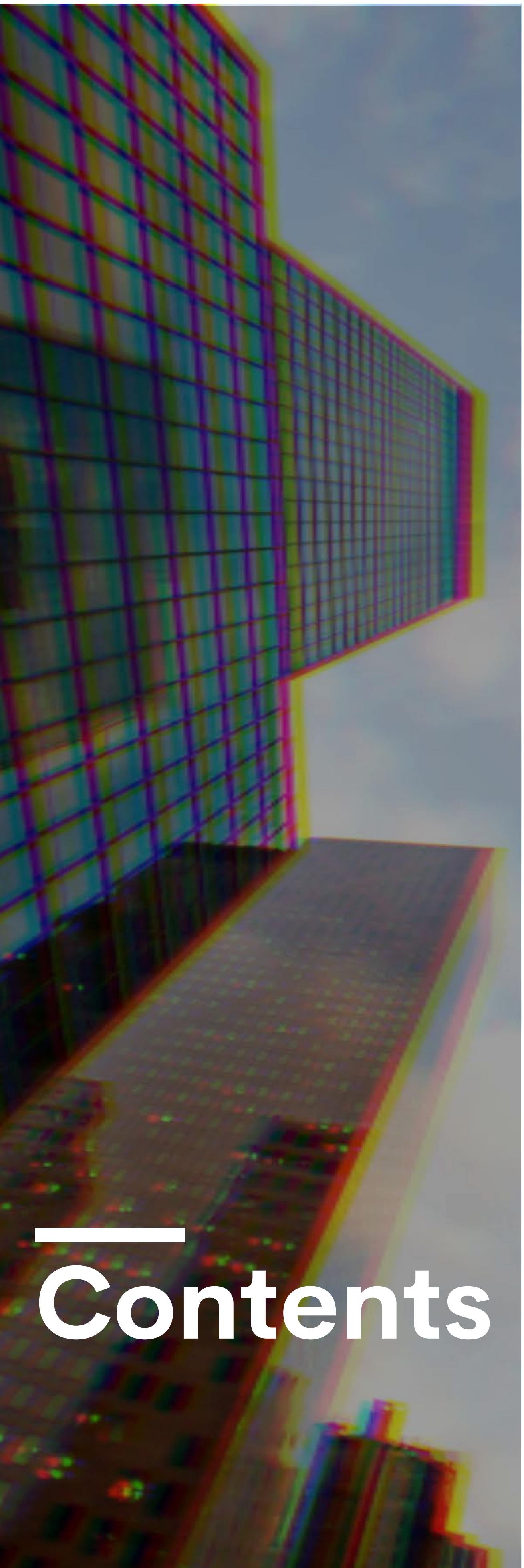
Insurtech UK

2021 Blueprint



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Foreword

In 2021, the UK has the potential to become *the* global leader for insurtech. At a time when the UK Government is looking for new strategic sectors to drive economic growth in a post-Brexit, post-COVID economy, insurtech is a growing sector with huge potential to stimulate jobs, investment and innovation.

The UK already has a great reputation for building globally competitive sectors. You only need to look at the UK fintech sector for an example of this. The UK insurtech sector has the same benefits as UK fintech at its disposal, the same determination to digitally transform financial services for good and the same trajectory for exponential growth with the right support. This is why insurtech is the next fintech.

Given that the UK is a global tech hub and is the fourth largest global insurance market, we have the perfect recipe to become the global centre for insurtech. With the right support, UK insurtech can become the transformative power to revolutionise the $6 trillion global insurance market, and to firmly establish London at the centre of this industry.

The UK insurtech sector is already the largest market in Europe. Since 2015 it has attracted $2.38 billion in investment and in 2020, 48% of all investment into European insurtech went to the UK – which totalled about $300 million. The sector is building on this promising growth and rightly has the ambition to graduate from being the European capital for insurtech to being the global leader.

2021 is about making this ambition a reality.

