# Insurance innovation portrait

## Kenya

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# List of abbreviations

| | |
|---|---|
| A2ii | Access to Insurance Initiative |
| AIO | African Insurance Organisation |
| AKI | Association of Kenya Insurers |
| APIs | Application Programming Interfaces |
| BCG | Boston Consulting Group |
| CBK | Central Bank of Kenya |
| CMA | Capital Markets Authority |
| FSD | Financial Sector Deepening |
| FSRF | Financial Sector Regulators Forum |
| GDP | Gross Domestic Product |
| GSMA | Global System for Mobile Communications Association |
| GWP | Gross Written Premiums |
| IAIS | International Association of Insurance Supervisors |
| ICT | Information and Communications Technology |
| IRA | Insurance Regulatory Authority |
| KES | Kenya Shilling |
| KNBS | Kenya National Bureau of Statistics |
| KPI | Key Performance Indicator |
| MNO | Mobile Network Operator |
| MOU | Memorandum of Understanding |
| MSMEs | Micro, Small and Medium Enterprises |

| | |
|---|---|
| NHIF | National Health Insurance Fund |
| NHIS | National Health Insurance Scheme |
| SSA | Sub-Saharan Africa |
| STEM | Science, Technology, Engineering and Mathematics |
| TA | Technical Assistance |
| TSP | Technical Service Providers |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| USD | United States Dollar |
| USSD | Unstructured Supplementary Service Data |
| WIPO | World Intellectual Property Organization |

# Executive summary

This report sketches an insurance innovation portrait for Kenya, as part of an eight-country study to determine what regulators can do to unlock innovation at scale to meet key insurance needs in sub-Saharan Africa.

***A large and diverse market.*** Kenya has the fourth largest insurance market penetration in Africa. The market spans 56 insurance companies, 5 reinsurance companies, 12,708 intermediaries and 376 insurance service providers skewed towards the general insurance market. Compulsory lines, such as third-party motor insurance, play a prominent role in the market, as does corporate-based general, life and health insurance.

***Limited retail reach.*** The National Hospital Insurance Fund reaches 23.4 million Kenyans. Beyond that, retail insurance market reach is limited, especially for rural women and MSMEs.

***Numerous innovation efforts, but not yet paying off at scale.*** The insurance uptake gap signals an innovation gap and trap. Kenya has a history of a drive for inclusive insurance innovation, with numerous microinsurance, index insurance and m-insurance pilots over the years. More recently, there has been increased emphasis on the role of insurtechs to drive insurance digitalisation. Overall, however, the market remains conservative, and innovation is not yet part of the core market fabric. New tech players among other factors[1] struggle to access funding and secure viable partnerships, while insurers remain subject to distribution and premium collection challenges in reaching beyond the high-end retail and urban market.

***A largely enabling environment, but gaps remain.*** An assessment of the innovation enabling ecosystem shows that:

- The underlying electricity and mobile network infrastructure is a boon for innovation in Kenya, but challenges in deepening and modernising financial market infrastructure remain.
- Access to technical insurance and science, technology, engineering and mathematics (STEM) skills remains a constraint to innovation.
- Insurance awareness and trust need to be built further.
- Effective partnership formation remains a key challenge, especially for new players (i.e. insurtechs) seeking a foothold in the market.
- The regulatory environment is largely enabling. There is a growing regulatory focus on access, usage and quality of insurance services. Recent introductions of a microinsurance licence category and provisions for remote/digital distribution are also a case in point.

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1 Other challenges faced by new tech players include innovative business solutions especially in product development, use of massive data sets available, underwriting, pricing risk and distribution of insurance products.

- The Insurance Regulatory Authority (IRA) has taken positive strides in enabling insurance innovation through proactive industry engagements, accelerator programmes and a regulatory sandbox, and has streamlined its internal processes to be more responsive, strategically, to innovation.

***Six action plan recommendations to go above and beyond.*** The imperative for the IRA now is to build on this strong track record to ensure that the regulatory and supervisory framework remains in tune with evolving market practices and pushes the market even further. To this end, six action plan recommendations are put forth:

### 1. Tailor regulatory approach to meet evolving market needs

Explicitly allow for insurtechs: through guidance initially, and by reconsidering amendment to the insurance act to create a new licence category(ies) over the longer term.

### 2. Evolve institutional structures for innovation promotion and coordination

- Ringfence resources for innovation within the IRA's strategic and operational programmes.
- Consider specific innovation topics, such as regulation of insurtech start-ups, under the cross-regulatory coordination agenda pursued by the joint financial sector regulators' forum and the Fourth Medium-Term Plan (MTPIV) 2023–2027.

### 3. Align skills with industry needs

Build on IRA skills-building track record to expand scope of engagement and knowledge/informa sharing, promote the insurance sector among skilled youth, back office and front office actors, ar enter into partnerships with learning and training institutions.

### 4. Further build out engagement channels

- Drive the implementation of the regulatory sandbox and BimaLab to show tangible innovation results.
- Expand engagement with the insurance market (existing as well as prospective players) through a number of channels.
- Place emphasis on product innovation to serve underserved and excluded/unserved market segments.

### 5. Proactively signal and nudge convergence of innovation initiatives towards segments that remain underserved

Place emphasis on innovations in product development, underwriting, risk pricing and distribution of insurance products to serve underserved segments.

### 6. Broaden and deepen the innovation monitoring framework

- Develop innovation-focused initiatives and interventions to address identified portrait gaps.
- Define an outcomes-orientated list of innovation KPIs.
- Develop a data source, monitoring and analysis plan to harvest insights to inform decision-making.
- Develop an insurtech tracker database.
- Develop information and knowledge management architecture to share information and minimise existing information asymmetries.

# 1. Introduction and problem statement

***Innovation is key to increasing insurance penetration in Africa*****.** Despite recent improvements, insurance penetration across sub-Saharan African (SSA) markets remains low, at 2.78%, compared to the global average of 7.3% (African Insurance Organisation, 2020). Innovation is needed to change this picture: to enhance the value proposition of insurance, a new take is required on systems, product design, distribution and claims. Yet, while there is no lack of innovation on the continent[2], foundational challenges relating to, among others, infrastructure, partnerships, skills, payment streams, seed funding and behavioural barriers to adoption continue to inhibit the achievement of the necessary synergies and scale-up of innovations (Cenfri, 2021). This means that, for insurance innovations to flourish, a conducive innovation ecosystem or enabling environment is needed. While not all aspects of the enabling environment are within the regulator's control, a growing number of regulatory authorities, globally, have an implicit or explicit mandate to develop their market (A2ii, 2020). Acting on this mandate means taking stock of the challenges to innovate and wielding the full suite of tools that regulators have at their disposal to alleviate the challenges and deepen the market.

***Need to balance risks with the rewards of innovation.*** With innovation come risks and traps; for example, data protection risks can arise where client data could be accessed by unauthorised parties, new selling practices can create market conduct issues if not carefully managed, or partnerships can fail where the emphasis on technology means that basic partnership and customer-centric principles are neglected. The reality of these risks implies that, for a market to benefit from the rewards of innovation, insurance regulators need to strike a balance between fostering an enabling environment for innovations to thrive and reach consumers, and protecting the market against any undue risks that may be associated with market development. Indeed, proactive and proportionate management of the risks arising from innovation is core to maintaining the integrity and sustainability of innovation. Striking this balance aligns with the principle of proportionality in the face of digital innovation as put forth by the IAIS[3]. To maintain a conducive, but safe, environment for innovations to thrive, supervisory responses need to evolve and adapt to the ever-changing realities of innovative industries.

***Tools for balancing innovation and risks.*** Not all supervisory responses require changes to regulation. There are four categories of tools at regulators' disposal to strike the balancing act (see Box 1), namely engagement tools, regulatory tools, supervisory tools and monitoring tools. How regulators adapt and sharpen these tools to cater for industry needs is critical to their effectiveness in enabling market innovation.

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2 For example, as shown by Cenfri's **insurtech tracker database**.

3 **The use of digital technology in inclusive insurance**, IAIS (2018).

**Box 1: Regulating for innovation framework**

Insurance regulators tasked with striking the balancing act to regulate for responsible innovation can use four sets of tools.

