

Insurtech Board Minutes

Minutes of the meeting of Insurtech Board held at HM Treasury on Wednesday 2 November 2017 at 1500

Attendees:

1. Will Thorne, Innovation Leader, The Channel Syndicate, Chair (FDP) (WT)
2. Philip Brown, Head of Policy, LV= (FDP) (PB)
3. Serge Taborin, Group Digital Innovation Director, Aviva, (FDP) (ST)
4. Christopher Beazley, CEO, London Market Group (CB)
5. Chris Sharp, Kinsu (CS)
6. Steven Mendel, CEO & Co-Founder, Bought By Many *by phone* (SM)
7. Daniel Pender, CEO & Co-Founder, Gryphon (DPe)
8. Freddy MacNamara, Founder & CEO, Cuvva (FM)
9. Tom Powell, Business Executive, CBL (TP)
10. Vivek Banga, Chief Digital and Offshoring Officer at Arthur J. Gallagher & Co. Chair: BIBA's cross-industry Innovation Working Group (VB)
11. Matthew Cullen, Assistant Director, Head of Strategy, Data & Analytics at the Association of British Insurers (MC)
12. Dan Morgan, Director of Policy and Regulation, Innovate Finance (DM)
13. Laura Coffey, Head of Fintech, Tech City UK (LC)
14. Greg Michel, Senior Programme Manager, Fintech, Tech City UK (GM)
15. Daniel Poxon, Insurance and Pensions, HMT *attended in part* (DP)
16. Euan McCarthy, Policy Advisor, Pensions, Markets & Insurtech HMT (EM)
17. Gordon Baker, Future Sectors, Business Growth Directorate, BEIS (GB)

Apologies:

1. Phoebe Hugh, CEO & Co-Founder, Brolly
2. Paolo Cuomo, Co-Founder InsTech London & Principal, Boston Consulting Group
3. Alan Stewart, Insurance and Markets Team, HMT
4. Trevor Maynard, Head of Innovation, Commercial, Lloyds
5. Thomas Price, Head of Fintech, Banking and Credit Team, HMT (FDP)
6. Louis Barson, Head of Future Sectors, Business Growth Directorate, BEIS

1. Preliminary

1.1 It was noted that the meeting had been duly convened.

2. Welcome

2.1 WT welcomed the panel, including Gordon Baker (GB), BEIS, Daniel Poxon, Treasury, and Euan McCarthy (EM), Treasury, and thanked Treasury for hosting the meeting at their offices.

2.2 EM introduced himself, his role in the Pensions, Markets and Insurtech team at HMT. He noted that insurtech is a vibrant and growing sector and HMT want to support this and feel that it is gathering pace. They want to support good outcomes for consumers and ensure that the regulatory framework is both proportionate and protects consumers.

2.3 The Panel members introduced themselves and their roles in their organisations

3. Fintech Delivery Panel (FDP) Vision and Terms of Reference

3.1 WT noted that that IB was born out of the FDP's vision and that the goal is to contribute to the growth of the UK's insurtech sector and position London and the UK as a primary global centre for this.

3.2 WT clarified that the IB will be governed by the same Terms of Reference as the FDP and Laura Coffey (LC) reinforced that this is not a lobbying group and rather an opportunity to bring the insurtech ecosystem together so that core IB members can establish key collaborative, industry initiatives and to drive forward their delivery

3.3 EM clarified that HMT is happy to discuss any regulatory barriers in 121 meetings with members and DP thanked him for the opportunity to do so.

4. Priority Projects for the IB - (i) London / UK as home of insurtech globally

4.1 WT introduced the priority projects that had been suggested and explained these arose from the BEIS challenger business insurtech roundtable in July, learnings from the working groups involved in the FDP, and also from crowd-sourcing key pain points. He invited the group to discuss these and contribute others that they felt would be important to consider as well

