Report of the 27th A2ii – IAIS Consultation Call

Innovation Hubs and Accelerators

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The Consultation Calls are organised as a partnership between the Access to Insurance Initiative (A2ii) and the International Association of Insurance Supervisors (IAIS) to provide supervisors with a platform to exchange experiences and lessons learnt in expanding access to insurance.

Introduction

When stimulating innovation, there are limits to what a supervisory authority can achieve alone. Inter-institutional cooperation is a powerful tool for responding to new market trends and for creating a safe space for the launch of new initiatives.

In response to expressions of interest from many supervisors, both the IAIS and the A2ii, this call took a closer look at these cooperation platforms including case studies on the role of insurance supervisors within them. On this consultation call, three experts from Cenfri presented their recently published report on **"Regulating for Innovation."** These were:

- Jeremy Gray, engagement manager, Antonia Esser, senior researcher and Nichola Beyers, researcher, presented on the concept of the regulatory sandbox principle, in addition to its implementation tools and potential benefits of sandboxing for inclusive insurance.
- In order to avoid duplicating the material of the report, we encourage readers to read the full report directly here.

In addition to expert presentations, the following supervisory authorities gave presentations about their institutions' experience with innovation hubs and regulations therein: **Elias Omondi**, of the Insurance Regulatory Authority (IRA) of Kenya, **Fidelis Kagura,** an analyst with the Insurance and Pensions Commission (IPEC) of Zimbabwe, and **Denise Garcia,** General Director of Development and Research of the Comisión Nacional de Seguros y Fianzas (CNSF) of Mexico.

Supervisory Presentation: Denise Garçia

Denise Garcia, of the Comisión Nacional de Seguros y Fianzas (CNSF) of Mexico, presented the results of a study that aims to analyse the responses that have shown six international financial authorities: United Kingdom, Singapore, Australia, Abu Dhabi, Netherlands and Malaysia. These supervisors have decided to implement regulatory schemes of the «Regulatory Sandbox» type, where certain requirements are adapted in order for companies to be able to test and experiment with their innovative products in a secure environment, with clearly defined and previously established limits and restrictions, including safeguards for consumers. The study, available on the website of the supervisory authority of Mexico, can be found here.

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Any questions about the the study or its contents can be posted to
Mrs Denise Garçia at dgarcia@cnsf.gob.mx.

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Case Study: Kenya

The Kenyan case study was presented by Elias Omondi, of the Insurance Regulatory Authority (IRA) of Kenya.

Kenya has modified its regulatory requirements to allow for innovation. Hence, the IRA recognizes the importance of regulatory clarity when it comes to innovation. The IRA has been encouraging financial innovation for the following reasons:

- Innovation delivers economic benefits by lowering the cost of operations in order to provide financial products that are affordable and accessible to the public.
- Innovation enhances competition by allowing different companies to introduce innovative products in the market, and creating a space for competition.
- Innovation boosts financial inclusion and delivers more convenient financial services.

The IRA has also been working on developing balanced regulations, i.e. an environment that encourages providers to harness emerging technologies without weakening the financial system or eroding consumer protection.

In terms of the innovation map in Africa, research by the Consultative Group to Assist the Poor (CGAP) reveals that Kenya is leading the way when it comes to digital innovation for financial inclusion in Africa. This is mostly attributed to Kenya's mature mobile money ecosystem, which is a big enabler of innovations that leverage digital payments platforms.

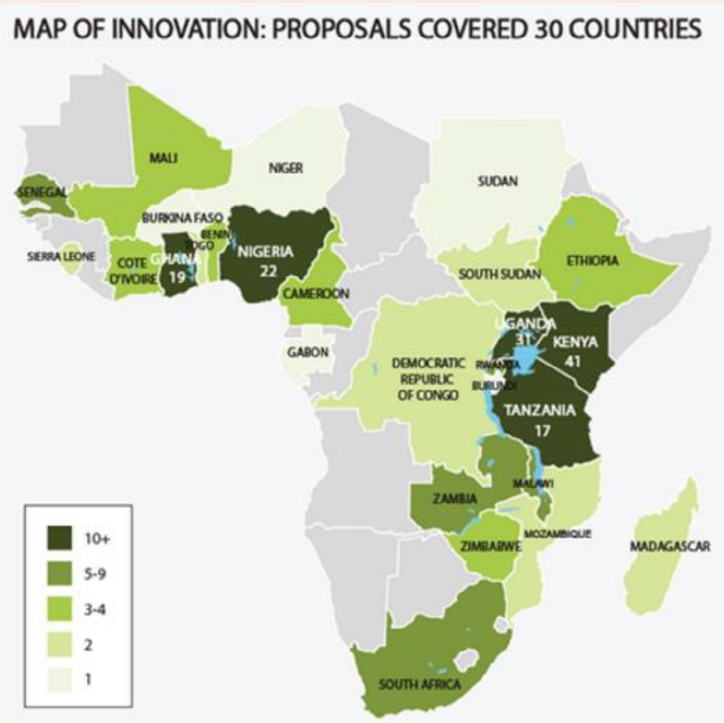

Image Source: CGAP

Taking into account the growth of innovative products in Kenya, the current experience in the financial industry is broadly categorised into four by the IRA; technology as a tool for cost reduction, emergence of alternative channels of distribution, increased financial inclusion levels and a stable regulatory environment.

