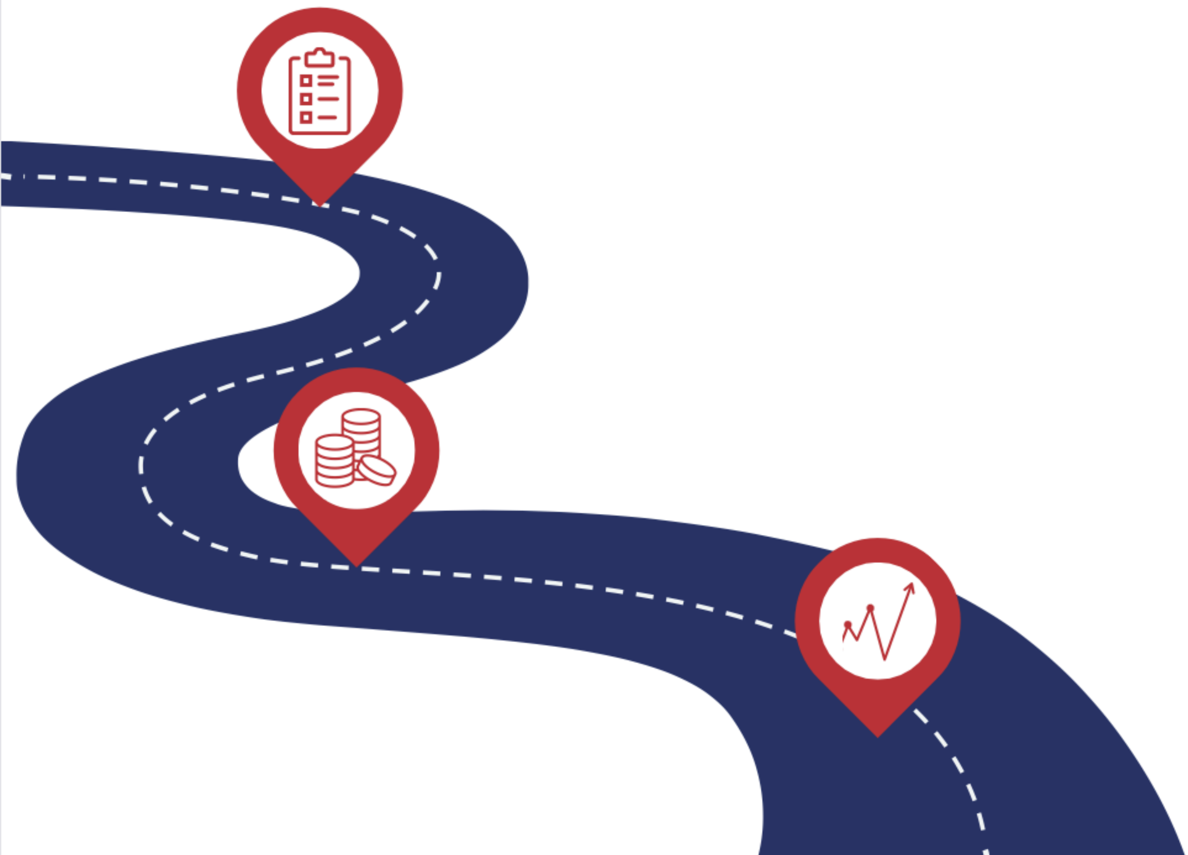
A Roadmap for UK insurtech growth

Policy recommendations to strengthen global leadership in insurance innovation



Insurtech UK

Our mission is to transform the insurance industry through the use of technology, and make the UK the global leader for insurance innovation.

As the dedicated trade association for insurtechs in the UK, our members comprise 100+ insurtechs and 30+ partners ranging from insurance companies to professional services firms supporting the sector.

For more information:
secretariat@insurtechuk.org
https://insurtechuk.org/

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Executive Summary

Insurtech is a dynamic growth sector with infinite potential in the UK and beyond.