- 4.2 The first project is promoting London and the UK as the home of Insurtech. WT noted he was impressed by the recent '*London Makes it Possible*' campaign organised by the London Market Group.
- 4.3 CB noted that the campaign highlighted the unique ecosystem of 350+ broking and underwriting firms employing over 52,000 people with 32,000 of them working within half a square mile of each other who come together with a significant depth of resource and capital to create solutions for clients. London is the world's leading commercial and speciality insurance hub. However it recognises that it needs to do a better job of articulating the value it brings to clients across the world.
- 4.4 VB agreed, but noted that at BIBA represent more than 2,000 brokers many of whom have less than 10 employees. Those brokers transact 73% of commercial insurance contributing 1% to the UK's GDP
- 4.5 FM noted when he started Cuvva he spent a lot of time trying to talk to brokers but got little traction
- 4.6 WT asked DPe to share his experience of a UK Life insurance startup. DPe said he had lost confidence in the insurance industry willingness to innovate and decided to build a company with his other Co-Founder. The industry is generally risk averse so they disregarded it as an option when fundraising for Gryphon. Instead they went to VC providers, private equity and other investors. This approach worked well, with everyone seeing the opportunity to bring in technology and innovation into insurance. Fintech is different and it is easier with banking as the mindset and the regulatory regime are different as well as people want to do it.
- 4.7 WT wondered if this had led to issues where the UK market appears to those outside the industry or in other territories to be risk averse, and if there is a communication problem, a risk-aversion problem, or both? Are we saying London is not open for business?
- 4.8 DPe replied that it is really hard to get traction to be able to launch. The market is effectively closed to new entrants, being dominated by large insurers who have little real incentive to encourage competition or to innovate. Levels of innovation are relatively low - for example, most insurers spend a low percentage of their CapEx on innovation compared to their overall budget. His sense is there is a lot of noise around certain topics, for example around blockchain, but to encourage more entrepreneurs, more practical help is needed and safe space in a regulatory or technology sense in which to innovate.

- 4.9 SM (by phone) mentioned that in his view regulatory issues were not a problem (FCA). He agreed that there is no issue with talent acquisition and retention but a lack of teaching and guidance is absolutely true. However, in his view it was the dearth of funding for insurtech startups that is the big issue
- 4.10 GM wondered if it was because UK VCs do not have any background in this space - for example, there are only one or two VC partners in the UK with an insurance background
- 4.11 WT asked how much of this is a confidence issue and how much is due to US investors having a sceptical view of potential returns, noting that some prominent VCs believe insurtechs are unlikely to deliver the VC model demands
- 4.12 ST replied that it was the first because the second is unknown and reiterated that UK insurtech is way out of the comfort zone for US VCs
- 4.13 VB suggested it was a question of who is going to bear the risk? You have to convince two sets of people, investment and risk. For this to become a key sector we need to have more insurance insiders doing this
- 4.14 FM agreed and said VCs want explosive growth in 2 years and an exit in 7 and when you're sitting in front of them they ask what's the growth strategy, what's your loss ratio and the response is we'll tell you in 3 years. But the insurers want you to grow slowly in a measured, reasonably careful way, altering the risk model over time. VCs worry about the loss ratio and compounding layers of risk that they cannot analyse
- 4.15 DM asked about The Channel Syndicate. WT replied they operate on a global level and have a good view of the UK scene vs others. A lot of UK insurtech activity to date focuses on retail insurance and in the US they are moving into commercial now which is more interesting for Scor
- 4.16 ST suggested the issue is what we call insurtech. Aviva take a broad view so things like early diagnostics isn't insurtech but links to the value chain, internet of things etc - we need a broader definition
- 4.17 FM suggested the gap is between VC growth demands and around user numbers and how we boost your premium to 20M vs. insurer partners wanting to protect loss ratio.
- 4.18 MC asked if we are ahead of other regions - Europe/ Asia/ the USA? WT feels the UK was on a par with places like Germany and US but is in danger of falling behind. The Berlin VC space is more willing to invest in insurtech, for instance

