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InsurTech entering its second wave

Investment focus shifting from new startups to more established innovators

Deloitte Center *for* Financial Services

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Startup activity plummets, but funding remains robust

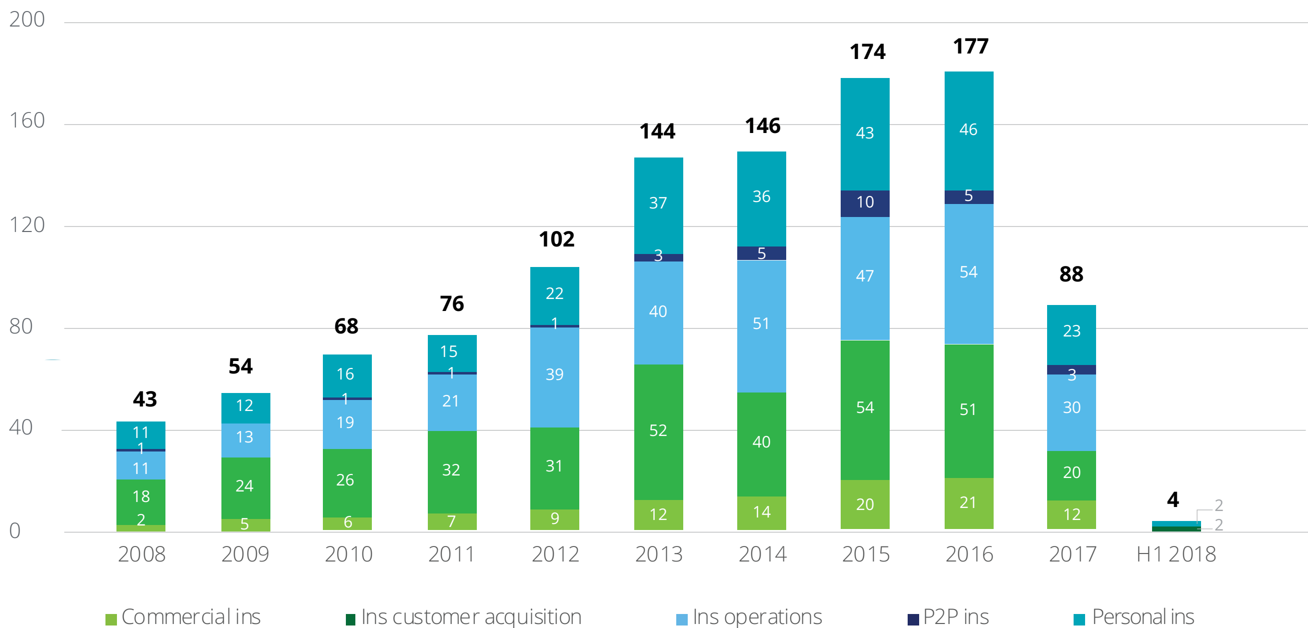
Investors channeling money toward more mature InsurTechs

Our analysis of InsurTech financing deals tracked by Venture Scanner over the past 18 months indicates that the insurance industry—following the lead of the broader financial services sector—has reached an inflection point. Rather than spread their money across a large number of new InsurTechs just getting off the ground, many investors have started channeling more capital into proven entities, often in late-stage and follow-on funding rounds.

Indeed, InsurTech startup activity came to a veritable standstill in the first half of 2018—as of June 30, only four launches appeared on Venture Scanner's database. This downward trend began last year, with 2017 seeing the launch of only 88 InsurTechs, which is half the number recorded in both 2015 and 2016 (see figure 1). This is in line with, and in fact furthers, the trend first identified in our broader investment report last year, *Fintech by the numbers,* covering banking, investment management, and commercial real estate, along with insurance.[1]

Startup momentum took longer to peter out for InsurTech, perhaps because insurance activity peaked later than in other financial services industries. The number of new InsurTechs kept rising in both 2015 and 2016, at a time when startup activity in the other financial sectors had already started dropping from its high point. In fact, in 2017, even as InsurTech launches fell by 50 percent, the sector still accounted for two-thirds of all new fintechs, as non-insurance launches fell by 73 percent. (All numbers cited in this report are from the Venture Scanner database, unless otherwise indicated.)

