

Insurtech UK Response to FCA Call for Input: Cross- Sector Sandbox

30 August 2019

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A. Introduction: Insurtech UK

Insurtech UK is a trade association of 86 members, associate and partner members. Our membership consists of 59 insurtech start-ups which cover the full spectrum of the sector; including intermediaries such as MGAs and brokers, as well as non-regulated businesses such as platforms, claims and analytics technology providers. We also have 8 associate members who are traditional insurers and 19 service partner members who are from a range of professions separate from insurance. Our mission is to transform the insurance industry through the use of technology and to make the UK the best place for innovating insurance in the world.

We have responded to this Call for Input on behalf of our members, associate members and partners and with assistance from our Legal Partner Browne Jacobson LLP. For a full list of our members, associate members and partner organisations, please see Appendix 1.

In the interest of addressing the questions which are most relevant to our members, we have limited our answers to the Call for Input questions 1,2,5,7 and 9.

If you wish to discuss our response further, please contact Rory Tanner at rory@political-intelligence.com.



Insurtech UK

<https://insurtechuk.org/>

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B. Executive Summary

Generally our members have had very positive experiences with the regulatory sandbox and are in favour of the possibility of a cross-sector sandbox that brings together multiple relevant regulators to provide guidance and certainty to firms who are investing in innovative technology and business models.

In particular, our members:

- would be in favour of joint collaboration with the FCA, ICO and PRA;
- see an opportunity for more efficient interaction with multiple regulators;
- see the potential for an improved live-testing environment under the supervision of multiple relevant regulators; and
- think that a cross-sector sandbox would enable regulators to better predict technological and regulatory change and allow firms to better predict the views of the regulators;

To get the most out of any cross-sector sandbox, our members think the regulator should be mindful:

- of the governance risks and the risk of inefficiency when dealing with multiple regulators;
- to incorporate the potential for insights gained through a cross-sector sandbox to contribute to faster regulatory amendment and certainty in relation to innovative technology; and
- that participation in any cross-sector sandbox should not be made daunting or onerous, especially to early stage start-ups.

As potential complements (or alternatives) to any cross-sector sandbox, our members have:

- commented on the need for further regulatory resources to assist firms in determining regulatory status ahead of engaging in any cross-sector sandbox; and
- queried whether a less formal single point of access could achieve similar results.

C. Call for Input Question 1: Are there any instances where a cross-sector sandbox would have been useful for you?

Potential usefulness of the cross-sector sandbox

Generally, our members agree that it would be useful to have multiple relevant regulators (especially the ICO and PRA - see below at "D") working together to provide joined-up feedback and support where innovative business models do not easily fit the existing regulatory frameworks. In their view, this would incentivise technological innovation within the sector which would, in turn, benefit consumers. However, our members have questioned whether the formal structure of requiring firms to apply to a cross-sector sandbox is necessary and whether alternative channels of support or a less formal arrangement between regulators could achieve the same result.

We have made some further comments about the potential for complementary or alternative approaches in our response to question 9 at "G" below.

Founders of a member firm (a sandbox alumnus) commented that they had experienced difficulty in reconciling conflicting sets of potentially relevant FCA regulation applied to their innovative insurance model. The guidance they received in the regulatory sandbox allowed them to determine their business model and gave potential investors and partners confidence in supporting this innovation. Similarly, our members see potential for a cross-sector sandbox to give firms the ability to present to an innovative business model to multiple relevant regulators where there may be conflict or uncertainty between regulators.

D. Call for Input Question 2: Are there specific regulators which you would like to see working more closely together?

Input of the ICO and PRA

Our founding members (previously sandbox alumni) commented that additional input from the Information Commissioner's Office (ICO) and the Prudential Regulation Authority (PRA) would have been useful both during the sandbox process and also subsequent to "graduation" from the sandbox.

The ICO is a relevant regulator for the insurtech industry as insurtech firms often control the purpose or means of processing personal data or process personal data themselves in an effort to provide insurance-related services based on that data. In addition to the collection of personal data relating to the general provision of services online, insurtech firms also commonly process large data sets which relate to the

occurrence of the risk events to which their insurance product relates. Input from the ICO at an early stage would give firms confidence that they are dealing with personal data appropriately.

Secondly, given the dual regulation of insurers by the FCA and the PRA, our members would welcome greater collaboration between these regulators. In the experience of our members, insurtech firms often choose not to invest their resources in developing innovative business models that may include PRA-regulated activities as dealing with the PRA is seen as prohibitively complex and expensive. Some of these members, who are now more advanced in their business life-cycle, are again considering whether they should invest in innovation around PRA-regulated activities and have commented that they would welcome a forum to present these ideas to the FCA and PRA in an environment which is more approachable for small/mid-sized firms who are scaling their current business models.

