Insurtech UK

Insurtech UK calls for insurtech intermediaries to reclaim VAT on their costs

In anticipation of potential changes to Insurance Premium Tax (IPT) in the 2021 Spring Budget, Insurtech UK wanted to highlight the ongoing impact that insurtech intermediaries face by being unable to claim VAT on their costs.

Summary

Insurtech intermediaries who are directly offering premiums to customers are required to pass on the cost of IPT onto the insurance premiums they offer. They collect this on behalf of the insurer(s) who provide their underwriting capacity.

HMRC deems these intermediaries (MGAs/Brokers) as well as broader insurtechs involved in the distribution of insurance products as being VAT exempt. IPT is seen as the equivalent tax.

This however means insurtechs cannot then reclaim VAT on any of their business costs, which is a significant burden to the start-up community and an anomaly that no other tech clusters face.

Insurtech UK would urge caution in any tax changes at this moment, given the fragility of the UK economy and that customers would face the additional cost burden.

If IPT was to be raised, we would urge HMT to finally resolve the anomaly around VAT for Insurtechs and enable them to reclaim VAT on incurred costs.

Insurtech UK would support and participate in a wider consultation with relevant stakeholders on the role of IPT.

A large percentage of the Insurtech sector in the UK is focussed around intermediary businesses (known as MGAs or Brokers). 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 intermediatory will collect the IPT on the policies they offer on behalf of the insurer(s), which is paid to HMRC.

Unlike traditional insurers, the business models of these insurtechs are extremely focused on costs that are liable for VAT: Digital marketing, tech infrastructure and professional services form a large proportion of their outgoings. However, due to the current arrangements of any Insurtech involved in the distribution of are deemed VAT exempt meaning they cannot reclaim the VAT added onto these costs. This means that these businesses are effectively paying 120% for 100% of a product or service.

For startups that are reliant on external investment and so focused on growth, this regime is particularly unhelpful and acts as a disincentive to early stage investors. It can be tough to convince investors to choose your business when there is a 20% levy on many costs that cannot be reclaimed, something you won't have to worry about if you invest in other UK based tech sectors. Likewise, the opportunity cost of this 20% charge on a business' growth is significant. Reducing available capital for growth in a dynamic technology sector with huge potential for UK plc is self-defeating. UK insurtechs have managed to attract over £1.6bn in funding since 2015. A fairer VAT regime would have undoubtedly encouraged even further investment and enabled insurtechs to scale quicker. This would provide an even greater contribution to the UK economy, through more jobs, higher tax receipts as well as driving further insurance innovation, which is vitally needed for consumers.

Insurtech UK has raised this issue with HM Treasury and HMRC several times, both in meetings and through consultation responses. Insurtech UK recognises the Chancellor may be considering a raise to IPT at this Budget, as part of an initial plan of tax rises to help rebuild the public finances due to Covid-19. We would firstly urge caution in that matter as customers will be paying for any increase. We feel this is a time when the entire economy needs some breathing space to get back on its feet, not increase costs. However, if action is taken to move IPT similarly in line with VAT, then we would ask the Chancellor to close this anomaly for Insurtech intermediaries and allow them to reclaim VAT on incurred costs.

The headlines of the 2021 Budget will most likely be focused elsewhere, but Insurtech UK calls upon HM Treasury to consider how it can use its new freedoms outside of the European Union to create a more innovation-friendly landscape for insurtech intermediaries. We believe resolving the current VAT issue would be in line with HM Treasury's stated objective of promoting a "vibrant, innovative and internationally competitive insurance sector" as well as aligning with PRA's goal of "promoting developments in driving further digital insurance and innovation".

Quote:

"There are reports that the Chancellor may be considering a rise in IPT at this Budget, as part of an initial plan of tax rises to help rebuild the public finances due to Covid-19. We would firstly urge caution in that matter at a time when the entire economy needs some breathing space to get back on its feet. This would only add an additional cost burden to customers. to customers. However, if action is taken then we call upon the Chancellor to end the anomaly within the tax regime facing insurtech intermediaries in the UK, where they cannot reclaim any VAT on incurred costs."

"As technology intensive businesses, a larger proportion of costs for insurtechs are liable for VAT, acting as a disincentive for investors. Whilst the insurtech sector has seen considerable growth in the UK in recent years (even through the pandemic), VAT costs undoubtably holds it back. This is something that Insurtech UK has consistently raised with HM Treasury and HMRC over the past 18 months. An end to this regime would allow the sector to grow faster, bringing wider benefits to both consumers and the broader economy. "

James York and Luisa Barile, Co-Chairs, Insurtech UK