Insurtech UK

Our mission is to transform the insurance industry through the use of technology, and make the UK the global leader for insurance innovation

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SPENDING REVIEW REPRESENTATION

February 2025

Summary

Insurtech is a dynamic growth sector - from building on new technologies and offering new propositions for evolving consumer needs, to partnering within the insurance value chain and scaling through international expansion. Insurtech's infinite potential in the UK and beyond embodies the ambitions of the government's growth mission.

Together with the industry, we are working hard to cultivate a proactive ecosystem that strengthens insurtech start ups and scale ups. However, as in our Roadmap for UK insurtech growth, to achieve its full potential as a global driver of insurance innovation, these industry-led endeavours must be complemented by a positive, enabling policy environment. This representation emphasises those policy levers which require specific government investment within the Spending Review and sets out the case for funding.

Innovation: The Next Generation Professional and Financial Services Programme should be anticipated and accommodated within Innovate UK's next budgetary allocation.

International: International promotion of UK insurtech by the Department for Business and Trade, facilitating market access in priority jurisdictions and encouraging inward investment, should continue to be resourced, with a dedicated annual budget for insurtech delegations allowing for more strategic planning / targeting of overseas promotional activity

Access to Finance: Beyond specific measures above for departmental budgets within the Spending Review, an ongoing priority for the sector is access to finance - an area where government policy can substantially impact the funding environment.

Insurtech UK therefore continues to highlight the need for:

- EMI: qualifying criteria to be updated from current limit of £30 million gross assets
- SEIS - EIS: extended to all categories of insurtechs to incentivise more investment
- R&D tax relief: greater clarity and consistency from HMRC
- ASAs: the long-stop date for Advance Subscription Agreements re-extended back to 12 months
- Mansion House Compact: efforts to continue at pace to channel available capital into high-potential innovative firms

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1. Introduction

Insurtech UK welcomes the opportunity to input to the government's Spending Review priorities. Insurtech is a dynamic growth sector - from building on new technologies and offering new propositions for evolving consumer needs, to partnering within the insurance value chain and scaling through international expansion. Insurtech's infinite potential in the UK and beyond embodies the ambitions of the government's growth mission.

The strength of the insurtech sector

The UK is home to the world's second largest insurtech cluster, with **280 insurtech firms** identified in Insurtech UK's 2023 sector study led by McKinsey *The United Kingdom - the Nexus of Insurtech*. UK insurtech has an estimated **combined value of more than $20 billion**, making it the third largest globally after the USA and China, with an annual revenue of £2-3 billion.

To date the UK has produced **8 insurtech unicorns** (companies valued at more than $1bn) - more than the rest of Europe combined, and is second only to Silicon Valley globally. One third of all UK insurtechs are based outside of London, with emerging clusters including northwest England, the south and Wales.

The sector directly employs a diverse **workforce of 14,000 people** where about two thirds are aged under 40 and nearly half are female. More widely, the sector makes a **significant contribution of almost £5 billion to the UK economy (GDP)** and supports 60,000 jobs across the UK.

Powering insurtech's potential

At Insurtech UK our mission is to transform the insurance industry through the use of technology, and make the UK the global leader for insurance innovation. Together with the industry, we are working hard to cultivate a proactive ecosystem that inspires and strengthens insurtech start ups and scale ups.

However, as set out in our Roadmap for UK insurtech growth, to achieve its full potential as a global driver of insurance innovation, these industry-led endeavours can and must be complemented and supported by a positive, enabling policy environment. This representation emphasises those policy levers which require specific government investment within the Spending Review and sets out the case for funding.

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2. Innovation

Innovate UK: Next Generation Professional and Financial Services Programme

Departmental interests:

- Department for Science, Innovation and Technology
- Department for Business and Trade
- HM Treasury

Innovate UK grants have supported the development and adoption of new digital approaches in insurance. Insurtech UK has welcomed this funding to facilitate new research and products within the UK insurance sector, and calls for the value and benefits of this to be recognised and expanded on in future spending rounds.

An initial tranche of £20 million funding for Professional and Financial Services, including insurance, ran until 2022. The programme leveraged up to £28 million in additional and follow-on research and development expenditure, and it increased business research and development by an average of six times. Businesses supported in the programme were three times more likely to secure further investment.

Since then Innovate UK has launched a new Next Generation Fund of £26.5 million to help professional and financial services sectors, again including insurance, to develop and use digital technologies. Its aim was 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 under the latest programme include identifying and removing bias from telematics used within car insurance, practical insights on AI adoption in insurance for both firms and regulators, scoping new insurance policy cover for cyber protection for small businesses, and using data modelling to predict and mitigate against cyclone damage.