Fintech companies in Kenya

In the year 2017, Kenya had 38 Fintech companies. The IRA gave a brief overview of some of the key fintech companies currently in the market:

- *InsureAfrika.com:* This company provides free online insurance quotes from insurance companies in Kenya. InsureAfrika.com is the first online platform to shop for and buy insurance in Kenya. It provides insurance quotes for various insurance products like car insurance, health insurance and travel insurance. It has also been licensed by the IRA as an online agent
- *GrassRoots:* This company is an InsurTech startup seeking to promote financial inclusion through the provision of innovative digitized affordable insurance services for the mass market. The platform interfaces with mobile payments to make microinsurance more accessible to the company's target market thereby increasing insurance penetration in the region. Currently, the IRA is developing microinsurance regulations to further enable such startups.
- *M-tiba.* M-TIBA is a "health wallet" on the mobile phone that allows patients to set funds aside for healthcare. This product higlighted the importance of social innovation and partnerships in pushing innovative products in the market. It is managed by three different institutions and the IRA ensured that it has service level agreements that guaranteed an easy penetration in market

In terms of continuing to encourage innovation, the IRA has adopted the following approaches:

- **Embracing change:** The IRA recognised that it was critical for them as a regulator to embrace change from within in order to encourage and allow different players in market to introduce innovative products. As a starting point, the IRA management prepared its staff to drive innovation and integrated innovation into its culture in the following ways:
  - Familiarization with new trends and their implications. This was done by training officers on matters regarding new trends and implications for consumers and industry players as a whole.
  - Identifying potential future scenarios through brainstorming and sharing across the organization. This makes it easy for the regulator to understand the future implications of an innovative product on the consumer
- **Embracing Cooperation:** This starts by offering informal advice to innovators, providing them with valuable regulatory feedback. This is guided by the following:
  - The feedback will be based on the areas innovators have to work on to meet eligibility criteria

- Collaboration to modernize regulatory frameworks
- Reviewing and adopting new regulatory standards
- Move from compliance to principle based approach

- **Developing a regulatory sandbox:** The IRA is encouraging the regulatory sandbox approach in the following ways:
    - The IRA have a memorandum of understanding with the other financial sector regulators in Kenya, in order to cover the full spectrum of businesses. The IRA is also working on setting out an inter-institutional approach to sandboxing, to align all regulators.
    - The IRA is also working on providing a "safe space" in which businesses can test innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of engaging in the activity in question. This approach has seen the successful introduction of innovative insurance products such as index-insurance that were started on a pilot scheme basis.

- **Encouraging Innovation Hubs:**
    - The IRA has encouraged companies to form innovation teams that constantly monitor trends and market activity, build and maintain relationships with key InsurTech players, identify potential future scenarios, and establish new partnership opportunities.
    - By participating in the Inclusive Insurance Innovation Lab sequence of national workshops and international dialogues, the IRA is embracing a platform that seeks to engage key stakeholders of the inclusive insurance sector. More information about the Lab can be found on the A2ii website here.

It is very important to note that recent technological developments such as big data, blockchain, artificial intelligence or robot-advice, have the potential to significantly disrupt the insurance sector.

In sum, regulatory clarity is of critical importance to innovators. This is because regulation will influence crosscutting issues ranging from how money can be raised, to how advice can be given or how a service may be delivered. Therefore, unless innovators understand the regulatory context, it is almost impossible to bring compliant services or products to market. In this regard, the IRA has existing regulatory standards that provide a balance between market development – advising innovators and reducing entry barriers for products into the market and consumer protection – ensuring products are fair, safe and easy to understand.

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Any questions about the IRA's approaches can be posted to
Mr Elias Omondi at eomondi@ira.go.ke.

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Case Study: Zimbabwe

The Zimbabwean case study was presented by **Fidelis Kagura** of the Insurance and Pensions Commission (IPEC) of Zimbabwe.

There are a number of regulatory challenges that limit the market entry of innovative products in Zimbabwe. These include:

- Lengthy bureaucratic processes
- Archaic laws (the current insurance act is based on the 1988 Act)

In addition to these pre-existing conditions, the market is always ahead of the regulator. This makes it challenging regulators to regulate new products.

