



Regulating for innovation

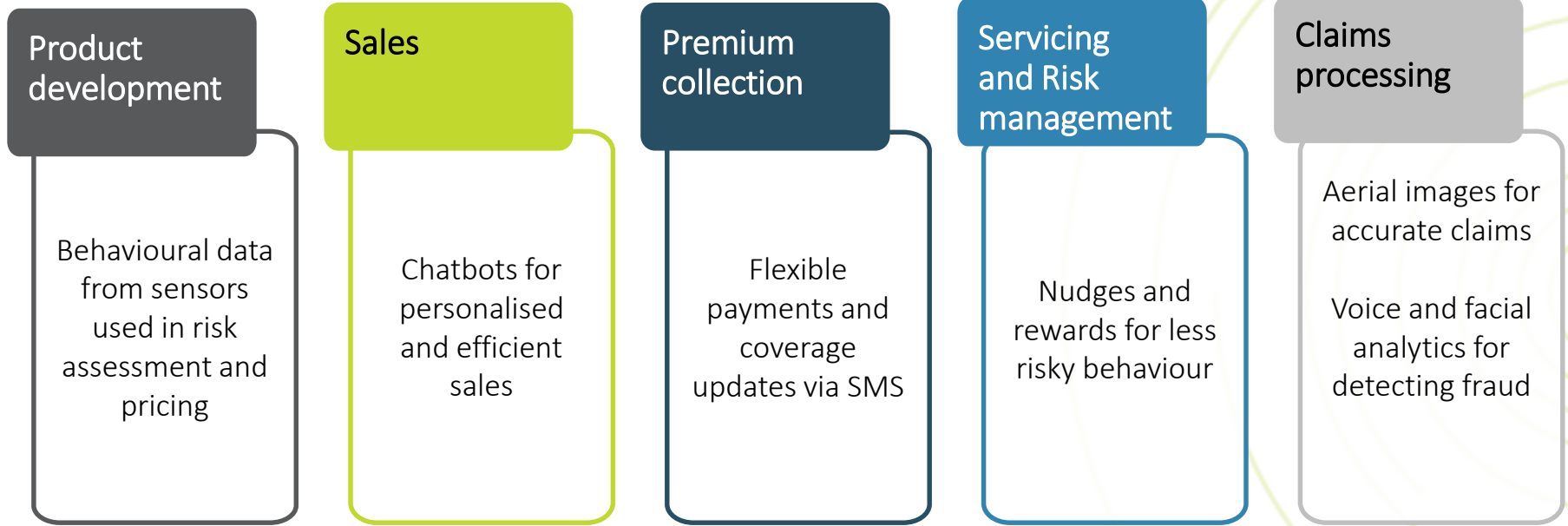
How to encourage responsible market innovation?

A2ii Consultative Forum, May 2018



Innovation is changing the way financial services are delivered in the emerging world

Smart solutions across the insurance product cycle...



...and new models that challenge the very foundation of insurance

What is insurance?

P2P models without a licensed risk carrier

What can I regulate?

Models operating outside national jurisdiction
Use of cryptocurrency

Who is an intermediary?

New players that don't fit in traditional broker or agent categories
Robo advice and black box algorithms