Insurtech uses the latest technological developments to improve insurance:

- introducing ways to better serve new and existing customers,
- new processes for quicker and easier purchase and claims, and
- analysing new or more data to better assess risk.

The UK is home to the world's second largest insurtech cluster:

- **280 insurtech firms** with one third based outside of London
- an estimated combined **value of more than $20 billion**
- **8 insurtech unicorns**, more than the rest of Europe and second only to Silicon Valley

UK insurtech directly employs a diverse **workforce of 14,000 people** with two thirds aged under 40 and nearly half female.

More widely, it supports 60,000 jobs across all of the UK and contributes **almost £5 billion to the UK economy (GDP)** (McKinsey 2023, *The United Kingdom - the Nexus of Insurtech*).

Opportunities for insurtech growth include developing or deploying new technologies, more partnerships with insurers, and international expansion. Barriers cited in recent sector surveys include access to funding, access to talent, and new customer acquisition.

The industry is already working together, through its trade association Insurtech UK, to cultivate a proactive ecosystem that inspires and strengthens UK start ups and scale ups.

To achieve the **UK's full potential as a global driver of insurance innovation**, the industry's energy and expertise must be complemented and **supported by a positive, enabling policy environment**.

This **roadmap sets out how the next government can set the path for UK insurtech to flourish** through:

- a regulatory regime that enables more new entrants
- an investment environment that facilitates funding
- action to unlock scaling, particularly access to international markets and overseas investors

Roadmap Recommendations

Regulation and Digital Transformation

A regulatory regime that enables more new entrants

Recommendation 1: The PRA to maintain momentum in evolving the regulatory regime to the needs and structures of insurtechs as they start and scale, including:

a: a swifter, more transparent application process for PRA authorisation

b: clear guidance and communications as the new PRA mobilisation regime is introduced and embedded, meeting the commitment to be in place by end 2024

Recommendation 2: The FCA to work closely with the insurtech industry to ensure the ongoing availability of, and confidence in, a proper Appointed Representative scheme which allows market access for start-ups and enables future innovations in embedded insurance

Recommendation 3: Regulators to deploy a progressive, enabling approach to emerging technologies such as AI, blockchain and Open Finance, taking into account how these may best be applied within an insurance context to maximise consumer benefit and confidence

Access to Finance

An investment environment that facilitates funding

Recommendation 4: HM Treasury should extend SEIS and EIS to all categories of insurtech to incentivise more investment into this high-potential sector, and to prevent a cliff-edge where Managing General Agents may transition to being a regulated insurance firm

Recommendation 5: HM Treasury should significantly extend qualifying criteria for EMI from its current limit of £30 million gross assets to attract more experienced talent as insurtechs scale

Recommendation 6: HM Treasury should re-extend the long-stop date for Advance Subscription Agreements back to 12 months, removing the additional pressures on concluding accelerated funding rounds that reducing this to 6 months has created

Recommendation 7: An urgent review of the HMRC R&D credit scheme should be conducted to provide clarity, consistency and confidence in both the application of scheme criteria and scheme administration

Recommendation 8: The value and positive impact of Innovate UK's Professional and Financial Services programme supporting research and development in insurance should be recognised and expanded by HM Treasury in future spending rounds

Tackling barriers and driving growth

Targeted action that unlocks future potential

Recommendation 9: HM Treasury should introduce a fairer VAT/IPT regime, enabling insurtechs to scale quicker and on a level playing field with other tech sectors

Recommendation 10: A three year strategy from the Department for Business and Trade for international promotion of UK insurtech - to facilitate access to key overseas jurisdictions and encourage inward investment, drawing on evidence of priority countries and positive past experiences with insurtech corridors and fintech bridges

Recommendation 11: New government-backed reinsurance schemes (Innovation Re) should be scoped by HM Treasury to enable cover of new societal risks or act as a back-stop for new accessible and affordable insurance policies providing greater financial inclusion in insurance.