This blueprint summarises the state of the UK insurtech market going into 2021. It outlines how insurtech can be a key strategic sector that improves insurance productivity and access, drives economic growth and increases the UK's international competitiveness. Most importantly, it explains how to address the challenges facing the sector to ensure it can fulfil its potential as a disruptor for change in the sector and a vehicle to make insurance faster and better.

Insurtech UK is the voice of the insurtech sector, and this is our blueprint to make the UK the global leader for insurance innovation.

Insurtech UK

Council 20/21

Who we are

Insurtech UK is the trade association for insurtech businesses in the UK. Our mission is to transform the insurance industry through technology and to make the UK the global leader for insurance innovation. In our community, we have:

98 Members

Insurtech businesses that operate in the UK

10 Associate members

Incumbent insurance businesses who share our vision to transform the industry through technology.

22 Partners

Non-insurance businesses who serve the insurance market and are committed to supporting the growth of the UK insurtech sector.

What is insurtech?

The UK is the birthplace of insurance, and there is a lot to be proud of its 335-year history. But the industry is starting to show its age.

Decades-old legacy systems are incompatible with new technologies, outdated practices are still commonplace and despite being a sector governed by risk analysis, its own culture is very risk-averse and unwilling to take a chance on new technologies or solutions. Unless the UK insurance industry reacts to the world around it, there is a real risk it could lose its position as a key player in the global insurance market.

But as we have seen in other sectors such as fintech, medtech and regtech, the integration and adoption of technology has made these industries faster, more efficient and ultimately better for customers. Insurtech is no different.

Insurtech is an umbrella term for the use of any technological innovation designed to improve existing insurance industry models.

Like with fintech, the acceleration of insurtech integration and adoption in the UK has been driven by a thriving community of tech-driven startups who operate within the insurance industry. Being free from the burdens of legacy systems and the status quo of the insurance market has provided a clean slate to revolutionise how insurance is priced, distributed and sold to customers.

Whether it's AI, big data, machine learning, snazzy user interfaces, wearables, motion sensors or apps, these all count as insurtech, and together insurtech is transforming the insurance industry through technology.

What does insurtech look like?

Insurtech today comes in many different forms, so here are a few examples of what it looks like in practice:

Websites and apps with accessible user interfaces and jargon-free policy wording to give transparency to what you are buying.

Providing customisable protections for emerging risks in new markets which had previously fallen through the gaps of coverage - such as drones, gig economy workers and AirBnb landlords.

Using AI, big data and machine learning to better assess and price risk - meaning much more accurate pricing and increased protections.

Accelerating the claims process – such as using a smartphone to take photos of your damaged car and AI analysing the damage on the picture and processing your claim in seconds, not weeks.

Flexible and customer-friendly coverage replacing one-size-fits-all annual policies with policies by the hour or via monthly subscriptions.

Using data to better predict climate trends and increase climate resilience, protecting businesses from floods and farmers from droughts.

Why does insurtech matter?

Ultimately, what connects these innovations together is the determination to improve the customer experience of insurance. A 2019 YouGov survey concluded that 68% [1] of people believed their insurer would do "whatever they can" to avoid paying out a claim. COVID-19 has further damaged trust in insurance, as a recent FCA survey revealed that 36% of people believed the insurance industry did not do enough to help consumers during COVID-19, and 22% of adults now trust insurers less because of their response. [3]

It is not surprising therefore that insurance uptake in the UK has dropped by over 6 million policies in some personal lines over the past 7 years [2]. The conclusions here are that people no longer trust insurance. The danger is that millions of people willingly choose to remain unprotected.

This is not the way that we should be looking at insurance. Insurance is a social utility, the thing that rebuilds communities, underpins societal resilience and protects loved things and loved ones. Somewhere over the past 335 years, this has been lost on customers.

The challenges facing Government and industry are to rebuild consumer trust in insurance; to offer greater transparency, competition and incentives to increase insurance uptake; and to ensure the UK insurance industry remains competitive internationally. Insurtech can address all these issues.