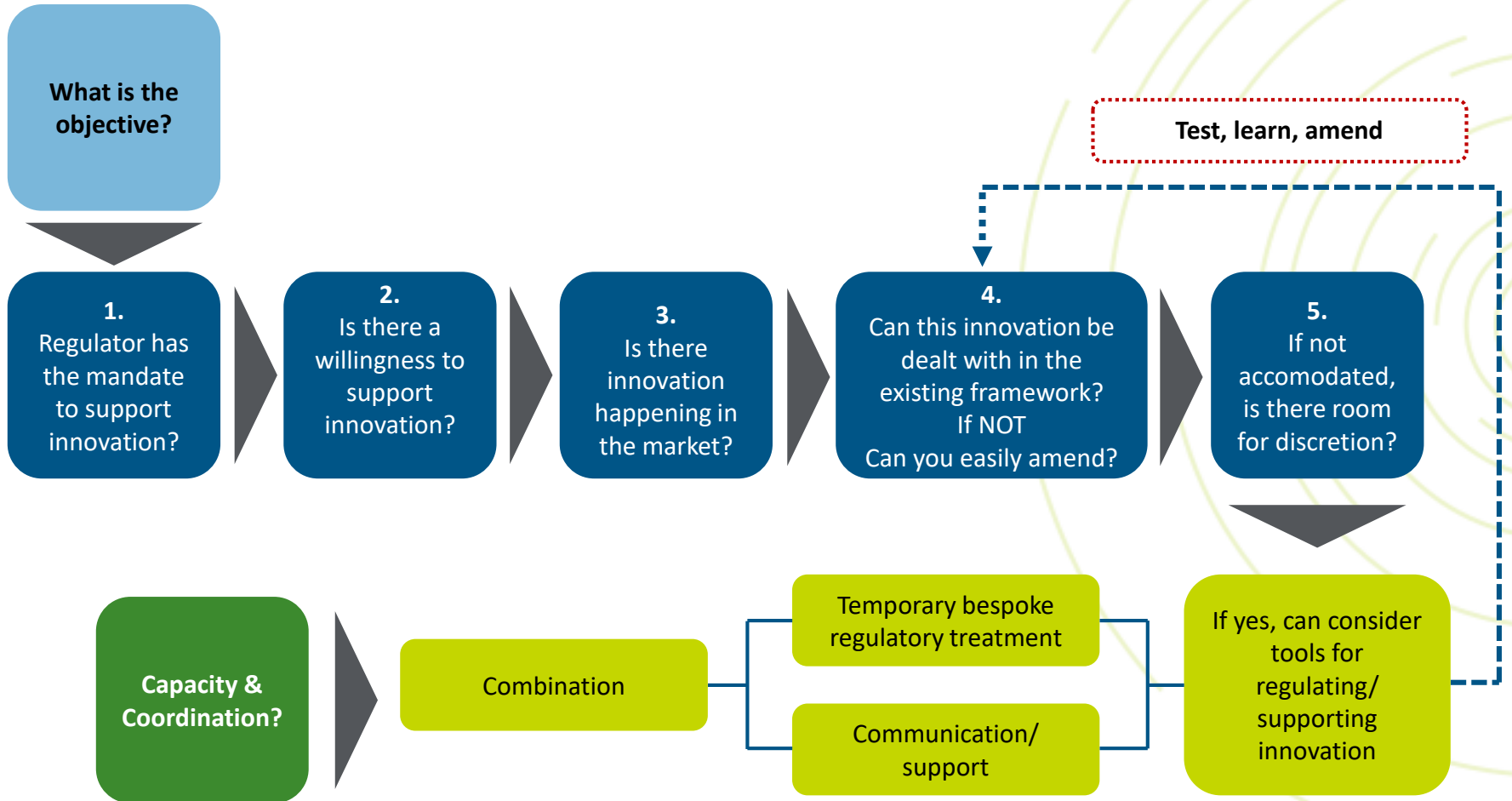


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Supporting innovation is an opportunity for regulators to encourage market development, but with it comes new consumer protection and systemic risks

Where to start to support innovation?



Implementation: Common approaches

- Sandboxes:
 - Explicit and transparent entry criteria for applicants
 - Each sandbox venture assessed individually with tailored safeguards implemented
 - Encourages innovation entry
- Test and Learn applies the same underlying principle.
 - Sandboxes tend to be more explicit, transparent and accessible to all potential applicants. Most test and learn models rely on the provider approaching the regulator unprompted.

The principle of a sandbox can take many different forms. In practice, no two sandboxes are the same

Implementation: Tools available

- Regardless of exact form or what it is called, broadly, two categories of implementation tools exist:
 - Explicitly reduce regulatory barriers for innovators with **temporary bespoke regulatory treatment**
 - Implicitly reduce regulatory barriers with **communication and support tools**

Innovation implementation tools: Tools available

Temporary bespoke	Communication support
<ul style="list-style-type: none">• Restricted authorisation/reduced licensing requirements• Waivers or exemptions• No enforcement action letter/letter of no objection• Active engagement with providers, other regulatory authorities, flexibility• Appropriate safeguards	<ul style="list-style-type: none">• Innovation forums• Advice• Funding support• Training• Signalling• Facilitating collaboration
BNM Malaysia, CMA Kenya, IPEC Zimbabwe, UCC Uganda, FCA UK, NIC Ghana, TIRA Tanzania	Australia, France, Hong Kong, Japan, Korea and UK

Critical considerations

Coordination



- Innovations often cut across authorities
- Options to address
 - MOUs
 - Mandate-limited application of tools
 - Innovation coordination body or overarching innovation framework

Capacity



- Required for monitoring, advice, understanding risks
- Determines which tools can be implemented and how extensively
- To address:
 - Recruit and train for skills appropriate to the changing nature of the sector.

Objective



- The tools implemented need to address the actual challenges faced by innovators in the market.
- To address:
 - Consultation with market players to understand primary challenges faced

Thank you

Please engage with us:

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About Cenfri

The Centre for Financial Regulation & Inclusion (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.

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.

