cenfri

Regulating for Innovation

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Authors: Jeremy Gray, Jana de Waal, Christine Hougaard and Nichola Beyers

With support from Eden D'Oliveira, Matthew Dunn and Matthew Ferreira

Design: Lisa Bruwer

fsduganda Financial Sector Deepening

fsdafrica

UKaid from the British people

Foreword

A word from IRA Uganda

Welcome to the Regulation for Innovation toolkit, a culmination of a digital transformation project undertaken by the Insurance Regulatory Authority of Uganda with support from Cenfri and Financial Sector Deepening Uganda.

In 2019, the Insurance Regulatory Authority of Uganda found it necessary to adopt proactive approaches to embed innovation in its strategies for insurance sector development.

This change in approach was driven by the need to adapt to the emerging and fast-changing environment that has challenged conventional wisdom, rules and approaches. We found it necessary to embrace innovation and support the sector we regulate to gain a grip on the path of innovation.

Indeed, with the support from FSDU/Cenfri, we have revolutionalised our internal product approval processes to deliver verifiable outcomes in addition to creating certainty amongst players submitting their product proposals.

The other milestone registered was hosting an innovation workshop which provided a platform for the industry to share ideas. We intend to host this workshop on an annual basis.

Moving on, we hosted our inaugural insurance innovation awards, wherein we recognised and rewarded the most innovative sector players through a competitive and highly transparent process. The insurance innovation awards is a flagship event, and we shall be looking out for partners to make it bigger and better.

Our view on the *Regulation for Innovation Toolkit* is that it is a welcome resource and an opportunity for regulators to learn and share best practices on regulation for innovation. With the support from the partners, we can break the old approach of whipping the regulated approach to a more embracing, flexible and facilitative approach.

I encourage insurance regulators to use this excellent resource, which provides a step-by-step guide on encouraging and facilitating innovation in your respective markets whilst upholding the safety of insurance consumers.

I thank you for your continued commitment to new approaches that not only make supervision and regulation simple but also help position the insurance sector as a strategic business partner.

Stay safe!

Alhaj Kaddunabbi Ibrahim Lubega
Chief Executive Officer
Insurance Regulatory Authority of Uganda

Insurance Regulatory Authority of Uganda
Driving insurance growth

“In 2019, the Insurance Regulatory Authority of Uganda found it necessary to adopt proactive approaches to embed innovation in its strategies for insurance sector development.

A word from FSD Africa

To ensure that African insurance markets grow and develop, as they must for sustainable economic development, it is critical that conducive policy and regulatory environments are in place and that these environments continually evolve. Given the pace of digital innovation across the continent, which has been further accelerated by COVID-19, many African insurance regulators are needing to adapt both processes and regulations to keep up.

As such, this *Regulating for Innovation Toolkit* is a timely publication providing very practical tools to align regulatory frameworks with market innovation needs. FSD Africa, as regional specialist development agency which works to build and strengthen financial markets, has been proud to support this work in partnership with Cenfri, FSD Uganda and A2ii.

The toolkit is born out of extensive engagement with regulators and market participants in several SSA countries over several years, including Uganda, Malawi, Zimbabwe, Nigeria, Ghana, Kenya, Namibia and Seychelles. We are thus confident it is a best-practice guide for insurance regulators and supervisors in approaching digital innovation in their markets.

Kelvin Massingham
Director, Risk and Resilience
FSD Africa

“The toolkit is born out of extensive engagement with regulators and market participants in several SSA countries over several years, including Uganda, Malawi, Zimbabwe, Nigeria, Ghana, Kenya, Namibia and Seychelles.

A word from FSD Uganda

Ever since the introduction of mobile money in East Africa over a decade ago, new financial technologies have rapidly infiltrated the market, heralding what has globally come to be known as the fourth industrial revolution. New financial products and services in the payments, insurance, equity crowdfunding, and microcredit space have left policymakers and regulators struggling to understand and regulate a very diverse sector today from what it was ten or even five years ago. Many regulators are ill-equipped and find that the traditional tools for supervision are now unsuited to the needs of the sector.

Financial Sector Deepening Uganda (FSD Uganda) recognised the opportunity that innovative financial technologies create for financial inclusion and the capacity gap experienced by regulators and policymakers in the financial sector. As the country's premier financial sector think and do-tank, committed to facilitating greater access to Uganda's financial services, we then embarked on a Digital Transformation initiative across four financial sector regulators (Bank of Uganda, Insurance Regulatory Authority, Capital Markets Authority, and the Uganda Communications Commission). The Digital Transformation initiative is designed to augment regulatory capacity in the face of a rapidly evolving financial sector.

The Insurance Regulatory Authority (IRA) of Uganda has been at the forefront, spearheading change in a largely traditional industry. To meet the needs and ambitions of IRA, FSD Uganda partnered with Cenfri – a centre of excellence that has been focused on financial market development with extensive experience in insurance based in Southern Africa. Our partnership with Cenfri resulted in the completion of a two-year digital transformation action plan for the Insurance Regulatory Authority of Uganda (IRA) that was conducted in two phases. The first phase involved an innovation gap assessment. Some of the key recommendations included an enhanced product approval process enhanced, proactive engagement with the industry and the entrenchment of innovation as a strategic priority for the IRA. The second phase focused on their execution.