The UK remains the birthplace of insurance and a key player in the global market. If the UK fully embraces insurtech and gives the sector the resources it needs to grow, there is every likelihood it can enjoy similar success to the UK fintech sector and become *the* driving force for innovation within the global insurance market: positively impacting millions of lives and contributing billions to the UK economy.

[1] https://yougov.co.uk/topics/finance/articles-reports/2019/09/12/most-brits-believe-insurance-companies-do-whatever

[2] https://www.finder.com/uk/life-insurance-statistics

[3] https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus

UK Insurtech by numbers

189

Insurtech businesses currently operating in the UK

6,500+

employees within the UK insurtech sector

5

Continents where UK insurtechs are operational

$2.38BN

Invested into the UK insurtech community since 2015.

29

Funding deals into UK insurtechs completed in 2020

48%

of all 2020 insurtech investment in Europe went to the UK

What we look like

Insurtech has a very broad spectrum, so here is a summary of the various business models within the insurtech umbrella:

Managing General Agent (MGA)

MGAs sell insurance policies directly to customers. However, while they have many of the capabilities of traditional insurers, their underwriting capacity for their policies comes from the market, often through insurers. This means that they do not carry on insurance activity, so if a customer makes a claim, the pay out will come from the insurer who underwrites their capacity, not the MGA.

Risk management

These insurtechs use data and technology to provide software platforms and tools to support risk management for insurers. By managing governance, compliance and other risks for insurers, these insurtechs help insurers to better analyse risk, improve decision making and prevent risks from having a critical impact on business models. These tools are also transferable to other businesses outside of the insurance industry.

Platform

These insurtechs provide flexible, configurable software platforms to enable insurers to develop, launch and administer products and services more quickly and efficiently. These insurtechs would typically be looking to work with insurers to implement new or existing products and services on their platform, licensing the software and building out further bespoke capabilities in an efficient manner.

Data & Analytics

These companies either lead or support an insurer's data and analytics functions, often using technologies such as AI to analyse large swathes of real-time data. Key capabilities of these insurtechs include the technical ability to manage significant volumes of data, enriching existing data sets with new data sources and producing risk scores based on this information to be used by insurers to better assess risk and provide more accurate pricing for customers.