Given the above challenges, the first ever microinsurance product – Ecolife, a funeral insurance product provided by a mobile network operator – failed because the regulator did not foresee inherent risks. In response, IPEC made the following changes:

- **Issuing a microinsurance framework** as means of moving away from the archaic 1988 act. This was done under the premises of section 6 of the Insurance Act which allows for the issuance of guidelines and corrections.
- **Allowing third parties to introduce products in the market via insurance companies.** To achieve this, IPEC ensures that certain terms and conditions are in place and especially require that new products will uphold consumer protection. On the basis of terms and conditions laid by IPEC, the current framework allows new players to offer products that target the previously excluded populations such as small-to-medium enterprises, small farmers, vendors and other low income earners.
- **Conventional insurers can now engage aggregators** after receiving permission from IPEC, unlike the previous arrangement where only agents could sell policies.

Key elements of the microinsurance framework:

- All products need to be approved by IPEC on the basis of their terms and conditions
- Proportional disclosures on policy documents and simplified claim forms
- Communication and premium payments can be done electronically
- Easy claims handling procedure and fast settlement
- Transition of existing conventional insurers
- Registration of microinsurance agents and aggregators

Even though the innovation space in Zimbabwe is limited by the act of 1988, IPEC has found that these adjustments through the microinsurance framework have yielded improvements.

- It has opened the space for registration of dedicated microinsurance providers: IPEC has issued temporary licenses to dedicated microinsurance providers as a test to the environment.
- IPEC has embraced a test and learn approach by allowing pilot projects such as *Ecofarmer* and *Pfundutso* (Weather Index products).
- IPEC has granted permission to innovative underwriting forms, to enable distribution of new products.
- IPEC now issues circulars to complement its statutory Instruments. Such circulars are easier to implement.
- IPEC has adopted a culture of communicating and listening to the market.

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Any questions about the IPEC's experiences can be posted
to Mr Fidelis Kagura at fkagura@ipec.co.zw
More information about Zimbabwe's microinsurance framework can be found here.

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Questions from the audience

- **What is a regulatory sandbox and where can I find a more in-depth description of what a sandbox is?** Cenfri has recently published a report on "Regulating for Innovation" (www.cenfri.org). The report goes into more detail on the definition of sandboxing and also references other studies on this topic.

- **Are there any examples on how regulators might regulate digital apps that might be used for selling insurance or insurance platforms that might be used to compare products?** Perhaps it is better to rephrase the question like this: how can regulators enable coordination between one another so that things like digital apps can be effectively regulated? To enable effective coordination within a market, authorities can for example establish memoranda of understandings and specific agreements that enable coordination and co-regulation and supervision of products. In Mexico and Malaysia, the regulators implemented a function that cut across the financial sectors to regulate innovators.

  When regulating services it is important to look at regulation in terms of function and activity, and not necessarily only consider the type of person providing the service, whether it is a broker or an agent or a digital service but rather looking at what services those entities provide and how these services can be regulated.

- **How does training within a regulatory sandbox work? Should a supervisor provide training to stakeholders?** From observation, there are different modalities that training support can take. This will depend on the mandate of a regulator. A regulator who identifies market development and market innovation as part of its mandate can see themselves playing a role in supporting the development of startups, FinTech companies or small business that are engaged in innovation. In the UK there is an innovation facility which provides training support, where the regulator would sometimes sponsor compliance officers to navigate the regulatory requirement that they need to comply with in order to effectively operate in the market.

  A regulator does not always fund training workshops but sometimes can endorse or support workshops. In South Africa, some regulators have sponsored workshops for different players in the market to attend in order to understand what type of innovations are happening in the market. In other countries, a donor organisation will provide the funding but the attendance of the regulator is key in terms of signifying whether they see such training as important.

- **Is the test of a new business in the "safe space" done with a panel of real customers or a limited subset of the whole market in terms of geographical region and with real products or products with simplified features? How is this "safe space" manifested?** It is common to implement the delivery of real products to real consumers in the market with safeguards in place. The core safeguards in place typically include; a limited number of consumers to limit the scale of risk, a real product is delivered to the market complimented by explicit information and awareness for consumers that they are engaging in a new innovative product that is part of a regulatory sandbox. Thirdly, there is a specifically defined period of calm to limit the size and scale of the risk - e.g. in the U.K., it is usually 6 months after which the product is reviewed and determination made if it can or cannot be offered under existing regulation and if amendments to existing regulation are required.