E. Call for Input Question 5: What do you see as the main benefits and opportunities to firms or regulated markets of a cross-sector sandbox?

Efficiency in interaction with regulators

A cross-sector sandbox could be beneficial in allowing firms to test a business model in one single forum (for instance where the proposition is relevant to the FCA, PRA and ICO) rather than having to initiate and maintain separate relationships with each regulator. Our members have commented that a single point of contact with multiple regulators would be especially appealing where time-sensitive innovative ideas are coming to market.

Further, in the experience of our members, a well-prepared sandbox application may take several days of effort for a firm's founders and senior staff. Reducing the administrative burden required to access the assistance provided by regulators by consolidating the relevant applications would save firms significant time and money.

Conversely, our members are mindful of the risk that it may be more difficult for multiple regulators within a cross-sector sandbox to make a decision relating to a firm and that this may cause delay. Our members would be interested to understand (and provide feedback on) the structure and governance of any proposed cross-sector sandbox. In particular, our members would be interested to understand how regulators might between them resolve any disagreement about an issue concerning a firm.

At the roundtable event on 6 August 2019, it was mentioned that in the FCA's experience from the pilot of the Global Financial Innovation Network ("GFIN") that a "chair regulator" role may be necessary to maintain focus and resolve disagreement. If a similar system were to be adopted by a cross-sector sandbox, our members have commented that they would prefer that the most relevant regulator to a particular firm or proposition be assigned as chair or 'case officer' in that instance.

Testing supervised by multiple relevant regulators

A further benefit of a cross-sector sandbox is that a sandbox format allows firms to undertake live testing of new regulated products under the supervision of the relevant regulators. Our members see the potential for efficient and iterative engagement with all of the relevant regulators at once during the testing period to improve the regulated product. This could serve to enable a firm to get its product to market more quickly.

Notwithstanding the potential for testing supervised by multiple regulators, a cross-sector sandbox would not be immune to a more general issue observed by our members that regulation within innovative sectors often comes two to three years after the relevant technological progression. If accommodation is not made within the testing process (or more broadly within the structure of a cross-sector sandbox) to account for innovative models which may not sit neatly within a current regulatory framework, then the potential efficiency may be lost.

F. Call for Input Question 7: What do you see as the main benefits and opportunities to regulators of a cross-sector sandbox?

Proactive, predictable, approachable regulation

Our members believe that regulators would benefit from a cross-sector sandbox as it would allow them to develop a contemporaneous common understanding of new technologies (and the related innovative regulated business models) which are emerging across varying sectors. In turn, regulators may be better placed to predict which advancements of regulation are required to permit and harness the benefit of this innovation.

Similarly, a cross-sector sandbox could also help to drive a consistent approach between regulators to deal with innovation in technology and regulated business models. This could have the consequential benefit for firms that they might be able to more readily predict the behaviour and response of regulators.

Some of our members have expressed concern that, particularly for start-up firms, one platform in which multiple regulators are able to oversee and scrutinise the testing of their ideas has the potential to be unduly onerous. Members have expressed a concern that they may have to invest the resources to deal with a “wall of regulators” at an early stage while seeking assistance with a discrete regulatory issue. This perception could be detrimental to regulators who want to encourage firms to come forward as early as possible with regulatory queries rather than having to pursue firms for lack of compliance.

G. Call for Input Question 9: Is there anything else which might be useful to be aware of for this study?

Replacing the cohort system

Should the proposal of a cross-sector sandbox progress beyond the concept stage, further consideration ought to be given to the application model. Under the cohort-based application model, which is currently adopted by the regulatory sandbox, the specified application windows do not always align with the stage at which firms (in particular start-ups) may be, and this can lead to lost opportunities for engagement due to poor timing. Additionally, the current cohort-based model also leads to firms submitting incomplete and occasionally inaccurate applications. Firms are likely to overstate how ready they are to begin testing their innovation in the real market with real consumers in order to apply to the sandbox within their desired cohort, rather than waiting for the next application window.

An alternative model would be to accept applications on a ‘rolling basis’. This could prevent premature filings and in turn increase the number of successful applicants entering the sandbox. However, this could lead to issues of staffing for regulators and would also risk making the application process more opaque and uncertain without the clear deadlines and windows which come with the cohort model.

Some members who had previously applied to the regulatory sandbox commented that the criteria against which they were assessed was difficult to understand and benchmark their chances of success against. Other members commented that the application required a relatively sophisticated understanding of the regulatory perimeter which necessitated the input of (potentially expensive) regulatory specialists at a stage where the firm was still validating its model (see further our comments below).

Complements (or alternatives) to a cross-sector sandbox system

In consultation with our members, we also received comments concerning the possibility of complementary or alternative resources to a cross-sector sandbox and we have set those out below.

