INSURTECH 2.0

THE TECHNOLOGIES DISRUPTING THE INSURANCE INDUSTRY AND WHAT INCUMBENTS CAN DO TO STAY AHEAD

February 2018

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KEY POINTS

- **Tech-driven disruption in the insurance industry continues at pace.** Funding is flowing into startups and helping them scale, while legacy players have moved beyond initial experiments and are starting to implement new technology throughout their businesses. That's resulted in a new phase of disruption — the adaptation of underlying business models.

- **Distribution, the area of the insurance value chain that was first to be disrupted, continues to evolve.** Insurtechs are developing increasingly sophisticated platforms and targeting highly niche demographics, and legacy players are building out their own digital customer engagement channels.

- **The fundamentals of insurance — policy creation, underwriting, and claims management — are starting to experience true disruption.** Incumbents have realized that startups have advantages they don't, and are starting to work alongside these technology-powered firms to cocreate new policies. They're also taking advantage of startups that act as suppliers to improve claim management processes and reduce insurance fraud. And some have decided to partially or completely update their back-end systems by using platforms from well-known suppliers to get access to the latest technology.

- **Insurtechs are using new business models that are enabled by a variety of technologies.** They're using automation, data analytics, connected devices, and machine learning to build holistic policies for consumers that can be switched on and off on-demand. Their heavy use of technology also allows them to cut prices for customers. However, many of these business models are in their infancy, and, as such, have yet to prove themselves sustainable.

- **Innovation in reinsurance has also continued at pace, after a speedy start.** Major reinsurers are taking advantage of their early experiments with technology to offer new products and services to their main customers, insurers, while simultaneously increasingly cutting them out of the insurance value chain by backing direct-to-customer startups. Reinsurers also continue to explore technology that can help them achieve increased operational efficiencies.

- **The future of insurance is insurtech.** Legacy insurers, as opposed to brokers, now have the most to lose — but those that move swiftly still have time to ensure they stay in the game. As such, startups that leverage new technologies to create disruptive business models will increasingly see acquisitions by incumbents. Meanwhile, reinsurers continue to be the dominant force when it comes to powering innovation in the insurance industry, a situation unlikely to change anytime soon.

Download the charts and associated data in Excel »

INTRODUCTION

Technology-driven disruption in the insurance industry continues as legacy players gain awareness and hands-on experience with new technologies, and startups proliferate and attract funding. The industry has now moved beyond initial experimentation and the upending of the brokerage space to enter a new phase of disruption — the adaptation of underlying business models.

Insurance as a product has not fundamentally changed in hundreds of years — people still put money aside to be held and managed by third parties in case of an unexpected event in the future. How much money they put aside is still determined by mathematical models created by those third parties, a process known as underwriting. However, what is changing, facilitated by technology and driven by increased competition in the industry, is how those third parties acquire and interact with customers, manage money, and underwrite policies.

The major goal of startups in the insurance industry is to scale into successful businesses. They are doing this in a number of ways, including targeting increasingly narrow demographics, heavily using technology and automation, and working alongside legacy players to cocreate products. Incumbents, on the other hand, have a major focus on reducing expenditures, largely in terms of the number of claims they have to pay out on, both genuine and fraudulent. As a result, they're using new ways of engaging with customers, as well as implementing technologies that can improve the accuracy and speed of underwriting and help bring new products to market faster.

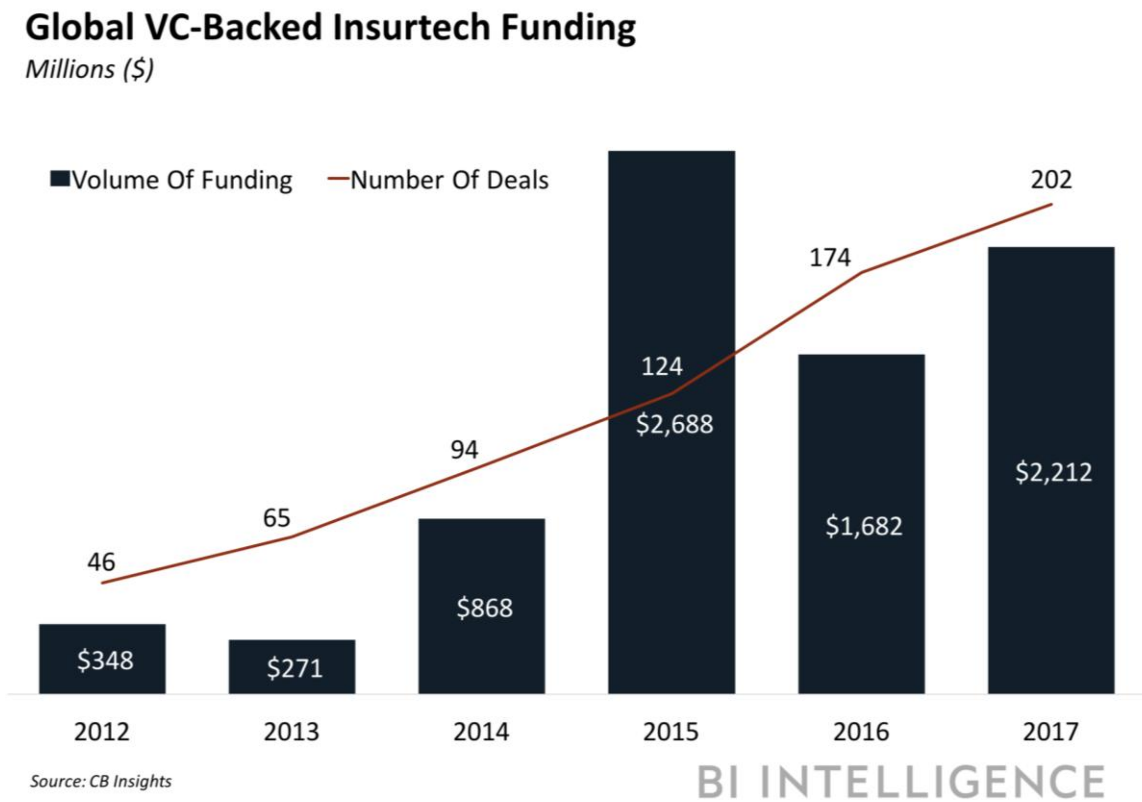
This report will briefly review major changes in the insurtech segment over the past year. It will then examine how startups and legacy players across the insurance value chain are using technology to develop new business models that cut costs or boost revenue, and, in some cases, both. We will also provide our view on what the future of the insurance industry looks like, which Business Insider Intelligence calls Insurtech 2.0.