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Introduction

The role of insurance

Insurance underpins essential social and economic activity. Insurance protects people's assets and income: it reimburses cars in collisions, compensates those affected by theft or floods, and provides for families impacted by illness or bereavement. Insurance helps companies grow: it removes risk from failed supply chains and supports companies to trade internationally.

The UK has been a leading global centre in insurance for over 400 years, but as society and business evolves then so too must insurance.

What is insurtech?

Insurtech uses the latest technological developments to improve insurance, from better serving new and existing customers through to a quick and easy purchase and claims process, to analysing new or more data to better assess risks.

Insurtech is also innovating in terms of the types of risks that can be insured - from short-term rental insurance to the impacts of cybercrime and cloud computing outage.

The UK insurtech ecosystem encompasses all of these developments and more, combining insurance expertise and technological prowess to fuel an exciting array of new products and services.

Categories of insurtech

Managing General Agents

Sell insurance directly to customers, often having devised new products not previously available. Policies are underwritten by the market, often existing insurers, so if a customer claims, the pay out comes from the underwriting insurer. Can be a starting point for insurtechs with ambitions to go on to become insurers in their own right.

Platform

Flexible, configurable software platforms to enable insurers to develop, launch and administer new or existing products and services more quickly and efficiently.

Claims

Use technology to improve the claims process for insurers, making claims faster, fairer and more accurate - processed and paid out in minutes, not weeks. Uses innovations such as cloud-hosted solutions, AI powered fraud detection, video streaming and automated platforms.

Data & Analytics

Lead or support an insurer's own capabilities, often using technologies such as AI to manage and analyse significant volumes of real-time data, enrich existing data sets with new sources and produce risk scores based on this information to provide more accurate pricing for customers.

Brokers

Provide quick and efficient routes to customers for traditional insurers and insurance products. Focus on disrupting established distribution models with new and innovative ways to reach prospective individual and/or business customers.

Managing risk

Use data and technology to provide risk management software and tools to insurers. By managing governance, compliance and other risks, they help insurers better analyse risk and improve decision making.

Strength of the sector

The UK is home to the world's second largest insurtech cluster, with **280 insurtech firms** identified in Insurtech UK's 2023 sector study led by McKinsey *The United Kingdom - the Nexus of Insurtech*.

UK insurtech has an estimated **combined value of more than $20 billion**, making it the third largest globally after the USA and China, with an annual revenue of £2-3 billion.

One third of all UK insurtechs are based outside of London, with emerging clusters in northwest England, the south and Wales.

To date the UK has produced **8 insurtech unicorns** (companies valued at more than $1bn) - more than the rest of Europe combined, and is second only to Silicon Valley globally.

The sector directly employs a diverse **workforce of 14,000 people** where about two thirds are aged under 40 and nearly half are female.

More widely, the sector makes a **significant contribution of almost £5 billion to the UK economy (GDP)** and supports 60,000 jobs across the UK.

The UK insurtech sector

280
insurtech firms

$20bn+
value of the sector

1/3
outside London

£2-3bn
annual revenue

8
unicorns

14,000
full time employees

Contribution to UK GDP

£5bn
per annum

60,000
jobs

Source: The United Kingdom - The Nexus of Insurtech (McKinsey, 2023)