Figure 1. InsurTech launches stall in first-half 2018
Number of InsurTechs by category

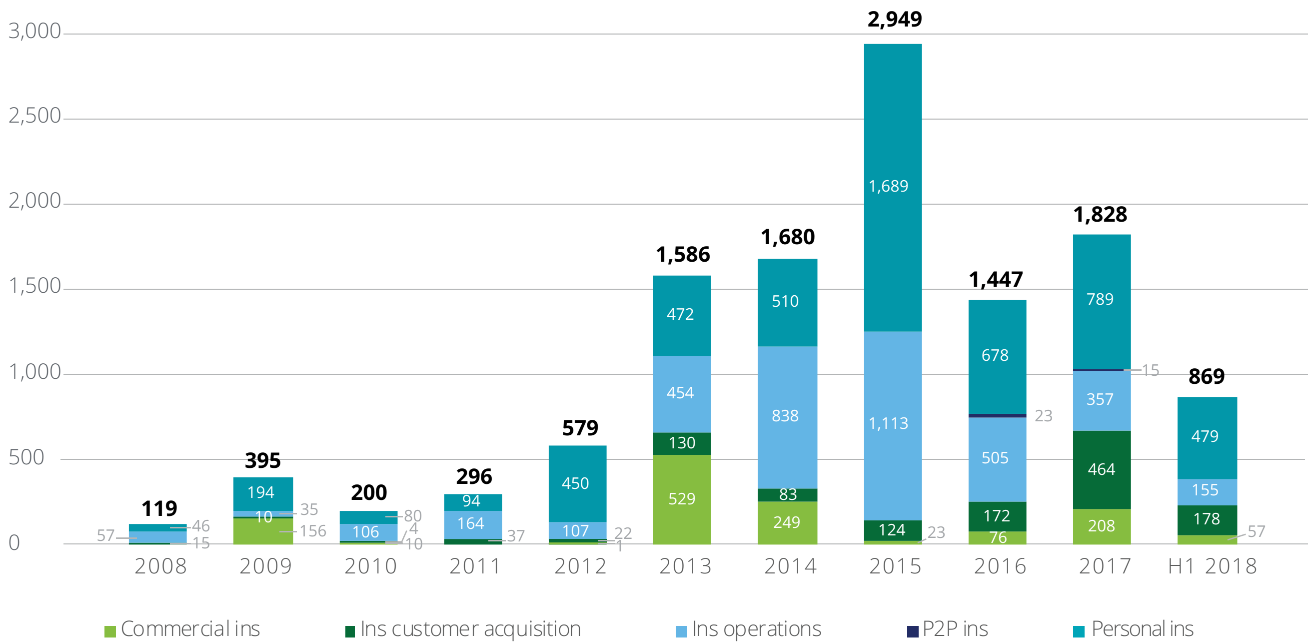


Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

However, the dramatic decline in startup activity does not mean the InsurTech gold rush of the past decade is coming to an end. On the contrary, money continues to pour in, with first-half 2018 InsurTech investments of $869 million seemingly on track to at least equal the $1.83 billion in funds raised last year, which was the industry's second-highest level of financing (see figure 2).