MAJOR DEVELOPMENTS IN INSURTECH OVER THE PAST YEAR

Firms' positions within the insurance value chain were for a long time clearly defined. Distributors were customer-facing and sold policies based on commission, and many were also customers' point of contact when they needed to make a claim. Primary insurers, meanwhile, assessed risk, underwrote and priced policies, and dealt with the mechanics of claims processing, such as deciding whether to pay out and how much, and the impact that would have on the future pricing of a policy. And reinsurers spread the risk of loss by providing insurers with insurance.

However, that structure started to be upended in 2015, when awareness of and investment in new technology with the potential to disrupt the insurance industry kicked off. Since then, the legacy insurance value chain has been subject to disruption at pace. Here are some of the key drivers behind that momentum:

Insurtech funding continues to flow. Insurtech funding in 2017 came in at $2.2 billion, up 32% from $1.7 billion in 2016. While 2017's figure was still short of 2015's record high of $2.7 billion, that year saw Zhong An's $931 million raise, which accounted for around one-third of total funding alone. With that in mind, VC-backed insurtech funding in 2017 was very healthy indeed. Significant funding rounds included Lemonade's $120 million Series C from SoftBank, Clover Health's $130 million Series D from investors including Google's parent company Alphabet, and Bright Health's $160 million Series B from notable VCs such as Bessemer. Meanwhile, Zhong An, one of China's largest insurtech players, IPO'd for $1.5 billion.



Incumbents are increasingly engaging with startups. Twelve months ago, most incumbents were at the beginning of their exploration of insurtech, launching accelerators and investing in a wide variety of startups. Now, legacy players with the most advanced strategies are cocreating products and beginning to incorporate new technology throughout their businesses. As a group, they're narrowing down which solutions can help their business, and are starting to explore how to implement them broadly.

Some startups have achieved significant scale. US-based home and renters' insurtech Lemonade, which launched at the end of 2016, had issued over 100,000 policies by the end of 2017. Meanwhile, Bought By Many, the UK property and casualty (P&C) insurer and broker, accumulated over 100,000 "members," who contribute to the creation of its policies, throughout the year, and now has around 400,000 members.

Customers are demanding digital tools. Data from our Business Insider Insurance Technology Study, which surveyed 398 global consumers on their preferences for policy management, shows that customers are looking for new, digital ways to manage their insurance policies. Sixty-six percent want a digital dashboard where they can view all their policies in one place, while 54% want to be able to submit claims digitally. Additionally, customers, especially millennials, are open to having connected devices in their homes (55%), cars (48%), or even on their bodies (68%) if it results in a personalized insurance policy.

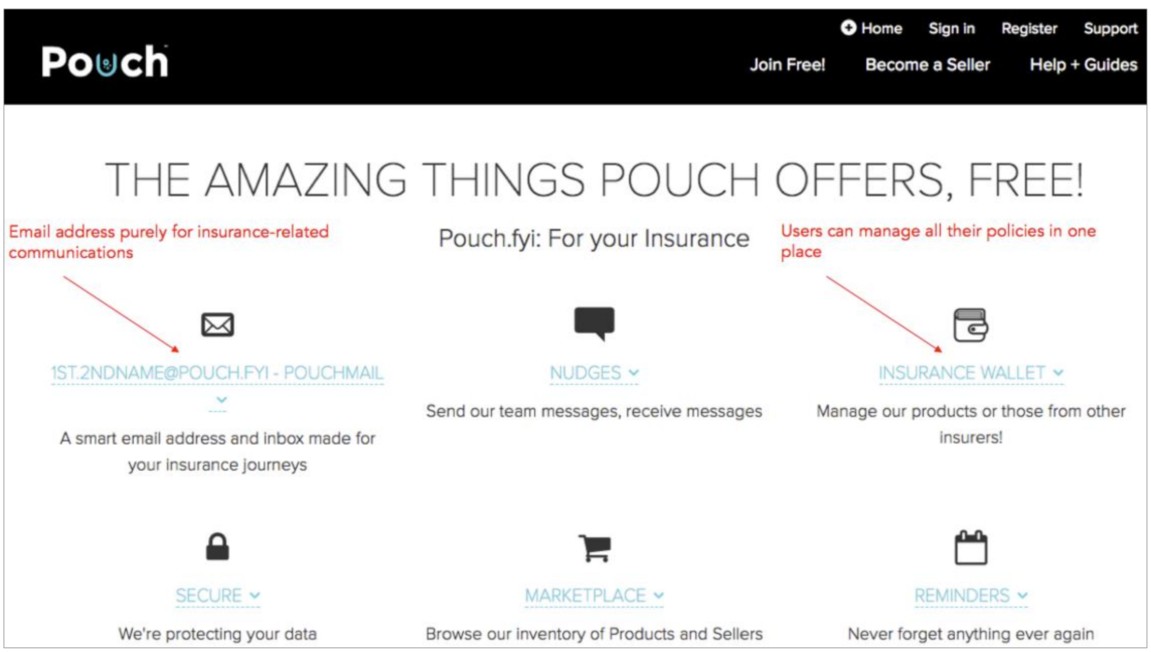
Distribution

Insurance distributors, including brokers, were the first set of firms in the insurance value chain to have their ways of working disrupted. That disruption remains in full swing as startups and legacy players alike find new ways to use technology to enhance and adapt their products and business models.