“Some of the key recommendations included an enhanced product approval process enhanced, proactive engagement with the industry and the entrenchment of innovation as a strategic priority...

The Digital Transformation initiative ended in December 2020 and was a striking success. In a short timeframe, the regulator concluded on:

- The adoption of a risk-based tool in the approval process of new products and services: Prior to adopting the risk assessment tool, insurance providers were unclear on the approval criteria process or requirements and experienced several delays in receiving product approval. The tool resolved these issues by streamlining the process, providing an objective means to assess insurance products, increasing transparency whilst ensuring appropriate safeguards to protect the final consumer.
- The launch of an industry newsletter and workshops: The communication strategy aimed to increase engagement between the regulator and the industry, bridge the compliance gap and reduce regulatory uncertainty.
- The publication of regulatory sandbox guidelines: The IRA was the first institution in Uganda to publish these guidelines. In doing so, it took a crucial step to encouraging potential disruptors in the market whilst building the IRA's ability to regulate innovators effectively.

This toolkit is the culmination of recently implemented actions and an

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FSD Uganda welcomes this toolkit's publication and recommends its contents to regulators, policymakers, and development partners in the market.

excellent reference for regulatory institutions considering how best to develop their capacity to match the market's supervisory needs. It is particularly relevant for regulators and policymakers in Uganda and the region, as it simplifies the journey of digital transformation and acts as a guide for its implementation.

FSD Uganda welcomes this toolkit's publication and recommends its contents to regulators, policymakers, and development partners in the market.

Rashmi Pillai
Executive Director
Financial Sector Deepening Uganda

Introduction

This toolkit document is interactive, you will find this icon throughout. Click the icon to show more content.

Digital innovation is changing the nature of financial markets. Innovation can create opportunities, enhance efficiencies, increase competition, drive scale, and improve the reach and value of financial products and services to consumers. However, with innovation also comes risk, and due to the novel nature of innovation, it is often not fully accommodated within current regulatory frameworks.

Historically regulators have focused their supervisory efforts mostly on prudential soundness. More recently, regulators' mandates or objectives have broadened. There is an increasing focus on conduct of business and consumer outcomes, inclusive insurance and the proactive development of the insurance sector. With the evolution of regulatory mandates there is now greater recognition of the link between insurance and broader policy challenges such as inclusive economic development, climate risk and digitalisation. [1]

Given that innovation brings with it both benefits and risks, and given that the regulator's mandate has evolved, it is the regulator's role to proactively consider the trade-offs between the two:

On the one hand...

... the benefits from innovation create an imperative for the regulator to ensure that both the regulatory framework and its actions in regulating do not hamper innovation, but rather promote or facilitate it.

On the other hand...

... the regulator has a duty to protect consumers against any risks arising from innovation. The regulator is faced with balancing its mandate to facilitate innovation and develop the market with its mandate to protect consumers.

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Why is a regulating for innovation toolkit necessary?

Supervisors are not always sure how to strike this balancing act or what tools they can leverage to do so, and how. Many think that regulating for innovation is synonymous with implementing a sandbox, and are not aware of the bigger set of potential tools available to apply. This toolkit aims to offer supervisors practical advice, drawing on examples from their peers, on what tools are available to consider, how to choose a fit-for-purpose and fit-for-context combination of tools and how to go about implementing the chosen tool set.

Who should use this toolkit?

Empowering regulators

This toolkit serves as a step-by-step guide for regulators on how they can better encourage and facilitate innovation in their markets whilst protecting consumers, thereby fulfilling both market development and consumer protection mandates. A range of tools exist to give effect to the functions of a regulator's mandate. Regulators can use the toolkit to help navigate their role and guide their decisions in regulating for innovation.

