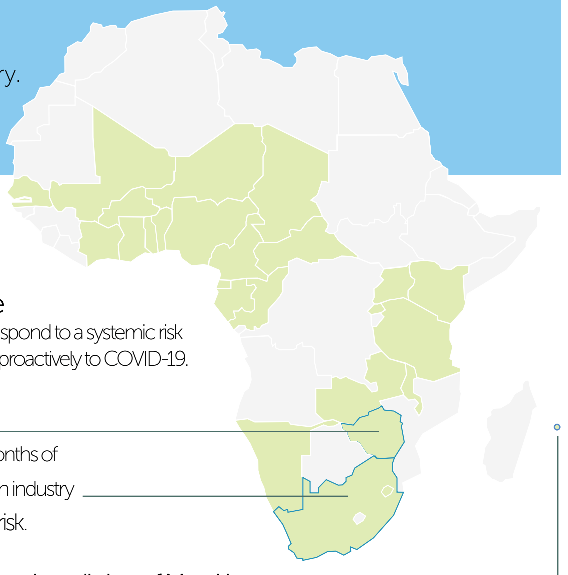
Ensure access to quality, real-time information.
Regulators need access to accurate, up-to-date information to make effective decisions (gathered e.g. via regular meetings with industry). Setting up early warning systems and following a proportionate, RBS approach – both of which actions are facilitated by digitalisation – also put regulators in a better position to support their industries through major risk events.

Be proactive.
Regulators should seek to create and enhance certainty in their markets. While the severity of a major risk event may not be immediately understood,regulators can avoid contributing to industry's mounting concernsthrough proactive engagement to understand stakeholders' concerns and communicate the regulator's position clearly.

But do not overreact.
Regulators need to be proactive and make statements, but also remain 'willing to be uncer-tain'. Thus, regulators should refrain from rapidly aking strong/restrictive/directive statements and, instead, issue softer guidance to avoid stepping in too aggressively.

Prepare for new risks.
Guiding industry towards sustainable development requires that regulators build an understanding of what risks their industry is likely to face in the future. Identifying these risks requires that regulators 'keep their fingers on the pulse' e.g. by engaging with other regulatory bodies (local and international) and with industry.

Examples of other systemic risks that countries have experienced



Hyperinflation in Zimbabwe
IPEC in Zimbabwe had already adapted its processes to respond to a systemic risk event – placing it in a more favourable position to respond proactively to COVID-19.

Civil unrest in South Africa
In July 2021, utilising the communication channels entrenched during the first eight months of COVID-19, the PA and the FSCA again increased the frequency of their engagements with industry and with other governmental bodies to assess and respond to this new systemic risk.

Black- and greylisting of Mauritius
In February 2020, Mauritius was put on the Financial Action Task Force's grey list and the European Commission's blacklist for having strategic deficiencies with regards to AML/CTF.

Countries interviewed/surveyed

Examples of systemic risks