Review of Solvency II:
Insurtech UK Consultation Response

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1. About Insurtech UK

Insurtech UK is the trade association for insurtech businesses operating in the UK. Established in 2018, its membership includes over 120 insurtech businesses representing the entire spectrum of the industry, from FCA regulated intermediaries such as MGAs and brokers to businesses who provide technology-based solutions to support underwriting, claims, risk management and various other functions of the insurance value chain. Insurtech UK also has a number of associate members (incumbent insurers) and partners (non-insurance businesses who serve the market) within its community. Insurtech UK's mission is to make the UK the global leader for insurance innovation.

Insurtech UK has a unique position in responding to this Consultation because there are currently no insurtech businesses authorised by the PRA, meaning that many of the proposals outlined do not apply to Insurtech UK's members. However, becoming an authorised insurer is an ambition of many insurtech MGAs and Insurtech UK is supporting these businesses to facilitate a pathway to authorisation that is both desirable for the UK market and achievable for insurtechs.

2. About insurtech and the UK market

Insurtech is defined as any solution that uses technology to change or improve current insurance practices. The definition of insurtech is broad, but there is a clear ecosystem within the UK insurance market of startup businesses who are using technology to revolutionise insurance practices and create better outcomes for customers and partners. This is the UK insurtech sector. It is believed there are close to 200 businesses operating in this sector across all four corners of the UK.

The UK insurtech sector is widely seen as a globally leading insurtech market. It is a hugely attractive destination for funding – with 4 UK insurtech unicorns[1] and has a healthy market of growing startups reaching their Series A, B and C funding rounds. But perhaps its key selling point is the level of innovation happening to solve industry challenges and make insurance products better. The UK is at the forefront of all the major innovations in insurance currently, including parametric technology, embedded insurance, telematics and AI-driven underwriting.

Simply, there is no other market globally with the concentration of high-quality, scalable insurtech businesses that serve the UK and global insurance and reinsurance markets. The growing customer bases and increasing investor confidence in the sector shows there are many who recognise that insurtech represents the future of the insurance industry. The UK is home to a world-leading sector and both HM Treasury and the PRA should recognise this and encourage actions to turbocharge growth and awareness of this sector, much like what happened with the UK fintech sector.

[1] Technology businesses with a $1bn+ valuation.

3. Introduction

The creation of an Insurance Mobilisation Regime is welcomed by Insurtech UK as an indicator by the PRA that it is willing to adapt its current processes to support new entrants into the market. However, Insurtech UK believes that the Insurance Mobilisation Regime, in its current proposed form, could be improved by additional measures to achieve the objectives set out by the PRA and HM Treasury of encouraging new entrants into the sector and boosting innovation and competition within the UK insurance market.

There needs to be much broader reforms to the application process, either in collaboration with or instead of a Mobilisation Regime, to encourage applications for authorisation from insurtechs. If HM Treasury and the PRA want to achieve the objective of spurring a "vibrant, innovative, and internationally competitive insurance sector" then it must address the application process and related barriers to authorisation as a matter of urgency. The PRA New Insurer Startup Unit – set up in 2018 – has seen little interest from insurtechs and the number of new entrants in the banking sector dwarf the activity seen in the insurance sector.

This is not due to a lack of supply or demand - 57% of Insurtech UK's MGA members outlined in a survey[2] that they would be 'likely' to become an authorised insurer if the PRA made it possible for them, with two UK insurtech businesses having already chosen to become authorised in Gibraltar instead of the UK. It should be seen as a major concern that the most innovative businesses in the UK market are going elsewhere to become authorised. This is ultimately damaging competition due to a lack of new entrants into the UK market.

It should be a key objective of HM Treasury and the PRA to use the Review of Solvency II to address this challenge. HM Treasury outlines that "the over-arching aim of the Solvency II review is to ensure that the UK's prudential regulatory regime is better tailored to reflect the particular structures, products and business models of the UK insurance sector and the wider UK regulatory approach." Insurtech businesses represent these changes in structures, products and business models since the PRA was first established in 2013 and Insurtech UK's recommendations around the application process for authorisation will ensure that the prudential regulatory regime is better tailored towards these businesses.