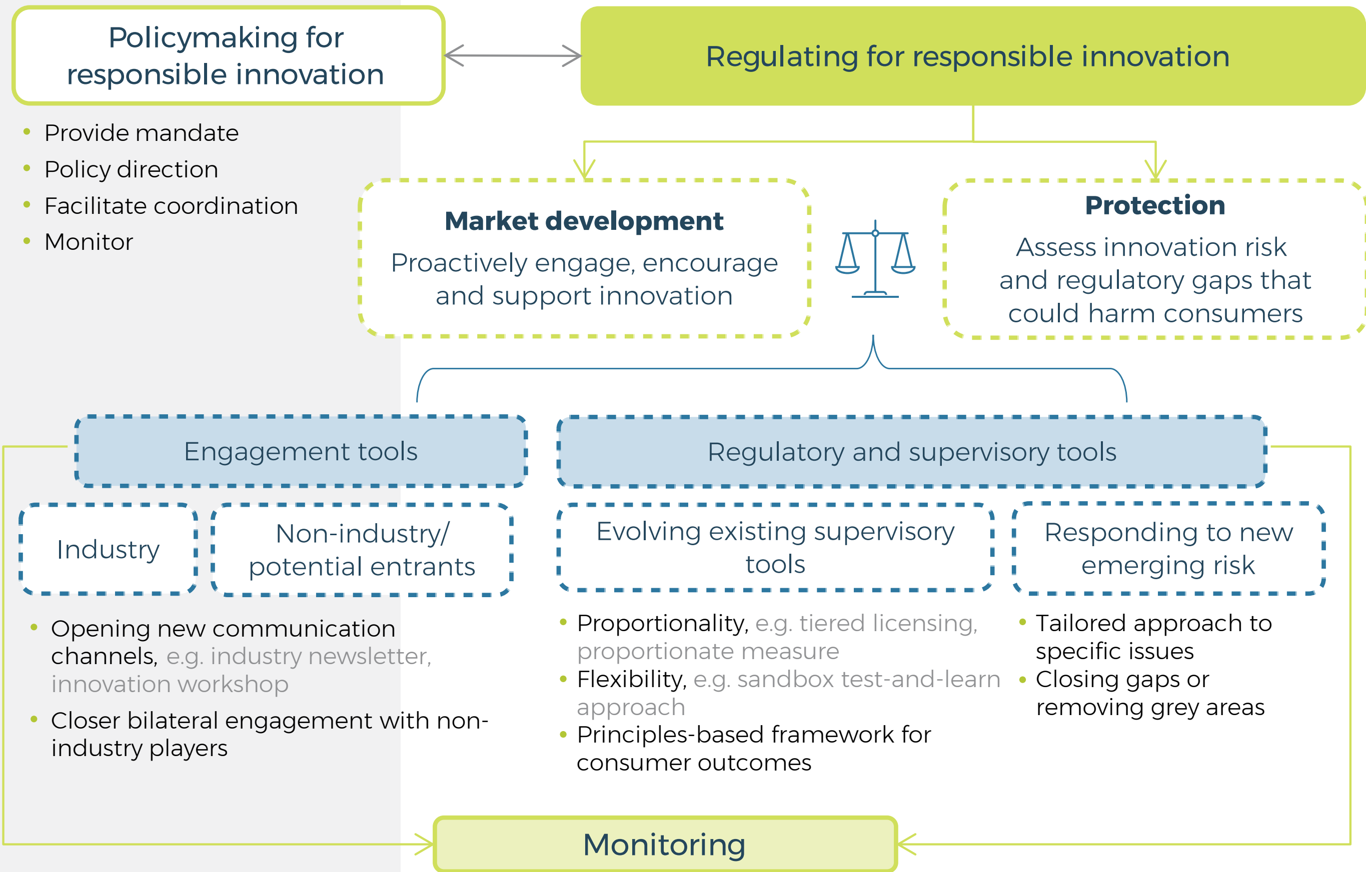
Informing donors and regulatory advisors

This toolkit also aims to inform donors on how and where they can provide support to the regulators who are interested in regulating for innovation.

Regulating for innovation framework – an introduction

Regulating for innovation framework

Authors' own



The framework illustrates the roles of the stakeholders in regulating for responsible innovation as well as the various tools available:

Roles in regulating for innovation →

The framework depicts the two components of regulating for innovation: one addressing the role of the policymaker, the other addressing the role of the regulator.

Range of tools available →

There is a range of tools available to the regulator to encourage responsible innovation in its market that, when employed, can achieve the balancing act as depicted by the balance scale in the framework. The regulator needs to decide what tools to use, as not all of them will apply or be appropriate in every context.

See Policymaking for responsible innovation and Regulating for responsible innovation to see the outline of the two components and the range of tools available.

Policymaking for responsible innovation

The path to facilitating and encouraging innovation starts at the policy level. Policy leadership is key to unlocking the role of the regulator in regulating for innovation (Thom et al., 2019). In most countries, the policy-making role is fulfilled by the Ministry of Finance (versus the insurance regulatory authority as regulator and supervisor), but this role can also be fulfilled by the Central Bank or, in some instances, the insurance supervisor. The policymaker has various roles:

- Provide policy direction
- Provide mandate
- Facilitate coordination
- Monitor

Regulating for responsible innovation

Categories of tools →

As depicted in the framework diagram, the tools available to the regulator fall into four categories:

Engagement tools	Evolving traditional supervisory tools	Engagement Supervisory tools to address new or emerging risks	Monitoring

> It is therefore essential to consider a combination of both supervisory and engagement tools in any regulating for innovation strategy.

While supervisory tools entail adjustments to regulatory instruments and/or supervisory processes, engagement tools include proactive engagement with, and signalling to, industry. The latter tools, although not considered as part of the traditional regulator's toolbox, are vital to addressing barriers to innovation that either do not stem from legislation or do not require legislative amendment to be implemented. It is therefore essential to consider a combination of both supervisory and engagement tools in any regulating for innovation strategy. Finally, monitoring key innovation indicators will inform whether the tools are fit for purpose and whether they need to be adjusted to ensure a regulatory environment that is conducive to innovation.

→ Go (back) to Regulating for innovation framework

The next section describes each category of tools in turn, considering how they can – and have been – applied in practice.

