INSURTECH UK RESPONSE **NOVEMBER 2024**

Invest 2035 – Consultation on future industrial strategy

Submitted via online portal here

Questions

Sector Methodology

1. How should the UK government identify the most important subsectors for delivering our objectives?
2. How should the UK government account for emerging sectors and technologies for which conventional data sources are less appropriate?
3. How should the UK government incorporate foundational sectors and value chains into this analysis?

Sectors

4. What are the most important subsectors and technologies that the UK government should focus on and why?

Insurtech should be a sub-sector of focus within financial services in the new industrial strategy. This is due to its critical place as the intersection between insurance and digital/technologies, its potential for growth both in terms of size and investment, and for future global leadership.

Within UK financial services, insurance is a sizable segment. The statistics in the Invest 2035 consultation document already highlight the high levels of existing productivity within the insurance sector, and its comparative international advantage (where the UK has been a leading centre in insurance for over 400 years), but as society and business evolves then so too must insurance.

Insurtech draws on the benefits and opportunities presented by digital technologies to build on this firm foundation within the insurance sector. 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.

Latest global insurtech data “demonstrates insurtech funding is very vibrant”, that the fundraising environment is maturing as more investors understand the characteristics of insurance and the insurance industry itself has developed a wider interest in insurtech investment. “The future of insurtech is very bright, healthy and most importantly sustainable.” (FN1)

Insurtech also contributes to the wider ambitions of the industrial strategy:

- Insurtech is an important enabler of economic activity and resilience, by innovating in terms of the types of risks that can be insured - from the impacts of cybercrime, drone flights or cloud computing outage, insurtech is help other companies grows as it removes risk from failed supply chains and supports companies to trade internationally.

- Insurtech is contributing to the path to Net Zero, with examples of innovative data platforms enabling new insurance products and warranties for electric vehicle batteries, enabling confident adoption and helping to accelerate the transition to renewables (for more details see Altelium and Tokio Marine Kiln partnership).

- Insurtech is playing its part in regional growth, with just over 30% of the country's insurtechs outside the capital, and two-thirds of the insurtech workforce located outside of London due to hybrid work. The Kalifa review acknowledged established insurtech clusters in the South West (Bristol/Cardiff) as well as Belfast (FN2). The latest McKinsey mapping adds to this with the presence of insurtech companies/clusters captured across the North of England as well as East Anglia (FN3).

Footnotes

1. Gallagher Re (2024) Global InsurTech Report Q3 2024

https://www.ajg.com/gallagherre/news-and-insights/2024/november/global-insurtech-report-q3-2024/

2. HM Treasury (2021) Kalifa review of UK Fintech

https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech

3. McKinsey (2023) The United Kingdom: The Nexus of Insurtech

https://www.mckinsey.com/industries/financial-services/our-insights/insurance/the-united-kingdom-the-nexus-of-insurtech

5. What are the UK's strengths and capabilities in these sub sectors?

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

The UK is home to the world's second largest insurtech cluster with 280 insurtech firms (one third based outside of London), and the highest number of insurtechs per capita among all major world economies (FN1).

UK Insurtech has an estimated combined value of more than £20 billion, and brings in £2-3 billion in revenue per year — though we calculate its full (direct and indirect) impact on UK GDP to be closer to £5 billion (FN2).

UK insurtech directly employs a diverse workforce of around 14,000 full-time equivalent workers, with two thirds aged under 40 and nearly half female. More widely, it supports 60,000 jobs across all of the UK (FN3).

In 2023 London had the same number of insurtech unicorns as the rest of Europe combined and globally is second only to Silicon Valley (FN4).

Since 2012 to Q3 2024 – the UK has had the highest number of insurtech transactions outside of the USA, and double that of France or Germany. Dealroom data shows that some of the top global B2B SaaS insurtech rounds in 2024 have been in the UK – Vitesse ($93m), hyperexponential $73bn, Supercede ($15m), and artificial ($10m), with this record share of funding being fuelled by AI driven products (FN5).

We believe this is just the tip of the iceberg in the potential for growth in this sector

Footnotes

1. McKinsey (2023) The United Kingdom: The Nexus of Insurtech

https://www.mckinsey.com/industries/financial-services/our-insights/insurance/the-united-kingdom-the-nexus-of-insurtech

2. ibid

3. ibid

4. ibid

5. Deal Room (2024) The state of Global Insurtech 2024

https://dealroom.co/uploaded/2024/11/2024_Insurtech_report_Mundi_MAPFRE_Dealroom.pdf?x30228

6. What are the key enablers and barriers to growth in these sub sectors and how could the UK government address them?

McKinsey's exploration of the UK insurtech sector in 2023 identified opportunities for insurtech growth including developing or deploying new technologies, more partnerships with insurers, and international expansion (FN1).

Accompanying sector surveys cited barriers as access to funding, access to talent, and new customer acquisition. Challenges when scaling, as well as the wider macroeconomic environment, were also seen as obstacles to growth (FN2).

