

VIEWPOINT

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This is the next stage, not the end, of the insurtech promise

There remain huge opportunities for technology-based companies across the insurance ecosystem, but few are able or willing to pursue them in the present environment



Robin Merttens
InsTech London

The prevailing narrative is innovation in insurance just got a big boost as insurers tooled up a remote workforce and rapidly implemented new ways of engaging with customers. They got a startling reminder of the benefits of digital: the more digital a business was, the easier it managed the consequences of Covid-19.

You would think, emboldened by this experience, insurers and brokers would start accelerating overdue transformation projects and push on towards being truly digital, with insurtech riding on those coat tails. It would be nice

to think so, but I am not so sure. Let us examine what is going on inside the insurtech ecosystem and look at how the insurtech landscape has changed over the past six months.

My analysis applies to insurtech in the widest sense: not just to innovation by start-ups, but to any innovative use of technology that improves the provision of insurance.

Insurers have had a lot to grapple with in the past six months, so dealing with the short-term effects of Covid-19 has understandably been the priority. That will, for the foreseeable future, have a negative effect on their ability to innovate and engage with insurtech. There are several factors that have influenced this.

First, focus has shifted to infrastructure and the technological

consequences of the new ways of working. The speed with which they need to implement change means many firms are putting sticking plasters over existing legacy technology, especially core record systems – “digital lipstick on a legacy pig”.

Hardening market

Furthermore, premium rates, at least in specialty classes, are on

the rise again, meaning insurers will be able to grow their income by concentrating just on their core renewal portfolio and increasing the prices they charge. Who needs to worry about new sources of business and even addressing concerns about distribution costs and operating efficiency when you can stick to your knitting and increase profits anyway?

It is also clear many insurers and reinsurers that were active on the innovation front have changed their approach in the past six months. These businesses have reduced their level of curiosity and are focusing time and resources on a few active projects rather than looking for new ones.

Last, the experience of working with start-ups has shown few address more than a small part of the value chain. As they now need

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to focus on more weighty issues, their needs do not align so well with start-ups; rather with Big Tech companies that can address a broader range of issues and provide a wider range of services.

Investors

The headline here is there is plenty of investment money around, but only if you have got to a certain stage and are doing certain things. Unfortunately for some, early stage funding has largely dried up as a result of Covid: angel investors and the crowdfunders have much less to play with and they are only likely to return in force once there is a more settled investment environment.

The institutional investors are still active, of course, but they have changed what they require from the start-ups in terms of how they build a business and create value. Gone is the WeWork-style growth at all costs model and now they want to see breakeven within a sensible period.

Instead, they are looking for validated propositions where the solution is built and a couple of decent-sized clients secured. For those that have got that far, it is happy days, especially if you have a proposition in the Covid-19 sweet spot (we will come to that in a minute).

To a large extent, the new reality start-ups face is a corollary of what I have said above.

Early stage funding is hard to come by and most likely to come from friends and family and for the lucky few crowd-sourced funding platforms such as Seedrs. Right now, insurers are a lot less willing to help early stage businesses refine and validate start-ups' propositions – they are focusing on what they already do, not what is new. This means fewer budding entrepreneurs will consider leaving the safety of full-time employment to start a new venture.

Where does that leave insurtech? If you were a glass half-empty person you would say distracted insurers, a dearth of early stage funding and the general climate of uncertainty spells the end of the golden age of insurtech. I am, however, a glass half-full man. How else could I have spent 20 years in the insurance digital innovation space?

I believe there are huge opportunities across the whole insurance ecosystem, but with fewer companies either able or willing to pursue them. For those that can, the opportunities and the benefits that will accrue on success are a lot bigger.

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Opportunities

There are several innovation sweet spots and the themes active investors, insurers and reinsurers are doubling down on.

Digital health, where businesses can use technology to provide a better, quicker and cheaper frontline health services, is most certainly one. The same dynamic is also at play for digital delivery in the non-life insurance sector. Here, for obvious reasons, there is a new focus on digitising areas such as claims notifications, risk assessments and surveys.

No-code platforms is another,

which have been used successfully in other sectors and are now being applied to insurance. These provide the scalability and flexibility many businesses need, enabling them to rapidly implement, configure and change their own software to keep pace with constantly evolving customer demands (the democratisation of code).

Investors are also looking at resilience solutions, where the re-examination of the protection model finds ways to keep better tabs on our financial, physical and mental health and develop a product set that better protects the customer.

Finally, driven partly by the business interruption drama, there has also been an interest over the past six months in parametric insurance solutions, where the payment of a fixed sum is triggered by a specific event.

Who will win?

However, these opportunities are not solely the domain of start-ups. In many cases they more likely to be exploited by the Big Tech companies, which have deeper pockets, more data and existing capabilities to leverage. This is why we are now seeing

the biggest names in technology playing a more active role in the insurtech ecosystem.

There is clearly a great opportunity for insurers too if they are willing and able to do more than just kick the digital investment can down the road. A significant competitive advantage awaits insurers that can reduce their dependence on a sub-optimal technology stack. Not all your competitors will have the same legacy drag forever.

So, wherever you play – insurer, an investor, a start-up or Big Tech company – there are fewer but bigger insurtech opportunities to hunt down and greater rewards for those who succeed. While the original expression “fortune favours the brave” applied to military strategy, it is as apt today as it ever was on the insurance innovation battlefield. ■

Robin Merttens is a partner at InsTech London