4. How would Mobilisation impact a business' decision to become an authorised insurer?

Firstly, there needs to be clarity on what an Insurance Mobilisation Regime (IMR) is trying to achieve. In other sectors, a mobilisation regime is 'authorisation with restrictions' but Insurtech UK does not believe that this model can be imposed on the insurance sector without adaptations. The issues raised within HM Treasury's consultation document about the capital floor, lower expectations for personnel and Governance structures and exemptions from some reporting requirements are useful. However, whilst

[2] These survey results were shared with the PRA in November 2021.

these changes are an improvement, they do not address other barriers to entry that are faced by many potential applicants in the context of the Solvency II regime. The key issues highlighted to Insurtech UK by its members are:

1. Speed of the process (Gibraltar has a six-month statutory deadline for complete applications).
2. Compliance with group capital requirements for groups in startup phase with a single insurer.
3. Cost of raising regulatory capital for day-one, based on the projected three-year business plan.
4. Impact of Solvency II for monoline insurers, which startups frequently are.
5. The mobilisation process itself - there is little appetite among Insurtech UK's members to have uncertainty around their status of authorisation and whether or not they will "graduate" from mobilisation.
6. A lack of 'spirit of cooperation' between the applicant and regulator - this affects the speed of process if applicants feel they cannot discuss issues freely and seek informal guidance that will be responded to quickly during the preparation and application phase. Again, this is something that the Gibraltar regulator reportedly does well, helping to smooth the application process and make it quicker and less costly for applicants.

Insurtech UK has provided feedback on the proposals outlined within the consultation and has suggested further changes to ensure the IMR is better tailored to insurtech businesses without increasing the risk profile of the process.

4.1 Timeframes for authorisation

During discussions between Insurtech UK, the PRA and HM Treasury, the timeframes for authorisation have consistently been raised as a key factor, which disincentivises businesses from considering PRA authorisation. The ambiguous pre-application phase, coupled with a 12-month formal application phase, is considered too long a timeframe for fast-moving insurtech businesses. Insurtech UK knows that the timeframes were one of the main considerations that an insurtech business chose to attain their licence in Gibraltar over the UK. So the timeframes have already actively dissuaded an eligible UK insurtech from becoming a PRA authorised insurer, which means they should not be overlooked. In Gibraltar there is a six-month statutory deadline for complete applications.

Insurtech UK recognises that an IMR could create the pathway for a faster application process, as reducing the capital and reporting requirements would theoretically lower the benchmarks for authorisation, which should reduce the time needed to review applications. Insurtech UK strongly believes that any proposals to reduce the timeframes for authorisations would be welcomed by insurtechs and could be a particular incentive to pursue authorisation through the IMR, instead of the traditional process.

Finally, the expectation is for the IMR to last for 12 months. Whilst Insurtech UK recognises that in order to exit the IMR, firms will have to hit certain benchmarks for reporting, hiring and SCR, the aim should be for the process to not take longer than 12 months. Otherwise, the timeframes start to become unappealing for insurtechs.

4.2 Treatment of MCR/SCR

Insurtech UK understands that during the Mobilisation period there is an expectation that a firm would underwrite business subject to a limit (e.g. based on gross written premiums, or best estimate of reserves), for a period of time (assumed to be 12 months). Insurtech UK understands that the method for setting the cap on business is yet to be determined and will, quite understandably, be decided on a case-by-case basis. It is assumed that the restriction on business would result in proportionate capital requirements being set by reference to the cap on business. Insurtech UK believes that the IMR would be significantly more attractive if firms were only required to comply with the MCR (and not SCR or Group SCR) whilst in mobilisation.

The PRA could also consider a tiering system for the IMR, so that firms already actively selling insurance policies (as MGAs) are viewed differently in terms of risk compared to a greenfield applicant. Whether or not applicants choose to go through the mobilisation regime, applicants would find it helpful if the PRA changed its position from assessing day-one SCR requirements based on the year-3 business plan projections and instead, the SCR increased in line with business volumes in each of the first three-years.