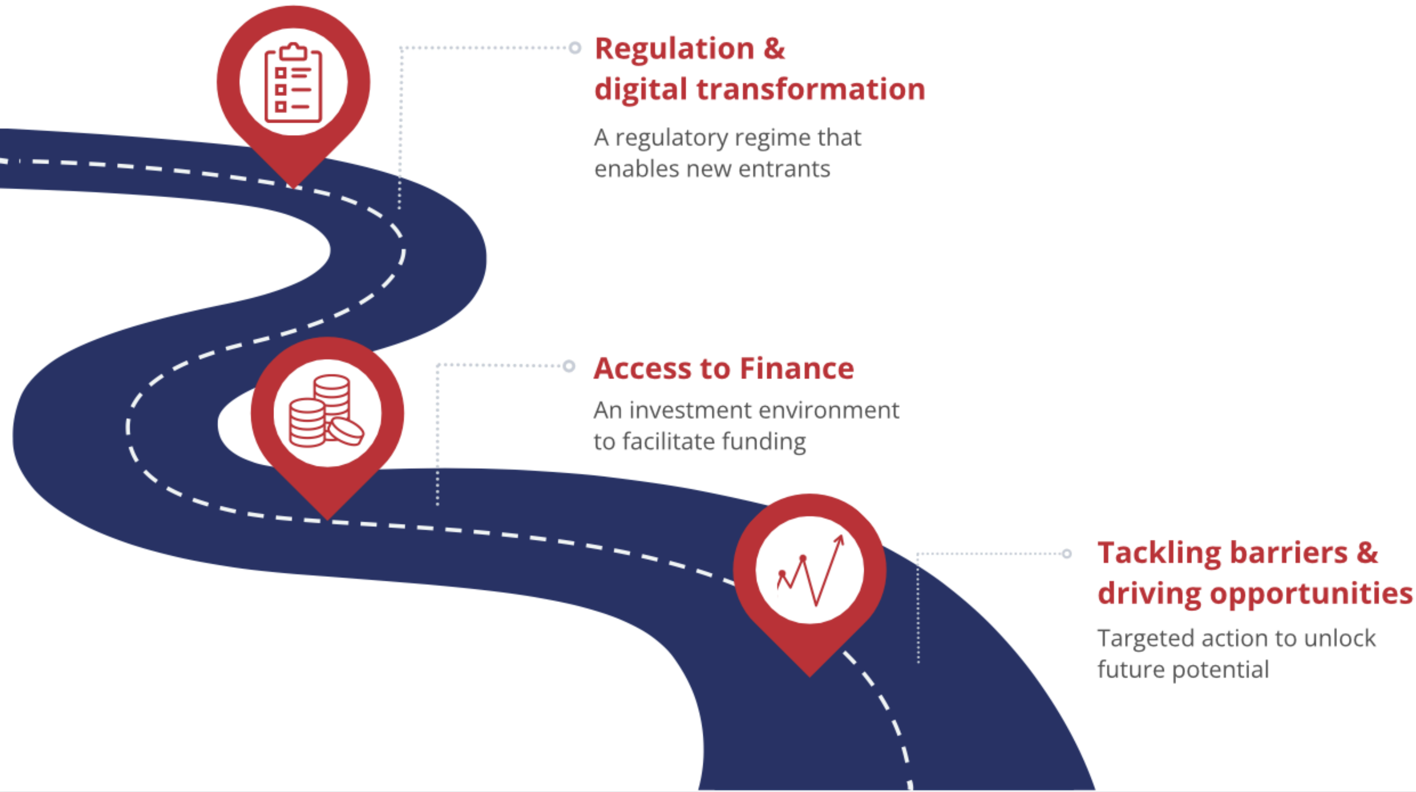
Powering insurtech's potential

Insurtech is a dynamic growth sector with infinite potential in the UK and beyond. Opportunities highlighted in McKinsey's *The United Kingdom - the Nexus of Insurtech* include developing or deploying new technologies, partnerships, and international expansion. Barriers to break through to reach new heights include access to funding, access to talent, and acquiring new customers.

The industry itself is already working together, through its trade association Insurtech UK, to cultivate a proactive ecosystem that inspires and strengthens start ups and scale ups.

Insurtech UK community groups focus on finance, diversity, and later-stage challenges, whilst the Insurtech UK Advisory Panel promotes productive partnerships between insurers and insurtechs, skills exchanges and secondments, and angel investment into insurtechs.

To achieve its full potential as a global driver of insurance innovation, these industry-led endeavours - alongside the sector's energy and expertise - can and must also be complemented and supported by a positive, enabling policy environment. This roadmap sets out ways policymakers can facilitate the path for UK insurtech to flourish.