Platformification

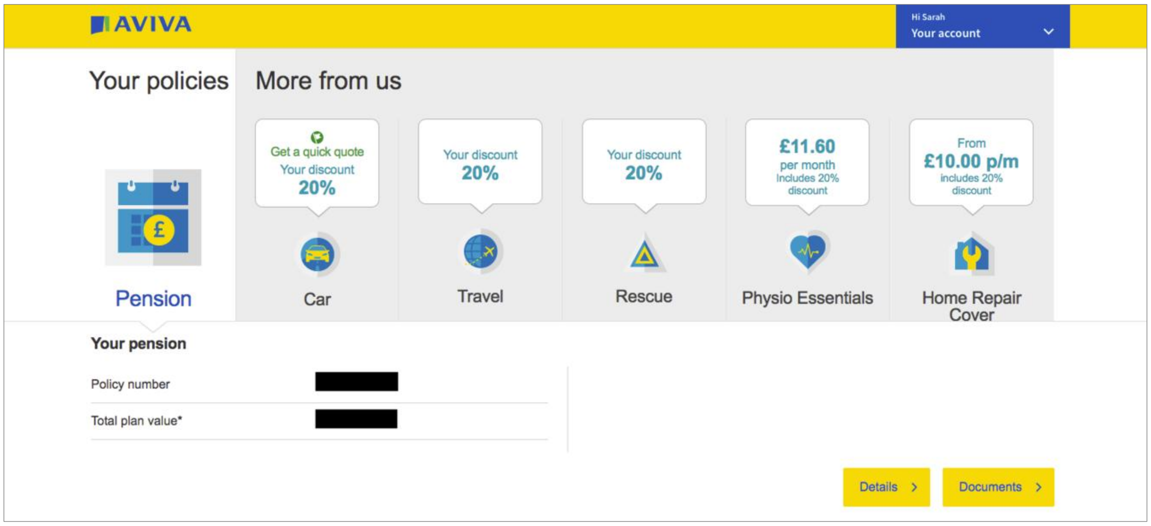
Since the launch of Amazon, platforms where users can compare and purchase products and services from multiple providers have been popular among consumers. However, when it comes to insurance, platforms have typically been comparison sites where users enter some basic details, are shown a selection of suitable products, and are then sent to the policy seller's (usually broker's) website to complete their purchase. This model is now evolving further as technology enables the creation of platforms closer in functionality to those like Amazon.

Insurtechs like Worry+Peace boast platforms offering their own policies and ones from other providers. Differentiating it from pure comparison plays, UK-based Worry+Peace offers an app called Pouch where users can access policies from different providers in one place, whether bought through Worry+Peace or not. It comes with an email address that customers can use to sign up for new policies, or add to their details on existing products, to ensure that all updates from all providers come to one inbox. Through Pouch, users can set reminders for policy renewals or related events, such as annual health checks. These services build customer loyalty in a way that platforms acquiring customers purely on price don't. This means that, although Worry+Peace's main revenue stream is commission on policies sold, it'll likely be able to realize its aim of monetizing additional services down the line — just as Amazon has done with its Prime and credit card services.



Meanwhile, UK firm Brolly offers an advanced aggregation and comparison platform. Users can view their policies in one place, and an AI-powered assistant will analyze their current coverage, alerting them if they're over- or underinsured, and notifying them if a more appropriate policy is available. Users will be able to purchase insurers' policies from within the app starting March 2018. This model allows Brolly to get a holistic picture of users' holdings, enabling it to offer insurers recommendations for cross selling products, thus boosting customer loyalty and helping long-term retention. That means insurers are likely to shift their attention to platforms like Brolly, and away from comparison sites and online brokers — which attract customers solely on price and do little to aid customer loyalty — in the near future. Ultimately, once it's gathered sufficient data, Brolly plans to start underwriting its own policies, says cofounder and CEO Phoebe Hugh.

Incumbents are getting in on the action, too. Aviva recently launched a dashboard, called MyAviva, that customers can use to view all their Aviva products in one digital location, as well as buy additional services. This is a fundamentally different model for a firm that's historically had no store fronts, and connected with customers via either phone or letter. The aim is to build relationships with customers, creating loyalty and enabling Aviva to sell more products directly, rather than through brokers. In turn, that should enable Aviva to boost revenue and reduce costs. However, in order to fully capitalize on this product, Aviva should enable consumers to view and manage all the policies they hold, not just those bought from Aviva. Sixty-five percent of consumers stated that this feature would be one of the most useful tools for managing insurance policies, according to our survey data, making it a powerful customer acquisition and retention tool.



Specialization

Insurtechs in distribution are targeting niche groups as the space becomes more crowded, and some are scaling successfully. Bought By Many offers a wide range of policies from different insurers, but focuses on providing specialist insurance for underserved groups. And, while some legacy brokers also target specific groups, such as ex-military members, for example, the insurtech's model differs in its use of technology to source potential new customers and ensure its products will meet high demand. Bought By Many's 400,000 members use its online portal to signal which specific types of insurance they require. That means it can create bespoke policies for demographics not served elsewhere, as it did recently with the launch of its travel insurance policy for cancer sufferers. It seems likely that legacy brokers will increasingly pivot to focus on niche groups as they seek survival in an industry facing continuous and ongoing disruption.