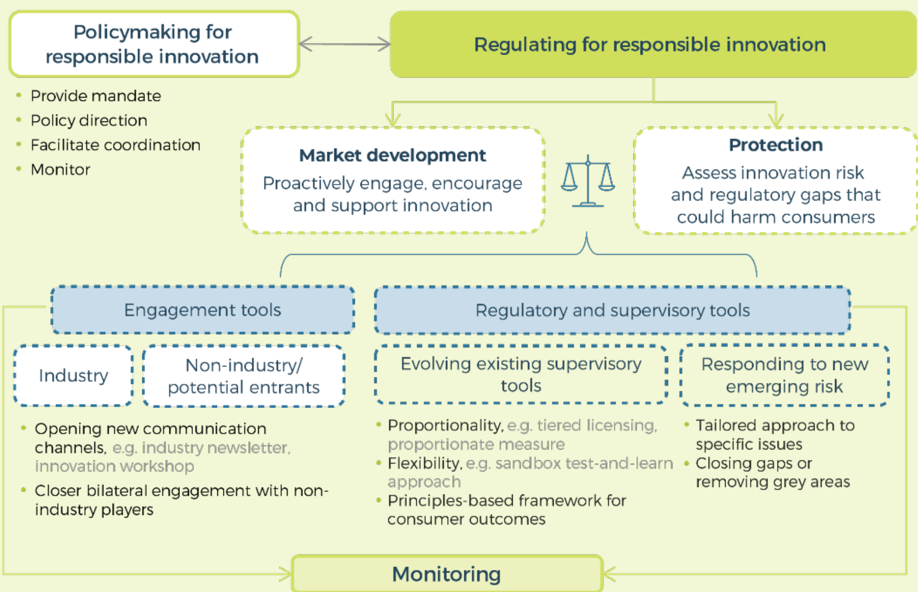


**Figure 1: Regulating for innovation framework**

*Source: Cenfri, FSD Africa and FSD Uganda, 2021 – Regulating for Innovation Toolkit*

- **Regulatory tools** entail adjustments to regulatory instruments, such as issuing guidance or updating licence categories. This set of tools can also include tiered, proportionate licensing requirements, adopting a principles-based framework for consumer outcomes or using letters-of-no-objection as a test-and-learn mechanism.
- **Supervisory tools** refer to any evolution of existing supervisory processes, for example, by updating the licensing or product approval process, incorporating a risk-based market supervision framework or implementing new supervisory mechanisms such as setting up a sandbox.
- **Engagement tools** include proactive engagement with, and signalling to, industry, for example via the hosting of innovation workshops, an industry newsletter, engaging with innovation hubs or accelerators, or explicitly following an open-door policy. Importantly, such engagement would extend not only to incumbent market players, but also to potential new entrants.
- **Monitoring** key innovation indicators will inform whether the other tools are fit for purpose and whether they need to be adjusted to ensure a regulatory environment that is conducive to innovation.

## 1.1. Project overview

*Innovation and regulatory portraits to inform the balancing act.* To support insurance regulatory authorities in SSA in striking the balancing act between innovation and risk, FSD Africa has set up the R3Lab[4] as a platform for capacity building and peer exchange among regulators. To inform the work of the R3Lab, FSD Africa has commissioned a study to review and assess the state of innovation in eight countries in SSA, take stock of the challenges or barriers to further innovation, and conclude on tailored innovation action plan recommendations for each country[5].

*Project approach.* A two-pronged approach is used to complete the innovation and regulatory portrait for each country:

- Firstly, desktop research and key informant interviews[6] are used to produce an innovation gap assessment of the insurance market across six key innovation-enabling environment factors: (i) underlying infrastructure, (ii) access to finance, (iii) access to talent, (iv) supply and demand-side market enablers, (v) the regulatory environment and (vi) supervisory support. Further discussions with the regulatory authority are then used to inform a regulatory review and institutional assessment aimed at mapping the regulator's supervisory processes and capacity to enable the required level of industry support.
- Secondly, insights from the gap assessment and regulatory and institutional review are synthesised into action plan recommendations aimed at identifying the most appropriate interventions and accompanying tools to respond to the identified innovation gaps. These action plan recommendations form the basis for the journey that FSD Africa will walk with each regulator under the R3Lab.

*Portrait structure.* This report sketches the insurance innovation and regulation portrait for Kenya as one of the eight focus countries. It is divided into two overarching sections corresponding to the two main elements as outlined. The first is the innovation gap assessment (Section 2), which is broken down into three sub-sections:

- **The current state of insurance innovation:** This section considers Kenya's insurance landscape with a specific focus on innovation in the market. It highlights the state of innovation in the established/traditional insurance sector, as well as trends in the insurtech sector.
- **Enabling environment assessment:** This section assesses the insurance innovation ecosystem in Kenya against each of the six elements noted and outlines the scope for innovation going forward.
- **Key gaps and barriers:** Based on the landscape and assessment, we conclude on the key gaps and barriers, as well as opportunities for insurance innovation in Kenya.

Section 3 then develops innovation action plan recommendations for Kenya. Section 4 concludes.

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4 With 'R3' short for 'risk, resilience and regulatory'.

5 The full set of countries is: Rwanda, Ghana, Ethiopia, Uganda, Nigeria, Kenya, Malawi and Zimbabwe.

6 With regulatory authorities, established insurance market players, associations, accelerators and insurtechs. A full list of stakeholders consulted for the Kenya portrait can be viewed in the Appendix.

# 2. Innovation gap assessment

## 2.1. Current state of insurance innovation

### 2.1.1. Current state of the insurance market

***Fourth-highest insurance penetration in Africa.*** Kenya had an insurance penetration[7] rate of 2.3% in 2021, compared to 2% for the rest of Africa (Signé, 2020; AKI, 2021; Orimisan, 2022; IRA, 2021; GCR Rating, 2021). This ranks Kenya fourth in Africa in terms of gross premium income after South Africa, Morocco and Egypt (IRA, 2021). As shown in Figure 2, insurance penetration has been on a declining trend, meaning that insurance premium growth has not kept pace with GDP growth (AKI, 2021). Nevertheless, gross written premiums (GWP) increased by 1.73% from KES 231.3 billion in 2019 to KES 253.31 billion in 2020 (AKI, 2021). According to the latest IRA Annual Report, this represents close to 4 million policies across a total of 11.65 million lives covered in 2019, representing 24.5% of the total population.

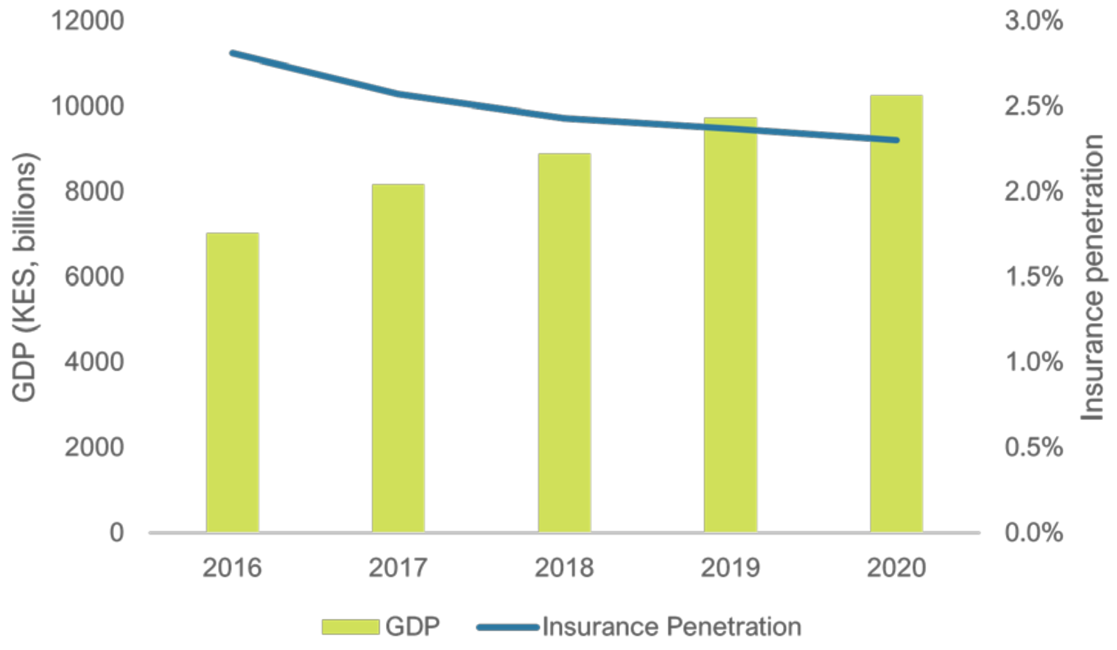


**Figure 2: Insurance penetration relative to GDP (KES, billions)**

*Source: Adapted from 2020 Insurance Industry Report (AKI, 2021)*

7 Insurance penetration $= \frac{GWP}{GDP} * 100$

*Non-life sector in the lead but life share growing.* Non-life insurance contributed 56% of total insurance premiums in 2020 (at KES 132 billion in 2020, up from KES 124.8 billion in 2017) (IRA, 2021). However, life insurance premiums, which stood at KES 130.8 billion in 2020, have grown by almost 40% since 2017, albeit from a low base (IRA, 2021). This growth suggests that while the Kenyan market is still led by non-life activity, the life insurance industry is emerging as a potentially prime market for innovation and disruption.