Regulation & Digital Transformation

A regulatory regime that enables more new entrants

An agile, more accelerated authorisation process

As the UK insurtech sector matures, scaling insurtechs (often operating as Managing General Agents) are looking to transition from intermediary status to being an authorised carrier. A full licence allows them to control the entire insurance value chain, without being constrained by partnering with existing insurers that provide their underwriting capacity.

The current authorisation process was not designed with agile insurtechs in mind, which can lead to a lengthy, often prohibitive, application process. Challenges include the speed and expense of the process which can take at least 12 months.

An effective regulatory regime suitable for smaller insurance firms

The regulatory conundrum often exists of needing to demonstrate business operations are in place to be licenced, whilst investment and senior hires can be reliant on obtaining authorisation. There is also a live debate about the regulatory requirements insurtechs should have to meet in their early stages, as in some cases initial capital requirements have seemed high given the size and implied risk of the firm.

Regulators are alive to this issue and have been considering what more can be done to enable new entrants.

The PRA have established a new Insurer Start-Up unit (akin to the Small Bank Unit, which is establishing a more streamlined authorisation process for challenger banks and tiered requirements as they grow).

A new 'mobilisation regime' has been proposed. This aims to provide the certainty of being authorised as new insurers complete their final set up, with modified entry requirements (e.g. lower capital floor, amended governance and reporting requirements), on the basis of time-limited restrictions on activities (e.g. only effecting insurance contracts with net exposure below £50,000, maximum policy term of 2 years, and on a claims-made basis - and no liability insurance).

More widely, there have also been increases to the thresholds for size and complexity at which Solvency UK will apply; annual gross written premiums thresholds will be set at £25 million (previously £15 million), whilst there is a doubling of gross technical provisions to a £50 million threshold, aimed at nurturing insurtechs.

These are all welcome developments, and Insurtech UK continues to work collaboratively with government and regulators on these issues.

The next steps will be to successfully introduce these measures in a manner which truly enables the competition and innovation they seek to promote, and interacting with the sector to review the regime as necessary.

Recommendation #1: Maintain momentum in evolving the regulatory regime to the needs and structures of insurtechs as they start and scale:

a: a swifter, more transparent application process for PRA authorisation

b: clear guidance and communications as the new mobilisation regime is introduced and embedded, meeting the commitment to implement in 2024

A trusted Appointed Representatives regime providing market access

Appointed representatives carry out regulated activity under the responsibility of an existing firm that already has FCA authorisation. This can allow new entrants to operate under the banner of another firm as they start and scale, encouraging effective competition. Where smaller businesses can operate under one banner, this also helps to remove an initial reliance on larger, traditional insurance firms who are ultimately their competitors.

This is a valuable route to market access. It has been used in the early days of many successful UK insurtechs, and may also be instrumental in enabling the increasing trend towards embedded insurance.

The FCA is, rightly, exploring stricter measures to ensure the principal firm's oversight is more structured and effective. Whilst there is industry consensus on ensuring the regime is not exploited, with transparency to consumers at its heart, it is vital this channel remains open.

Recommendation #2: Work closely with the insurtech industry to ensure the ongoing availability of, and confidence in, a proper Appointed Representative scheme which allows market access for start-ups and enables embedded insurance.

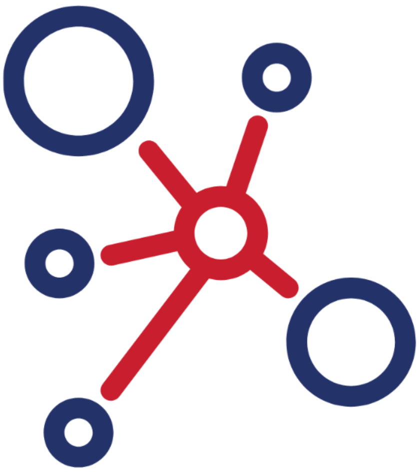
A progressive, enabling approach to emerging technologies

Drawing on the latest technological developments to improve insurance sits at the very heart of insurtech.