Figure 2. InsurTech investments on track to at least match 2017

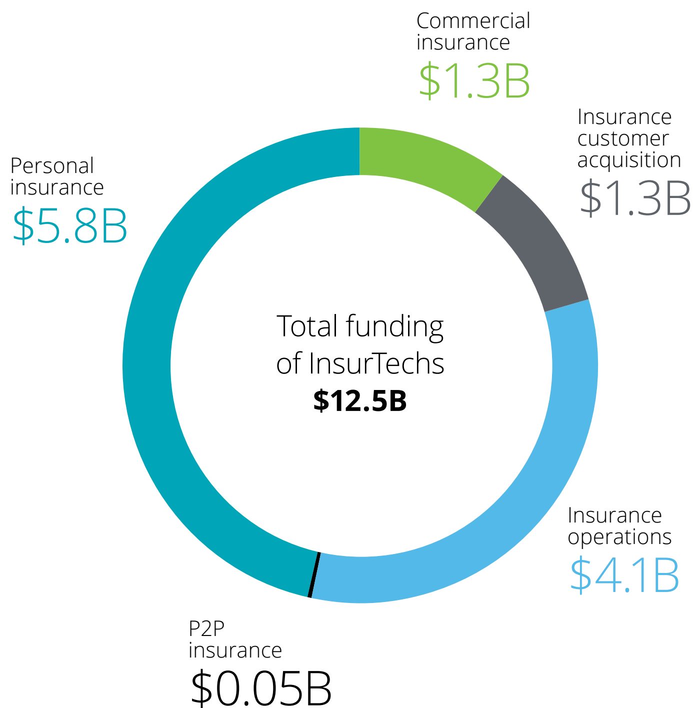
InsurTech funding by category in $M



Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Personal lines InsurTechs have drawn the lion's share of investment dollars over the past decade (see figure 3). With a first-half 2018 capital infusion of $479 million, the segment is well on its way to eclipsing last year's total of $789 million, which was the second-highest total invested for personal lines applications.

Figure 3. Personal lines attract nearly half of InsurTech financing
Funding amount of InsurTechs by category ($B) (1998 through H1 2018)



Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

The predominance of personal lines InsurTech financing is continuing this year, drawing 55 percent of the total invested, up from 43 percent in 2017. The sector's preeminence is even more pronounced when combined with customer acquisition (which includes comparison-shopping platforms and lead-generation solutions, which are mostly for personal lines). Together, the two segments take up three-quarters of the InsurTech investment pie in 2018's first half.

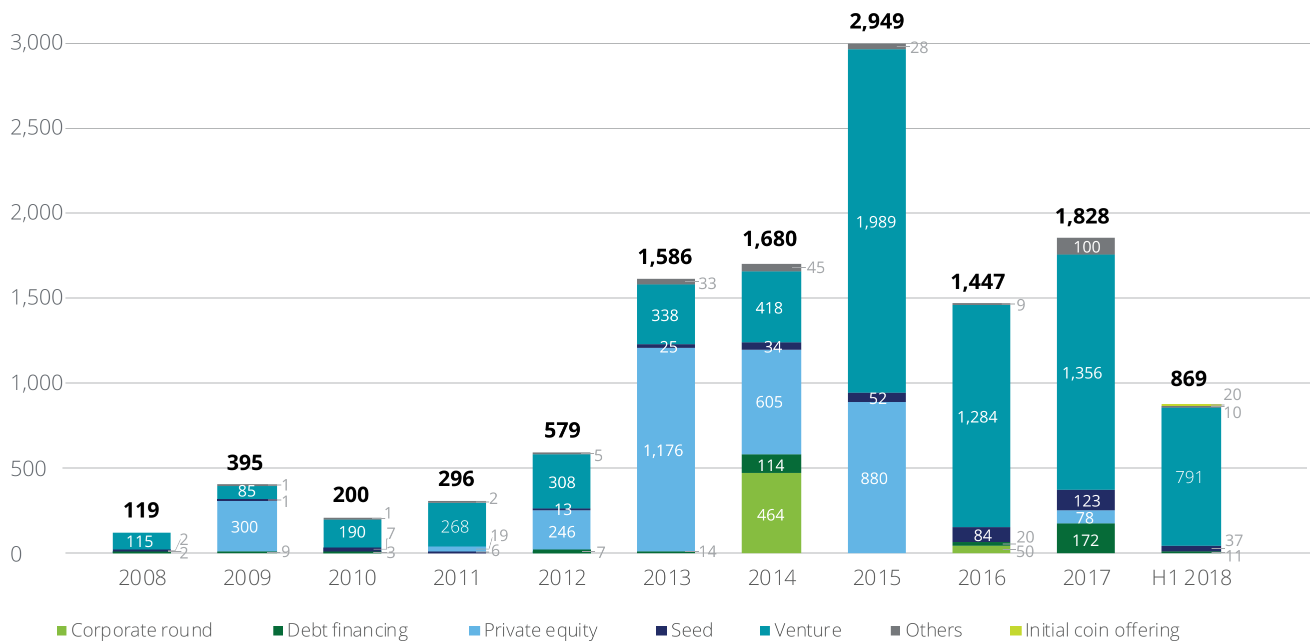
That compares to only 6.6 percent so far for commercial insurance InsurTechs, down from 11.4 percent last year. Commercial lines investment has likely lagged because a large portion of InsurTech development activity has been devoted to addressing marketing and distribution issues, which are far bigger challenges in personal lines, whether selling direct to consumers or via smaller insurance agencies.