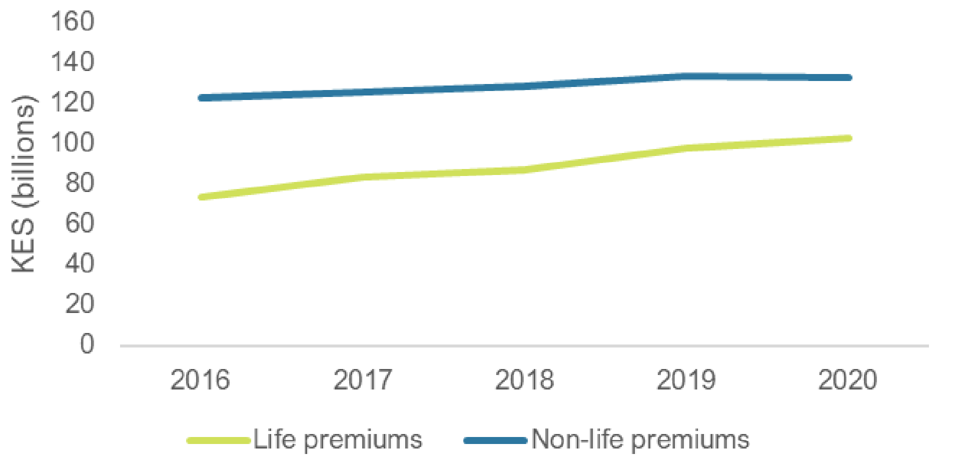


**Figure 3: Life compared to non-life premium growth (KES, billions)**

*Source: Adapted from 2020 Insurance Industry Report (AKI, 2021)*

*Large number of licences, with strong market leaders in the life market.* Insurance is provided by 56 licensed companies. These comprise 24 life and 38 non-life companies, with some operating in both the life and non-life space. In the life insurance market, three companies account for 50% of market share. The general insurance market is more fragmented, with the top five insurers accounting for less than 40% of the total market share (IRA, 2021).

| Insurance type | Company | Market share (%) |
|---|---|---|
| Life insurers | Britam Life | 22.84 |
| | ICEA Lion General | 14.51 |
| | Jubilee | 13.04 |
| | Kenindia | 7.22 |
| | Sanlam Life | 5.79 |
| Non-life insurers | UAP Insurance | 8.11 |
| | CIC General | 7.79 |
| | APA Insurance | 7.27 |
| | Jubilee Health | 6.37 |
| | Britam | 6.31 |

**Table 1: Kenya's top 5 life and non-life insurers**

*Source: Adapted from Insurance Annual Report* (IRA, 2021)

*Even spread across distribution channels.* In 2020, 37.7% of the total industry premium was sourced through insurance brokers, 37.1% through insurance agents and 25.2% directly (IRA, 2020).

*Insurance uptake is largely driven by compulsory insurance and the National Hospital Insurance Fund.* The traditional dominance of the non-life market can largely be attributed to the role of compulsory insurance[8]. For example, private and commercial motor insurance combined (which includes compulsory third-party motor insurance) accounted for 33.7% of general insurance premiums in 2020 (IRA, 2017), (AKI, 2021). A further 33.4% was accounted for by medical insurance (AKI, 2021). Figure 3 indicates the percentage of adults using insurance according to the 2021 FinAccess Household Survey, compared to the 2016 and 2019 survey years (CBK, KNBS and FSD Kenya, 2022). It shows that total insurance usage increased from 23.3% in 2016 to 27.9% in 2019, before dropping to 23.7% in 2021. This would suggest that about a quarter of Kenyan adults have insurance. However, the bulk of this is accounted for by National Hospital Insurance Fund (NHIF) uptake: in 2021, 20.6% of Kenyan adults belonged to the NHIF. When excluding NHIF, only around 7% of Kenyans had insurance in 2021[9].

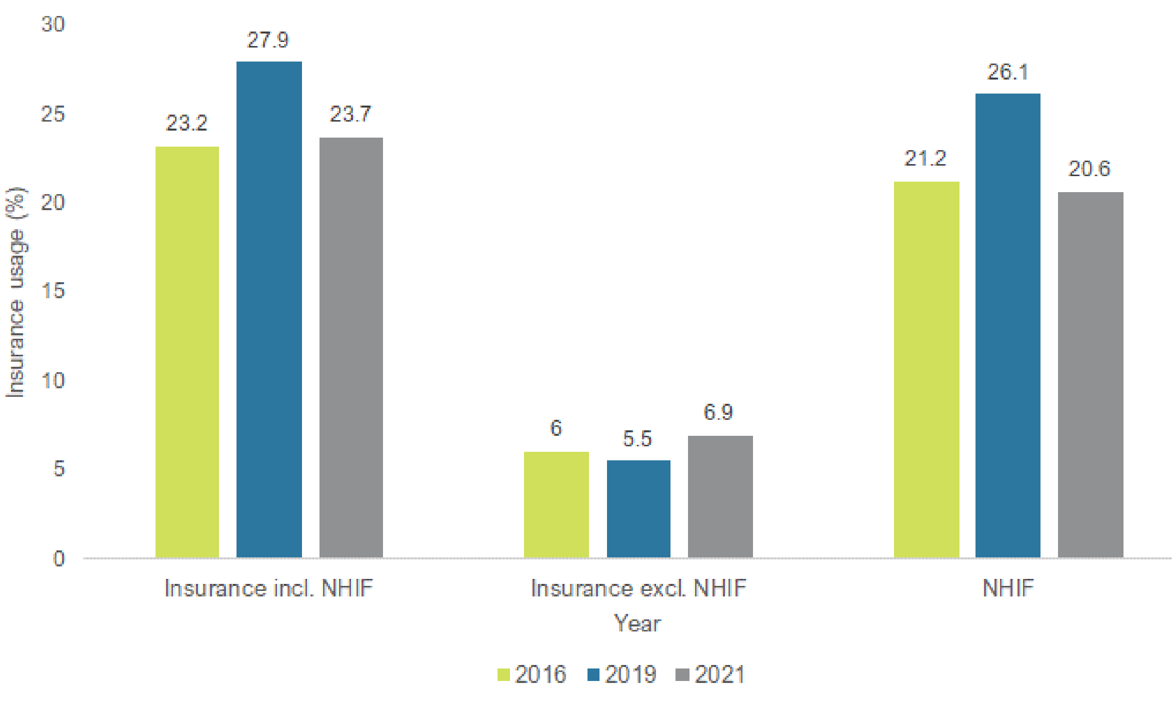


**Figure 4: Insurance Usage in Kenya (% of adult population)**

*Source: Adapted from FinAccess Household Survey (CBK, KNBS and FSD Kenya, 2022) and 2021 FinAccess Household Survey: Key Findings (CBK, 2022).*

8 The six compulsory insurance products are third-party motor insurance, liability for aviation, liability for shipowners, worker's compensation, liability for clinical trials and professional liability for insurance brokers.

9 Note that, as some people have both NHIF and other types of insurance, the numbers across insurance excluding NHIF and NHIF do not add up exactly to the total insurance including NHIF figures.

*Rural–urban and gender differences.* Insurance uptake (including NHIF) was 32.8% in urban areas in 2021, but only 18.5% in rural areas. This suggests that there is still a considerable rural–urban divide in insurance access. There is also a significant gender gap, although this gap has been decreasing across survey years (CBK, KNBS and FSD Kenya, 2022). Overall, the analysis of the Kenyan insurance sector paints a picture of a relatively large and well-established market, but one where retail market reach is limited beyond compulsory insurance lines. Reaching the mass retail insurance market, as well as specific niches (such as farmers and MSMEs) or underserved segments (such as women or rural inhabitants) with appropriate products requires innovation. The following sub-section delves into the current state of innovation in the insurance sector to understand the gaps and opportunities for innovation.

### 2.1.2. State of innovation within the insurance sector

This discussion considers the state of innovation in the traditional insurance sector and the emerging insurtech landscape[10].

#### 2.1.2.1. State of innovation in the traditional insurance sector

*History of innovation.* Kenya has a rich history of innovation and working towards building a more inclusive insurance market. Since the 2000s, examples of innovative microinsurance pilots and partnerships have been showcased in global inclusive insurance forums[11]. The IRA has also been active in international inclusive insurance forums, such as the Access to Insurance Initiative (A2ii), for a number of years, culminating in the publication of a Microinsurance Policy Paper in 2014, followed by the Microinsurance Regulations 2020 (Ernst & Young Global Limited, 2021). Since then, the market has seen notable innovations, including in index-based insurance[12], aimed at insuring farmers, livestock holders and households against extreme weather events, as well as bundled products that offer value-added services on top of traditional insurance offerings (A2ii, 2019).

*Ongoing efforts to digitalise and enhance efficiency.* While innovation and insurance digitalisation started well before COVID-19, as noted above, further innovation around digitalisation of insurance services was catalysed by the need for social distancing during the COVID-19 pandemic (Stakeholder Consultations, 2022). For example: Britam adopted digital solutions to ensure service continuity during the COVID-19 pandemic by creating a telemedicine solution aimed at reducing the burden on hospitals (Britam, 2022). They also developed and utilised digital platforms, such as WhatsApp, to educate and train customers. Further examples include the drive by Jubilee Insurance to limit face-to-face interaction and promote new ways of reaching its customers[13] (Jubilee, 2022) and MicroEnsure (part of Micro Insurance Company) entering into a strategic partnership with

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10 ‘ Traditional insurance sector’ refers to licensed insurers as incumbent market players. This would include provision of microinsurance and takaful insurance. Insurtechs are net players or start-ups entering the insurance sector to drive innovation through technology, often in partnership with a licensed insurer.

11 See for example various publications by the ILO Impact Insurance Facility over the years: http://www.impactinsurance.org/.

12 Index-based insurance is where a policyholder is compensated only when one or more indices have been triggered, rather than on an assessment of the policyholder’s actual loss.

13 Including creating a Facebook bot to answer questions from customers online and provide quotations, and creating platforms to reach customers through digital mechanisms.

Chamasure to provide end-to-end enrolment, coverage and claims settlement support to reduce paperwork and speed up the insurance process (Globe Newswire, 2021).