Increasing the threshold for qualifying as a Solvency II insurer would also help, so long as the alternative capital regime[3] is more generous in terms of capital requirements. Additionally, this would only be relevant for the smallest of applicants. Insurtech UK understands that EIOPA is considering doubling the current thresholds, but even that would not necessarily assist the MGA members of Insurtech UK that are considering becoming carriers as their planned premium income will already be well beyond even a doubling of the Solvency II thresholds.

There are two other important considerations for the PRA and HM Treasury to consider, both of which are unintended consequences of the IMR:

4.2.1 Group Model

The two options that MGAs face when going through the authorisation process are to follow the Group model and create a new entity that is separate from the MGA, or to convert to a carrier. Insurtech UK expects that firms looking at authorisation will look to use the Group model, because that is generally the business model that insurtechs follow – due to separation of IP, tech, and other parts of business from the MGA function, although there could be exceptions. The consequence of the Group model is that an insurtech will likely need to comply with both solo and group capital requirement, which lessens the attractiveness of application as previously mentioned. Additionally, this process requires firms to become insurance holding companies, which has an unintended consequence where own funds that have already been raised might not count towards regulatory capital without significant changes, which is a protracted and expensive process.

[3] It is noted that if the alternative regime was Solvency I, this may also require some adaptation for insurers in mobilisation.

4.2.2 MGA – Carrier Relations

The PRA should consider the impact that an IMR could have on an MGA's relationship with their capacity partner(s), especially the conditions required to exit Mobilisation. For example, an MGA becoming a carrier will be expected to conclude their relationship with their capacity partner once they exit Mobilisation and begin underwriting their own business. However, if an MGA does not reach the expected requirements and their exit from Mobilisation is delayed, then they will be in a position where they will need to urgently re-negotiate a new capacity arrangement with their carrier. The terms of this arrangement, given the compromised position of the MGA and the timescales, mean that they are unlikely to secure favourable terms. There is a possible scenario here where an MGA is unable to secure an interim capacity agreement, which would create uncertainty and negative outcomes for MGAs, but more importantly, existing policyholders.

Insurtech UK believes that the PRA should be aware of this eventuality. Perhaps this is a sign that a tiered approach to authorisation is needed, accompanied by clear and regular feedback to applicants around their progress. This is important so firms are aware that they might need to agree an interim solution with a carrier if their exit from the IMR is delayed, and so they are not forced into these short-term solutions that could have a negative business impact and create further uncertainty for policyholders - especially in the event where a firm cannot reach a capacity agreement.

4.3 Adapted Regulatory Standards

Rather than reducing regulatory standards, Insurtech UK believes that one of the most positive ways that the current regulations could be improved is by introducing a capital assessment that removes or reduces the negative impact on monoline insurers - which insurtech MGAs tend to be - resulting from the standard formula calculation. This could possibly be achieved through a change in parameters (as contemplated by Art 104 (7) of Solvency II). The key aim should be for the authorisation process to be proportionate and here it is noted that the cost of producing a (partial) internal model (e.g. application fees and professional adviser support required) is prohibitive, so the solution would also ideally address this issue with a more flexible consideration of the parameters of the standard formula to better reflect the true risk of the carrier. For example, an insurtech carrier is likely to be heavily reinsured, and there is no proportional relief on capital for this.

4.4 Exemptions from some Reporting Requirements

The production of the full suite of public and private reporting, specifically the RSR, SFCR and associated QRTs, is an onerous requirement for all insurers. However, there is much debate within the industry regarding the usefulness of much of this information, particularly to the public.

The PRA is already willing to accept the RSR in full on a tri-annual basis. There is also already scope within the legislation to enable new firms to avoid reporting under Solvency II until certain thresholds have been breached for three consecutive years. Insurtech UK is therefore hopeful that the PRA could design a lean set of reporting requirements for firms in the IMR, perhaps focusing purely on the capital position of the company for public reporting and placing a certain degree of reliance on the company's ORSA process for private reporting to the regulator.