Applying the tools

Engagement tools

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Proactive communication with existing industry as well as potential entrants. 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; it is, therefore, important for industry to be able to provide feedback to the regulator as well as vice versa. It is important that the regulator targets its engagement, encouragement and support not only at existing market incumbents but also at potential market entrants who may be the source of future innovations (de Waal et al., 2019).

Typical tools include convening current and potential players on innovation-related topics, clarifying uncertainties regarding regulatory requirements or supervisory processes, or simply signalling to the market the importance of innovation.

Go (back) to Regulating for innovation framework

Other proactive engagement tools include:

Other proactive engagement tools include:

- Facilitating collaboration
- Training
- Informing and advising
- Compliance support
- Funding support, for example through innovation competitions

An example of how to structure such a newsletter and which topics to address is:

- Message from head of department
- Hot topics
- New industry developments
- Global innovations
- Changes in regulation
- Release of new publications
- Consumer education
- Latest news/insights
- Recent/upcoming events

A quarterly industry innovation newsletter to update industry and where industry views are solicited is a great example of proactive communication.

The benefits of such a newsletter include:

- Showcasing expertise on relevant industry topics
- Ensuring consistent interpretation and understanding of new regulation
- Educating consumers
- Keeping industry up to date with latest innovation developments
- Providing business exposure and opportunity to promote new products and services

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Evolving traditional supervisory tools

Proportionality. Proportionality entails setting requirements in line with the level of risk posed. The principle of proportionality often forms the basis for tiered regulatory requirements or licences and is acknowledged by global financial standard-setting bodies. It has been implemented by financial-sector regulators in numerous jurisdictions and forms the foundation for any regulating-for-innovation approach.

Examples include:

Tiered licensing in terms of which entities are subject to different prudential and reporting requirements based on the activities in which they are permitted to engage, such as microinsurance licences.

Proportionate measures such as different agent-qualification requirements for simplified products or for products sold through certain channels, or tiered know-your-customer (KYC) requirements in line with transaction limits.

Dedicated frameworks – a carved-out regulatory space providing a specific dispensation for a specific type of player or structure that is relevant from an innovation point of view such as, for example, a cell captive licence.

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Flexibility. The principle of flexibility concerns different approaches to allow new products, services and business models meeting market needs to be introduced into the market. It does not entail any changes to regulation, but it is an exercise of the regulatory authority's discretion within the parameters of the existing regulatory framework. Discretion will be important to ensure flexibility to respond to unforeseen developments. The principle of flexibility gives regulators an opportunity to learn from the risks related to innovation, enabling them to tailor subsequent regulation accordingly. The regulatory architecture will determine whether a regulator has the discretion to make certain interventions beyond that which is already included expressly in legislation. Product and licensing approval are the key (though not the only) manifestations of the practical application of the flexibility tool.

Examples include:

Regulatory sandbox

A sandbox is essentially a controlled environment where innovators are given an opportunity to test their products without having to comply fully with regulations while regulators keep a close eye on, and learn from, the impact of those products on the market and consumers.