The industry is working together, through our trade association Insurtech UK, to cultivate a proactive ecosystem that inspires and strengthens UK start ups and scale ups, but to achieve the UK's full potential as a global driver of insurance innovation, the industry's energy and expertise must also be complemented and supported by a positive, enabling policy environment.

In our Roadmap for UK Insurtech Growth published earlier in 2024, we set out of policy recommendations to strengthen the UK's global leadership in insurance innovation (FN3).

The Roadmap sets out 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

For more detailed analysis of key enablers or barrier please see as per below:

- Innovation – see response to questions 10 & 11
- Competition – see response to question 20
- Regulation – see response to question 20
- Crowding in business investment – see response to question 21
- Mobilising capital – see response to question 22
- Trade and International – see response to questions 24 & 25

Footnotes

1. McKinsey (2023) The United Kingdom: The Nexus of Insurtech

https://www.mckinsey.com/industries/financial-services/our-insights/insurance/the-united-kingdom-the-nexus-of-insurtech

2. ibid

3. Insurtech UK (2024)

https://insurtechuk.org/insurtech-uk-roadmap

Business Environment

7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

See response to question 6

Business Environment – People and Skills

8. Where you identified barriers in response to Question 7 which relate to people and skills (including issues such as delivery of employment support, careers, and skills provision), what UK government policy solutions could best address these?

9. What more could be done to achieve a step change in employer investment in training in the growth-driving sectors?

Business Environment - Innovation

10. Where you identified barriers in response to Question 7 which relate to RDI and technology adoption and diffusion, what policy solutions could best address these?

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 has created complexities for businesses to navigate and uncertainties as schemes 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.

We therefore welcome the commitment in the Autumn Budget to recruiting additional HMRC compliance staff to improve the quality and consistency of support for R&D relief claimants, as well as the government's consideration of widening the advance assurance scheme (currently only open to first time SME R&D claimants) to provide greater certainty and clarity over eligibility for a wider cohort of companies.

11. What are the barriers to R&D commercialisation that the UK government should be considering?

Innovate UK grants have proven critical in supporting the development and adoption of new digital approaches in insurance that might otherwise not have received initial commercial or private funding, yet positively contribute to the future development of the sector for the better and to the benefit of both retail and business customers.

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.

The value and positive impact of these Innovate UK grants should therefore be recognised, celebrated and built upon in future spending rounds.

Business Environment - Data

12. How can the UK government best use data to support the delivery of the Industrial Strategy?
13. What challenges or barriers to sharing or accessing data could the UK government remove to help improve business operations and decision making?

Business Environment - Infrastructure

14. Where you identified barriers in response to Question 7 which relate to planning, infrastructure and transport, what UK government policy solutions could best address these in addition to existing reforms? How can this best support regional growth?

15. How can investment into infrastructure support the Industrial Strategy? What can the UK government do to better support this and facilitate co-investment? How does this differ across infrastructure classes?

Business Environment - Energy

16. What are the barriers to competitive industrial activity and increased electrification, beyond those set out in response to the UK government's recent Call for Evidence on industrial electrification?
17. What examples of international best practice to support businesses on energy, for example Purchase Power Agreements, would you recommend to increase investment and growth?

Business Environment - Competition

18. Where you identified barriers in response to Question 7 which relate to competition, what evidence can you share to illustrate their impact and what solutions could best address them?
19. How can regulatory and competition institutions best drive market dynamism to boost economic activity and growth?

See response to question 20 on a regulatory regime which encourages new entrants

Business Environment - Regulation

20. Do you have suggestions on where regulation can be reformed or introduced to encourage growth and innovation, including addressing any barriers you identified in Question 7?

In our Roadmap for UK Insurtech Growth published earlier in 2024, we set out of policy recommendations to strengthen the UK's global leadership in insurance innovation (FN1). A key theme of the roadmap was "a regulatory regime that enables more new entrants", with recommendations in the following three areas:

An agile, more accelerated authorisation process suitable for smaller insurance firms

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.

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) and are due to introduce a new 'mobilisation regime'. 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 before Solvency UK applies, tripled to £15 million in annual gross written premiums and doubled to £50 million in gross technical provisions.

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

Recommendation: The next steps will be to successfully introduce these measures in a manner which truly enables the competition and innovation they seek to promote, interacting with the sector to review the regime as necessary, and maintaining momentum on evolving the regulatory regime to the needs and structures of insurtechs as they start and scale.

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: we hope the regulator will continue 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.

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: That the FCA 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.

insurance captives

We were also encouraged to see, and supportive of, the review of Insurance Captives which the Chancellor announced in the recent Mansion House speech.

Footnotes

1. Insurtech UK (2024)

https://insurtechuk.org/insurtech-uk-roadmap

Business Environment – Crowding in Investment

21. What are the main factors that influence businesses' investment decisions? Do these differ for the growth-driving sectors and based on the nature of the investment (e.g. buildings, machinery & equipment, vehicles, software, RDI, workforce skills) and types of firms (large, small, domestic, international, across different regions)?