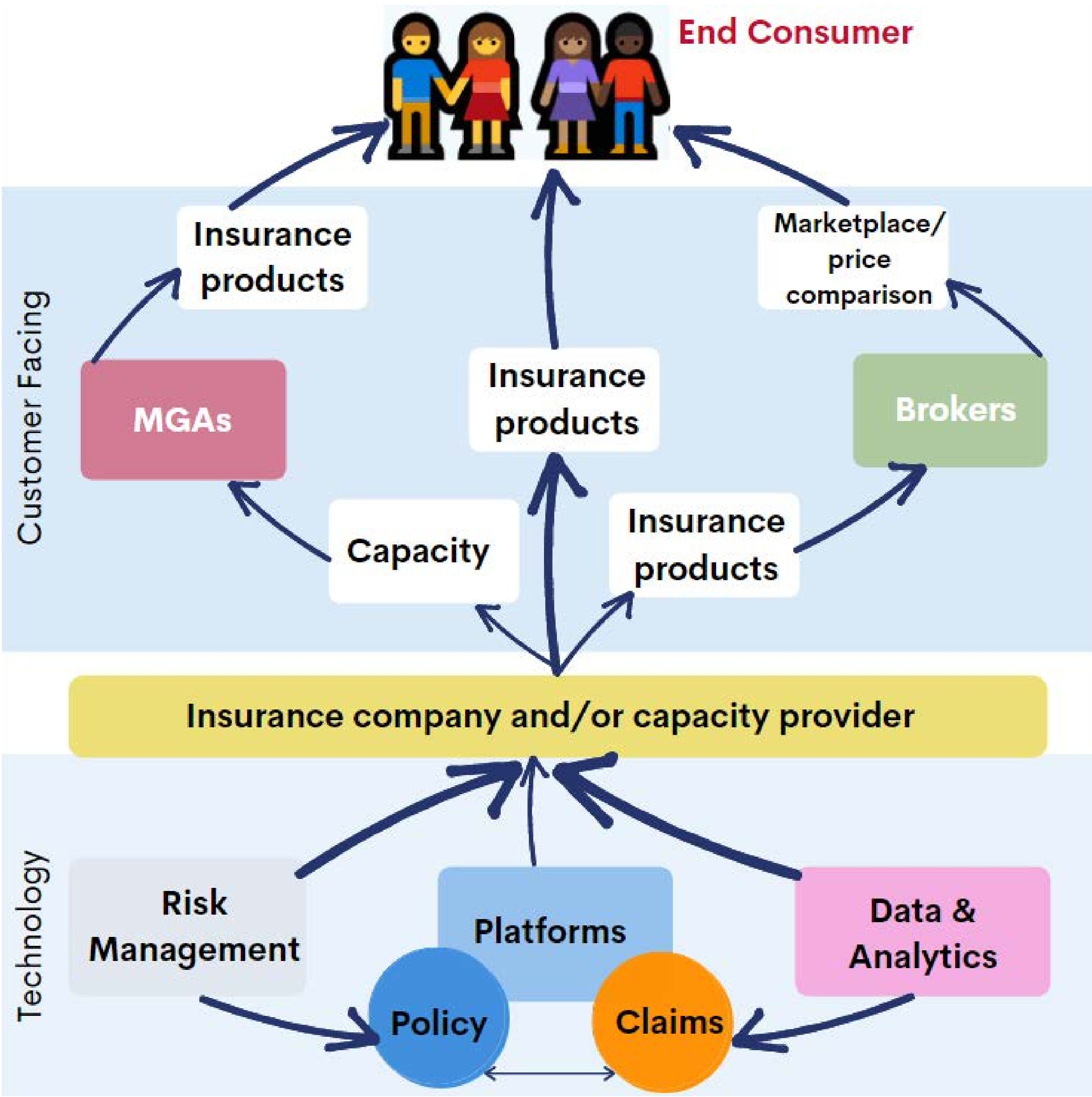
Claims

These businesses use technology to improve the claims process for insurers. The end goal is to make claims faster, fairer and more accurate for insurers and customers. This is achieved through innovations such as cloud-hosted solutions, AI powered fraud detection, video streaming and automated platforms. Using these technologies, claims can be processed and paid out in minutes, not weeks.