INSURANCE

The disruption of insurance, the underwriting and creation of policies, has become more pronounced over the last 12 months. More insurtechs are getting licensed to write their own policies, and finding business models that make the initial outlay worthwhile. At the same time, incumbents are finding ways to use technology to make creating and managing policies more efficient.

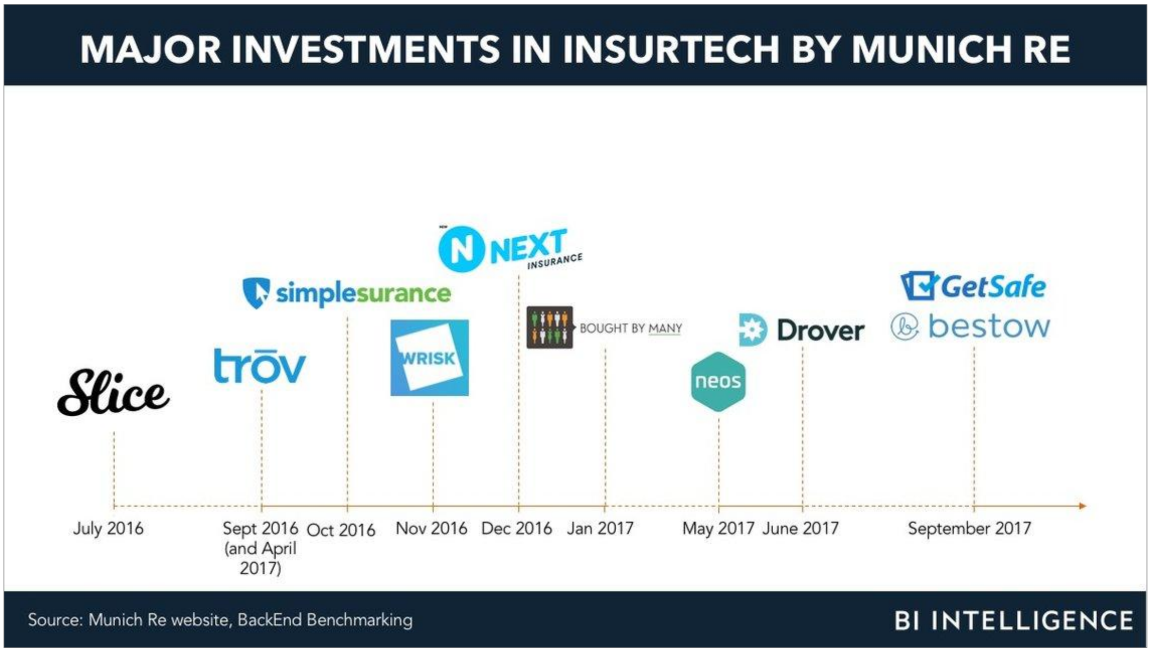
Legacy Players

Incumbents have, by and large, realized they need to improve their use of technology in order to create policies and user experiences that their customers want. Those that have come to that conclusion are going about boosting their technological capabilities in a number of ways.

Cocreating Products

Legacy players are cocreating policies with insurtechs. The insurtechs gather and analyze the data using the latest tech, and the legacy players can underwrite the policies more accurately, thanks to the greater volume and variety of data available. This enables incumbents to tap into new demographics and sources of revenue, and insurtechs to serve customers without needing full insurance licenses. Additionally, the incumbents get access to technology they can incorporate into other products and services, reducing running costs and human errors, and increasing the speed at which processes can be completed.

Interestingly, reinsurers have been quicker off the mark than insurers in this space. Munich Re in particular has a large number of partners, including on-demand belongings insurtech Trov, IoT-powered home insurance provider Neos, point-of-sale insurance provider Simplesurance, holistic insurance provider getsafe, and insurer for gig economy workers Slice Labs, among others. These partnerships enable Munich Re to cut insurers out of the traditional insurance value chain, and should therefore be considered a warning sign to insurers globally.