Generally, the industry is always ahead of the regulator. It is important for the regulator to be prepared for any innovation, bearing in mind that the insurer are always going to be steps ahead of the regulator. At times, the insurers approach the regulator with new ideas, and the regulator might not have the skill-set or technical expertise to supervise or guide the insurer.

- **Are there any risks that arise from sandboxes?** One of the risks, common to developing countries, where a test and learn approach is adopted rather than the explicit sandbox, is that what was intended as a short term interim regulation for specific players in the market becomes in fact a regulation. For example, mobile money initially operated in a legally grey environment with central banks offering memoranda of understandings, which were often temporary and non-legally binding but they then became the de-facto regulation because there were not appropriate safe guards put in place. In countries where mobile money was successful, it was difficult to change such regulation given the uptake of the service by millions of consumers, which meant massive systemic risks.

- **Supervisors sometimes decide to conscientiously not supervisor certain practices. How does a supervisor decide what to classify as "informal insurance", or what are considered "intentionally unsupervised activities"?** Things in the "unsupervised" grey zone are not expressly prohibited by the legislation, but also not expressly permitted. The supervisor may consequently consciously decide not to supervise these activities, even if they are aware of them. In South Africa, for instance, funeral parlours exist where the supervisor is aware that they are providing insurance services, but the social value is considered large enough that the supervisor abstains from intervening.

  If the supervisor considers the activity to have enough value, and considers the risks involved to be immaterial, they may continue to abstain from supervising. However, it is more common for the supervisor to leave some time pass while evaluating such practices, with a view to subsequently issuing a more formal decision on the matter, often involving some level of regulation or supervision.

- **When an activity is being carried out under a sandbox, whose responsibility is it to respond to emerging risks?** It is the role of the regulator (usually a specific team within the regulator) to work with the innovator to address emerging risks that occur in a regulatory sandbox. The regulator generally achieves this objective by imposing limits on the number of customers and/or the size of transactions that an individual company in the sandbox processes. These limitations are among the criteria to which innovative companies must adhere to qualify as participants in the sandbox. Nevertheless, the objective of implementing a sandbox is to minimize the effect (scope and size) of the risks that arise from innovation, but a sandbox cannot completely eliminate these risks.

- **How could industry approach the supervisor to discuss possible innovations?** This varies according to the culture and mandate of the supervisor, and there is no single way to approach this. It is important to see what scope the supervisor has to address innovations, and then whether it has the resources necessary to engage with industry.

- **Could chat-bots replace face-to-face commercial agents?** It is unlikely that they would fully replace human agents, as the human touch can still be important to give confidence to clients. However, there are examples where chat-bots learn and adapt their responses in relation to the information provided. So currently chat-bots are not sophisticated enough to replace humans, but future technological developments could change things.

- **How have insurers and entrepreneurs in developing countries used InsurTech (accelerators, innovation hubs, etc.) to drive inclusive insurance in their markets?** InsurTech is being used more and more in developing countries, including to support the growth of inclusive insurance. Cenfri conducted an analysis of InsurTech initiatives in 2017 operating in developing countries. This analysis revealed that most of these initiatives focus primarily on reducing the costs of insurance provision. However, a majority focus on developing new and alternative sales channels, and some focus on better understanding consumer behaviour and designing products that are more appropriate for low-income consumers. From our observations, technology-enabled partnerships, i.e. partnerships between mobile network operators and insurers, have been very successful in expanding inclusive insurance in developing countries.

- **Is there a working group or multilateral initiative that brings together regulators to explore and advance the InsurTech issue (accelerators, innovation hubs, etc.) in your countries?** There is no special working group in Mexico that brings together regulators on the specific subject of InsurTech. However, in the recently approved Financial Technology Institutions Act (Fintech Act) there is a group called „Financial Innovation Group" whose objective is the "exchange of opinions, ideas and knowledge between the public and private sectors to learn about innovations in financial technology and plan for its orderly development and regulation" (Sec. 93).

  The International Association of insurance Supervisors (IAIS) also operates on the InsurTech theme, and in 2017 published a report on "FinTech development in the Insurance Industry"..

To pose more questions to our experts, please contact:
Nichola Beyers: Nichola@cenfri.org
Jeremy Gray: jeremy@cenfri.org
Antonia Esser: antonia@cenfri.org
Denise Garçia: dgarcia@cnsf.gob.mx
Elias Omondi: eomondi@ira.go.ke
Fidelis Kagura: fkagura@ipec.co.zw

The Initiative is a partnership between:

Hosted by:

Access to Insurance Initiative
Hosted by GIZ Sector Project
Financial Systems Approaches to Insurance
Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany

Telephone: +49 61 96 79-1362
Fax: +49 61 96 79-80 1362
E-mail: secretariat@a2iiorg
Internet: www.a2ii.org

a2ii_org

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