4.5 Absolute Capital Floor

Insurtech UK understands that the PRA is considering lowering the absolute floor of the MCR for firms entering mobilisation, and then these firms would use mobilisation to build up capital to reach post-mobilisation SCR. Insurtech UK believes that this is a sensible proposal but does not think it will majorly incentivise businesses to consider authorisation.

Firstly, the absolute floor of the MCR is already low (€2.5 million for non-life[4] and €3.7 million for life) and given that MGAs are the main pipeline of applicants from the insurtech sector, it will make limited difference to them to lower the absolute floor. If the objective of this proposal is to increase the number of applications from smaller businesses, then Insurtech UK believes that a more proportionate approach to capital and governance requirements will be more important. However, as will be outlined later in this consultation response, this still raises some questions about its ability to incentivise firms.

One consideration which could be very important to support new applicants is the point mentioned earlier: where firms only comply with the MCR for a given period of time before having to comply with the SCR/Group SCR. This would understandably come with caps on volumes of business, written/levels of reserves and a clear plan for how compliance with the SCR would be achieved over time. Overall, it would seem possible to adopt a proportionate approach. There is general agreement from Insurtech UK's members and partners that this could be extremely helpful and could offer a significant benefit of the IMR compared to the traditional process.

4.6 Lower Expectations for Key Personnel and Governance Structures

Insurtech UK recognises that for insurtechs transitioning from an MGA to an authorised carrier, there are many new requirements that require new staff with relevant expertise and updated processes and Governance structures to adhere to the new regulatory demands. Insurtech UK believes that more proportionate expectations for key personnel and governance structures is a positive step to support insurtechs in their journey to authorisation. For example, one change could be removing the expectation of having two Independent Non-Executive Directors (INEDs) immediately, which can act as a barrier to entry. These requirements could then be introduced when the firm hits certain thresholds – and possibly linked to unlocking increased underwriting ability. This practice is used in Gibraltar, so there is precedent to establish this within the confines of Solvency II. Other examples could be removing the immediate need for a Head of Internal Audit.

The uncertainty around the current application process is also a concern here and was cited as a particular challenge when recruiting staff. This is because if you attract staff to fulfil a function of an authorised insurer and then your application is denied, this creates an up to 12-month window of uncertainty for these new employees. So the IMR – which is effectively authorisation with restrictions - provides certainty that can help attract the relevant staff to fulfil the underwriting requirements of the business. This function of the IMR is welcomed by Insurtech UK. Clear conditions for what is required to meet the process for graduating from the IMR will be crucial.

[4] Or €3.7 million if liability lines are written.

4.7 Increasing thresholds for Solvency II

If HM Treasury and the PRA looked to treble or quadruple the Solvency II thresholds, lower the capital floor, lower expectations for personnel and Governance, change the reporting requirements and create a clear structure for limits on how much business a firm could underwrite, then this could significantly reduce the barriers facing firms smaller than unicorns from considering authorisation. This could form the basis of a vision to revolutionise the UK insurance market by creating a viable, alternative business model for insurtechs who want to sell policies to customers. Doing this could encourage a wave of new entrants into the market, subsequently increasing competition and accelerating innovation.

The costs associated with becoming a carrier are likely to be large regardless[5], so committing appropriate resources to meet regulatory standards requires businesses to be of a certain size. It would be useful to understand the ambition for the size of businesses that HM Treasury and the PRA envisage would benefit from increased thresholds for Solvency II. If there is an ambition to unlock authorisation for a wider group of applicants, so long as there are the appropriate measures in place to prevent risk and protect policyholders, this could be a genuinely world-leading move by a Regulator and would provide a unique benefit for the UK market, similarly to how the Regulatory Sandbox has positioned the FCA as the gold standard for financial regulators. It would create a true alternative to the MGA model for startups and subsequently could lead to huge innovations in the market as firms are not bound by capacity partner terms and conditions. This could also open up the UK to opportunities for international insurtechs, who most likely would possess the necessary capital to absorb the costs of authorisation and will be incentivised by a clear and unique benefit to choose the UK over other competing markets.