Case studies of the latest awarded projects have recently been published by Innovate UK. This shows the demand and impact the programme continues to have on driving not just new innovations, but also collaboration of expertise and adoption of new solutions across the industry, leading to new commercial partnerships that might otherwise never have occurred.

Evidence from our insurtech members also demonstrates a number of female founders successfully securing Innovate UK grants, from the Next Generation programme and more widely, showing an additional value of the Innovate UK programmes as being an opportunity to support female entrepreneurs who tend to be underserved through other channels and typically see lower overall investment.

Whilst the Spending Review will set the wider envelope for Innovate UK generally, it is vital to still emphasise the value and positive impacts for the insurtech sector that have stemmed from the Next Generation Professional and Financial Services Programme in order to ensure future rounds of this important initiative are foreseen.

The Next Generation Professional and Financial Services Programme should be anticipated and accommodated within Innovate UK's next budgetary allocation.

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3. International

Supporting scaling beyond the UK

Departmental interests:

- Department for Business and Trade

Expansion into international markets and offering products to customers in new jurisdictions can provide a channel for significant insurtech growth. Nearly 30% of UK insurtechs cited international expansion as the most promising opportunity facing their company in the 2023 sector study led by McKinsey *The United Kingdom - the Nexus of Insurtech*.

Insurtech UK welcomes the existing proactive engagement with the Department for Business and Trade facilitating overseas opportunities for UK insurtechs, through trade missions and international investor look-books, as well as more formal longer-term initiatives such as insurtech corridors or pathways.

To support our members international ambitions, and the ensuing growth this will bring as a focus area in the Industrial Strategy, roles focusing on insurtech in the Department for Business and Trade should continue to be funded in the next Spending Review period.

A dedicated annual budget for insurtech trade missions would also allow for more advance planning on an annual (or longer) basis, with decision-making further ahead of international conferences (which often serve as an important anchor for initial due diligence visits, building new partnerships or finding new equity investors) enabling longer to advertise and liaise with prospective companies to participate and make the most of the overseas visits.

Drawing on evidence of priority countries and positive past experiences with insurtech corridors, the USA consistently tops our member firms' ambitions for overseas expansion, followed jointly by European markets (due to geographical proximity and developed retail financial markets) and Australia and New Zealand (due to anglophone and structural similarities, although these present smaller market opportunities in their totality). These are then followed by other financial centres such as Singapore and Dubai which are known for being welcoming of financial innovations.

An international insurtech strategy should also encourage inward investment, given the challenges insurtechs - like many other scaling tech sectors - can encounter in raising sufficient funds to match their growth potential domestically within the UK.

International promotion of UK insurtech - to facilitate market access in key overseas jurisdictions and encourage inward investment - should continue to be resourced, with a dedicated annual budget allowing for more strategic planning and targeting of promotional activity.

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4. Access to finance

Departmental interests:

- Department for Business and Trade
- HM Treasury
- HM Revenue and Customs

Beyond the specific measures above for departmental budgets within the Spending Review, an ongoing priority for the UK insurtech sector is access to finance, which is an area where government decision-making and policy can substantially impact the funding environment.

Insurtech UK therefore continues to highlight the need for:

- **EMI:** The qualifying criteria for the Enterprise Management Incentives to be updated from its current limit of £30 million of company gross assets. This limit has remained static for many years and not increased in line with growth or inflation. Increasing the limit would attract more experienced talent to support insurtech firms through their vital scaling stage.

- **SEIS - EIS:** Extending the Seed Enterprise Investment Scheme and Enterprise Investment Scheme to all categories of insurtech companies 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.

- **R&D tax relief:** 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 is creating complexities for businesses to navigate and uncertainties as schemes are 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. Clarity, consistency and confidence is needed from HMRC in both the application of scheme criteria and scheme consistency for R&D tax relief.

- **Advance Subscription Agreements:** enable 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. However, 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 fundraising efforts where companies may now need to rush valuations and accept sub-optimal terms. 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.

- **Mansion House Compact:** This welcome initiative has significant potential to provide new sources of domestic capital for innovative high-growth firms, but to be most impactful efforts must continue at pace between signatories, policymakers and wider market participants to channel available capital from UK pension funds into UK start-ups and scale-ups including insurtechs.

Insurtech UK

Our mission is to transform the insurance industry through the use of technology, and make the UK the global leader for insurance innovation.

As the dedicated trade association for insurtechs in the UK, our members comprise 150+ insurtechs and 30+ partners ranging from insurance companies to professional services firms supporting the sector.

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