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Panel Discussion: Regulation, Innovation and the Future of Insurance

Salutations:

- President of the AIO, Madam Delphine Traore'
- Executive Committee Members
- Commissioner for Insurance, National Insurance Commission, Mr Thomas Olorundare Sunday
- Secretary General, Mr Jean-Baptiste Ntukamazina
- Director of Ceremonies
- Fellow panellists
- Distinguished delegates

A very good afternoon, Ladies and Gentlemen!

1. I am humbled to have been invited to be part of this year's round table discussions as we come together, to introspect on this very important theme, Rebuilding Africa's Economy – An insurance Perspective.

    I also feel very privileged to be part of this distinguished panel of speakers to proffer perspectives on the topic: Regulation, Innovation, and the Future of Insurance.

    Congratulations to the organisers for pulling this off during this very difficult time.

    Allow me at the outset, to confess, just how very sad I am, to be missing this opportunity to be with you all in one of Africa's most vibrant cities. Unfortunately, pressing commitments require my presence at home. To those of you, who have been courageous enough to travel, please do enjoy Lagos on my behalf.

2. I am sure you will all agree with me that we have experienced change like has never been seen before by our generation. And like many other sectors, the insurance industry, which has been viewed as a traditional sector is not an exception. The industry is on the edge, having undergone a significant period of disruption…but also innovation! Something that the industry was not accustomed to.
3. And so, this year's theme: **REBUILDING AFRICA'S ECONOMY - AN INSURANCE PERSPECTIVE"** is coming at the right time when only 3.5% of the African population is insured and Africa is lagging behind other emerging markets. Acknowledging that Africa needs rebuilding in line with the theme, is the beginning of the rebuilding exercise, and we hope Insurance will be the game changer and this conference will come up with resolutions on how we can achieve this.
4. It is generally accepted that Regulators react to market developments (which should not be the case) so my approach will be to deal with the Future of Insurance, Innovation and regulation, in that order

Future of Insurance

In dealing with this section, I have borrowed a lot from the recent PWC Survey on Insurance trends and my own helicopter view of developments in the Zimbabwean market.

5. (**Slide 1**) There are four significant noticeable trends, which are redefining the future of insurance.:

    I. **The new Customer**: this, we understand is going to be the biggest disrupter, not digitalisation as we may think. Because of the pandemic, life has been going on for months without a lot of the things that we had become accustomed to. Customers have started to interrogate some costs as they align them to reduced cash outflows, both at the corporate and individual level. Customers want real time, online solutions. They now understand value for money. There are demands for customer solutions and experiences that are aligned to these new lifestyles. Examples of customer centred products are:

- Pay as you go car insurance. For instance, we have products in Zimbabwe, which use telematics, whereby car insurance premium is charged on mileage travel. It makes a lot of sense when you are remotely working and spending more time in your house than on the road.
- Robo advisors. We have used them during lockdowns and actually like them.
- Block Chain enabled contracts.
- Short-term benefit access for pension savings.

The active insurance market today comprises of Millennials or Generation Y born between 1981 and 1994/6 and members of Generation Z, people born from 1997 to 2012, true digital natives: They have been exposed to the internet, to social networks, and to mobile systems from early youth. That context has produced a hypercognitive generation very comfortable with collecting and cross-referencing many sources of information and with integrating virtual and offline experiences. These are the customers of today and the future.

This group is tech savvy, they don't have time for long and winding manual processes. They want quick solutions, which are available at the touch of a button, so insurers must design products that speak to their needs. They want rewards for good behaviour, healthy lifestyles …

They want Aggregators among other solutions.

There is no doubt that as our generation transition to glory, companies that are going to survive into the future are those that are redefining their product offering to align with this new clientele.