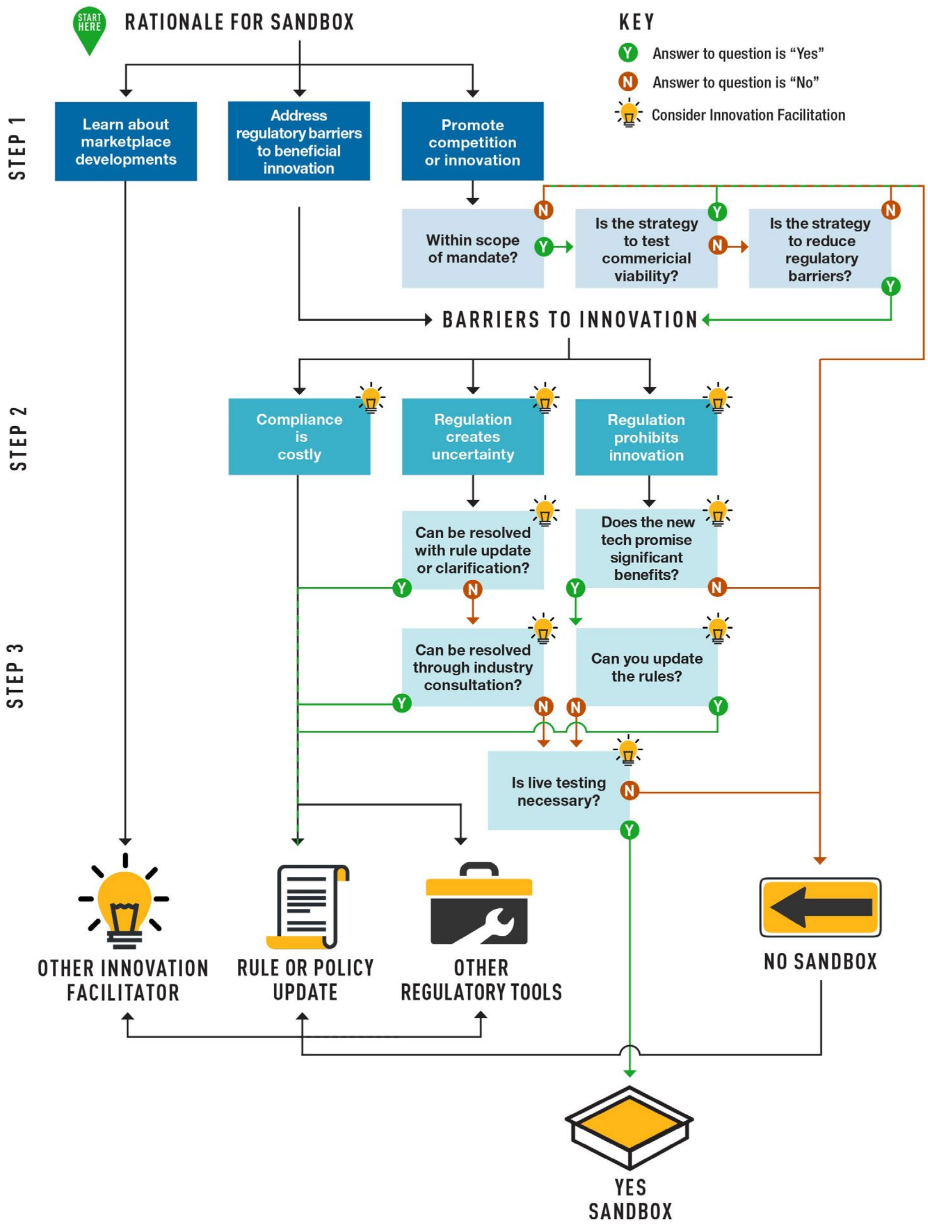
The broader "test-and-learn" approach

This approach has been applied for a number of years and comprises tools that go beyond a strict sandbox definition, for example, applying a letter of no objection, with safeguards, or leveraging discretion in the product approval process.
In practice, test-and-learn is often used as an alternative way of allowing players that do not fall within the current regulatory framework into the market on a permanent or semi-permanent basis, with safeguards and monitoring requirements set on a case-by-case basis.

Consultative Group to Assist the Poor (CGAP) developed a sandbox decision process in their recent publication How to build a regulatory sandbox: a practical guide for policymakers. The "decision process is intended to prompt regulators to closely scrutinize the need to conduct a live test, exploring the underlying hypotheses for adopting a sandbox. When the answer is unclear, regulators should gather additional insights from innovation facilitators that do not use sandboxes and carefully evaluate both complementary and alternative tools" (GCAP, 2020).

CGAP's sandbox decision process

Jenik and Duff (2020)



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Moving to a principles-based framework for consumer outcomes.
It is becoming increasingly commonplace for regulators to look beyond tools that respond to bad practices (such as consumer-protection tools, disclosure requirements, fit and proper requirements, and governance requirements) to also consider the consumer outcomes that they want to achieve. Regulating for consumer outcomes requires a principles-based rather than a rules-based approach. Treating Customers Fairly (TCF) is an example of a principles-based framework to regulate for consumer outcomes.

Many financial-sector regulators across a number of jurisdictions have implemented elements of TCF under their consumer-protection mandates [2]. The regulator's consumer-protection function has developed to include regulating for positive consumer outcomes. In a recent publication, CGAP (Izaguirre, 2020) identified six core outcomes in financial-services engagements, namely:

Suitability I have access to good-quality services that are affordable and appropriate to my needs and situation.	**Choice** I can make an informed choice from among a range of products, services and providers based on appropriate and sufficient information and advice that are provided in a transparent and easy-to-understand way.	**Safety and security** My money and information are kept safe, and the provider respects my privacy and gives me control over my data.
Fairness and respect I am treated with respect throughout my interaction with the provider, even when my situation changes, and I can count on the provider paying due regard to my interests.	**Voice** I can communicate with the provider through a channel of my choice and get my problems resolved quickly with minimal cost to me.	**Meets purpose** By having access to and using products designed and delivered in this way and getting the service I need, I am in a better position to increase control over my financial life, to manage a shock, or to attain other goals.

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Supervisory tools to address new/ emerging risks

Tailored approach to specific issues. The discussion above focused on ways that traditional supervisory approaches can evolve to facilitate innovation. There are also new and different risks that arise from the introduction of new technologies. It is the role of the regulator to identify these risks and formulate an appropriate regulatory response. Thus, over and above putting into place a broader or overarching regulating-for-innovation approach, it is necessary to regulate for the specific risks that emanate from specific innovations.

Examples include:

Data protection and privacy risks have proliferated from the increased collection, storage and use of consumer data. It is up to the regulator to protect consumers from these risks, which may have severe consequences such as exclusion. However, given that the financial-sector regulator is not the data-protection authority, its role will depend on the legislative context of data protection in its country:

If a data authority has been established and there is an overarching data-protection framework…

… the regulator can choose either to shape the application of the data-protection policy to the financial sector or to delegate the regulation of consumer-data risks to the data authority.