***Important role for partnerships to reach more customers.*** Partnerships with aggregators, including but not limited to mobile network operators (MNOs), are important in expanding the reach of insurance and facilitating premium payment. As such, new partnership initiatives are an important form of innovation. Over the years, a number of products in Kenya have leveraged the MNO network for distribution and premium collection. An example of a formal partnership is Safaricom's partnership with Jubilee Insurance Company to provide home insurance (Safaricom, 2018). Beyond the MNO sector, a relevant example is the partnership between Britam and the Kenya Tea Development Agency. It created a product, Kinga Ya Mkulima, designed as unique medical coverage for small-scale tea farmers who are registered with the Kenya Tea Development Agency (Britam, n.d.). Also relevant is the distribution of insurance through the SACCO sector (also known as 'sacassurance'), given that SACCOs have networks across sectors and regions. An early example was the BIma ya Jamii ('Insurance for the Family') product launched in 2008 by the Cooperative Insurance Company (CIC) in partnership with the National Hospital Insurance Fund and delivered through SACCOs.

***Innovation to gain a competitive edge in the motor market.*** Stakeholder consultations suggest that insurance providers view compulsory third-party motor insurance as an opportunity to compete on value – especially since price competition is limited through regulated tariffs – and gain a competitive foothold in this contested market segment. For example, to take advantage of mandated demand that exists for this product, and the trust that can be fostered through good products, insurers have released products like SecuDrive, ICEA Lion's mobile phone application-based platform that uses telematics to enable customers to determine their premium based on their driving behaviour (ICEA Lion, 2021). This both incentivises policyholders to drive carefully and minimises the information asymmetry between insurers and policyholders.

***Room for further innovation.*** Despite the notable efforts outlined, the still-limited reach of the insurance market as outlined in Section 2.1.1 suggests that there is much further scope for innovation to reach scale and tap into underserved market segments. This is confirmed by the fact that only 10% of insurers' resources are reported to be spent on innovation, compared to 90% on business-as-usual (AKI, 2021). Overall, insurers, as well as their boards who sign off on new investments, continue to be seen as risk averse and hesitant to pursue new markets (Stakeholder Consultations, 2022).

#### 2.1.2.2. State of the insurtech sector

***Growing prominence.*** Nairobi is ranked as the most innovative city in Africa, for number of start-ups, level of innovation funding and innovation infrastructure (Knight Frank, 2021). The rising number of insurtechs is evidence of this: in 2019, Kenya had the second largest number of insurtechs in Africa, after South Africa, with 25 unique initiatives (Cenfri, 2019), of which 44% offered health insurance, 28% life insurance, 24% agriculture insurance and 24% vehicle insurance[14].

14 Most of these insurtechs were based within digital platforms (56%), followed by technology-enabled partnerships (20%) and parametric insurance and new data and analytics (12%) (Cenfri, 2019).

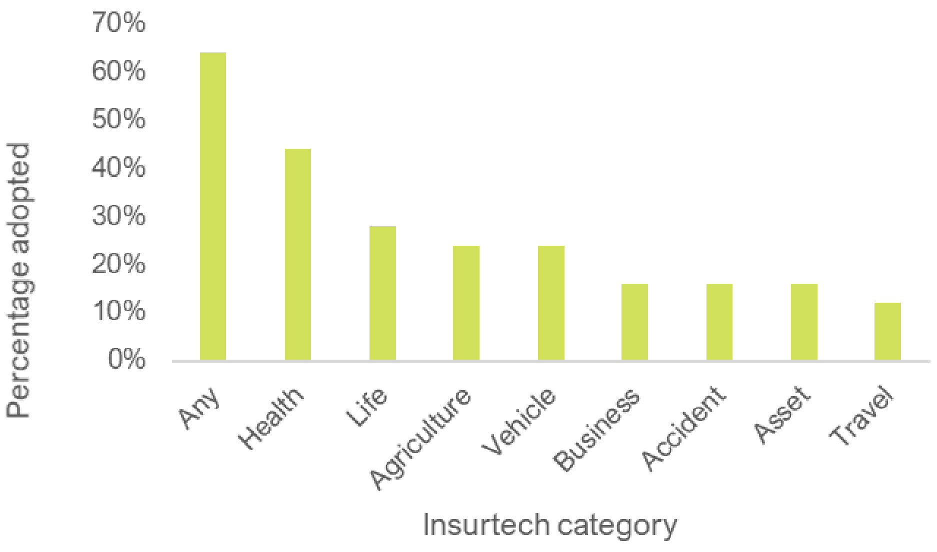


**Figure 5: Insurtech products adopted in Kenya**

*Source: Cenfri (2019)*

***Focus on partnerships to improve efficiency and accessibility.*** Insurtechs mostly operate through partnerships with existing market players, leveraging innovation to streamline processes, fraud detection and product customisation for insurers, and facilitating partnerships with new distribution platforms. For example:

- Lami (an insurtech recently acquired by BlueWave) launched the Griffin Motor App that allows drivers to buy car insurance, compare car insurance products, and tailor their product, the period and coverage amounts (Mersie, 2020). Lami also partnered with online retailer Jumia through the JumiaPay app and with fintech start-up Kwara to provide insurance products for SACCO members (Citizen Digital, 2020; Africa Tech, 2021).
- Sprout established a blockchain platform to provide climate risk insurance to smallholder farms (Blended Finance Taskforce, 2020). Sprout uses smart contracts to allow crop insurance to pay out automatically during an extreme weather event, meaning that policyholders receive claim pay-outs quickly.

### 2.1.3. Remaining gaps

***Gaps in value-driven insurance offerings persist despite digitalisation inroads.*** Incumbent insurers, driven by competition, want to enter new markets and digitalise processes, but are weary of risks and face challenges allocating internal investment to innovation in new markets where returns are not immediate. Insurtechs, on the other hand, play an important role in driving innovation in the insurance sector, but have to date primarily focused on streamlining operations in existing market segments rather than extending reach into large new/untapped markets. There is thus a need for greater and deeper innovation by both existing market players and new entrants.

To further drive innovation, it is necessary to understand how enabling the current innovation ecosystem is. This will help target interventions to address the gaps and challenges faced.

## 2.2. Enabling environment assessment

Innovation in insurance requires an enabling environment to reach new markets and achieve sustainable scale. To understand where opportunities exist to strengthen the enabling insurance environment, six factors are considered. These factors are illustrated and explained in Figure 6. They are: underlying infrastructure (notably financial market infrastructure), a strong talent pipeline, demand and supply-side market engagement enablers, access to finance, the regulatory framework, and supervisory support systems for innovation.

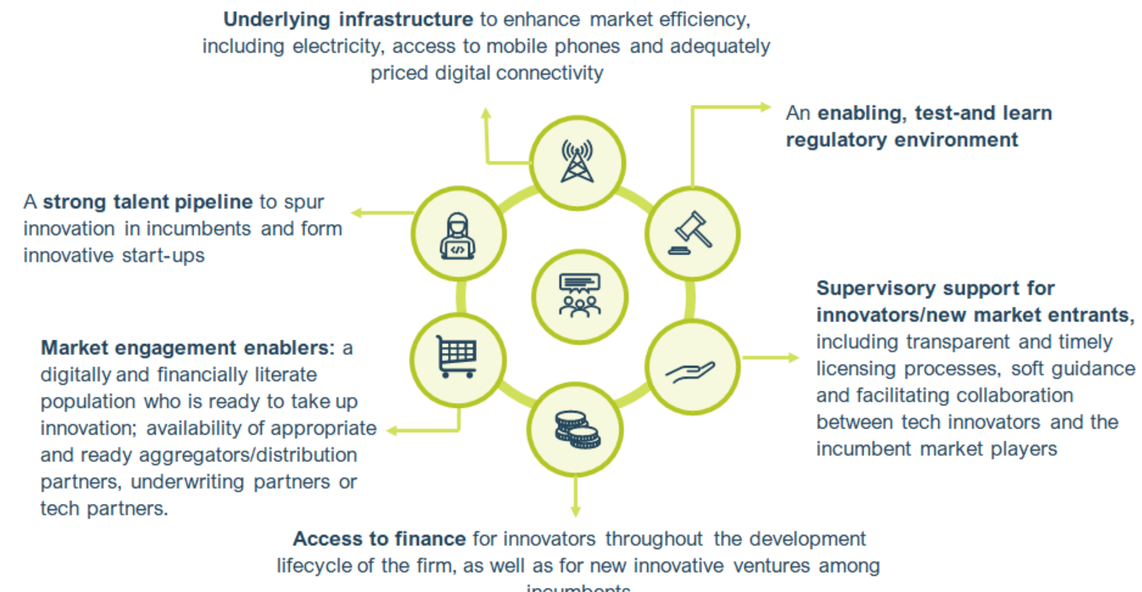


**Figure 6: Innovation ecosystem enablers**[15]

*Source: Authors' own, drawing on EY (2019)*

The following sub-sections explore how the six indicators shape the current – and future – innovation picture in Kenya.

### 2.2.1. Underlying infrastructure

***Broad but uneven access to electricity.*** Access to electricity is a basic infrastructure prerequisite for insurance outreach, even if it is not a key driver of innovation. In 2019, 90% of the urban population had access to electricity. Yet in rural areas, where 72% of the population resides, only 62% had access to electricity (World Bank, 2020). A lack of electricity access could act as a barrier to innovation for insurance in rural areas.