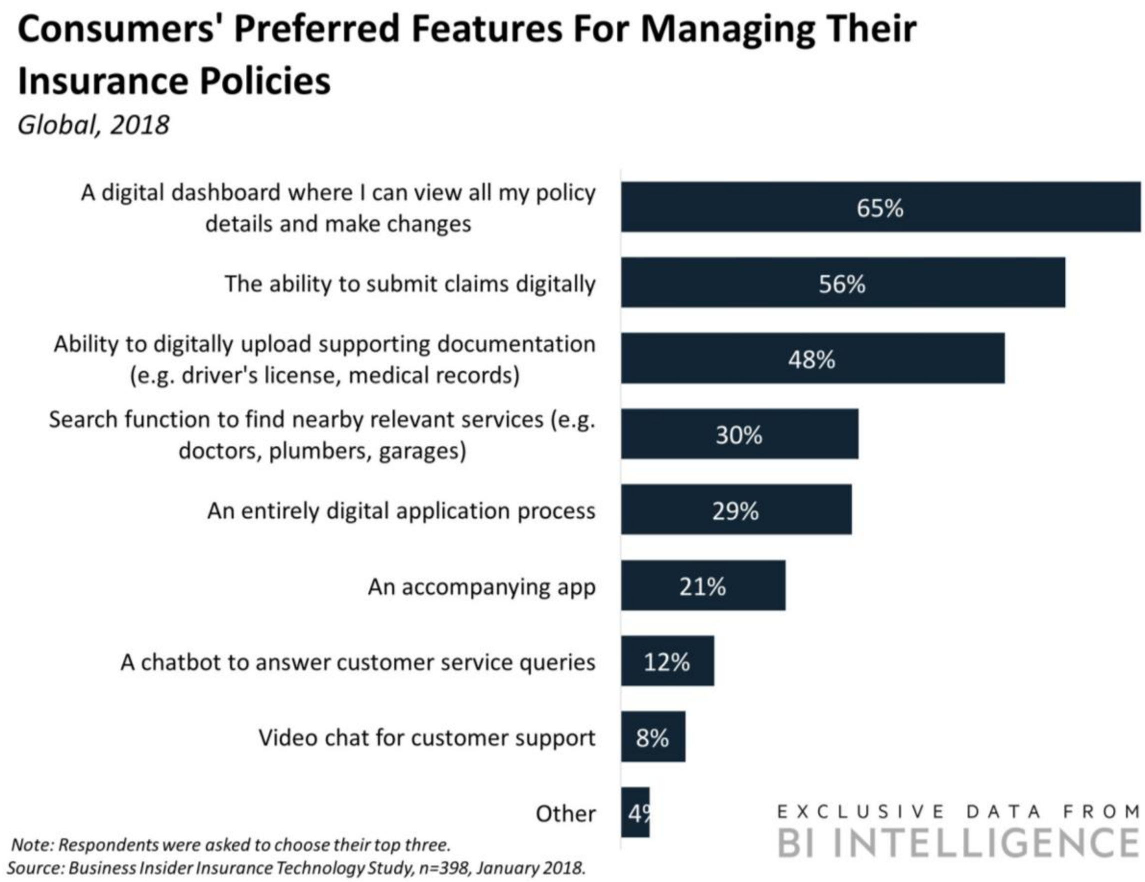


Updating Claims Management

Reducing fraudulent claims without damaging the customer experience is one of the biggest areas of interest for incumbent insurers. As a result, many are looking to combine improved fraud detection with digitized claims processes. If incumbents can achieve their goals in this area, their models will fundamentally change, as they will reduce fraud-related outlays, while making risk models more efficient. That, in turn, will help them more accurately price policies. An improved claim journey will also boost customer satisfaction and loyalty — 56% of consumers surveyed by Business Insider Intelligence want the ability to submit claims digitally.

Incumbents are starting to digitize the claims process. Ageas is working with insurtech Tractable on vehicle insurance, for example. Tractable's technology scans claim details, including images of vehicle damage, and automatically provides a repair cost and time estimate. It can also flag potentially fraudulent claims for employees to review. An initial pilot using Tractable's software was successful enough that Ageas is now looking at how to scale use of the technology throughout the business. Another legacy player moving to modernize its claims model is Australian Suncorp, which, following a successful pilot, has now rolled out a company-wide digital claims process powered by IBM's AI platform Watson.

"Digitization will happen in the claims space," says Greg Brown of insurance consultancy Oxbow Partners, but he emphasizes that it will take time to become widespread because of the potential damage a badly executed implementation could have on customer sentiment, indemnity spend, and fraud. Additionally, it won't become ubiquitous, as customers will always prefer speaking with a person at certain times — in the case of claiming as a result of serious injury or death, for example.



New Back-End Systems

Incumbents are modernizing their businesses by replacing or enhancing their legacy systems with platforms owned and operated by third parties that are specifically designed to help insurers compete technologically. A number of such platforms have launched in the past 24 months, including those from IBM, Majesco, and Guidewire. All three aim to provide insurers with the tools they need to update their business models, such as data analytics technology that can handle data stored in disparate systems and real-time data inputs, in ever greater volumes, to help firms improve underwriting capabilities and risk modeling. These tools also include digital functionality that can be plugged into websites and apps using application programming interfaces (APIs) to improve customer engagement channels.

Such platforms should enable insurers to keep up with insurtech competitors at a lower cost than building new products and systems in-house or completely overhauling legacy systems. In turn, that will create new streams of revenue, while the ability to more cheaply develop modern fraud detection and claim management systems will help reduce payouts. Using a third-party supplier can also help negate the disadvantage most incumbents face of having old, siloed legacy systems, enabling them to move faster. And a final advantage of these platforms is that their brands come with a legacy of providing software to the insurance industry, likely making them more appealing to incumbents than startups offering similar services.

Insurtechs

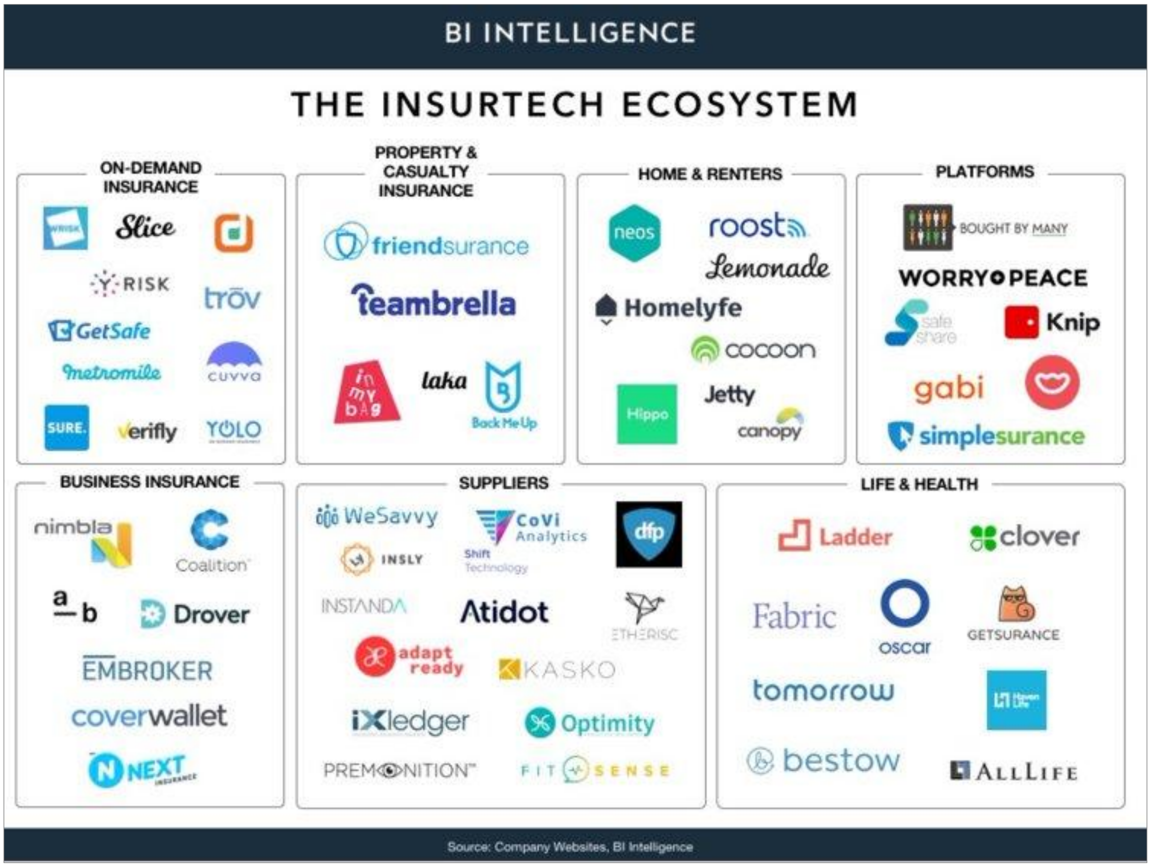
Insurtechs with business-to-consumer (B2C) products continue to attract funding and clients. They have the advantage of being able to start from scratch when developing new models, and are leading the way in a number of new propositions.