- 4.19 DPe noted a real shortage of VC and lots of interested in talking but very few who actually invest - if they are interested they are least keen on equity to build, so they almost all recommend entrepreneurs going away and build it and then they will consider investing. True experimental money is harder and even then there are concerns about the route to exit - will Aviva buy you etc?
- 4.20 FM said it's just more expensive to get to product market fit if you're using someone else's balance sheet vs someone like Transferwise in the fintech space
- 4.21 PB said that VCs can't model it until they've seen something operate. Insurance don't like theory and can't model it. WT asked how we solve the capital problem?
- 4.22 PB said we need a voice on behalf of insurtech
- 4.23 GB wondered if a conference would help like the Fintech one that HMT ran? WT replied that industry had tried various conferences and they made little material difference.
- 4.24 DM suggested that the incumbents don't feel the pressure because it is a walled garden and also noted that EIS and SEIS are great but 50% of fintech deals are US funded
- 4.25 VB wondered if insurtech is missing a trick - incumbents have 100 year old processes and could insurtech make them more efficient? WT agreed, but noted that the amount of money for solving very niche problems is not enough to drive VC investment - B2B addressable market is too small and VCs need to see \$bn valuations.
- 4.26 WT noted that the full stack model is capital inefficient so VCs do not want to invest in it as the cost of capital is too high
- 4.27 FM noted that market size big problem, in car insurance the opportunity to become unicorn means doing 100-200M of revenues. If you're a broker, this means 1-2bn every year so if this in auto this means 10% of whole market which is unrealistic
- 4.28 MC noted that this is not a market where high margins are seen as acceptable by the public, vs the big tech companies which are able to report big margins, it is not tolerated
- 4.29 WT said that recently insurance MGAs have been selling for 13-14 times EBITDA. wondered why VC investment in brokers and MGA is happening in Berlin but not the

UK, and that it is happening organically, not instigated by large corporates like MunichRe and SwissRe.

- 4.30 FM suggested may be it's a cultural difference. UK people hate insurance but Germans have lots of insurance. UK people slate the industry for being non transparent
- 4.31 VB suggested that commercial is where the big opportunity is. DPe reflected that it takes a lot to succeed and we should not pre-guess what idea is good. but rather create an environment in the UK where people can experiment with product and businesses. Clusters of entrepreneurship and tech. Shared service or capabilities to help on capital, legal, tax incentives.
- 4.32 CS suggested that good ideas find money regardless
- 4.33 CB suggested that the method of transacting business in commercial is still very traditional and largely still paper based. A generalization but we have not been good at investing in the future as a sector. Noted that this is however changing and there is now widespread acceptance of need to change and faster and a growing understanding of the tech capabilities would help in this regard.
- 4.34 FM wondered if we could do the equivalent of Level 39 for insurtech in Lloyd's
- 4.35 WT noted that this was the first of five projects and concluded by saying there is agreement that we need to build on London and the UK's specialisation and it feels that as a garden it needs watering. The plan is to start dealing with the reputation issue, firstly by issuing a joint statement that we believe in London and the UK is open for business to help draw attention

5. Priority Projects for the IB - (ii) Relationships with other hubs

- 5.1 WT said that MAS (Singapore), insurtech and the US were pushing this agenda and Germany as well and that it's critical to build relationship with them. LC and WT are going to meet with Germany soon. WT also noted that some influencers were unhappy with the UK's progress vs other territories.
- 5.2 ST mentioned that MAS is extremely aggressive in driving innovation. In Germany everything is connected with APIs so information flows and structurally it is easier. In the Valley there is a lot of money but insurance market is in health which is a very different market than the UK. Metromile is a big success but there are 50 different

states with different legislation which can be a barrier. In terms of pure innovation the UK is ahead but in terms of scale the US is ahead because they have more money

5.3 WT asked about positioning the UK as a natural second market? One of the difficulties in getting funding is the addressable market size. This could be improved if founders and VCs had a better understanding of the partners, support and license access available in the UK - people need to understand the UK value proposition

5.4 DM mentioned that the UK was first in the world with the FCA sandbox but now there are 23 versions. MAS is also an economic development agency so has money behind it and they are flying people in - all funded by the regulator

5.5 GB mentioned the FCA had just published a [Regulatory Sandbox Lessons Learnt Report](#)

6. Priority Projects for the IB - (iii) procurement and onboarding processes between insurtech and incumbents

6.1 FM talked about incumbents sharing large NDAs and that it would be helpful to send in advance standardised sets of docs for onboarding. Start-ups don't have army of lawyers that can work through them. WT asked if the ABI was trying to do this as part of its work on common policies and pensions dashboard. LC mentioned the work on standards that the FDP is driving with fintech / banks and GB asked whether this was working. LC replied it has just started but there was a lot of support from fintechs for it and FM suggested this group do a similar piece of work

6.2 CB was supportive and suggested a small number of people can agree on standards. LC clarified that it was more detailed work than just NDAs and could be exported as part of promoting the UK. FM said that a commonly agreed framework would be incredibly helpful. Speed of execution is biggest killer for insurtech.