15 Notes:

- Access to finance also includes resourcing of start-ups for ideation creation.
- Strong talent pipeline also refers to the ability to develop, retain and manage the talent pool required to drive innovation.
- Underlying infrastructure also includes infrastructural components necessary to aid financial market development.

***High mobile subscriptions, smartphone penetration and mobile data access.*** The high rate of mobile subscriptions and broad mobile internet coverage in Kenya bode well for mobile insurance distribution. In 2020, there were 108 mobile money accounts per hundred people in Kenya (World Bank, 2021). Smartphone penetration is also relatively high, with 53.4% of adults estimated to have a smartphone[16] (Sunday, 2021). Moreover, the figure below shows that 2G and 3G coverage is broad, and that 4G is on the rise and 5G has been introduced (GlobalData Technology, 2021). This suggests that the requisite mobile penetration, infrastructure and connectivity are in place to drive digital insurance expansion in Kenya.

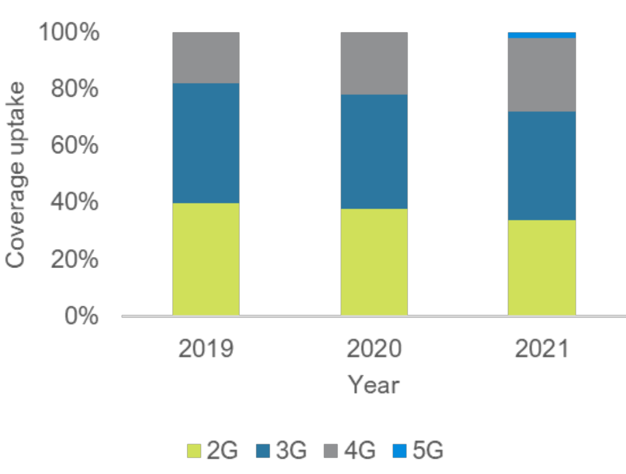


**Figure 7: Percentage of Kenya's mobile subscriptions by technology generation type from 2019 to 2021**

*Source: Adapted from Verdict (Verdict, 2021)*

***High data costs may limit engagement.*** Kenya is the most expensive country in East Africa on the Mobile Internet Affordability Index (Ngila, 2021). In 2021, 1 gigabyte of data cost KES 244, compared to an equivalent of KES 81 in Tanzania, which has the cheapest cost per gigabyte of data in East Africa. It has been shown that the high cost of data discourages usage of internet-intensive apps like social media (Oluwole, 2022; GSMA, 2020). Likewise, it may serve as a disincentive for smartphone-based insurance distribution. Recently, however, several affordable bulk internet options have been introduced that aim to lower data costs (Ngila, 2021).

### 2.2.2. Access to talent

***Despite high education standards, basic insurance and STEM skills gaps remain.*** Kenya has a strong education system. In 2018, the literacy rate in Kenya's adult population (people aged 15 and above) was 81.5%, significantly above the rate for sub-Saharan Africa as a whole, which was 65% (World Bank, 2021). Despite this, access to the types of skills needed for insurance innovation remains limited.

16 Kenya, along with Nigeria and South Africa, has one of the top three smartphone penetration rates in sub-Saharan Africa, above the regional sub-Saharan Africa average of 48% in 2020 (GSMA, 2021).

***Need for more insurance skills.*** Insurance is a specialised industry requiring specialised underwriting and actuarial skills. In 2021, there were 65 internationally recognised, fully qualified actuaries in Kenya – the second-largest group in Africa behind South Africa with 1,732 (The Actuary, 2021). While this is a notable achievement, more actuarial skills are needed, given that there are 56 insurers in the market and actuaries are employed in several industries including pensions, consulting and banking. Basic insurance skills also need to be better developed through, for example, the Certificate of Proficiency (COP) and Diploma in Insurance at the College of Insurance. In the IRA's 2012 assessment of the staff skills and competency levels at Kenyan insurance companies (IRA, 2012), the majority of staff (82%) held first degrees, however a minority possessed insurance and law-related degrees.

***Low access to STEM skills.*** Digital innovation relies to a large extent on the availability of science, technology, engineering and mathematics skills. As presented in Figure 8 below, in 2017/18 only 12% of Kenyan university graduates had studied STEM subjects (Teachers Updates, 2021). This is confirmed by a 2021 Findexible survey, where 70% of fintech respondents indicated that there was low access to data scientists in Kenya (Findexible, 2021).

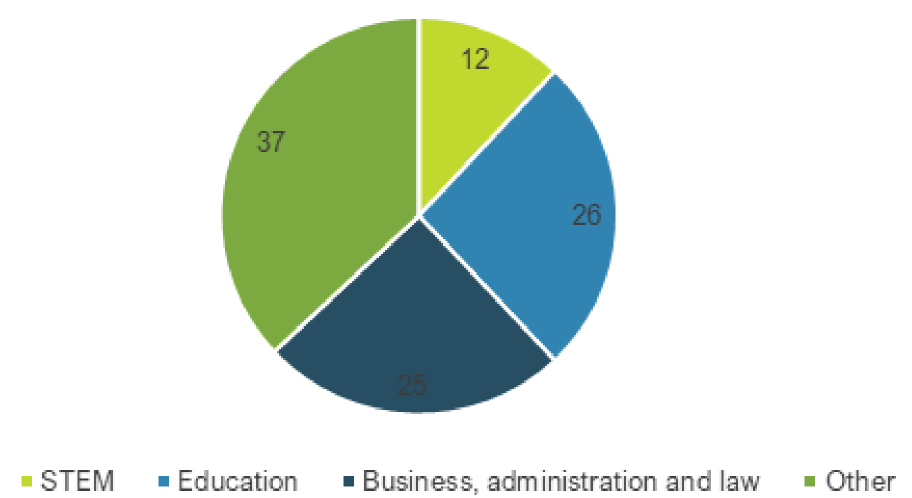


**Figure 8: Kenyan university graduates by field (2017/18) (%)**

*Source: Adapted from Teachers Updates* (Teachers Updates, 2021)

***High demand for talent constrains talent retention.*** The status of Nairobi as an innovation hub has led to the hiking up of demand for development and programming skills that are already in short supply (Financial Times, 2021). This has implications on start-ups' ability to recruit and retain talent, as the high demand for talent makes it challenging for them to compete with large corporates (Stakeholder Consultations, 2022). The same constraint holds for insurers.

***Efforts to bridge the skills divide.*** In 2019, there were just under 50 tech and innovation hubs in Kenya (BriterBridges, 2019). These hubs provide a variety of services such as support to access venture capital funding, business skills training and mentorship, which strengthen the talent pool of fintechs and insurtechs. Furthermore, the IRA acknowledges the importance of building critical insurance skills. In 2020, the IRA supported 47 actuarial students in undertaking a master's degree in the United Kingdom. This helped to

strengthen insurance capacity building in the actuarial profession (IRA, 2021). Therefore, while a lack of skills remains a constraint, a variety of efforts are underway to help bridge the gap.

***Need for talent retention and management***. It follows from the discussion above that, for insurance innovation to scale, more technical as well as technology skills related to insurance are needed. Beyond the initiatives noted above to build skills, this requires proactive strategies to more effectively attract existing skills to the insurance sector, and for talent to be managed and retained on an ongoing basis within the sector.

### 2.2.3. Access to finance

***High supply of capital for start-ups, but local entrepreneurs at a disadvantage.*** In a Findexible survey in 2021, 76% of fintech respondents suggested that there was “very strong” access to capital in Kenya (Findexible, 2021). Furthermore, Kenya came second in Africa in terms of fintech funding raised in 2019, at USD 564 million (Findexible, 2021). However, on closer inspection, the distribution of funding is unequal. Of the 17 start-ups that raised more than one million dollars each, only one was founded by local entrepreneurs, while four (24%) were established by a mix of local and expat founders and 11 (65%) were expat-based (ViKtoria Ventures, 2020). This suggests that, despite the impressive figure of start-up capital raised, locally bred start-ups still face funding constraints.

***Access to funding comes with high administrative burden.*** Local angel investors who understand the current landscape are largely nascent (Digest Africa, 2018). This means that funding can be tied to unrealistic expectations and targets, including costly administrative processes being required and inappropriate goals being linked to funding disbursements (Silvana & Associates, 2021). This mismatch between investor expectations and start-up capabilities suggests a lack of available fit-for-purpose funding at the pre- and seed stage that focuses on growth rather than profit.

***Incumbent players face internal funding hurdles.*** As noted in Section 2.1.1, only 10% of insurers’ resources are allocated to innovation. This signals that, for most insurers, unlocking investment funding for innovation remains a constraint.

### 2.2.4. Market engagement enablers

The market engagement enablers category comprises both a demand-side and a supply-side component. For effective market engagement, innovators need consumers who are willing and able to engage with the innovation, as well as ready and able distribution (and, in the case of insurtechs, underwriting) partners.