For many firms, be they insurtechs or more broadly, this will include a positive economic climate and a stable regulatory environment.

For entrepreneurs their future path to a successful exit of the business may also be a factor. We have seen measures in the Autumn Budget which start to impact the returns at this point, be it from Capital Gains Tax increases or reductions in Business Asset Disposal Relief. It is vital that the government's mission for growth should create - not constrain - incentives for entrepreneurs to establish and grow their businesses here in the UK, recognising the jobs, tax revenue and innovation these produce as successful companies scale.

Business Environment – Mobilising Capital

22. What are the main barriers faced by companies who are seeking finance to scale up in the UK or by investors who are seeking to deploy capital, and do those barriers vary for the growth-driving sectors? How can addressing these barriers enable more global players in the UK?

In our Roadmap for UK Insurtech Growth published earlier in 2024, we set out of policy recommendations to strengthen the UK's global leadership in insurance innovation (FN1). A key theme of the roadmap was "an investment environment that facilitates funding", with recommendations in the following areas:

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: 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 could also helpfully clarify using ASA as regulatory capital, which should be permitted due to its loss absorption capacity.

Recommendation: 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.

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, as for growing MGAs considering converting to being an insurance firm in their own right becoming a regulated company would currently invalidate their EIS status.

Recommendation: 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

Footnotes

1. Insurtech UK (2024)

https://insurtechuk.org/insurtech-uk-roadmap

23. The UK government currently seeks to support growth through a range of financial instruments including grants, loans, guarantees and equity. Are there additional instruments of which you have experience in other jurisdictions, which could encourage strategic investment?

Business Environment – Trade and International Partnerships

24. How can international partnerships (government-to-government or government-to-business) support the Industrial Strategy?

Expansion into international markets and offering products to customers in new jurisdictions can provide a channel for significant growth. In 2023 nearly 30% of UK insurtechs cited international expansion as the most promising opportunity facing their company (FN1).

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 which see governments working together in partnership to provide insurtechs with pathways to understand and establish in other jurisdictions.

Recommendation: 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.

Footnotes

1. McKinsey (2023) The United Kingdom: The Nexus of Insurtech

https://www.mckinsey.com/industries/financial-services/our-insights/insurance/the-united-kingdom-the-nexus-of-insurtech

25. Which international markets do you see as the greatest opportunity for the growth-driving sectors and how does it differ by sector?

Recent polls of our members at Insurtech UK suggest the following international markets are the greatest priority targets for scaling UK insurtechs:

- USA and Canada ranked highest in terms of interest in expanding there

- Australia and New Zealand ranked second highest, jointly with European market opportunities such as France, Germany, the Netherlands and Ireland

- Markets such as Singapore and Dubai ranked third highest, with a smaller yet proactive cohort keen to explore these jurisdictions.

Place

26. Do you agree with this characterisation of clusters? Are there any additional characteristics of dimensions of cluster definition and strength we should consider, such as the difference between services clusters and manufacturing clusters?

27. What public and private sector interventions are needed to make strategic industrial sites ‘investment-ready’? How should we determine which sites across the UK are most critical for unlocking this investment?
28. How should the Industrial Strategy accelerate growth in city regions and clusters of growth sectors across the UK through Local Growth Plans and other policy mechanisms?
29. How should the Industrial Strategy align with devolved government economic strategies and support the sectoral strengths of Scotland, Wales, and Northern Ireland?

Partnerships and Institutions

30. How can the Industrial Strategy Council best support the UK government to deliver and monitor the Industrial Strategy?
31. How should the Industrial Strategy Council interact with key non-government institutions and organisations?

Trade associations can offer an instant funnel into dialogue with key growth-driving sub-sectors that would benefit from an active focus within the industrial strategy.

At Insurtech UK we would be happy to present the key statistics, barriers and enablers for the UK insurtech sector to the Industrial Strategy Council, ministers and/or officials, and can offer insurtech-focused roundtables across the UK convening leading UK insurtech start ups and scale ups, as well as investors and representatives of the wider insurance value chain involved in innovation.

32. How can we improve the interface between the Industrial Strategy Council and government, business, local leaders and trade unions?

Theory of Change

33. How could the analytical framework (e.g. identifying intermediate outcomes) for the Industrial Strategy be strengthened?
34. What are the key risks and assumptions we should embed in the logical model underpinning the Theory of Change?
35. How would you monitor and evaluate the Industrial Strategy, including metrics?

Additional Information

36. Is there any additional information you would like to provide?

As this next phase of the UK’s industrial strategy is developed, with new innovations across a wide range of sectors, it may be useful to consider new government-backed reinsurance schemes to enable cover of emerging economic or societal risks, or cover for those risks which are not catered for on the commercial market.

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.

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.

We would welcome the opportunity to present further ideas on how this could underpin wider developments within the industrial strategy, and can recommend a broad range of expert stakeholders across insurtech, insurance, business and academia who could contribute to a government review of potential initiatives.