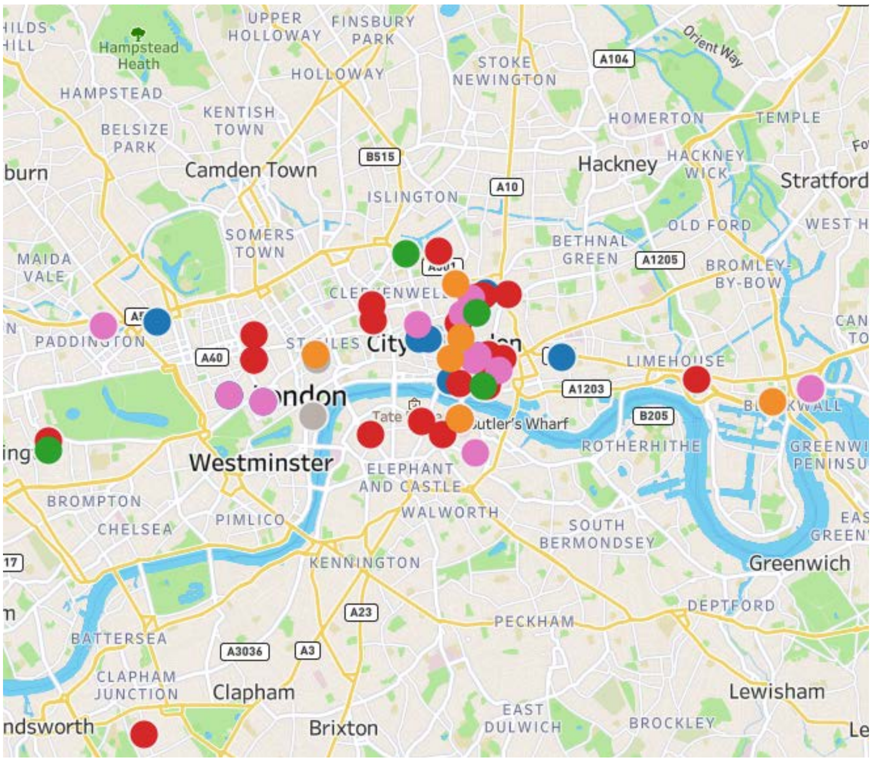
Broker

Brokers provide interfaces or routes to end customers for traditional insurers and insurance products. Insurtech brokers focus on disrupting the established distribution models of today with new and innovative approaches across personal and commercial business lines, enabling multiple insurers to get their products in front of end customers quickly and efficiently.

Insurtech Value Chain:



Where we're based



MGA

Platform

Broker

Data & Analytics

Risk management

Claims

Insurtech UK members are based in England, Scotland, Wales and Northern Ireland, meaning that we are truly a UK-wide representative body.

Not only does Insurtech UK have a strong presence in London, but equally there is a fantastic regional focus to our membership.

Our members hire people from across the UK, meaning that the growth of UK insurtech is compatible with the Government's levelling-up agenda.

Insurtech is a UK wide phenomenon, not something constrained to the Square Mile.

What we care about

Improve: Access to Funding

Access to funding is the biggest challenge facing the insurtech sector in 2021. A consolidated insurance market and hardening investor landscape post-COVID makes the challenge of securing funding harder than ever. Funding is the fuel for growth and so the success of the UK insurtech sector is dependent on how much investment it can attract. But while the UK is home to some of the most innovative insurtech businesses globally, other markets (e.g. USA) are more conducive for both early stage and large-scale funding for insurtechs. Here's how to address this challenge:

Innovate UK Grants

In 2018 the UK fintech sector gained access to the Capability and Innovation Fund, a £425 million package of grants offered to businesses to improve competition in the banking sector. Beneficiaries of this fund include Starling Bank, ClearBank and Metro Bank, who have all seen huge increases in customer engagement and growth since taking these grants. Insurtech has not had any similar fund to drive growth.

Innovate UK provides Government funding to fuel innovation within the UK economy, but insurance has never been a prioritised sector for this funding. However, Innovate UK is currently preparing a new proposal to fund insurance innovations for the next three years, and it is vital that this is successful.

Insurtech does not need its own Capability & Innovation Fund, but its clear links to the success of the UK fintech sector suggests that an Innovate UK grant focused on supporting insurtech could have a similarly transformative effect on the sector.

Recommendation: **HM Treasury to approve Innovate UK grant to support insurance innovation.**

Government reinforcement

When you look at fintech's rapid ascent in the UK in the early 2010's, it coincided with the Chancellor of the Exchequer standing up and saying that he wanted the UK to become the global leader for fintech. We haven't had that yet for insurtech.

This does not mean that Government has been unsupportive. Insurtech UK is extremely grateful for the work that Government has done for the sector so far. However, we believe that 2021 is the year that the Government should truly champion insurtech as a key strategic sector for the UK economy.

Many insurtechs in the UK are looking internationally, not only for expansion, but also for investment and partnership opportunities. Equally, markets across the world see the UK as a global hub for insurance and an attractive landing spot for partnerships and investment.

We believe senior Government Ministers should be providing strong vocal support for the UK insurtech sector and promoting the UK market as a launchpad for businesses worldwide. This would build on the work that the Government is already doing - in the form of events, trade missions and regulatory bridges - to help the sector build strong relations and access pools of capital in key export markets such as the USA and Asia.