Meanwhile, the operations category—encompassing everything from mobile apps for insurance claims, to data gathering and advanced analytics, to back-office administration—hit its investment peak in 2014, drawing half of all the capital raised for InsurTechs. That dropped to about 20 percent last year and for the first half of 2018, as carriers sort through the InsurTech-driven systems that have already been developed.

Venture capital (VC) funds remain by far the largest source of InsurTech financing, accounting for 91 percent of investments in 2018's first half, up from 74 percent last year (see figure 4). VC funds have dominated the InsurTech landscape for the past few years, supplanting private equity (PE), which peaked in 2013 at 74 percent of total investments. PE remained prominent for the next two years but has virtually dried up for InsurTechs since then. This is likely because VC tends to focus more than PE on startup financing in general and technology in particular. Most PE groups also usually acquire controlling interests in their targets, while VCs tend to take on minority stakes, which is more common in InsurTech.

Figure 4. VC firms dominate InsurTech investing, led by incumbents

InsurTech funding by investor type in $M

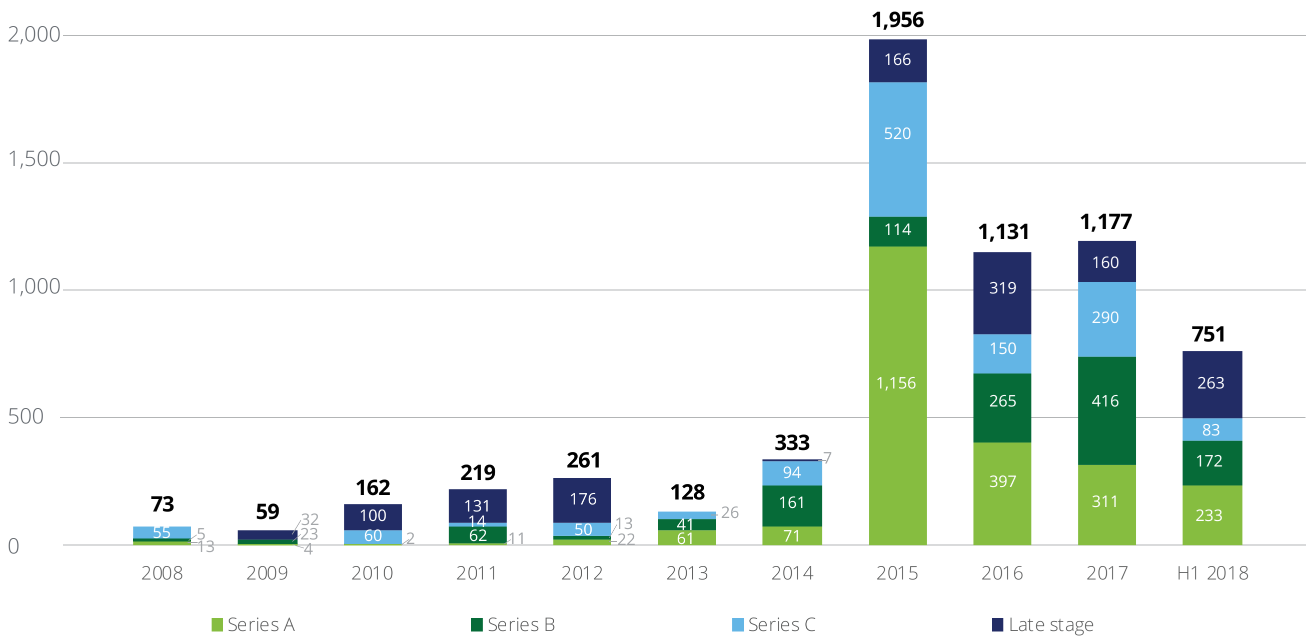


Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Overall, late-stage InsurTech investment in the first half—defined as Series D and above—is already 64 percent higher than for all of 2017 (see figure 5). Such investments account for 35 percent of the total capital raised by InsurTechs, compared to 14 percent last year and only 8.5 percent in 2015, when the sector overall hit its high point at nearly $2 billion invested. Early Series A funding topped out at $1.156 billion in 2015—which was nearly 20 percent more than such investments in 2016, 2017, and the first half of this year combined.

Figure 5. Late-stage InsurTech funding on the rise

InsurTech funding by round in $M



Note: Graphs consist of disclosed funding values only.

Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Personal insurance leads the way in this trend as well. While 61 percent of InsurTech investments were Series A in 2015, that fell to just 15 percent last year and to 10 percent so far in 2018, with the bulk of funds going to later-stage financing. The closely related customer acquisition category has also seen a significant jump in later-stage investments, as have those for insurance operations over the past couple of years. This is because all three areas are far more advanced in InsurTech development than are commercial insurance startups.

This reinforces our earlier observation that more and more funds are being directed beyond new startups and early-stage rounds to finance InsurTechs that have been around for some time and therefore are perhaps better able to demonstrate results that justify additional financing. The exception remains commercial lines, which has yet to register any late-stage investments, and with nearly all funds going into Series A or B tiers—including all Series A so far this year.

Generally, these InsurTech trends validate much of what we heard during recent interviews with insurance companies, InsurTechs, and accelerators conducted for a separate Deloitte report on collaboration among incumbents and fintechs.[2] Many of those interviewed indicated that the "gee whiz" investment stage has likely passed for most InsurTech areas at the moment, with capital providers focusing instead on giving an additional boost to those showing real progress rather than just potential.

Second wave: InsurTech investment likely to remain vigorous but be more strategic

On a micro level, while new launches may be fewer and farther between at the moment, InsurTech investment activity is expected to remain robust as investors shift their attention to maturing entities. More established InsurTechs will likely focus on gearing up their solutions to scale, but we may yet see a second wave of new startups not too far down the road in areas where innovation has lagged.

For instance, we expect to see significant action ahead in small- and middle-market commercial insurance, as personal insurance innovations in customer acquisition, operations, telematic sensors, and analytics are adapted for business insurance applications. Examples may include solutions to simplify direct-to-small-business sales, enable a greater use of multichannel platforms for middle-market commercial insureds, leverage wearables and sensors in the workplace, and perhaps even deploy solutions enabling insurers to seamlessly facilitate a broader business support ecosystem beyond risk transfer, as envisioned in a recent Deloitte report on middle-market commercial insurance growth opportunities.[3]

On the other side of the industry, a deeper dive into the Venture Scanner database shows life insurance and annuities generating far less InsurTech activity than among their property and casualty counterparts. We believe that is likely to change as life insurers seek to streamline products, simplify underwriting, and advance self-service distribution systems. Life insurers, for example, will likely tap InsurTech insights to broaden accelerated underwriting capabilities with the help of advanced analytics and establish ongoing wellness relationships with policyholders. At the same time, we think that annuity writers could potentially benefit from more intuitive and interactive InsurTech tools that help consumers navigate and manage these often complex products, as well as understand their long-term value versus alternative investment options.

Methodology

- All data cited in this report are from the Venture Scanner database, unless otherwise indicated.
- Deloitte's observations and analyses in this report are based on data from Venture Scanner and Deloitte's firsthand experience dealing with the InsurTech market.
- In the raw data set, companies are often tagged to multiple categories, with total investment in such companies allocated in full to each of the categories. To avoid overstating investment amounts, we consolidated similar categories, which eliminated most of the overstatement.
- For the remaining companies that still were assigned to more than one category, we divided total investment equally among those remaining categories.
- The population of InsurTech companies is global but limited to those founded since 1998. All data are as of July 1, 2018.

M&A deals may soon be on the rise

One question to ponder is the possible impact of the recent shift in InsurTech investment strategy on merger and acquisition (M&A) activity. Up until now, M&A has played a relatively minor role in InsurTech development, with only about one in 10 startups eventually acquired by others over the past decade. We think that could be ripe for change, with the pace likely to accelerate over the next couple of years for at least four reasons.

- First, following the law of supply and demand, with startups on the wane for the time being, investors are more likely to consider acquiring a preferred InsurTech target before a competitor beats them to the punch and takes them out of play.
- Second, more InsurTechs are likely to consolidate, whether to eliminate competition, combine forces to bolster their market leverage, and/or expand capabilities to create platforms rather than point solutions, which are finding limited value because they address one particular problem without regard to related issues.
- Third, many carriers are starting to consider acquisitions to bolster internal capabilities where they find that buying InsurTechs offering what they need to likely be far easier than building such applications themselves.
- Finally, early PE and VC investors may be poised to liquidate their maturing InsurTech investments, putting more entities in play.

Any one or a combination of these catalysts should heat up M&A activity, perhaps substantially.