- **Regulators Office -Expertise Hub:** Regulators are aware of the need to innovate. The challenge for markets is that regulators lag behind

their regulated entities when it comes to innovations. We find ourselves sometimes turning down innovations because we don't understand them and in the process stifle innovation. There is, therefore, need for regulators to invest in capacity-building so that they are ahead of their regulated entities.
The Regulators Office should be a hub of expertise, well-resourced to not only understand market dynamics but to lead and advise governments.

- **Regulatory Sandboxes** - Potentially, one of the most impactful changes considered by regulators is the regulatory sandbox concept. They lower the barriers to test new ideas, address how new, innovative ideas can be quickly developed and launched in an monitored environment.

II. (Slide 2) New Competitors: There is uncomfortable heat coming from the nimble and well capitalised Tech giants and InsurTech platforms which is putting an inordinate amount of pressure on traditional insurers. InsurTechs have an upper hand on traditional insurers. Thay have data and data is the new oil.

Telecoms companies are leveraging their client base and mobile money platforms by targeting the underserved and uninsured through microinsurance products. Traditional insurers were used to brick and mortar distribution channels, and as a result, the majority of the people in the countryside or rural areas were underserved as it did not make economic sense for insurers or brokers to open offices away from the towns and cities. But with telecoms companies coming on board, all that one requires is access to a mobile network for them to sign up for an insurance policy without having to physically visit the offices. They say there is always a fortune at the bottom of the pyramid.

They are not only able to optimise on scale economies but are able to offer better customer experiences from on boarding, to loyalty incentives and faster claims processing.

- Block Chain - Smart Contracts reduce transaction costs, improve privacy and security and is Real Time Transacting.
- Internet of Things – having sensors on gadgets, which allows data to be captured. Use of Telematics to manage claims
- Cloud computing–It is cutting down capex costs on ICT infrastructure,
- Mobile Technology – Allowing companies to have a wider coverage as every individual with a mobile device is a potential client.

My own experience with traditional insurers and pension funds in Zimbabwe and other African markets is that a simple data call is a major mission pointing to serious data integrity challenges as well as a lag in tech advancement.

There are clear missed opportunities to innovate, riding on the available data in insurers offices.

We recently conducted an inspection on the MIS in use by pension funds in the market and our findings included Weak Disaster Recovery and Business Continuity Plans, thus threatening the recoverability of client data and fragmented systems and use of manual records that are prone to errors and manipulation, just to name a few. From our interaction with other Regulators, data integrity is a shared concern across Africa.

- **Collaboration with other Regulators –** In country and across jurisdictions. The lowering of barriers has highlighted the interconnectedness of markets and the need for Regulators to collaborate and eliminate Regulatory Arbitrage. In Zimbabwe, we now have the Smart Regulators Forum where Regulators meet to discuss cross cutting issues.
- **Data Protection and Privacy –** Regulators are concerned about how insurers are managing potential customer risks related to data sharing with third parties. Therefore developing Data protection frameworks and collaborating with data protection agencies.

111. **New Sources of Growth** - One of the things I was taught when I joined the Insurance industry many years ago was that there is a strong positive correlation between insurance growth and economic growth though the causality relationship can be bi-directional i.e. it is a chick and egg relationship There is a lot of empirical evidence on the nexus between economic

development and the development of the insurance industry. In my view, it is for this reason that insurers MUST not only take an interest in the economic growth drivers but be agents of economic growth. This is the only way that insurance will contribute towards the rebuilding of the continent.

The world is now a global village, and very soon the AfCFTA will result in removing physical trade borders on the continent. It is coming and we must plan for enhanced cross border trade in insurance services, which is certainly expanding its scope beyond reinsurance as the only traditional cross border product.

On the other hand, countries have had different experiences and responses to the Covid 19 pandemic. Whether you have had a **U** curve or an **S** curve or a **V** curve, economies have been ravaged with the resultant negative impact on insurance markets.

Markets may take time to recover and there is cutthroat competition for new business. Industry must create blue oceans from new sources of growth. Organic growth will be a thing of the past.

There are opportunities for partnerships with InsurTechs to create new markets around distribution, product offerings and add-ons to improve the customer value proposition and experience.