The regulatory environment for the safe and secure application of emerging technologies and datasets will significantly influence their appropriate deployment across the insurance landscape, from Artificial Intelligence and Large Language Models, to Blockchain and into Open Finance.

As the FCA considers how these advancing areas may best operate within financial services, it will be important to take into account how these may be applied within an insurance and insurtech context - allowing new opportunities to be realised for improved customer outcomes and more efficient processes, whilst not erecting unintended barriers.

Recommendation #3: Deploy a progressive, enabling approach to rules and guidance governing emerging technologies such as AI, blockchain and Open Finance - taking into account how these may best be applied within an insurance context to maximise consumer benefit and consumer confidence in the latest products and processes.



Access to Finance

An investment environment that facilitates insurtech funding

All insurtech should be able to take advantage of SEIS and EIS investment incentives

The Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS) incentivise private investment into start-ups through favourable tax treatment. Whilst this is a successful scheme which has encouraged significant funds into the growth of UK companies, sectoral constraints on eligibility for financial services, including insurance, mean many insurtechs remain unable to take advantage of this initiative.

Following extensive engagement with HMRC, Insurtech UK welcomed updates to the EIS guidance in 2021 clarifying that Managed General Agents are eligible given they do not directly underwrite insurance risk as a carrier.

The wealth of firms within the insurtech sector is however much broader than MGAs, and expanding this relief to all insurtech companies would provide increased levels of much sought after investment for insurtechs to start and grow, as well as levelling the playing field relative to other technology companies. It would also remove a prohibitive hurdle to increasing competition within the insurance sector. For growing MGAs who are considering the next step of converting to an insurance firm in their own right, becoming a regulated company would currently invalidate their EIS status.

Recommendation #4: Extend SEIS and EIS to all categories of insurtech to incentivise more investment into this high-potential sector, and to prevent a cliff-edge where Managing General Agents transition to being a regulated insurance firm

Criteria for Enterprise Management Incentives need to be updated

The Enterprise Management Incentive enables cash-constrained start-up companies to compete for talent with larger corporates through share-based remuneration, whilst giving staff a stake and say in the company's success.

To qualify for EMI a company must have fewer than 250 employees and less than £30 million in gross assets. This criteria has remained static for many years, and has not increased in line with growth or inflation, undermining the potential impact of the scheme and restricting its ability to also support company's through their vital scaling stage.

Recommendation #5: Qualifying criteria for EMI should be significantly increased from its current limit of £30 million of company gross assets to attract more experienced talent as insurtechs scale

Rules for Advance Subscription Agreements invalidate its effectiveness

An Advance Subscription Agreement enables the investor to provide finance to a start-up in return for the right to purchase shares in the company at a later date, often when the company seeks its first round of equity funding. If there is no funding round within an agreed amount of time (long stop date) then the investment will no longer be eligible for SEIS/EIS tax relief. In 2019 HMRC changed the long stop date from 12 months to 6 months, impacting the fundraising efforts of those insurtechs who are eligible for SEIS/EIS.

However, recent research by Insurtech UK and McKinsey highlights that deals are currently taking longer as investors undertake more thoughtful due diligence, looking not just at top-line growth potential, but also profitability, unit economics and predictability. The impact of this means insurtechs and other start-ups are having to rush valuations and accept sub-optimal terms. The FCA should also helpfully clarify using ASA as regulatory capital, which should be permitted due to its loss absorption capacity.

Recommendation #6: The long-stop date for Advance Subscription Agreements should be re-extended back to 12 months, removing the additional pressures this has created to conclude accelerated funding rounds

Clear, consistent R&D tax relief

Research and Development (R&D) tax reliefs support UK companies working on innovative projects in science and technology, including insurtech firms.

However, a continued cycle of changes is creating complexities for businesses to navigate and uncertainties as schemes are merged and rates reduced. Firms are also encountering inconsistencies across the approach of HMRC case handlers and the scheme's administration, with increased claw-back of funds.

