LLOYD'S

Harriett Baldwin MP
House of Commons
London
SW1A 0AA

13th October 2021

Dear Ms Baldwin

Treasury Committee's Hearing on Future of Financial Services: Lloyd's Follow-up Evidence

I would like to thank you for the opportunity to give evidence to the Treasury Committee as part of its inquiry into the Future of Financial Services in the UK. During the hearing, I committed to provide more information on regulatory barriers that smaller firms experience as they look to scale up their operations in the UK. I submit this letter to offer further detail on the issue as well as describe Lloyd's own work to encourage more innovative start-ups to join, and contribute to, the established insurance community in the UK.

Regulatory barriers for scaling up firms

As mentioned during the hearing, regulations can act as a significant barrier for smaller companies as they look to grow and develop their operations in the UK. This includes scenarios where insurtech firms consider options to 'upgrade' their existing regulatory permissions from being an intermediary, to becoming authorised to carry on insurance business as a (re)insurance carrier.

With the kind permission of Insurtech UK, a trade association representing over 100 insurtech start-ups, we would like to share their submission to HM Treasury's Solvency II Call for Evidence, which discusses those challenges in detail and explains why firms choose to set up operations outside the UK. I have enclosed this document as a separate attachment. The submission discusses a range of the sector's concerns, including:

(i) a slow regulatory approval process, including for firms who already hold authorisations for certain regulated activities;
(ii) absence of appropriately proportionate capital standards for smaller firms; and
(iii) perception that 'monoline' insurers would be penalised for their specialisation by the way the Standard Formula operates.

Lloyd's Syndicate-in-a-Box model
As an organisation with access to world-leading insurance expertise and market infrastructure, including a suite of global licences, Lloyd's continuously explores opportunities for co-operation with the insurtech community. This allows us to bring innovative solutions to the world of insurance, for the benefit of both consumers and businesses. During the hearing, I explained the work of Lloyd's Lab which provides space for start-ups to test and apply their ideas whilst learning from the established community of experienced Lloyd's market practitioners.

In the context of this letter's focus on regulatory barriers, I would also like to highlight Lloyd's syndicate-in-a-box model[1] that operates to provide an environment for smaller businesses to trial their ideas. As part of 'Blueprint One' of our modernisation initiative, the Future at Lloyd's, we developed this model to offer a new way of bringing innovative new syndicates into the market and giving them the best chance of success. In a nutshell, a syndicate-in-a-box arrangement:

- Adjusts the participation and entry criteria to make it easier and more capital-efficient for smaller entrepreneurial businesses to enter and trade at Lloyd's for their first three years.
- Creates an environment that facilitates testing and learning, with fast success or failure.
- Balances quicker, more transparent entry processes and proportionate capital requirements with constraints that limit the potential downside for the market.
- Has instant access to the Lloyd's ecosystem that can provide smaller, focused underwriting teams with the infrastructure and services they need to operate efficiently.
- Applies the same regulatory responsibilities and Lloyd's minimum standards as for other syndicates.
- Operates to the same standard of performance management and oversight as for other syndicates.

The constraints on what business can be written, those syndicates' smaller scale, and the rules surrounding their underwriting permissions limit the risk that syndicates-in-a-box pose. This means Lloyd's can disapply some of the capital-setting rules that are applied to new syndicates in their first three years. Lloyd's can also establish oversight and underwriting rules proportionate to the risk posed. All this helps reduce the initial capital requirement, administrative burden and operating costs, enhancing their chance of success, without reducing Lloyd's market standards.

We have so far fully approved three syndicates-in-a-box: Carbon syndicate 4747 and Munich Re innovation syndicate 1840, which both launched in 2020, and Ascot Parsyl syndicate 1796 launched in 2021. The latter arrangement sought to respond to the global COVID-19 pandemic and enabled the delivery of comprehensive insurance and risk mitigation services for the storage and transit of life-saving medical supplies, such as

[1] Please see the following link for further detail: https://www.lloyds.com/join-lloyds-market/underwriter/syndicate-in-a-box

temperature-sensitive vaccines and medicines. There are several further syndicate-in-a-box proposals that we anticipate will go live in 2022, one of which was very recently approved ‘in principle’ by Lloyd’s Council.

Invitation to visit Lloyd’s

I have written to Rt Hon Mel Stride in his capacity as Chair to extend an invitation for the Treasury Committee to visit Lloyd’s to witness our ongoing transformation as we integrate technological advances into what we do whilst maintaining our traditional features that enable us to protect society against the world’s large and complex risks.

Lloyd’s Underwriting Room is a unique marketplace where insurance brokers continue to place risks from around the world. It houses invaluable collective expertise which allows us to support our clients by sharing risk to create a braver world. The Lloyd’s Lab builds on this and offers a collaborative environment for start-up firms and experienced insurance firms to come together and develop innovative solutions to existing and emerging problems.

We look forward to welcoming you and would be happy to discuss the contents of this letter at that stage if the Committee decides to take up our invitation. In the meantime, should you have any further questions, please do not hesitate to contact me.

Yours sincerely

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