I am sure we are all following the recent Sanlam /MTN multimillion dollar Joint venture that will see them offering insurance and savings products to 50 million people across Africa in the next 10years

The COVID 19 pandemic also exposed protection gaps that we are all aware of, especially around disaster protection, business interruption and health insurance. These present opportunities for us to redefine our product offering. The Africa Risk Capacity (ARC) is ahead of many markets and is engaging governments on how to plug these gaps

- **Lead Market Development** - Regulators are seized with encouraging the industry to provide sustainable insurance services that promote financial inclusion by servicing the unserved .

- **Sustainable Development Goals (SDGs) Supervision** - Regulators are also being tasked to include SDGs supervision especially climate risks in the supervision of insurance to effectively protect policyholders. On climate risks, regulators are being urged to identify, monitor, and assess climate risks and contribute to their mitigation.

IV. Digitalisation – There is no doubt we are seeing a whole new eco system developing, complete with a new value chain for the insurance industry.

The industry has been forced to leapfrog in digitalisation and in the process, business processes have been remodelled to enhance customer experience. In some organisations, processes have been streamlined to create efficiencies such that this 'new normal' 'will be 'the normal 'going into the future.

The pandemic has created opportunities for leaders to not only pivot but future proof their organisations around new technologies

There are also opportunities for product developments around cyber risk and third-party risks.

- **SupTech - Redefining Supervision –** Supervisory technology applications, especially in data analytics, are seen as capable of turning risk and compliance monitoring from a backward-looking into a predictive and proactive process. Traditionally, supervisors have been very reactive, but with SupTech they will be leading the market through the promotion of market development.

We are all familiar with the amount of time we put in to conduct an inspection, we start with the pre-work offsite inspection and an onsite investigation to collect data, analysis and assessments. The inspections are focusing on past actions and even the corrective orders.

Now with SupTech, the data is received by the regulators directly from the insurers and is analysed in order to flag suspicious transactions.

In Zimbabwe, the Central Bank can monitor mobile transactions from their offices and actually call the mobile operators whenever they is unusual activity or suspicious transactions, in real time. I believe you also have similar experiences in your jurisdictions.

The expectation is that with SupTech, there is improved efficiency and accuracy with the Regulator leading the pack. A major assumption being that the Regulator of the future must have the right skills mix needed to superintend over this complex industry.

This is the future of the insurance industry.

- **Offsite Supervision and Monitoring** – Regulators have also been forced to leapfrog digitisation. There is a very thin line between off site and on site

- **Transition to Risk-Based Supervision**: As we are all aware, most regulators are funded through levies from the markets that they superintend. As such, we follow the fortunes of the industry. We cannot be feasting when there is famine in the markets. There is a move to value-based resource allocation as most regulators transition from compliance-based supervision to risk-based supervision. In Zimbabwe we have just launched the Zimbabwe Integrated Risk Capital Framework which should result in better allocation of capital resources and properly align suopervison.

- **AML /CFT Supervision**: increased digitisation has highlighted the need for AML/CFT surveillance. The insurance industry is exposed to professional money laundering and regulators have been alerted to the need to raise awareness on money laundering and terrorism financing risks and the need to identify and report Suspicious Transactions.

In Conclusion:

Allow me to tie the threads of my discussions:

The Regulator is a business enabler. Like all public entities, here in Zimbabwe, we have the responsibility to promote the ease of doing business in line with the country's vison 2030, while keeping a hawk's eye on the protection of policyholders.

In its evolution, insurance is shifting from its current state of "detect and repair" to "predict and prevent," thus transforming every aspect of the industry in the process.

The pace of change will continue to accelerate as brokers, consumers, financial intermediaries, insurers, and suppliers become more adept at using advanced technologies to enhance decision-making and productivity, lower costs, and optimize the customer experience.

In this respect a new normal is still to be defined.

I thank you all for your attention!

Do enjoy Lagos on my behalf!