If there is no data authority and no overarching regulation…

… the regulator can choose either to actively create the data-regulation approach for the financial sector or to take the risk of not developing a data regulation approach, leaving the sector without a specified legislative approach to consumer protection and privacy. The strategies and tools employed to achieve this objective must, therefore, be tailored according to the overall legislative approach to data protection in the specific jurisdiction and must be aligned with the regulator's mandate and market context (Gray et al, 2018). [3]

Further examples of specific risks include those relating to cyber risk, algorithms in market conduct and cryptocurrencies.

Concern over cybersecurity is growing across all sectors of the global economy, as cyber risks have grown, and cyber criminals have become increasingly sophisticated. "For insurers, cybersecurity incidents can harm the ability to conduct business, compromise the protection of commercial and personal data, and undermine confidence in the sector" (IAIS, 2016).

According to the World Bank and the Cambridge Centre for Alternative Finance (CCAF)'s The Global COVID-19 FinTech Regulatory Rapid Assessment Study, 90% of surveyed regulators from advanced economies see cybersecurity as one of their top three increasing risks associated with fintech activities due to COVID-19 (World Bank and CCAF, 2020).

Closing gaps or removing grey areas. New business models that are operating in grey areas pose risks to regulators, as this increases the potential for regulatory avoidance or non-compliance, and it poses risks to providers that are faced with operating in an environment of regulatory uncertainty. It is suboptimal to regulate, for example, a non-broker under a brokerage licence – it means that the entity is complying with irrelevant requirements and, from the regulator's perspective, that there may not be a full set of appropriate compliance requirements in place for the entity's operations.

To close gaps and remove or reduce grey areas, regulators could consider introducing the following:

New functions

Tailored conduct requirements

New licence types

Increase menu of available licences, setting specific qualifying criteria and applying appropriate safeguards.

For example, temporary licences (licences to pilot) or cell captive licences.

Prepare for an increasingly remote world by enabling remote onboarding. Regulators also have the scope to lay the foundations for an increasingly remote means of doing business, with specific focus on remote, non-face-to-face digital onboarding. Customer onboarding, normally referred to as 'KYC', has traditionally been done in person using physical identity documents. However, social distancing measures due to the COVID-19 pandemic, as well as increasingly digital business models, mean that remote onboarding is now becoming a necessity for industry survival. The Financial Action Task Force (FATF) recently dispelled the notion that remote onboarding is necessarily higher risk than in person, and has encouraged countries to utilise digital technologies to enable risk-based remote onboarding (FATF, 2020). Some specific steps that countries can take in this regard are outlined in Cenfri's guide for remote identity proofing.

Monitoring

" When key innovation indicators are monitored, the use of the tools can be adjusted to be more conducive to innovation...

Finally, a successful approach to regulating for innovation ultimately depends on the commitment of the regulator to see the process through, to monitor trends and progress, and to adapt the approach as and where required.

When key innovation indicators are monitored, the use of the tools can be adjusted to be more conducive to innovation; at the same time this ensures that any regulatory changes are proportionate, evidence-based and robustly monitored (A2ii & IAIS, 2017).