#### Demand-side barriers

***Low consumer demand for insurance.*** A lack of insurance awareness, limited trust, low physical access to insurance and concerns over affordability continue to cause low spontaneous insurance demand in Kenya (World Bank Group, 2019; Stakeholder Consultations, 2022). The IRA acknowledges these constraints and, in response, has launched awareness and outreach education campaigns across counties, established a

fraud investigation unit, and developed guidelines on claims settlement and best practices on treating customers fairly (IRA, 2021).

***Broader literacy and language barriers.*** More broadly, the fact that approximately 38% of the adult population in Kenya are financially literate and that only 30% are estimated to be digitally literate has implications for engagement with insurance products (World Bank Group, 2019; Cenfri, 2020). Furthermore, less than 5% of Kenyans speak English as their primary language (Statista, 2021), yet most policy documents are in English (Kibui, 2014).

### Supply-side engagement barriers

Mass-market insurance distribution relies on partnerships with organisations that have an existing customer or membership base to tap into. Start-ups such as insurtechs would also need to partner with an existing insurer for underwriting purposes. The availability and feasibility of these channels and partnerships are therefore a prerequisite to success.

***Limited underwriting partnership opportunities for insurtechs.*** Because of the risks associated with start-ups, new markets and new products, MNOs and incumbent insurers need to have a certain risk appetite to partner with insurtechs. They must also possess systems that lend themselves to integration with tech partners. So far, only a limited number of insurers have been willing to take the risk to partner with insurtechs in a way that goes beyond a simple measure to outsource digitalisation efforts (Stakeholder Consultations, 2022).

***MNO partnerships are key to innovation, but not easy to navigate.*** For existing insurers and insurtechs alike, an MNO partnership is the most obvious distribution partnership to achieve scale – as attested by the rise of m-insurance throughout Africa (GSMA, 2012). In Kenya, there are five major MNOs, with Safaricom holding the lion's share of the market at almost 65% (Telecom Review, 2021). Safaricom's dominant position places it in a powerful position to test innovations and to invest in new tech and start-ups. Indeed, Safaricom spearheaded the first corporate venture fund in East Africa – the Spark Venture Fund – to support the development and growth of high-potential tech start-ups in Kenya (Safaricom, 2021). This is an important enabler of innovation. However, partnerships with Safaricom are approached cautiously, as unequal power dynamics can put start-ups at risk (Stakeholder Consultations, 2022). Evidently, insurers and insurtechs have struggled to work with Safaricom in the past. Many are weary of Safaricom's ability to curtail partnerships once partners become competitors, or dictate the rules of the innovation game (Stakeholder Consultations, 2022).

***Payment system constraints to premium collection and claims payment.*** Kenya has the highest mobile payment rate in Africa (BCG, 2020). However, using mobile money for insurance raises a number of challenges that include platform integration, obtaining signed receipts, and recourse over incorrect payments. Most importantly, while insurance premiums can be paid via mobile money, debit orders cannot be set up with a mobile money account, implying that policyholders are required to remember to pay each month. This leads to a higher likelihood of missing a payment deadline. Stakeholders highlighted challenges in recuring premium collection as a notable inclusive insurance distribution constraint (Stakeholder Consultations, 2022).

### 2.2.5. Regulatory environment

***Dual regulatory mandate to protect the interests of insurance policyholders and beneficiaries and promote development.*** The IRA is governed by the Insurance Act (Chapter 487) (IRA, 2020a). This legislation governs both insurance and reinsurance business in Kenya, while the Microinsurance Regulations (2020) regulate business relating to microinsurance contacts (IRA, 2020b).

The Insurance Act designates the IRA and empowers it with a number of core functions. Key among them is to ensure the effective administration, supervision, regulation and control of insurance and reinsurance business in Kenya (IRA, 2020a). In addition, the IRA has a function to promote the development of the insurance sector (IRA, 2020a), and is bolstered by the prioritisation of insurance innovation under the IRA strategic framework as set out in the 2018–2022 Strategic Plan.

***A variety of entities regulated.*** The IRA regulates 12 types of entity (IRA, 2022):

- Insurance companies (life, non-life or microinsurance)
- Reinsurance companies
- Insurance brokers
- Reinsurance brokers
- Medical insurance providers
- Insurance investigators
- Motor assessors
- Insurance surveyors
- Loss adjusters
- Claims settling agents
- Risk managers
- Insurance agents

***Tiered licensing requirements facilitate market entry.*** The regulatory framework sets lower capital requirements for microinsurers than for long-term or general insurers. Carving out a dedicated microinsurance licence has paved the way for entry by organisations targeting low-income and underserved markets[17]. Table 2 highlights the varied capital requirements needed when applying for different licences in Kenya.

17 So far, two applicants have met the requirements for a microinsurance licence, with the first licences expected to be awarded soon (Stakeholder Consultations, 2022).

| Licence type | Registration fees | Paid-up share capital |
|---|---|---|
| Reinsurance companies | KES 250,000 (USD 2,200) | KES 1 billion (USD 9 million) |
| Insurance companies | KES 150,000 (USD 1,300) | Long-term insurance: KES 400 million (USD 3.5 million) |
| | | General Insurance: KES 600 million (USD 5 million) |
| Microinsurance | n/a | KES 50 million (USD 440,000) |
| Brokers | KES 10,000 (USD 87) | KES 1 million (USD 13,000) |
| Agents | KES 1,000 (USD 8.7) | n/a |

**Table 2: Licensing capital requirements**

*Source: IRA (IRA, 2020a)*

***No explicit 'home' for insurtechs.*** There is no licence category for technical service providers (TSPs) or insurtechs in the Insurance Act (2020). This means that such operators need to partner with a licensed insurer to take a product to market. They also are required to apply for a broker or agent licence, should they wish to fulfil customer-facing activities (Stakeholder Consultations, 2022). The fact that there are no dedicated guidelines designed around their operations means that they are required to comply with licensing categories that may not suit their specific functions.

***Price regulation on compulsory insurance may limit innovation.*** As introduced earlier in this report, compulsory insurance lines are entrenched in legislation. Notably, third-party motor is also accompanied by compulsory tariffs (World Bank Group, 2019). In 2009, the IRA introduced a minimum tariff regime, limiting insurers from competing on price. This was introduced to prevent undercutting to the point that insurers would undermine their solvency. However, this pricing regime can also limit innovation (Stakeholder Consultations, 2022). The Motor Underwriting Guidelines of 2009 have since been suspended by the courts and the current regime is one of file and use as required under Section 74 and 75 of the Insurance Act (2020).

***Data protection framework allows scope for controlled sharing of data.*** Kenya's Data Protection Act came into effect in November 2019 (A2ii, 2019). The Act places restrictions on how data obtained by firms and government entities is handled, stored and shared (BFA Global, 2021). By preventing the access and sharing of consumer data, such provisions may restrict innovation. However, the Data Protection Act provides processes for players such as insurers, reinsurers and insurtechs to obtain consumer data through the office of the Data Commissioner (Kaniaru, et al., 2020). These regulatory steps thus show an appreciation for the need to balance protection and innovation.

***An enabling framework for tech-enabled innovation.*** The IRA has made several regulatory provisions to encourage innovation. For instance, the Insurance Act Section 41 was amended to allow for companies to allocate a larger amount of resources to technological and digitalisation developments (Stakeholder Consultations, 2022)[18]. Further, e-signatures, e-documentation and digital onboarding have been legalised for insurance distribution purposes, even if the uptake of these mechanisms has been slower than anticipated (Stakeholder Consultations, 2022).

***Challenges in cash and carry compliance.*** Section 156 of the Insurance Act (2020) introduced the requirement for 'cash and carry' premiums (otherwise known as 'no premium, no cover'). Cash and carry regulations require that premiums should be paid up for cover to remain in place (Business Daily, 2019). However, the stakeholder consultations suggest that compliance with cash and carry regulation remains a challenge, and can mean that claims may go unsettled, creating disruptions in the market and undermining trust.

In summary, the Kenyan regulatory framework can be regarded as conducive of innovation, but specific elements may require further attention, notably the appropriateness of existing licence categories in the face of digital innovation.

### 2.2.6. Supervisory support

***In-built innovation targets.*** As part of its Strategic Plan for 2018 to 2022, the IRA seeks to have a strategic commitment to support innovation. This commitment has been included in the IRA's annual workplans and, to track progress, relevant IRA teams have set internal performance targets on the number of initiatives implemented[19]. This organisational commitment to innovation flows through into various activities, as outlined in this section.

***Proactive market engagement.*** Effective and proactive engagement between the regulator and industry is an effective mechanism to advance innovation. The stakeholder consultations confirm that the IRA takes a proactive stance in this regard. In 2020 alone, it implemented a total of 15 industry workshops, trainings and open days (IRA, 2020c). It has also set up an innovation hub website[20]. Yet, some insurtechs still find the engagement process with the IRA challenging, creating regulatory uncertainty and perceived barriers to entry (Stakeholder Consultations, 2022).

***Improvements in product approval process.*** Under the Insurance Products Guidelines (2018), the IRA is required to approve any insurance product before it goes to market (IRA, 2018). In the past, market players reported experiencing the approval process as cumbersome and lengthy (Stakeholder Consultations, 2022). Acknowledging this as an area for improvement, the IRA has recently streamlined the product approval process, the result of which is noted by market players (Stakeholder Consultations, 2022).