6.3 WT mentioned that the other issue is MGA onboarding and how to make this more efficient this. EM said that HMRC was looking at clarifying SEIS regime and WT said it would be useful for HMRC to provide guidance on the corporate structure needed as there is confusion on the business model when it is MGA with tech. EM said they are having a meeting with the enterprise team and will clarify timescales. DPe and FM were interested to hear more on this. DPe said the tax credit process could be simplified and WT mentioned that insurtech in Australia startups report they receive help to understand what tax credit you get

6.4 WT asked if we can incentivise people to relocate the IP as well as the tech to the UK where they have a holdco/ insco structure

7. Priority Projects for the IB - (iv) insurtech representation

- 7.1 WT introduced this agenda point suggesting that there is a perception that insurtech don't feel they have a body that represented them. He asked what the view was from Innovate Finance
- 7.2 DM replied that Innovate Finance wasn't set up to represent insurtechs as that wasn't in the space when they launched so they mainly focus on retail banking, payment and retail lending. Of their c.300 members only 8 are in the insurance space. So they are not the voice of insurtech
- 7.3 WT asked if there was appetite for Innovate Finance to do something in the space. DM said why not but clarified that 75% of their funding comes from a few large members and the large tail are not able to pay for membership. WT asked if insurance wants a voice?
- 7.4 ST said he did not see a need and CS asked what they would use the voice for. GB said that input on the standards would be an example - things insurtechs would like to exist but that can't make happen on their own. VB suggested it would be helpful to have people to go to to ask for things like how to set up an MGA, etc. DM suggested running capital raising session with The Channel Syndicate etc. PB suggested a physical space where you can get support. WT observed that germany have done this and Insurers funded it at c. 30k each with ~ 25 backers and this could be done through Tech City UK. ST said the money sounds ok but what would this bring and what would it look like
- 7.5 LC explained the Tech City UK 'Upscale' programme of content delivery but that it would need funding to do something specific on insurtech. WT noted that targeted skills course could attract founders to the UK. MC observed it would be about convincing incumbents to spend on something not impacting bottom line immediately.
- 7.6 WT asked if there was anything else that should be worked on. DPe suggested making sure the FCA and PRA were aligned. LC asked HMT to take that as an action - what can PRA learn from FCA? MC agreed that it took them well into 7 figures of consultancy spend to get into an ok place for the PRA on FloodRe. DPe observed the paper from the HMT select committee was very good on this issue

8. Ways of working

- 8.1 WT invited LC to discuss the resource requirement for this group to be a success. LC said that from the experience of running the FDP and its working groups, dedicated resource is critical to driving momentum, given that IB members are senior and those in the insurtech startups are also working in very lean teams. Resource is needed to drive action between IB meetings
- 8.2 LC underlined that the Tech City UK fintech team is lean (2 x FTE) and with the number of working groups for the main FDP to support, it is critical to secure additional resource to drive action forward – especially as the IB will set up its own sub-working groups.
- 8.3 GB agreed and asked how we can crystallise resource? LC noted that BEIS are exploring an opportunity to help with resourcing and asked whether any of the incumbents around the table may be able to help, noting that LV= got very close to supplying resource but an internal re-org blocked this, but thanked PB for his efforts.
- 8.4 ST asked about the level of seniority required and LC said even a junior resource would be helpful, ideally on a fully-funded secondment basis to Tech City UK. ST said that he will also explore what contribution Aviva can make

9. AOB

- 9.1 There was no AOB. WT checked if there were any further questions, there being none he wished to adjourn the meeting and thanking all for attending and Treasury and BEIS for their engagement

10. Next meeting

- 10.1 The next meeting is TBC

11. Close

- 11.1 There being no further business, the Chair thanked the panel for their time and declared the meeting closed at 1700.