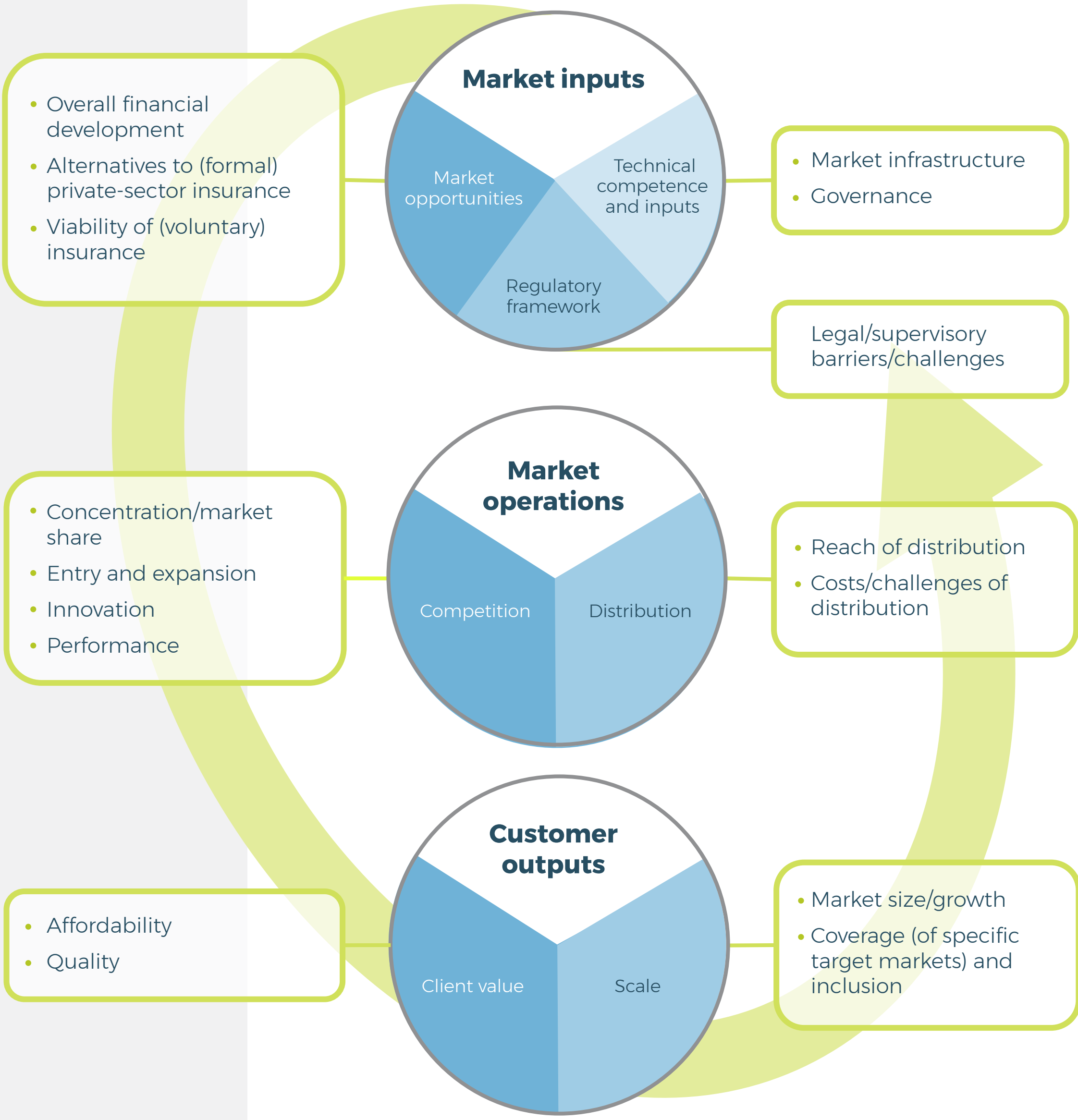
Identifying innovation indicators. The starting point for adopting a more holistic approach to monitoring innovation is to identify a broad range of indicators for tracking innovation-related progress in the market. These indicators should be closely aligned to the supervisor's innovation objectives for its market. Traditional indicators used to track insurance market growth, such as insurance penetration rates, are not effectively able to track granular developments in market development and innovation. Likewise, indicators such as solvency, total premium volumes and insurers' total assets and liabilities do not adequately measure the levels of innovation transformation that the market has undergone.

Under the A2ii-IAIS regional implementation platform for sub-Saharan Africa, an expanded list of key performance indicators has been developed. These indicators include insurance for sustainable development and insurance market development (Tatin-Jaleran & Chiew, 2019). Based on this list, A2ii and Cenfri developed a market development tracker that provides a sound and robust basis on which to track market development more holistically than is currently the case. The tracker can be adapted and tailored to fit a particular supervisor's objectives and the specifics of its market context, particularly when it is used over time.

The tracker identifies seven factors to be monitored to develop a complete picture of the development of the insurance market. These seven factors can be classified into three broad categories, namely market inputs, market operations and customer outputs:

Market development tracker

Authors' own



Identifying data gaps and ways in which existing reported data can be used. The selected innovation indicators will most likely require both quantitative and qualitative sources of data. The supervisor should assess how much of the information required is already available and whether there are gaps that need to be filled by searching for alternative data sources. This assessment will also help to uncover data that has already been collected but that has not yet been used to track innovation.

How different data sources could be used

Use data collected during on-site inspections, special investigations, and mystery shopping to identify issues and trends in governance, complaints, and systems.

Use licensing and product approval data to analyse, for example, the nature and innovativeness of new products; the extent of consumer research; the effectiveness and success of a product over time; markers of successful products; and risks that could arise from similar products.

Use real-time claims and complaints data to analyse the need for improvements in claims processing (e.g. average time taken to settle claims per product line and insurer).

Developing a uniform data collection template. Formalising the data collection process will enable supervisors to take greater advantage of the information generated through their own supervisory processes. Therefore, supervisors should consider developing a template for collecting data consistently from product and licensing applications, off-site and on-site inspections and their other supervisory activities. This could be done by, for instance, capturing five to ten key indicators as well as a more qualitative overall assessment or comment from each application in a uniform and centralised template that is maintained and tracked over time.

Process guidance for regulators

How to choose tools relevant for your context

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When are different tools applicable to you?

Market context

The market context will determine whether the regulator is confronted with the need to respond to innovative developments. Are there innovative developments – or can such developments be foreseen – that do not fit neatly within the existing regulatory framework or supervisory system? Equally importantly, does the supervisory authority have the willingness to support innovation? Assign a team or commission a consultant to determine the market context.

Establish relevance

The tools implemented need to address the actual regulatory barriers faced by innovators in the market if they are to be effective. Regulators need to engage and consult with market players to understand their primary challenges in order to design interventions that effectively meet their actual challenges (Beyers et al., 2018).