United States still leads in investment, but InsurTech is increasingly a global phenomenon

While the United States remains the biggest destination for investors, InsurTech development has become a truly global phenomenon, with non-US startups around the world drawing a substantial share of the market.

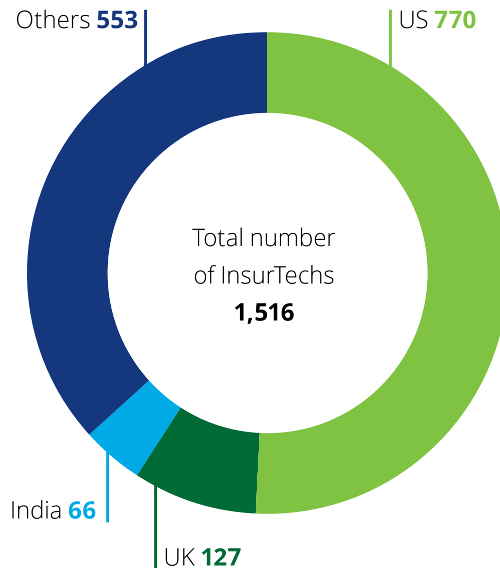
The United States has accounted for a little over half of all launches since 2008, dominating in nearly all InsurTech categories (see figure 6), while drawing 63 percent of the dollars invested (see figure 7). However, US dominance has waned over the past decade (see figure 8). While nearly all InsurTech investments targeted US companies through 2012, the tide began to turn the following year, when two-thirds of funding went outside the United States.

Figure 6. US accounts for half of InsurTech startups

Top 5 InsurTech countries by category (1998 through H1 2018)

Personal insurance | 385

Rank	Country	Companies
1	US	186
2	UK	47
3	India	17
4	Canada	11
5	Germany	10



Commerical insurance | 157

Rank	Country	Companies
1	US	79
2	UK	16
3	Canada	6
4	Germany	5
5	Australia	4
	France	4
	India	4

P2P insurance | 35

Rank	Country	Companies
1	US	10
2	UK	7
3	Canada	3
4	China	2
	Netherlands	2
	Africa	2

Insurance operations | 456

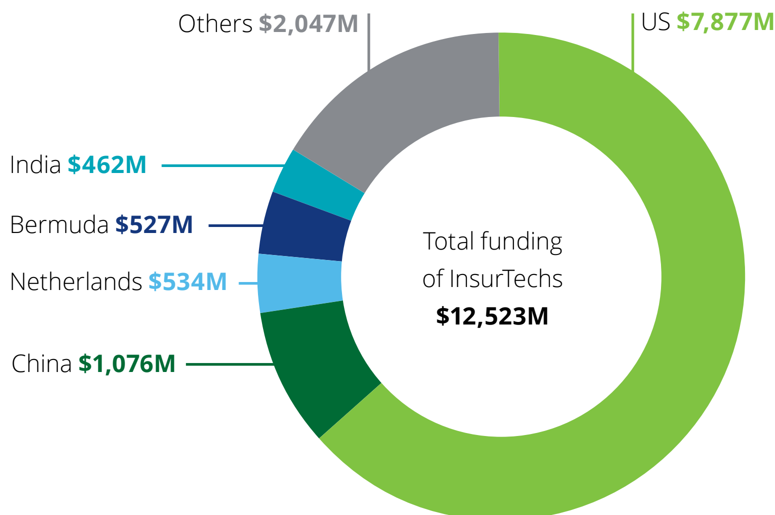
Rank	Country	Companies
1	US	259
2	UK	34
3	Germany	17
4	Canada	14
5	France	12

Ins customer acquisition | 483

Rank	Country	Companies
1	US	236
2	India	34
3	UK	23
4	Germany	17
5	Canada	12
	Spain	12

Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Figure 7. US has also drawn 63 percent of InsurTech dollars invested
Top 5 InsurTech countries by funding amount (1998 through H1 2018)



Commerical insurance | $1,314M

Rank	Country	Companies
1	US	640
2	Bermuda	527
3	Switzerland	100
4	Germany	13
5	UK	13

P2P insurance | $46M

Rank	Country	Companies
1	UK	29
2	Germany	15
3	France	2
4	South Africa	0.4

Personal insurance | $5,819M

Rank	Country	Companies
1	US	3,039
2	China	997
3	Netherlands	515
4	France	321
5	India	188