5. Additional Considerations:

In addition to the proposals set out within the Review of Solvency II consultation, Insurtech UK has identified some additional considerations that are not directly within the scope of the consultation but are important to help achieve HM Treasury and the PRA's objectives of increasing the number of applications from insurtech businesses.

5.1 EIS and EMI Options

Insurtech UK understands that for firms going through the authorisation process, they would lose out on their Enterprise Investment Scheme (EIS)[6] eligibility. This is because EIS is not available for any firms that bear financial risk – which authorised insurers do. However, this creates a serious challenge for any insurtech business because firms will almost universally have received EIS eligibility historically. As high-growth tech businesses, EIS is crucial to attract investment from angel and institutional investors. Losing EIS eligibility on retrospective shares would be unpalatable to many investors and would significantly impact the EMI Options promised to employees.

[5] When considering the capital requirements, required staff (with good salaries) to fulfil insurer functions and cost of professional services to complete process.
[6] HM Treasury's definition of EIS can be seen here.

Insurtech UK understands the challenges[7] facing HM Treasury with this situation, but this would undoubtedly stop most businesses from ever considering authorisation, directly undermining the objectives of HM Treasury and the PRA to encourage new entrants into the market. This is a big enough challenge to nullify all the work and investment put into creating the IMR because firms would not get approval from their investors to lose their EIS status.

Insurtech UK believes that consideration should be given to explore ways to overcome this obstacle. The spirit of the EIS scheme is to unlock investment opportunities for the most innovative, high-growth businesses in the UK economy, so a solution is important to prevent the punishment of these businesses who have achieved exactly what the EIS scheme sets out to support. A potential solution could be that EIS disqualification is not issued retrospectively for firms, but only on shares issued going forward. Another could be that firms with a Group model with an MGA function still active would be able to maintain their EIS eligibility for the MGA, although this would require the EMI Options to be offered at MGA level rather than at the Group level, which is current practice. Insurtech UK is willing to work with HM Treasury and HMRC to explore solutions to this, as it presents one of the largest obstacles for firms considering authorisation.

5.2 Spirit of Cooperation between Insurtechs and PRA

Insurtech UK has received positive feedback that the PRA is open and collaborative with insurtechs considering authorisation, which is welcomed. Insurtech UK believes that this process can be further improved with the introduction of more informal ways to speak with the PRA, to complement the formal engagement process.

Insurtech UK understands that dealing with MGAs[8] and supporting them to become carriers is not something that the PRA is used to, which means a lot of the process is completely novel. But equally, the same is true for MGAs, and they will naturally have some blind spots in areas because it is new to them too. An informal communication process between MGAs and the PRA could greatly benefit MGAs who require advice or support but are reluctant to raise these questions at formal meetings because they don't want to give the wrong impression about their knowledge level and application status. It would also foster greater cooperation between MGAs and the PRA, as whether this is in the pre-application phase or the application phase, it would help MGAs make quick decisions and receive small clarifications on issues outside of formal meetings, speeding up the process and providing clarity in areas where they don't have all the answers.

Secondly, as the PRA develops its experience in dealing with MGA applications for authorisation, it would be useful to update the private and public guidance about the implications of this process. For example, MGAs currently looking at authorisation have had to find out for themselves about losing their EIS eligibility and having to convert preference shares to ordinary shares. Going forward these unique consequences should be included in PRA guidance for firms – particularly MGAs and insurtech businesses - considering authorisation.

[7] Insurtech UK worked with HMRC in 2019/20 to update the public guidance for SEIS/EIS and outline that insurance intermediaries are technically eligible for relief because they do not bear financial risk.

[8] This is because MGAs are regulated by the FCA instead of the PRA in the UK.

An accommodating institutional attitude of the insurance regulator has regularly been cited as a key benefit of an international insurance market (e.g. Connecticut in the USA, Netherlands in the EU, Gibraltar) so this is an important consideration that should not be overlooked.