Assess capacity

Regulatory capacity determines which tools can be implemented to regulate and support innovation, as well as their effectiveness. Regulators need sufficient capacity to understand and manage the risks that are likely to arise from new technologies and innovative business models, to monitor a higher number of firms more intensively against unique regulatory requirements and to provide advice to innovative firms. Although capacity constraints do not entirely limit a regulator's ability to implement all tools for regulating and supporting innovation, they may render the application of very resource-intensive tools unfeasible (Beyers et al., 2018).

In the development of the IRA Uganda's innovation action plan, an in-depth supervisory capacity assessment was conducted by means of shadowing the regulator's day-to-day operations in-country, in order to ensure that their approach to regulating for innovation was fit for purpose and realistic to implement.

Lessons in choosing tools that are fit for purpose

The first step is to position the tools that you want to apply as part of the bigger picture or overall regulating for innovation strategy, and assign a team or commission a consultant to determine market context.

Systematic application of the framework →

The IRA Uganda captured its regulating for innovation strategy in an innovation action plan. The action plan identified which tools were to be utilised and implemented through which specific activities, as well as goals with regard to implementation timelines.

Small changes can go a long way →

It is not necessary to do a complete regulatory overhaul to regulate for innovation.

Small changes can have a significant effect on encouraging and facilitating innovation in the market.

For examples:

Simply signalling to industry that the regulator has an open-door policy and that innovation is a key priority encourages market players to consider innovative products because they know that the regulator will walk that path with them in getting that product to market as long as it provides value to consumers and doesn't pose undue risks.

Another example is to take an official position on, or provide clarification on, frequently asked regulatory questions to ease the pathway to market of potential entrants thus potential innovators.

Publishing step-by-step guides on how to apply for the various licences and clearly setting out the various prudential and other requirements is a less resource-intensive way to provide compliance support for fintechs or start-ups that may be unfamiliar with or inexperienced in the insurance market but may bring valuable/needed solutions to market.

Simply updating or making tweaks to existing tools can be a resource-savvy way of regulating for innovation.

For example:

To streamline the product approval process to provide an effective pathway to innovative products entering the market

Lessons in implementing the chosen tools

Once the fit-for-purpose tools have been chosen, two implementation considerations will help to identify how to implement those tools as there is no one-size-fits-all approach:

Implementation considerations

Coordination

Innovative developments often "cut across" or "fall between" the mandates of multiple regulators. As such, innovations may be subject to more than one set of regulatory requirements or may operate in regulatory "grey areas", which render them unregulated, if not illegal. In the absence of regulatory coordination, innovative firms incur significant costs in their attempts to navigate the regulatory environment and face considerable regulatory uncertainty, which may affect their perceived viability and their ability to attract investor funding (De Waal et al., 2019).

Capacity

Be deliberate about how you apply your available capacity and incorporate measures to build additional capacity. The IRA Uganda expanded its communications department to give effect fully to its innovation action plan. The majority of its staff members also underwent training on how to use the risk assessment tool to streamline the product approval process, and the departments share the responsibility to create content for the industry innovation newsletter.

Vital to monitor and adjust

Carefully monitor the progress of your regulating for innovation action plan. Consider what would be the indicators to rack in this regard and adjust your plan accordingly where there are learnings about what resonates well with the market and what does not work.

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Conclusion

This toolkit offers supervisors who are interested in regulating for innovation practical inputs, drawing on examples from their peers, on what tools are available to consider, how to choose a fit-for-purpose and fit-for-context combination of tools and how to go about implementing the chosen tool set in practice.

The key steps in implementing a regulating for innovation framework are to:

1. Get buy-in from the policymaker to ensure a sufficient mandate
2. Understand the innovation market context, including the barriers to innovation
3. Think beyond regulator tools and decide on a set of fit-for-purpose tools in context
4. Draw up a clear plan that combines the various possible tools in sequence
5. Think carefully about implementation, how much capacity to apply and who to coordinate with
6. Monitor success and adjust approach where necessary

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Cenfri, Cape Town, South Africa
info@cenfri.org
@cenfri_org
www.cenfri.org

About Cenfri
Cenfri is a global think tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors seeking to unlock development outcomes through inclusive financial services and the financial sector more broadly.

FSD Africa, Nairobi, Kenya
info@fsdafrica.org
@FSDAfrica
www.fsdafrica.org

About FSD Africa
FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.

fsduganda
Financial Sector Deepening

FSD Uganda, Kampala, Uganda
info@fsduganda.or.ug
@fsduganda
www.fsduganda.or.ug

About FSD Uganda
Financial Sector Deepening Uganda (FSD Uganda) is an independent not-for-profit company committed to promoting greater access to financial services in Uganda. FSD Uganda seeks to develop a more inclusive financial sector with a focus on low-income individuals. We support innovation, conduct research, and support regulatory processes that shape the financial sector. FSD Uganda is currently funded by the Foreign, Commonwealth and Development Office FCDO (formerly known as Department for International Development (DFID)/ UKaid) and the Bill and Melinda Gates Foundation, and is part of a network of nine Financial Sector Deepening organisations working across sub-Saharan Africa. Looking ahead, FSD Uganda will leverage its early successes to drive up demand of relevant financial products and services across key sectors to help improve incomes and create more economic opportunities.