

Insurtech

we've got it covered



Setting up and sustainably growing an Insurtech business is a major undertaking. The range of issues that you'll need to consider are extensive and there are no quick shortcuts.

However, you're not alone - our team of experts can help you prepare and implement a strategy tailored to your unique circumstances.

Drawing on our considerable experience of helping clients establish their own Insurtech and other financial services businesses, we've compiled this guide to outline some of the key issues that you're likely to encounter as you start up and subsequently grow.



STRUCTURE Aligning with your growth strategy

Your choice of business structure can either support or hinder your long-term growth plans, so getting it right first time is important. Some of the considerations to think about when deciding upon a business structure include:

- Regulatory capital requirements - for both carriers and intermediaries
- Capital raising plans - including ensuring that the structure is EIS/SEIS compliant (see below)
- Leverage
- Incentivising key people/management
- Expanding overseas

By understanding your business and your future strategy, we can create a structure that will best enable you to meet your business objectives and is compatible with regulatory requirements – without the need for more difficult and expensive structural changes later on.



FINANCIAL MODELLING AND RAISING MONEY With an extra boost from HMRC

A detailed financial model, a clearly articulated strategy and a concise information memorandum are all important elements of a successful fundraising. Some considerations to think about when raising finance include:

- Who are your target investors in the short and long term (e.g. private vs institutional) and what are their requirements?
- How much funding do you want and what do you want it for?
- How do you plan to raise funds (through personal contacts, via professional funding sources etc)?

Qualifying for Enterprise Investment Scheme (EIS) or Seed Enterprise Investment Scheme (SEIS) relief - HMRC-approved initiatives that enable shareholders to receive income tax relief on the amount they invest - can also make your business more attractive to potential investors, helping you to raise funding more quickly and efficiently.

Our team of experts can help you prepare your investment case to increase your business's appeal to potential funders. We can also identify if your business is able to meet HMRC's qualifying criteria for EIS or SEIS, and help you obtain any advance assurance. In addition, we can put you in touch with relevant investors and corporate finance houses.



PEOPLE POWER What are your options?

Finding and retaining key employees is vital for any business – but it's particularly important for early stage companies looking to scale with ambitious employees.

Offering share options in the company – such as through an HMRC-approved Enterprise Management Incentives (EMI) structure – is one way of achieving this when cashflow is tight. EMI confers a number of advantages to both the employer and the employees, such as being able to set the value of the option up front and saving employees income tax and national insurance on the option growth. Employees may also be able to qualify for Entrepreneurs' Relief.

Our team can help you benefit from the tax incentives available through EMI by offering advice throughout the lifecycle, from assessing your eligibility through to ongoing application and compliance.



R&D SAVINGS Not just for scientists

Technology is often a vital source of competitive advantages for Insurtech businesses. If you're developing systems and platforms that advance scientific or technical knowledge, your business may be able to receive up to 26% of your research and development (R&D) outlay back in the form of tax refunds or tax savings. This will help with your cashflow at a time when it will be most strained.

We can help you process your claim for R&D relief to make sure you get as much of a tax refund or saving as possible.



VAT & IPT For when things become taxing

In general, services provided by insurance carriers and intermediaries are VAT exempt. This means that VAT cannot be recovered on expenses and capital spend – a major drawback when you're spending heavily in start-up phase. Our specialist VAT team can help. Through our understanding of the complex VAT rules, we have helped clients recover VAT on some of their expenditure.

Insurance Premium Tax (IPT) is often paid on insurance contracts - it is the responsibility of both the insurance carrier and insurance intermediary to make sure that IPT is included where necessary. Ensuring you understand the process and the systems are set up to correctly calculate and produce the information from the beginning will save you time, cost and potential penalties.



REGULATION Keeping compliant

Insurance intermediaries are regulated by the Financial Conduct Authority (FCA). The regulatory environment facing the insurance industry continues to grow more complicated, as new regulations and requirements continue to be introduced. Compliance with the myriad of regulations is a major challenge for even the most established operators, with large governance, risk and control assurance teams. For young companies with an entrepreneurial culture, keeping the FCA happy on important issues such as regulatory capital and client money can be a major headache. Some considerations to think about include:

- Do you want to become an Appointed Representative or be authorised yourself?
- Do you want client money permissions or just risk transfer?

We can help you at every stage of the process – from gaining the necessary approvals through to advising on how best to keep your business compliant yet commercial. We can also work with you to introduce and test your compliance controls and processes.



ACCOUNTING SYSTEMS Not just an afterthought

Insurance accounting is complex – and it isn't helped by the fact that many in-house systems tend to focus on driving sales rather than back-office reporting.

We can help you set up your accounting systems, policies and procedures to best support your business, so that they comply with accounting standards, are scalable with your company and provide the information you need to successfully manage your business. We can also work with you to benchmark your accounting function against those of your peers.

Why us?

PKF Littlejohn has been a trusted adviser to the UK insurance sector for over 100 years and has one of the largest and most experienced specialist teams of insurance industry experts within the accountancy profession. We act for around 25 insurers and over 70 insurance intermediaries and managing general agents.

Over the past few years, we have become actively involved in the Insurtech space, working with entrepreneurs, funders and investors to support a number of start-up businesses, and with incumbent operators to help them to adapt to the changing environment.

Want to know more?

Please get in touch to find how we can help you.

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