On-Demand Insurance

One of the biggest pain points for cash-strapped consumers is having to take out annual insurance policies when they only need coverage occasionally. Insurtechs have found ways around this by using new sources of data, such as connected devices, and new ways to analyze it that let them underwrite policies for much shorter terms.

This is now one of the most crowded spaces in the insurtech segment. Cuvva allows UK consumers to purchase auto insurance by the hour, for example. The policy is not necessarily cheaper than an annual product, but it's much more appealing to those who only want to drive occasionally. Trov, meanwhile, which is available in the UK, Canada, Australia, and parts of the US, uses a similar model to enable users to insure individual high-value items, such as cameras and laptops, for short periods of time. On the other hand, UK-based Dinghy allows freelancers to get professional indemnity, public liability, and business equipment coverage for the periods they're working.

In many cases, these products open up entirely new demographics to insurance, making legacy players keen to get in on the action. Few have launched competing consumer-facing products so far, but a number of incumbents are backing these on-demand insurance providers, either by cocreating policies, as Munich Re is doing, or by reinsuring policies written by fully licensed insurtechs. It's also worth noting that a subsection of the on-demand insurance segment is catering to the sharing economy. Firms in this space, such as US-based Slice, provide insurance for the likes of Uber drivers and Airbnb hosts as and when they need it. They're arguably serving a demographic that didn't exist 10 years ago, and, in doing so, have created an entirely new business model.



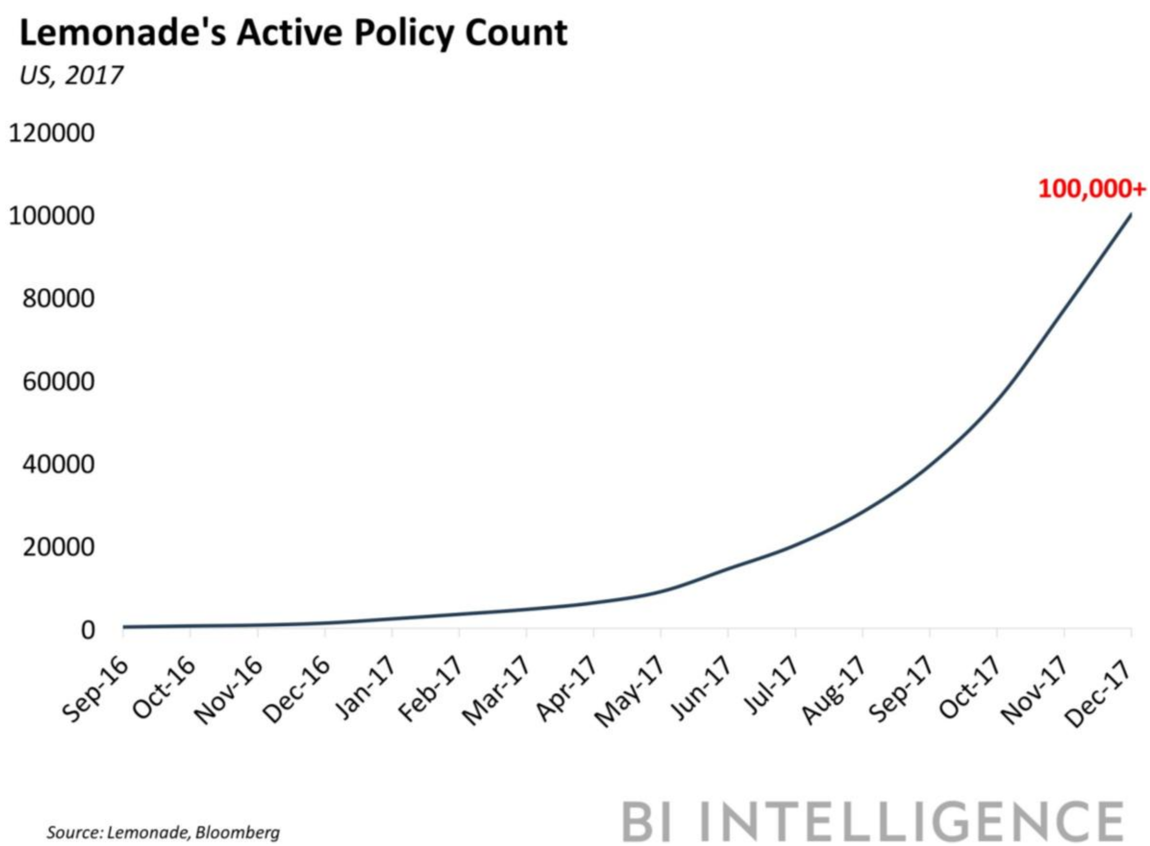
"Budget" Insurance: A Case Study

Lemonade, one of the most well-known insurtechs, uses technology including fully automated processes wherever possible, enabling it to price policies far more cheaply than its incumbent competitors, often without reducing coverage. This is a model also typically used by health insurtechs such as Clover Health and Oscar, as well as numerous startups in the life insurance space.

