VIEWPOINT

The future of insurtech is about more than just technology

The Covid-19 outbreak has fast-tracked the shift to digital ways of working, but the biggest change for businesses resulting from the pandemic will be cultural


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Other than a few bursts of excitement, such as the recent initial public offering (IPO) of Lemonade, insurtech has had a bumpy ride this year thanks to Covid-19.

Before 2020, total funding had been increasing year-on-year but it has not floated all boats. Bigger deals with earlier-stage funding (seed/angel and series A) accounted for only 42% of overall deal count in the second quarter of this year – a record low, according to Willis Towers Watson's InsurTech Briefing.

Back in 2015, a jump in funding of close to $4bn for insurtech start-ups massively encouraged the view there were big opportunities to change how insurance was structured and sold. Five years on and it has become clear the incumbent insurers are not going to roll over and give into disruption any time soon, if at all. Now the question is whether the shift to digital we have experienced with Covid-19 will inspire a new surge in innovation or throttle it.

Changing the way insurance is delivered is not as easy as many once believed. For any new arrival to compete in core markets such as property or motor, it needs access to hundreds of millions of dollars in funding to build the technology and necessary marketing horsepower.

Three of the most well-known arrivals from recent years (Lemonade, Hippo and Next) have each already received more than $350m in funding, according to Crunchbase. Lemonade revealed it spent close to $100m in marketing alone last year.

The idea that people would start buying insurance from an app on their phone, one item at a time, has turned out, generally, not to be true. Last year, one of the most well-known companies in this category, Trōv, switched to becoming a white label platform provider when it found the cost of client acquisition was too high to sustain.

Others, like Coverly, have quietly closed shop or been hoovered up by big insurers, which have been struggling to innovate internally (the recent acquisition of Brolly by Direct Line Group being the most recent example of this trend). Start-ups that have been successful in this area tend to be those offering insurance in niche or underserved markets, such as high-end bicycles (Laka) or family pets (Bought By Many). They are easier to enter, but the returns are lower.

Even the term "insurtech" itself has been hijacked. It is no longer used exclusively by new firms offering innovative, insurance-focused technology solutions.

Personally, I do not have an issue with the term taking on a broader definition if it means the well-established companies that add value to our industry are also getting noticed, but the blurring of the definition is a reminder that innovation in insurance did not begin in 2015.

Now we have all had to channel our once-diverse working lives into the digital world, surely there should be benefits for insurtechs, however they are defined?

Certainly, it is looking like as it becomes harder or impossible for insurers to do things the old way, technology change has finally become a priority. It is not just at the company level; everyone from the call centre operator to the chief executive now needs to be able to function from their kitchen table with only a laptop and mobile phone. All of us have become more innovative and creative in solving problems; as Jack Dorsey, Twitter's chief executive, says: "Constraints cause creativity."

Digital delivers

All investors know some of the start-ups they back will fail, but in the past six months, they are becoming particularly nervous about companies in their portfolios that are taking longer than expected to deliver.

Until recently, the pressure on the insurtech chief executive was to spend the investment dollars

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on quickly developing technology, building a team and growing the top line. Now, behind the scenes, staff headcounts are being reduced and tougher questions are being asked about customer conversion and real evidence of sustainable revenue is required.

That is not to say all funding is drying up. For the new insurtech companies that can demonstrate an ability to sign up new customers, the major venture capital funds still have capital to deploy.

Bought By Many, Concirrus and CyberCube have all received multimillion-dollar investments in the past few months. Some more recent arrivals – such as flood forecaster Previsico, placing platform RiskBook, location intelligence company McKenzie Information Services and AddressCloud – have also been powering ahead in lockdown and are ones I am keeping an eye on.

Change rarely happens in a vacuum. Industry- or life-changing innovations often require a large external shock that forces a new way of doing things. Covid-19 has certainly played its part to fast-forward trends that were already emerging, but it does not look like it is going to dramatically force change, other than a fundamental rethink about whether and how pandemics should be offered as an insurance cover.

At the time the term insurtech came to life, late in 2015, it was fashionable to forecast that within five years we would have a market running on blockchain, underwriters would be replaced by artificial intelligence and we would be buying all our insurance on an iPhone with three clicks.

That all seemed quite possible at the time, but not much has really changed in any of these areas. Yet, had anyone suggested in March 2020 it would be possible for the entire London market to lock up its offices, leave EC3 deserted and transition to a fully digital remote working life in a matter of days, I doubt we would have believed it.

The market does not need a shock to drive innovation because it is already happening. For example, less than two years ago, only 30% of insurance transactions took place on the London market's PPL system. By the end of June this year, 20,000 people had a login, usage was up 43% from the previous quarter and a total of 8,031 risks were bound on the platform in one week.

PPL is not the most elegant of solutions and it still requires more associated manual labour than would be ideal, but it has enabled business to carry on since March. Other solutions, such as Whitespace, have also seen rapidly increased take-up.

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The biggest short-term change resulting from Covid-19 will be cultural. The management of many firms, who previously did not trust their employees to work remotely, are now looking at the future very differently. Innovation is not always just about technology.

Outsiders welcome?

Every insurer and broker knows it needs to keep this momentum for change. Most are on a journey somewhere from "conscious incompetence" (knowing they have a problem and trying to work out how to fix it) to "conscious competence", where fully digital is a key strategic goal and the company is making good progress towards it.

Looking ahead, it is not yet clear where all the answers will come from. The insurtech movement has not gone away but neither has it gone unnoticed by many established, successful companies from other sectors. Insurance offers another way for outsiders from the industry to develop creative ways to support clients, make better use of their data and boost profits.

Already we are seeing tech-driven giants, such as Tesla and Amazon, entering the market in direct competition with conventional insurers and the new managing general agent-orientated insurtechs. Others such as Google, Mastercard and Salesforce – or even smaller but faster-growing companies like SafetyCulture – are using their existing data, analytics and clients to offer a new approach to the insurance technology infrastructure.

Some insurers fear these moves, while others – such as Brit – know partnership is the way to go. Mid-lockdown, Brit announced the release of its algorithmic syndicate, Ki, in partnership with Google Cloud and University College London, two very well-established organisations.

With a few exceptions, such as Mapfre's insurspace and Lloyd's Lab, most insurers are now scaling back their own accelerators and incubators but still need help. What Brit and others are realising is that for major projects, business partners need to have the scale and resources to help them. With a few exceptions, it is just too difficult, too risky and takes too long to look for solutions among start-ups.

For as long as there are assets and events that have, historically, been considered too hard to insure, there will be opportunities for innovation in insurance. The most successful insurtechs are figuring out where they are best suited to fit into this emerging ecosystem. Few today expect to strike out on their own. The insurtech journey has only just begun. ■

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