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18 Historically, spending on digital mechanisms and infrastructure was capped at 5% of the firms' total assets, which limited the firm in allocating resources to promote digital innovation (Stakeholder Consultations, 2022).

19 As noted in **https://www.ira.go.ke/images/docs/2020/THE-REGULATORY-SANDBOX.pdf**.

20 At the time of writing, however, the website was not operational.

***BimaLab initiative to facilitate partnerships and innovation.*** In a further attempt to boost innovation, the IRA partnered with FSD Africa to launch the BimaLab in 2020 (see Box 2 for an overview). While the BimaLab was established as a means to boost innovation, the results of the programme so far are not indicative of a fully enabling and innovative ecosystem: only three of the 20 start-ups in the first cohort succeeded in obtaining funding. Moreover, stakeholders noted limited engagement and follow-up with participants after the programme (Stakeholder Consultations, 2022).

**Box 2: Kenya's BimaLab**

The BimaLab was steered by the IRA in partnership with Prudential Life and Tellistic in 2020 (Prudential, 2021). The objectives of the programme were to help innovators refine their value proposition, determine commercial viability and provide opportunities to scale their solutions through partnerships (Prudential, 2021). The BimaLab allowed entrants to gain advice and guidance through key players within it (such as key insurance partners, other regulators and the IRA).

A cohort of 20 start-ups participated in the first incubation programme and eight were shortlisted for an intensive six-week training and mentorship programme (Prudential, 2021). Out of the eight that were shortlisted, three firms qualified to receive financial support from Prudential and an opportunity to test their products in a regulatory sandbox (Prudential, 2021). In the second cohort in 2021, 12 firms entered, of which two ultimately met the requirements. The programme has plans to establish its third cohort in the first quarter of 2022 (Stakeholder Consultations, 2022).

***Regulatory sandbox to allow for test and learn approach.*** The first regulatory sandbox in Kenya was launched by the Capital Markets Authority in 2019 to facilitate testing of new ideas and technology (Capital Markets Authority, 2020). The IRA has recently followed suit by setting up an insurance regulatory sandbox, with the first call for applications issued in 2020[21]. The establishment of the regulatory sandbox is intended to encourage experimentation in the insurance market, thereby creating the regulatory space for successful participants in the BimaLab and beyond to launch their ideas (Stakeholder Consultations, 2022). So far, there have not been any successful applicants.

***Limited interagency coordination on innovation.*** As innovative insurance ventures often span the jurisdiction of more than one regulatory authority – notably the telecommunications, payments and insurance authorities – coordination between regulators provides opportunities to align regulations and guidelines to create an enabling environment for innovation. However, ineffective coordination has the potential to create grey areas and regulatory uncertainty, which could create perceived barriers to entry. In Kenya, the Financial Sector Regulator Forum (FSRF) is designed to facilitate information sharing, cooperation and collaboration in areas such as regulation and supervision. Despite the FSRF playing a role in facilitating coordination between the five key sector regulators in Kenya (Cenfri, 2019), it can be more proactively leveraged to promote innovation through considering topics such as the regulation of fintech and insurtech start-ups (Stakeholder Consultations, 2022). Beyond coordination across

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21 See: **https://www.ira.go.ke/images/docs/2020/THE-REGULATORY-SANDBOX.pdf**.

financial regulatory authorities, it is also important to consider the work of, and to collaborate with, universities, KeNIA (a government agency) and the ICT Authority.

*Institutional constraints.* While the IRA's activities to support insurance innovation have been admirable, it is clear from consultations that building out these efforts would require more resources. While the IRA has an innovation committee to coordinate across departments, traditionally there were no staff that were primarily dedicated to innovation. Rather, staff took on this role in addition to their primary responsibilities. For example, the actuarial function handled the product approval process and microinsurance approvals would be processed in the supervision department (Stakeholder Consultations, 2022). A process is now underway to align the institutional structure with the commitment to innovation in the IRA Strategic Plan. A Research and Innovation department has been designated, with a Director for Research, Innovation, Policy and Strategy, and plans are underway to recruit dedicated resources. The IRA recognises the importance of dedicating capacity to innovation, but also of creating an environment conducive to innovation among staff more broadly, so that innovation is not caged in.

## 2.3. Key strengths and barriers

*Innovation is present, but not yet reaching scale.* The picture painted in this section is one of a relatively developed insurance market with an established track record of innovation among traditional market players and, more recently, insurtechs. Yet, outside of compulsory third-party vehicle insurance and the NHIF, the reach of retail insurance (27.2%) remains limited (IRA, 2020c). This suggests that insurers and other market players are still struggling to implement innovation that is truly transformative.

*A largely enabling environment – but gaps remain.* The discussion in Section 2.2 shows that the innovation ecosystem in Kenya is largely enabling. Yet, a number of gaps that constrain the inroads made by innovation remain. These gaps present opportunities for the IRA to further strengthen the role it already fulfils as a market development enabler and champion for industry innovation.

Table 3 summarises the key strengths and weaknesses across the innovation ecosystem, as the basis for the formulation of the action plan recommendations in Section 3.

| Assessment area | Key strengths | Key barriers |
|---|---|---|
| **1. Underlying infrastructure** | • Broad electricity access and network and internet coverage<br>• High smartphone penetration in regional context | • Some access gaps remain in rural areas<br>• High data costs |
| **2. Strong talent pipeline** | • Strong education system<br>• Numerous tech and innovation hubs that aim to equip innovators<br>• Deliberate IRA attempts to build actuarial skills | Insufficient supply and retention of actuarial, underwriting and STEM skills in the insurance sector |
| **3. Access to finance** | Kenya has a strong track record in fintech fundraising, given the reputation of Nairobi as an innovation hub | • Funders more interested in players with proven business case and local starts-ups continue to face constraints in sourcing pre-seed and seed funding, including for ideation<br>• Established insurers face internal funding hurdles, with conservative boards and management hesitant to invest in innovation |
| **4. Market engagement enablers** | • Several innovation accelerators provide platforms for partnership formation<br>• Highest mobile money penetration rate in Africa | • Consumer demand for (voluntary) insurance remains low, indicative of low levels of trust and awareness of insurance benefits<br>• Insurtechs struggle to realise partnerships with insurers<br>• MNO partnerships key to innovation, but not easy to navigate<br>• Payment system constraints to mobile premium collection |
| **5. Regulatory environment** | • IRA has a dual protection and market development mandate<br>• Introduction of microinsurance licence category provides scope for proportionate market entry<br>• Several regulatory provisions have been implemented to pave the way for tech-enabled innovation | No dedicated regulatory ‘home’ for insurtechs |

| | | |
|---|---|---|
| **6. Supervisory support for innovators** | • The IRA has adopted innovation into its strategic objectives and has entrenched innovation targets in its internal workplans<br>• The IRA has built up a track record of proactive market engagement and is perceived as open and approachable by market players<br>• Significant recent improvements in the product approval process<br>• Two rounds of BimaLab implemented and sandbox launched to facilitate innovation partnerships | • Prospective market entrants such as insurtechs still find it challenging to navigate the licensing, product approval and compliance landscape<br>• Coordination with other regulatory authorities not yet innovation-focused<br>• Limited success rate so far for BimaLab in securing partnerships, and no sandbox entries yet |

**Table 3: Key strengths and barriers across the six assessment areas**

# 3. Innovation action plan recommendations

Based on the innovation and regulatory portrait sketched in Section 2, this section develops action plan recommendations to build on the strengths in the innovation ecosystem in Kenya and address the remaining challenges to innovation. In each instance, the relevant regulating-for-innovation tool type, as introduced in Section 1, is flagged.

## Action 1: Tailor regulatory approach to meet evolving market needs

Regulatory tools

***Explicitly note insurtechs in the regulatory framework.*** The fact that there is no formal definition, dedicated licence category or guidelines for insurtechs means that they still face uncertainty in navigating the regulatory landscape and partnerships modalities required for the types of activities that they provide. In the short term, addressing this challenge calls for the issuance of guidance on insurtech operations. In the medium to longer term, it may be appropriate to revisit the licence categories entrenched in legislation to ensure that the unique functions fulfilled by technical service or platform providers are explicitly accommodated.

## Action 2: Evolve institutional structures to cement innovation orientation and promote coordination

Supervisory tools

***Action 2a: Further build out resources for innovation.*** Even though the IRA does dedicate resources to innovation, the consultations suggest that those driving the innovation initiatives are often stretched in juggling their innovation and other responsibilities. Current plans to create a dedicated unit tasked with market development and innovation will ensure that those involved prioritise innovation promotion as the key performance indicator (KPI) attached to their job and will equip them to coordinate with other departments as needed. The recruitment and capacitation of staff in innovation will be important going forward.

***Action 2b: Enhance cross-authority coordination on pertinent innovation topics.*** The existence of the FSRF provides a good basis for coordination across financial sector regulatory authorities, but the forum does not yet have an explicit innovation mandate and, hence, has not given attention to cross-jurisdiction matters such as recurring deductions on mobile money for premium payment purposes. Nor does the FSRF formally involve non-financial sector regulators such as the data protection or telecommunications regulators. Thus, the recommendation is to entrench innovation as a topic in the FSRF agenda in the short term and, over the medium to longer term, update or expand MOUs with other regulatory authorities and relevant research bodies and form a fit-for-purpose mode of coordinating on insurance innovation topics. Specifically, it is recommended that

particular innovation topics, such as regulation of insurtech start-ups, be considered under the cross-regulatory coordination agenda pursued by the joint financial sector regulators' forum and the Fourth Medium-Term Plan (MTPIV) 2023–2027.