Brexit creates an opportunity to forge a new identity on the international stage and we believe that the Government should use the UK's position as a global leader for tech *and* insurance to promote insurtech as a world-leading sector with the potential to become a crown jewel of the UK economy.

Recommendation: **Government to increase support for UK insurtech sector internationally and continue programme of events, trade missions and regulatory bridges in key markets.**

Accelerate: Digital transformation of insurance

2020 exposed some serious flaws in the UK insurance market. The Business Interruption Test Case revealed some insurers' ulterior motives of self-interest. The FCA's proposals on dual pricing condemned how insurers exploited loyal and often vulnerable consumers. COVID-19 showed how dependent the sector was on face-to-face interaction, legacy systems and decades old IT capabilities.

In addition to these new challenges, insurtech businesses have still had to face the systemic issues persisting within the industry that are blocking innovation: An outdated mindset in the C-Suite that is averse to new technologies and solutions and an industry plagued by inertia and glacial speeds of decision making; a tactic that has been used as a weapon against fast-moving startups.

The insurance industry must embrace technology as an agent to drive positive change within the sector and to increase productivity, transparency and economic activity. The following measures can achieve this:

Open Finance

The FCA has outlined measures to introduce the principles of Open Banking into other sectors, including insurance. This would mean that consumers and businesses would give third party providers access to their financial data that can then be used to sell new services.

Insurtech UK believes that the principles of Open Finance could increase transparency in the insurance sector and accelerate innovation, both of which will ultimately prove beneficial for consumers.

It is important for the size and unique nature of the insurance sector to considered when introducing the principles of Open Finance, and the FCA cannot copy and paste the principles of Open Banking into insurance. But implementing these principles into the insurance industry would catalyse digital transformation in the sector and ultimately lead to better competition and better consumer outcomes.

Recommendation: **FCA to implement Open Finance with specific considerations about how to apply to the insurance industry.**

PRA Licences

Since 2013, only 12 new insurers have been authorised in the UK. In comparison, the Prudential Regulation Authority (PRA) authorised 9 new banks in the 2019-2020 financial year alone. That is a significant divergence between the levels of competition in these sectors. Additionally, there is currently not a single insurtech business in the UK that has a carrier licence from the PRA.

Acquiring a carrier licence means you can underwrite your own risk. This could accelerate growth and innovation in the sector as it means that an insurtech would no longer be bound by the terms and prices of their carrier provider. It would also increase competition by creating a true alternative to the incumbent industry.

If insurtech is to truly become a disruptor for the insurance market similar to how neo-banks disrupted the banking sector, then there needs to be a clear pathway to become a carrier provider. But at present, the process of becoming a carrier provider in the UK takes up to twelve months, a timescale which is simply incompatible with fast-moving insurtech businesses. Additionally, the PRA takes a stricter approach to Solvency Capital Requirements (SCR) than other jurisdictions which means that regulators such as the Gibraltar Financial Services Commission are seen as more tech-friendly than the PRA. Two insurtech businesses in the UK have already chosen to gain their licence in Gibraltar instead of through the PRA.

Insurtech UK recognises that HM Treasury are looking at ways to make the PRA landscape as large and diverse as possible. But given that the current barriers are putting off insurtechs from the process, this Government objective will not be achieved until there is a more accessible process to gain carrier licences.

Given that improving competition and innovation within the insurance market is a stated objective of the PRA, this issue should be a priority for 2021.

Recommendation: **PRA to make changes to carrier licence process to reduce SCR and improve speed of applications for insurtech businesses.**

Remove: Barriers to growth

Insurtech businesses face a series of barriers that are preventing growth and restricting innovation. These challenges are unique to the insurtech sector, yet all can be readily alleviated by swift Government action. By removing these barriers, it will unleash growth in the sector and innovation will flourish. This will have a positive economic impact on the UK, in addition to delivering better outcomes for customers. The following measures should be reviewed as a matter of priority:

IPT and VAT

Insurtech intermediaries (MGAs + brokers) are required to charge Insurance Premium Tax (IPT) on the policies they offer customers. This IPT is collected on behalf of the insurer(s) who provide their underwriting capacity and paid to HMRC. Although IPT is collected on behalf of the insurers, they are deemed to be involved in the IPT process, and as a result they cannot reclaim VAT on any of their costs.