6. Gibraltar Case Study

Insurtech UK believes that it is important to provide case studies about best practice internationally on how regulators are authorising insurtech businesses and what firms who have received insurance licences look for in a Regulator and an authorisation process. It is particularly important to review Gibraltar's value proposition for insurance authorisations given that two insurtech businesses have already chosen this jurisdiction over the PRA. There are now other insurtechs who are actively reviewing both the PRA and Gibraltar process, as part of their decision making for authorisation. This summary was supported by Gibraltar Finance, part of HM Government of Gibraltar.

6.1 Solvency Capital

As Gibraltar was part of the European Union until Brexit its solvency capital requirements were and still are the standard Solvency II requirements. For a non-life liability insurer, the absolute floor of the MCR is €3.7 million. However, a firm will be expected to maintain a buffer over and above the SCR as calculated under the standard formula or an internal model. The buffer is determined by the insurer and approved by the Board based on the firm's specific circumstances. This will be agreed with the regulator on a case-by-case specific basis.

The UK's Gibraltar Authorisation Regime (GAR) requires Gibraltar to maintain regulatory alignment with the UK. As a general comment, the SCR coverage of Gibraltar insurers is now close to the average SCR coverage in the UK – some Gibraltar insurers are well in excess of the UK average - whereas in January 2016 there was quite a marked difference.

As the UK starts to move away from certain regulatory capital aspects of Solvency II then Gibraltar is highly likely to follow in tandem with the UK, in order to maintain alignment.

6.2 Governance

As mentioned above Gibraltar insurers are still regulated in the most part by the rules and regulations of the Solvency II Directive, although these have been transposed into local law (e.g., the Financial Services Act 2019 and Financial Services (Insurance Companies) Regulations 2020).

Regulatory alignment with the UK means achieving the same regulatory outcomes with the UK through the application of the regulations in place and through ensuring alignment on Gibraltar Law to UK law. This does not mean Gibraltar has to adopt a mirror image of the UK approach to supervision. The obvious difference is unlike the UK, insurance companies in Gibraltar only report to a single regulator. This makes it more streamlined, less complicated and costly, and provides no opportunity for duplication or even slightly differing approaches to a particular aspect of the regulations.

The key advantages of these processes are:

- Gibraltar's financial services sector is small compared to the UK and the regulator has 20+ years' experience with insurance startups and more recently with fintechs.
- Access to the regulator can normally be obtained in just a few days if an applicant or a regulated entity has a particular issue or problem it needs to discuss.
- If insurtech businesses are to be nimble they need a regulator that is accessible and responsive otherwise opportunities may disappear to a competitor.

6.3 Reporting Requirements

These remain almost exclusively the same as those in place under Solvency II in Gibraltar. So, if a meaningful reduction in the current reporting and administrative burden is implemented in the UK as set out in the Consultation Document, Gibraltar is expected to closely follow the UK's changes.

6.4 Necessary Talent

The Gibraltar regulator requires insurance companies to have independent non-executive directors (INEDs) on the board of directors. Normally there will be at least two INEDs. There is no requirement on where the INEDs need to be based.

One differentiating factor is the ability of a Gibraltar insurance company to utilise the services of an insurance manager. There are currently five insurance managers authorised in Gibraltar and four of them are subsidiaries of some of the largest global insurance intermediaries (Aon, WTW, Gallagher & Ardonagh) and the fifth a subsidiary of a large South African financial services group listed on the Johannesburg Stock Exchange.

Insurance managers support many insurance companies across a range of functions (these functions tend to be back or mid-office) and the insurance managers contribute towards the requirement for an insurance company to have a physical presence in Gibraltar and for mind and management to be undertaken from Gibraltar.

There is also a clear policy around outsourcing and many Gibraltar insurance companies outsource non-regulatory functions to other parts of their insurance groups or third parties often located in the UK (e.g. claims).