## Action 3: Align skills and talent with industry needs



***Build on IRA skills-building track record to expand scope of engagement.*** The IRA has already played a role in building actuarial skills and can now expand this role to continue to build technical insurance skills, plus advocate for broader technical skills to be attracted to the insurance market. For example, it can partner with local universities and tech platforms to showcase the importance of insurance-specific skills, or the application to insurance of generic tech and data skills, through open days, workshops, forums and seminars. The IRA has already indicated its desire to partner with universities to drive innovation challenges and can expand this to include scholarships as well as open competitions for product design and hackathons. Development partner funding would be needed to facilitate this role.

## Action 4: Further build out industry engagement avenues to promote partnerships and access to funding, and to help players navigate the regulatory landscape

***Action 4a: Drive the success of the regulatory sandbox and BimaLab.*** While the creation of the BimaLab and regulatory sandbox are positive steps towards proactively promoting innovation in the insurance market, these initiatives have so far not achieved the desired tangible results. Hence, the IRA should leverage industry feedback to inform the continuous refinement of the sandbox and the BimaLab to ensure that they meet the intended purposes of (a) facilitating partnerships, (b) securing funding for innovation and (c) navigating regulatory entry. Doing so may require a broader set of partners to be onboarded.

***Action 4b: Further expand engagement with the insurance market.*** The IRA already uses various channels to engage with established and prospective market players and the recommendation is to further build out this approach through targeted innovation-topic workshops, open days and forums for engagement between market players and potential partners on partnership constraints and prerequisites. More broadly, the IRA can continue to build its profile and presence in the market by making the *innovationhub.ira.go.ke* website operational and leveraging it, social media and/or a periodic industry newsletter to keep the market updated on relevant trends and topics and to iron out perceived regulatory grey areas. Doing so on an ongoing basis will require resources – in addition to the departmental structure in recommendation 2a, the communications function within the IRA will need to be strengthened.

## Action 5: Proactively signal and nudge innovation towards segments that remain underserved

***Place specific emphasis on product innovation to serve underserved segments.*** As part of its market engagement, it is recommended that the IRA deliberately nudges and

encourages the development of innovative products aimed at increasing insurance penetration in the market, rather than just enhancing efficiencies. This could be incorporated into the various engagement channels outlined, or as a cohort focus in the BimaLab and sandbox. Emphasis should be placed on innovations in product development, underwriting, risk pricing and distribution of insurance products to serve underserved segments, including agriculture and MSMEs. In parallel, deliberate efforts are needed to further clarify and streamline the product approval process for prospective innovators.

## Action 6: Broaden and deepen the innovation monitoring framework

Monitoring tools

***Move from output to outcome indicators.*** While it is positive that the IRA already sets internal targets for innovation, this is done at the activity level: the number of sandbox entrants or BimaLab graduates, or the number of events hosted. More broadly, the IRA's annual report tracks insurance penetration as the main measure of market development alongside key performance indicators such as gross and net premium income, claims ratios, retention ratios and expense ratios. While useful and widely adopted as a measure of insurance market development, insurance penetration is a very broad indicator that does not illuminate specific innovation progress.

As a next-phase evolution, the recommendation is to define targeted innovation-focused initiatives and interventions to address identified portrait gaps, and then to develop an outcomes-oriented list of innovation KPIs that would enable the IRA to track progress and build a data source, monitoring and analysis plan to harvest insights that will inform decision-making. This will include taking stock of which existing industry and reported data sources to leverage (including untapped sources such as information submitted through the product approval process), as well as which alternative data sources, such as consumer research, to tap into, and incorporating them in a data source. The market development pillar of the A2ii Supervisory KPIs Lexicon[22] and its associated Market Development KPI Handbook provide a list of potential KPIs, as well as valuable frameworks, examples and process considerations.

Related recommendations are to develop an insurtech tracker database as well as to develop an information and knowledge management architecture to share information and minimise existing information asymmetries.

Rolling out such a monitoring strategy, building the corresponding analytical and insights synthesis capacity and entrenching the insights generated into the decision-making structures of the IRA will be a medium to long-term undertaking, but is worth investing in. Ultimately, you can only manage what you measure.

22 For example: the number of new products launched, claims paid ratio, claims timeframe, concentration or fragmentation of the insurance market, number of applications approved within a certain turnaround time and number of new product applications submitted, to name but a few options.

# 4. Conclusion

This document has sketched an innovation portrait of the Kenyan insurance market and considered the key factors driving and inhibiting innovation across six elements of the innovation ecosystem: the underlying infrastructure, access to talent, access to finance, market engagement enablers, the regulatory environment and supervisory support.

***Strong foundation.*** The analysis shows that Kenya has covered much ground in its journey towards inclusive insurance, from the first engagements on microinsurance to the current tech innovation emphasis, helped by strong mobile infrastructure and a relatively sophisticated target market. The IRA has been a key player in the innovation journey to date, taking its dual mandate to protect consumers and develop the market to heart. It has wielded a combination of regulatory, supervisory and market engagement tools to do so. The result is a largely enabling regulatory framework, with a proportionate microinsurance licence and provision for digital offerings, greatly streamlined supervisory processes attuned to market needs, and a regulator that is respected and approachable.

***More needed.*** Inclusive innovation in Kenya has not yet reached sufficient scale. Outside of NHIF cover, less than one in every 10 Kenyan adults have insurance. Breaking through the mass market barrier requires more partnerships, the ability to more smoothly collect premiums on mobile money, patient capital and the necessary skills and mindset to drive product innovation. This challenges the IRA to take its proactive innovation promotion role even further through a targeted action plan to drive transformative innovation.

Table 4 summarises the key action plan elements by responsibility, term and priority level.

| Intervention | Responsibility | Action plan term |
|---|---|---|
| **1. Tailor regulatory approach to meet evolving market needs**<br>Explicitly allow for insurtechs in the regulatory framework | IRA | **Short term**: issuing guidance<br>**Long term**: revisiting licence categories |
| **2. Evolve institutional structures for innovation promotion and coordination**<br>• Further build out resources for innovation<br>• Bring innovation formally into the cross-regulatory coordination agenda | IRA | Medium term |
| **3. Align skills with industry needs**<br>Build on IRA skills-building track record to expand scope of engagement and knowledge/information sharing | IRA<br>Training/education partners<br>Development organisation support | Medium term |

| | | |
|---|---|---|
| **4. Further build out engagement channels**<br>• Drive the implementation of the regulatory sandbox and BimaLab to show tangible innovation results<br>• Expand engagement with the insurance market (existing as well as prospective players) through a number of channels<br>• Place emphasis on product innovation to serve underserved and excluded/unserved market segments | IRA<br><br>Development organisation TA support | Short to medium term |
| **5.Proactively signal and nudge convergence of innovation initiatives towards segments that remain underserved**<br>Use the various industry engagement channels to encourage the development of innovative products aimed at increasing insurance penetration in the market, including by showcasing best practice innovations from other markets | IRA<br>Development organisation support | Short to medium term |
| **6. Broaden and deepen the innovation monitoring framework**<br>• Develop innovation-focused initiatives and interventions to address identified portrait gaps<br>• Define an outcomes-orientated list of innovation KPIs<br>• Develop a data source, monitoring and analysis plan to harvest insights to inform decision-making<br>• Develop an insurtech tracker database<br>• Develop an information and knowledge management architecture to share information and minimise existing information asymmetries | IRA<br><br>Development organisation TA support | **Short term**: indicator identification and strategy development<br><br>**Long term**: roll-out |

**Table 4: Key action plan elements: what, who and when?**

*A concerted effort.* While these recommendations are formulated for IRA adoption, the IRA cannot by itself achieve the desired results. Development partners such as FSD Africa have a key role to play in backstopping the IRA in this journey, as does the market to rise to the challenge.

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# Appendix: Stakeholder engagements

Throughout the project, Cenfri engaged with various stakeholders within the Kenyan insurance market to understand the opinions and perceptions of innovation from the industry itself. Table 5 summarises the stakeholders Cenfri engaged with.

| Stakeholder type | Name of organisation | Date of engagement |
|---|---|---|
| Regulator | Insurance Regulatory Authority | 08/02/2022 |
| | Insurance Regulatory Authority (Legal Department) | 15/03/2022 |
| Insurance firms | Britam | 25/02/2022 |
| | ICEA Lion | 11/02/2022 |
| Insurtech firms | CoverApp | 18/02/2022 |
| | Lami World | 16/02/2022 |
| | Inclusivity Solutions | 17/02/2022 |
| | Bima Kenya | 11/02/2022 |
| Accelerators | Growth Africa | 15/02/2022 |
| Associations | Association of Kenyan Insurers (AKI) | 10/02/2022 |
| | Association of Start-up and SMEs Enablers of Kenya (ASSEK) | 14/02/2022 |

**Table 5: Stakeholder engagements**

**About 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 who seek 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 UK aid from the UK Government. FSD Africa also provides technical and operational support to the FSD Network: a family of 10 financial market development agencies, or FSDs, across SSA.