Unlike traditional insurers, the business model of insurtechs is extremely focused on costs that are liable for VAT. Digital marketing, tech infrastructure and professional services form the majority of their outgoings. But because of the unique tax regime, 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.

An unintended consequence of this is that it is making it more difficult for insurtechs to attract investment. It's tough to convince investors to fund your business when there is a 20% levy on all costs that cannot be reclaimed, something you won't have to worry about if you invest in other UK based tech sectors.

HMRC has more freedom to make changes to VAT now that the UK has left the European Union. HMRC should use this opportunity to ensure that insurtech intermediaries can reclaim VAT like other tech businesses.

Recommendation: **HMRC to change VAT rules to allow insurtech intermediaries who collect IPT for insurers to reclaim VAT on costs.**

SEIS/EIS and MGAs

(Seed) Enterprise Investment Scheme (SEIS/EIS) are HMRC schemes which offer tax incentives to investors who invest in startups. For many insurtechs, and indeed all startups, SEIS/EIS eligibility is a necessity to attract Angel investors.

Insurance is an excluded activity for SEIS/EIS, but HMRC outlines that this exclusion is intended for businesses who bear customer financial risk. This means that all insurtech businesses who do not bear financial risk or carry on insurance activity are eligible for SEIS/EIS.

MGAs do not bear financial risk because their capacity comes from insurers. Although the majority of MGA applicants have been successful in gaining SEIS/EIS eligibility, there have unfortunately been several case studies where MGAs have been rejected because HMRC Inspectors incorrectly concluded that the MGA is carrying on insurance activity. This inconsistent treatment of MGAs can be attributed to a lack of clarity within the Regulations about the excluded activities, and a lack of information within HMRC about how an MGA operates.

The Regulations for SEIS/EIS are clearly outdated - given they were implemented in 1994 - and therefore HMRC needs to decide whether it is satisfied that MGAs can be eligible within the existing Regulations, or whether the Regulations need to be updated in order to reflect that the excluded activity only applies to businesses who carry on insurance activity.

Recommendation: **HMRC to recognise that MGAs are an eligible business model for SEIS/EIS and confirm that MGAs do not carry on insurance activity.**

What is the opportunity?

In our foreword we outlined that insurtech is the next fintech. Traditionally, insurtech has been seen as a subset of fintech, but this has ultimately led to the unique challenges facing insurtechs being overlooked. While there will always be a connection to fintech, it is important to view insurtech as its own independent sector, with its own wants and needs, but also with its own potential.

The incredible success of the UK fintech sector has provided a blueprint on how to make a UK-based globally leading sector, and we truly believe that the UK has similar potential to become *the* global leader for insurtech.

Insurtech has the power to increase productivity within the insurance market; digitalising the value chain to save time and money, and helping insurers better assess and price risk.

Insurtech can drive economic growth in the UK by underpinning the necessary protections for new and emerging markets that will be key areas for growth, such as drones, cyber, gig economy and climate resilience. Creating consumer-centric products and rebuilding trust in insurance will also increase insurance uptake.

Finally, in a post-Brexit world, where the UK needs to establish a new identity on the international stage, insurtech offers the UK an opportunity to promote a sector that is genuinely world leading. It can attract foreign investment into the UK, incentivise people to come to the UK to build their businesses, and export insurtech solutions to emerging markets globally, where smartphone use is high but insurance coverage is low.

If the Government provides the support we have outlined to fuel growth, digitally transform the sector and remove barriers, then the opportunity is there to make the UK the global leader for insurance innovation. Let's take that opportunity.