In respect of internal audit this is what the legislation stipulates:

- An insurance or reinsurance undertaking must provide for an effective internal audit function which includes an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance.
- The undertaking's internal audit function must be objective and independent from its operational functions.

- Any findings and recommendations of the internal audit must be reported to the administrative, management or supervisory body which must determine what actions are to be taken with respect to each of the internal audit findings and recommendations and ensure that those actions are carried out.

6.5 IT Requirements

Historically, a financial services company's IT infrastructure should be located in the same location as its regulatory licence. The rapid transfer of IT infrastructure to the 'cloud' requires a new approach and the Gibraltar regulator, having licensed fifteen blockchain companies (including some of the largest digital exchanges worldwide) since 2018 now requires an applicant to explain what infrastructure will be located in Gibraltar but more importantly how the regulated Gibraltar entity will have access to all the information required to operate its regulatory functions.

6.6 Time Scales

In practice there are normally two pre-applications meetings for a new insurance company application which would usually take place within a four-to-eight-week period. Then there are two routes:

- A complete application must be determined by law by the GFSC within 6 months.
- Where an application is incomplete, the GFSC has a period of 12 months to determine the application. If within this time, it is determined complete, then the 6-month period commences from the date it is deemed to be complete.

6.7 Why UK insurtechs have been attracted by Gibraltar

There are number of reasons. Firstly, for insurtechs in the motor insurance business, Gibraltar's concentration of about 30 motor insurers and a market share approaching 30% of the UK motor insurance market is an obvious attraction. As mentioned previously, the Gibraltar regulator's experience in dealing with insurance startups over the last 20 years is another positive aspect. Finally, the recent authorisation of blockchain businesses and digital exchanges means Gibraltar has a regulator that is used to assessing applications with cutting edge technology and this includes insurtechs. Currently, two insurtechs have insurance companies that operate from Gibraltar.

6.8 How this can all be done within confines of Solvency II

Gibraltar is committed to maintaining the current Solvency II regulatory framework or a more flexible model adopted by the UK. Gibraltar Finance is looking at ways to attract more MGAs especially those heavily reliant on technology as we believe a number will be the next insurance company applicants. If we can support these businesses in their pre-insurance company lives, we have a chance to become familiar with their technology and therefore any future transition to an insurance company should not be so daunting.

Gibraltar is also reviewing its PCC legislation for third party cells which was introduced in 2017 as that offers a potential route for an insurtech to begin operating within a cellular structure at a lower cost. A cell could be a very interesting steppingstone between an MGA and a full stack standalone insurer for insurtechs that have some capital and would be looking to write, say, between €1 million and €2.5 million of premium on an annual basis initially. It is highly unlikely the GFSC would authorise a new cell to write compulsory classes of business such as motor liability.

For larger insurtechs that are operating large MGAs then they will need to comply with the solvency capital requirements for a new insurance company and it is the other compelling factors that will make Gibraltar a serious contender to consider for the insurance underwriting platform.

7. Conclusion

When Insurtech UK formally raised its concerns about the Insurance Mobilisation Regime with the PRA in November 2021, the concerns focused on the themes of capital, process, speed and uncertainty. Insurtech UK recognises that the proposed changes to the authorisation process in this consultation seek to address these concerns.

Insurtech UK believes that the IMR is an effective vehicle to establish an alternative process to insurance authorisations, as the previous system was clearly not appealing. The proposals that were raised within the consultation are a good start, and certainly focus on the right areas of concern around the current authorisation process. But if HM Treasury and the PRA consider and adopt the additional recommendations outlined by Insurtech UK, then their objectives of increasing competition and innovation in the insurance sector are more likely to be achieved. Without the recommendations suggested by Insurtech UK, there is a concern that the IMR only addresses one of the four main themes of concern outlined by Insurtech UK in 2021: uncertainty.