Insurance operations | $4,091M

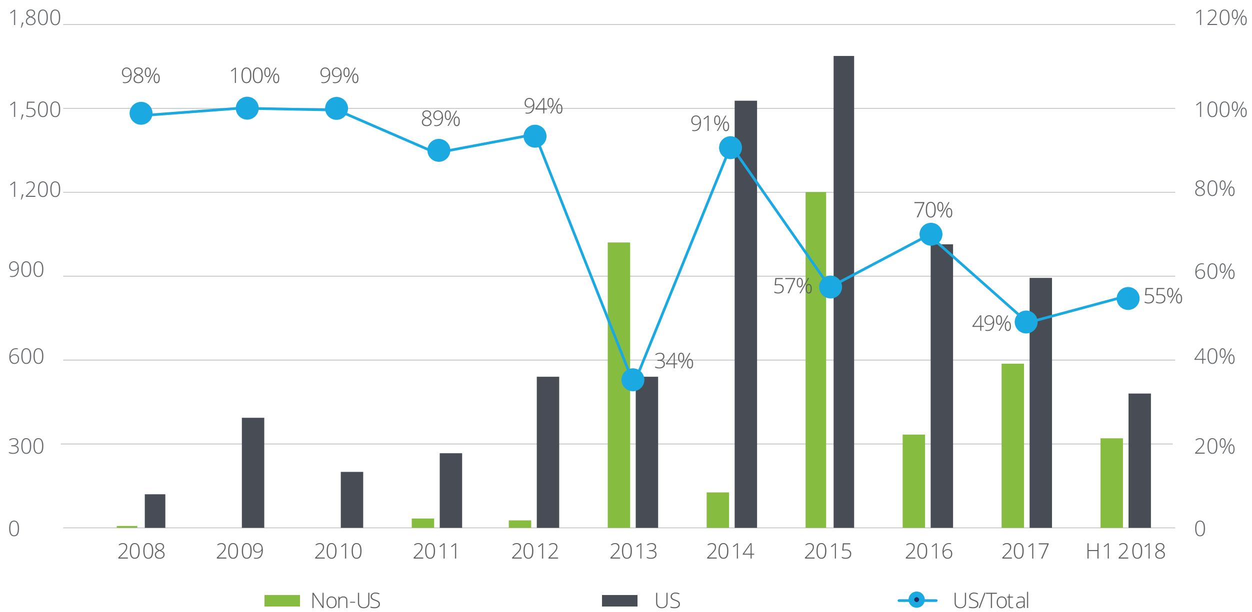
Rank	Country	Companies
1	US	3,621
2	UK	72
3	Germany	56
4	France	47
5	India	45

Ins customer acquisition | $1,253M

Rank	Country	Companies
1	US	577
2	India	227
3	Germany	84
4	Hungary	68
5	China	65

Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Figure 8. InsurTech investments gradually move to global markets
Investment values non-US vs US in $M



Source: Venture Scanner data, Deloitte Center for Financial Services analysis.

Various regions have jockeyed for InsurTech dollars over the last few years. Asia had its signature year in 2015, when investments there topped $1 billion (thanks primarily to $900 million raised by Zhong An, an online property insurer in China), compared to just $181 million for Europe,[4] while in the following two years, European InsurTechs took the lead as the top non-US financing destination. However, it appears Asia is reasserting itself in 2018, leading with first-half investments of $189 million, mainly due to a late-stage investment in an Indian online personal lines InsurTech, PolicyBazaar.[5]

Looking at the impact of individual countries, China has generated far fewer InsurTech startups than many other domiciles, yet has managed to draw a much more significant share of the investment pie in dollar terms. China's $1.1 billion ranks a distant second to the $7.9 billion invested in the United States, but China managed to generate its first billion dollars with only 22 InsurTechs, while the US total represents 770 companies.

Investment in Chinese InsurTechs at least doubles the totals in each of the next three nations combined among the top five (the Netherlands, Bermuda, and India). Almost all investments in China have gone toward personal insurance entities, where just eight InsurTechs have drawn $997 million in funding—making it a strong second to the $3 billion invested in 186 US entities in that active category. As in the United States, personal lines likely dominates because of the sheer size of the potential market, as China's population of insurance prospects tops 1.4 billion, with the emphasis on improving marketing and distribution of individual coverages.