Simplified and streamlined resources. When the FCA regulatory sandbox was launched, “supervised testing” was promoted as a significant benefit of the initiative and readiness for this testing was a prerequisite in applicants. However, members who have previously applied to the regulatory sandbox (and some of our professional advisor partners who assisted in these applications) have commented that many firms saw the primary benefit of the regulatory sandbox being the ability to seek certainty around the legal status of their regulatory model. Regulatory legal and consulting advice is a significant expense for our members during the early stages of validating their business model (and later when researching potential new innovative products). For this reason, many of our members have commented that, whether through a cross-sector sandbox or otherwise, they would welcome efforts by regulators to provide clear, user-friendly resources which are accessible to firms to assist them in determining their regulatory status. This engagement with regulators comes long before the stage of live testing and will still likely necessitate engagement with regulatory specialists at a more advanced stage. However, if the cross-sector sandbox aims to support innovative firms entering the market and encourage dialogue with the relevant regulators, then simplified and streamlined resources which assist in determining regulatory status would be a helpful stepping stone to those firms understanding the regulatory framework which applies to them.

Turning to the FCA in particular, the FCA Innovate initiatives such as Direct Support, the Advice Unit and the existing Regulatory Sandbox are welcome resources. However we are aware that many members are unsure about how to access (or are entirely unaware of) these resources. We think it would be helpful if the FCA could further promote the resources available to firms which are at the stage of considering regulation. Further, it would be helpful to understand how the FCA anticipates that these other services would work alongside a cross-sector sandbox.

Collaboration, communication, cooperation. Consideration should also be given to whether the benefits of a cross-sector sandbox (see our comments above at “E”) could be achieved through greater collaboration and incorporating points of contact between regulators and the existing resources available to firms. Members have suggested that,

if firms were able to approach a single regulator who in turn opened the necessary channels of communication with the other relevant regulators, then the administrative burden might still be minimised for firms without the need to construct a formal multi-regulator sandbox.

Other suggestions by members included a request for the publication of cross-regulator FAQs to be accompanied by a contact list for further questions. This would provide some of the perceived benefits of the cross-sector sandbox, in terms of efficiency, in that it would provide firms with a single point of contact for multiple regulators to engage on commonly discussed issues. This approach might also have the effect of filtering firms before any sandbox application process who might otherwise see a cross-sector sandbox as a venue primarily for regulatory advice, rather than live testing.

H. Appendix 1

Insurtech UK Members

Albany Group	Insly
Anorak	Kasko Ltd
Artificial Labs	Konsileo
Automated Insurance Solutions Ltd	Laka
Azur	Marmalade
Bewica	Nimbla
Bikmo	Now4cover
Bluesona	Oasis Loss Modelling Framework
Bought By Many	Phinsys
Canopy	Pluto
Cazana	PolicyCastle
ChAI	Policy Expert (QMetric)
Claim Technology	Premfina
Concirrus	Qlaimstech Ltd.
Cover Genius Limited	Quodex Limited
Coverly	Reviti
CoVi Analytics	Shepherd
C-Quence Insurance Solutions Limited	Sherpa
Digital Risks	So-sure
distriblnd	Stable Group Ltd
Drover	Tapoly
Envelop Risk Analytics Ltd	Urban Jungle
Equipsme Insurance Services Ltd.	TrackMyRisks
Evari Insure	Verius Risk Solutions Limited
Floodflash	Vesuvio Labs
Flock	VTX Partners Limited
Hokodo	Worry + Peace
Honcho Markets Ltd.	Wrisk
Inlet Insurance Services / Piki	Yulife
InShare Limited	

Insurtech UK Associate Members

Hiscox
Bascule
Holloway
Aviva
Lloyd's of London
CII
Aon
Munich Re UK Services Ltd

Insurtech UK Partners

Oliver Wyman Digital - *Principal Partner*
PKF Littlejohn - *Accounting Partner*
Broker Direct PLC - *Claims Service Partner*
Salesforce - *Innovation Partner*
Atlas Consulting - *Consulting Partner*
Synechron - *Consulting Partner*
IMAS Corporate Finance LLP - *Corporate Finance Partner*
NCC Group PLC - *Cyber Security Partner*
Locke Lord - *Legal Partner*
Capital Law - *Legal Partner*
Browne Jacobson - *Legal Partner*
Hotwire Public Relations Ltd - *Media Partner*
GovGrant - *R&D and IP Partner*
BMC Recruitment Group - *Recruitment Partners*
Wells Tobias Group - *Recruitment Partners*
IDEX Consulting Ltd - *Recruitment Partners*
Polaris - *Technology Partner*
Thoughtworks Ltd UK - *Technology Partner*
Genasys Technologies UK - *Technology Partner*