Lemonade is a licensed insurer in the US, meaning it can control the insurance value chain end-to-end, including the creation and distribution of policies, using its entirely new technology platform. It also has a digital claims handler, an AI-powered virtual assistant called Jim, that can process a claim in as little as 90 seconds. It says its heavy use of technology is what allows it to price its policies so cheaply — Lemonade's renters' insurance is as low as $5 a month in New York, compared with a state average of $18.

However, while Lemonade's proved highly popular — [it sold over](#) 100,000 policies in 2017, far exceeding its target of 14,000 — its model has yet to prove itself financially. Thanks to the firm's transparency policy, it's possible to see that Lemonade turns down many complex customers, largely homeowners, and has a loss ratio of 76% compared with an industry average of 40-60%. That means Lemonade pays out $76 for every $100 it takes in revenue. So, while it's arguably doing insurance "better" than incumbents as far as consumers are concerned, it has yet to prove such technology-powered business models are sustainable.

Lemonade has also launched an API to allow third parties to sell its policies through their own digital interfaces, a move designed to drastically broaden its distribution network. For now, it also has the backing of Munich Re, which reinsures its policies, as well as some heavyweight investors such as SoftBank. Time will tell if it's doing enough to prove itself before its resources run out.



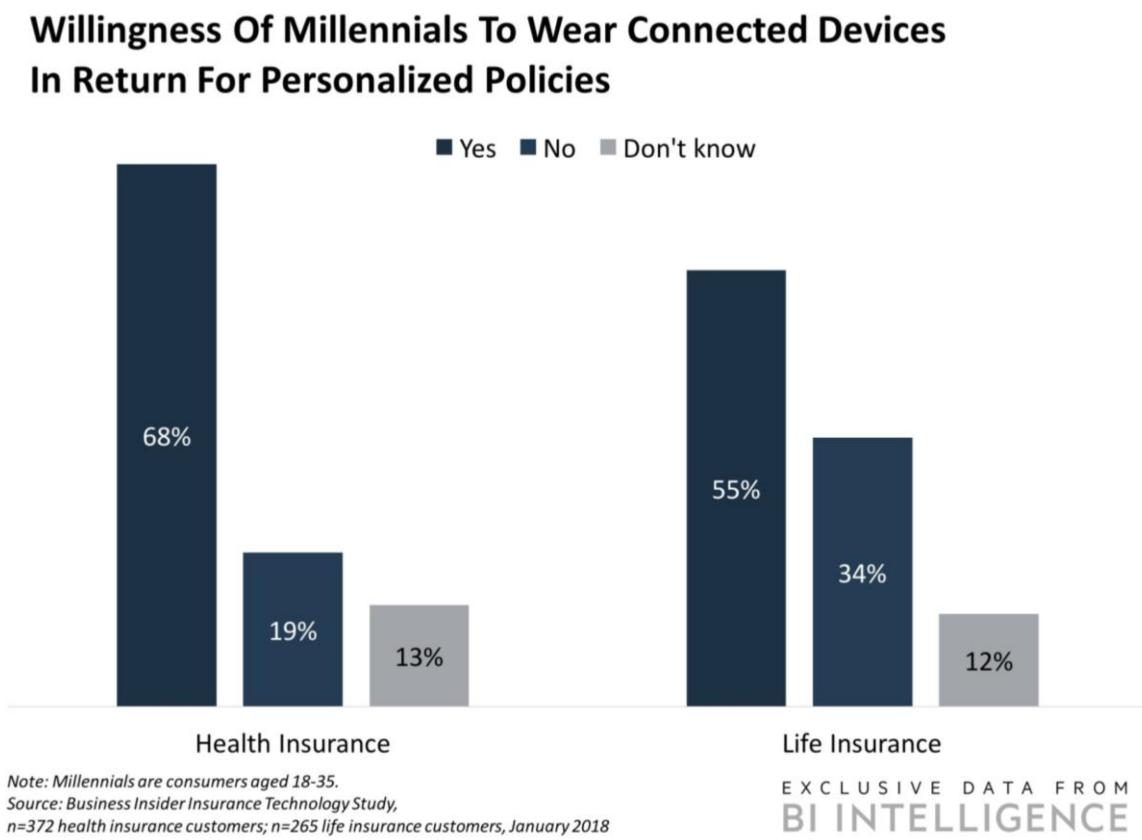
REINSURANCE

The global reinsurance industry has moved surprisingly quickly in experimenting with new technologies, given its age and size. It's not just Munich Re that has invested in and collaborated with new insurtechs: Swiss Re has made numerous investments and runs an insurtech accelerator, while Hannover Re has focused on startups in the health and life insurance spaces. It's worth noting that reinsurers are not limiting their interactions to customer- (business and consumer) facing propositions, but are also engaging in numerous ways with providers of technology they believe will improve their own processes, and ultimately, modernize their business models.