Without Insurtech UK's additional recommendations, the proposed IMR removes the uncertainty facing firms by providing a new status of authorisation with restrictions, allowing firms to attract the capital and talent necessary without the uncertainty of the application being in vain. But unless the three-year forecasting requirements are changed and the treatment of monoline insurers is altered, concerns about capital remain unaddressed. Unless firms can underwrite appropriate business during authorisation and the rules around MCR and SCR are changed, concerns around the process remain unaddressed. Finally, unless the IMR can lead to firms becoming authorised quicker than through the traditional process, then concerns around speed remain unaddressed.

Insurtech UK strongly believes that the establishment of PRA authorised insurtech carriers would enhance the UK insurance market. It is arguable that insurtech MGAs cannot truly compete with the incumbent sector if they are reliant on that same incumbent sector to get their capacity. It also damages the claim that the UK is *the* globally leading insurtech hub – an ambition that HM Treasury and the PRA both share with Insurtech UK - if other markets such as the US already have multiple insurtech carriers and eligible UK firms are choosing Gibraltar to get their licence.

Insurtech UK recognises that creating an IMR represents a positive attempt by the PRA to encourage these insurtechs to become carriers and this is strongly welcomed. But it is clear that for the IMR to achieve its objectives of spurring a "vibrant, innovative, and internationally competitive insurance sector" and ensuring that "the UK's prudential regulatory regime is better tailored to reflect the particular structures, products and business models of the UK insurance sector and the wider UK regulatory approach" then it must go beyond the proposals outlined within this consultation and incorporate Insurtech UK's recommendations within its proposals as well. Doing this will ensure that the most innovative businesses within the UK insurance sector will become new entrants into the UK's prudential insurance market.

8. Annex

8.1 Summary of recommendations for PRA and HM Treasury

- Ensure that the IMR increases the speed of the application process to <12 months, with the aim of matching Gibraltar's six-month statutory deadline for complete applications.
- Change position from assessing day-one SCR requirements based on the year-3 business plan projections and instead, the SCR is increased in line with business volumes in each of the first three-years.
- Allow firms to only be required to comply with the MCR (and not SCR or Group SCR) for a given period of time whilst in mobilisation, before moving to SCR/Group SCR.
- Consider a tiering system for the IMR, so that firms that are already actively selling insurance policies (as MGAs) are viewed differently in terms of risk compared to a greenfield applicant.
- Increase the threshold for qualifying as a Solvency II insurer but look to triple or quadruple the threshold, rather than double.
- Introduce a capital assessment that removes or reduces the negative impact on monoline insurers.
- Design a lean set of reporting requirements for firms in the IMR, perhaps focusing purely on the capital position of the company for public reporting and placing a certain degree of reliance on the company's ORSA process for private reporting to the regulator.
- Review the necessity to lower the absolute capital floor, based on the objectives of the PRA and HM Treasury.
- Consider lowering expectations of staff while in Mobilisation, particularly around INEDs and auditing.
- Provide greater clarity on the vision of the prudential landscape in the future, and whether this vision includes smaller businesses (who would currently be MGAs) with carrier licences.

- Consider options to overcome issues around EIS and EMI Options, which are a huge barrier for insurtechs to consider authorisation.

- Create an informal way for firms to engage with PRA, outside of formal channels within application process.

- Update public and private PRA guidance with tailored information on implications of authorisation for insurtech businesses and MGAs.

8.2 Glossary of Acronyms

- **EIOPA –** European Insurance and Occupational Pensions Authority
- **EIS** – Enterprise Investment Scheme
- **EMI** – Enterprise Management Incentive (Options)
- **FCA** – Financial Conduct Authority
- **GFSC** – Gibraltar Financial Services Commission
- **HMRC** – Her Majesty's Revenue and Customs
- **IMR –** Insurance Mobilisation Regime
- **INED** – Independent Non-Executive Director
- **MCR** – Minimum Capital Requirement
- **MGA** – Managing General Agent
- **ORSA** – Own Risk and Solvency Assessment
- **PCC** – Protected Cell Companies
- **PRA** – Prudential Regulation Authority
- **QRT –** Quantitative Reporting Templates
- **RSR –** Regular Supervisory Report
- **SCR** – Solvency Capital Requirement
- **SFCR –** Solvency and Financial Condition Reports