Recommendation #7: An urgent review of the R&D credit scheme should be conducted to provide clarity, consistency and confidence in both the application of scheme criteria and scheme administration.

Innovate UK grants to instigate innovative insurance research

Innovate UK grants are supporting the development and adoption of new digital approaches in insurance. Insurtech UK welcomes this grant funding available to facilitate new research and products within the UK insurance sector.

After an initial tranche of funding for Professional and Financial Services that ran until 2022, Innovate UK launched a new Next Generation Fund of £26.5 million to help PFS sectors, including insurance, to develop and use digital technologies. Its aim is to facilitate projects which will deliver better products and services, increase access to services, and make these services more effective for the customer. Projects supported to date include identifying and removing bias from telematics used within car insurance, practical insights on AI adoption in insurance for both firms and regulators, and scoping new insurance policy cover for cyber protection for small businesses.

Recommendation #8: The value and positive impact of Innovate UK's Professional and Financial Services programme supporting research and development in insurance should be recognised and expanded in future spending rounds

Tackling barriers & Driving growth

Targeted action that unlocks insurtech's fullest future potential

Reducing inconsistencies in tax treatment for insurtech

A large proportion of UK insurtechs are intermediary businesses such as Managing General Agents or brokers. These are not fully licensed insurance firms in their own right. Rather they use their digital and tech skills to provide a much-improved consumer experience both in terms of purchasing insurance and making claims. The underlying financial cover is still provided by the insurer.

The insurtech intermediaries sell insurance policies directly to customers and in doing so collect Insurance Premium Tax on behalf of the insurer which passes to HMRC.

Insurtech intermediaries are currently deemed VAT exempt meaning they cannot reclaim VAT on their outgoings such as tech infrastructure, digital marketing or professional services. As a consequence these businesses are effectively paying 120% for 100% of a product or service, and have to raise 20% more capital than other start-ups. This can act as a disincentive to early stage investors to choose a business with a 20% levy on many costs, versus other UK-based tech sectors.

Recommendation #9: A fairer VAT/IPT regime is needed, enabling insurtechs to scale quicker and on a level playing field with other tech sectors

Supporting scaling beyond the UK

Expansion into international markets and offering products to customers in new jurisdictions can provide a channel for significant growth. Nearly 30% of UK insurtechs cited international expansion as the most promising opportunity facing their company (McKinsey, 2023).

Building on support for the sector from the Department for Business and Trade through the prior joint Statement of Intent, policymakers can continue to facilitate overseas opportunities for UK insurtechs through trade missions and international investor look-books, as well as more formal longer-term initiatives such as bilateral corridors or insurtech bridges.

Recommendation #10: A three year strategy for international promotion of UK insurtech to facilitate market access in key overseas jurisdictions and encourage inward investment, drawing on evidence of priority countries and positive past experiences with insurtech corridors and fintech bridges

Establishing further government-backed reinsurance pools

Building on schemes such as Flood re and Pool Re, further government-backed reinsurance schemes providing underwriting capacity could provide vital tools to ensure availability of innovative insurance products.

These schemes could encourage insurance protection to tackle new societal challenges, or cover those risks which are not catered for on the commercial market.

New areas which need new approaches to insurance cover include the space industry, and cyber crime, as well as developments in medical devices and medicines. Advancing climate risk may increasingly become unaffordable to insure on traditional terms, necessitating action beyond the solutions that already exist to recognise this such as Flood Re.

It also presents an opportunity to tackle questions of financial inclusion, for example there could be scope for government to act as the backer of last resort for premium defaults on certain products or for certain cohorts. This could address the poverty premium in insurance highlighted by Fair by Design, whereby monthly payments can often be higher than a one-off annual payment, costing those with the least the most.

Recommendation #11: New government-backed reinsurance schemes (*Innovation Re*) should be scoped to enable cover of new societal risks or act as a back-stop for new accessible and affordable insurance policies providing greater financial inclusion in insurance