Creation Of Value-Added Services

Reinsurers are using new technology to create additional services to sell to their primary customers, namely insurers. All of the major global reinsurers now offer automated underwriting platforms as a service to their insurance customers, while experiments with drones are starting to bear fruit in the form of new products and revenue streams. For example, Munich Re refers its insurance clients in the US to technology company Betterview. Insurers that use Betterview get access to drone-captured data on buildings, which enables them to better price risk and reduce fraudulent claims, while Munich Re likely gets commission for the referral.

Connected devices, part of the Internet of Things (IoT), have also created possibilities. Reinsurers could work with IoT platform vendors, helping to analyze the data gathered by devices, to help insurers better understand risk, for example. Exploring ways of using data from millennials (those aged 18-35) to price risk could be particularly lucrative for reinsurers, as the industry is keen to engage this demographic. Additionally, 68% of millennials are willing to wear connected devices like Fitbits if it results in a more personalized health insurance policy, according to our survey data. That suggests this opportunity is no longer theoretical, and that reinsurers should move to capitalize on it as soon as possible.



Reinsurers are also developing new products and services to help insurers adapt to emerging risks, especially in the area of cyber reinsurance. Such products were relatively niche until recently, but demand is expected to soar over the next 12-24 months due to continuous high-profile attacks. Swiss Re and Munich Re have already started ramping up their efforts in this space, investing in cyber insurance-focused insurtechs — the former backs Coalition, and the latter invested in at-bay. Demand for these products has spiked because every industry now involves copious amounts of technology, putting them at risk of cyber disruption, while regulators are simultaneously introducing harsher penalties for offenses such as data breaches. Given the cyber insurance market is set to reach $14 billion by 2020, it presents a significant opportunity for reinsurers.

Operational Efficiencies

Like insurers, reinsurers are making it a priority to use technology to boost operational efficiencies. Financial institutions in all segments are exploring blockchain technology to unleash its promised benefits on their businesses, and reinsurers are no exception. That's because the policies they underwrite, which spread significant risk among multiple parties, typically have highly complex operational processes due to the size of the policies, the number of parties involved, and their global nature. GenRe is working with IX ledger in this space, while Swiss Re and Munich Re are part of a group of insurance industry players working with R3 on their B3i initiatives. As with the majority of blockchain working groups, the benefits of these collaborations have yet to be tangibly realized, although PwC estimates that the industry as a whole could save $5 billion through the use of blockchain technology.

Outside of blockchain technology, reinsurers are investing heavily in automation, machine learning, and data analytics solutions to improve the efficiency of their businesses. That said, it's worth noting that administrative costs are far lower in the reinsurance industry than in insurance, and the market is significantly smaller. That means reinsurers not only have an efficiency advantage, but also less need to spend on these technologies to remain competitive, and can instead focus on developing new products and services.

WHAT THE FUTURE HOLDS FOR THE INSURANCE INDUSTRY: INSURTECH 2.0

The future of the insurance industry hinges on technology. Startups, with their brand new systems, have an advantage, but they have by no means won the race for dominance. In particular, reinsurers will continue to forge ahead creating in disruption on their own terms. Meanwhile, insurers will only thrive if they start using new technologies in a meaningful way to revamp their products and business models.

- **Insurtechs will continue to specialize, and we will see more acquisitions.** Startups will focus on niche demographics in order to capture enough customers to ensure their business models work. Given their new technology systems, specialized products, and focus on customer engagement, they'll need far fewer customers than legacy insurers to ensure sustainability. Those backed by legacy players have the biggest advantage, as they have less need to break even quickly and can focus on honing their products. Meanwhile, incumbents will continue to invest in startups but will take a more measured approach, investing only where they can see tangible benefits. This will ultimately lead to fewer funding rounds and more acquisitions.

- **Brokers are still threatened, but legacy insurers now have the most to lose.** Not only do they face disintermediation by insurtechs, but they're also being increasingly cut out of the insurance value chain, due to their slow start in innovation, by reinsurers and brokers that have started selling proprietary policies. That said, there's still hope for larger insurers if they devote significant resources toward modernizing their business models. For most insurers, the best plan of action will be a combination of the strategies outlined above.

- **Reinsurers have moved fast, and they have the greatest opportunity for new business.** Not only do reinsurers face less competition from startups, but the biggest companies in this space invested in, and partnered with, startups early. That's given them access to a wide range of new business lines and technologies that they'll continue to incorporate into their own core businesses, resulting in greater influence over the entire insurance value chain.

The future of insurance is not a three-party model. The historical value chain of broker, insurer, and reinsurer has been disrupted. In the future, we'll see more providers using their access to customer data to provide bundles of services, some of which will be value added. An insurer that offers a home insurance policy based on data it receives from connected devices inside a customer's house, for example, will also be able to offer a modern home security system, as those devices will alert inhabitants to intruders or emergencies like fire. This is a model championed by Deloitte's Nigel Walsh, who believes the future of insurance is a battle for customer attention, and a few winning firms will go on to meet all of a customer's insurance needs, leaving most other providers by the wayside.

THE BOTTOM LINE

- The legacy insurance value chain has been subject to disruption at pace, driven by a healthy flow of insurtech funding, incumbents increasingly engaging with startups, some startups achieving significant scale, and customers demanding digital tools.

- In distribution, insurtechs are developing increasingly sophisticated platforms and targeting highly niche demographics, and legacy players are building out their own digital customer engagement channels.

- Meanwhile, the disruption of insurance is growing more pronounced. More insurtechs are getting licensed to write their own policies, and incumbents are finding ways to use technology to make creating and managing policies more efficient.

- Major reinsurers are taking advantage of their early experiments with technology to offer new products and services to insurers, while simultaneously cutting them out of the insurance value chain by backing direct-to-customer startups.

- In the future, insurtechs will continue to be funded and specialize in certain demographics, but will increasingly see acquisitions by incumbents. At the same time, reinsurers will remain the dominant force when it comes to innovation in the insurance industry.

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