Meanwhile, the United States accounted for 58 percent of the 134 InsurTech acquisitions completed since 2008, topping all other domiciles by far. In terms of value, on the other hand, US deals only attracted 44 percent of what was spent on acquisitions globally. However, that comparison is skewed by one 2017 non-US megadeal in the Venture Scanner database—the $15.3 billion sale of Mobileye,[6] a supplier of software for vehicle safety sensors and autonomous vehicles.

InsurTechs should help fuel the digital evolution

Four pillars will help define how insurers compete in the years ahead

InsurTech development got off to a good start in the second half of 2018, with at least three major investments announced over the summer totaling $270 million. Metromile, a pay-per-mile auto insurer, received $90 million in Series E funding.[7] Next Insurance—which started as an online independent insurance agency for small businesses but has since become a fully licensed insurer in its own right—raised $80 million in Series B funding, including investments from Nationwide and Munich Re.[8]

The third major funding announcement was the most significant as it established the first InsurTech "unicorn"—a private company worth $1 billion or more—in Root Insurance.[9] The online auto insurer, which allows applicants to download an app and test their driving performance using telematics-based technology to price coverage, announced a $100 million Series D round that has given them a $1 billion valuation, providing additional capital to potentially deepen penetration in existing markets, expand into new states, and fuel hiring plans.

Each of these InsurTechs is looking to carve their own niche in the emerging digital insurance marketplace by catering to evolving customer needs and rising expectations. Many incumbents are often helping to finance experiments by InsurTechs such as these—which would appear at first to be competitors—in part to likely learn more about the digital marketplace and perhaps complement their own more traditional business models.

Yet the majority of InsurTechs are not seeking to compete with, let alone displace, incumbents. Instead, most are being launched to help solve legacy insurer problems across the organization, from general inefficiency in operations to enhancing underwriting, distribution, and claims functions. Insurers can leverage InsurTechs to speed up innovation and the digital evolution, integrating the newcomers' next-generation technical capabilities and entrepreneurial culture to become the digital insurers of the future.

"Advancing technology has collided with longstanding customer issues to create what we believe to be a series of deep, lasting, systemic challenges for insurance," according to a recent Deloitte Global report, *A catalyst for change: How fintech has sparked a revolution in insurance*.[10] The report cites InsurTech's potential to help insurers quickly advance in terms of seamless engagement, usage-based coverage, micro-insurance, and "prosumer" offerings (combining personal and commercial coverages in both property and liability lines). It goes on to say that "insurers that master these technologies—and the ability to successfully incorporate them throughout the enterprise—will gain the core capabilities they need to adapt to the rapidly changing environment of customer needs and preferences, not to mention the changing nature of risk."[11]

InsurTechs could ultimately accelerate the transition of incumbents to become more customer-centric, data-driven, and multi-platform-based. InsurTech innovation can help stitch together capabilities across the insurance value chain so carriers are better able to meet the needs of consumers, agents, and brokers.

By collaborating with InsurTechs, we think traditional insurers may be able to more quickly and efficiently innovate in their approaches and operations to take advantage of four strategic options made possible through digital transformation. These four pillars are:

- Delivering ahead of customer expectations
- Accessing new markets and segments
- Shifting from purely underwriting risk to providing more comprehensive well-being—in terms of physical and financial security
- Reimagining the operating model to generate higher profitability

One of the challenges facing insurers is how to collaborate with InsurTechs more effectively in constructing and fortifying these four pillars so as to bring the new ecosystem they are creating together to full fruition. An upcoming report on the state of fintech development by the Deloitte Center for Financial Services, based on interviews with about two dozen financial institutions, fintechs, and accelerators (including insurers and InsurTechs), finds a number of obstacles inhibiting collaboration with incumbents, including organizational and cultural roadblocks, as well as regulatory hurdles.

Where might insurers, InsurTechs go from here?

Incumbents may move beyond incremental improvements to achieve fundamental transformation

On a macro level, what we've seen is that many insurers may be thinking too small or short term in their InsurTech strategies. Most are concentrating on upgrading very specific components with narrowly focused point solutions, or trying to figure out how to reinvent themselves with bigger-picture capabilities, which usually turn out to be quite elusive. They are often fixated on limited proofs of concept that are tested internally, instead of producing minimum viable products that are deployed and evolve under market conditions.

There are many reasons for this. One complaint we heard during our interviews with fintechs is that many incumbents are often treating them like just another vendor, rather than engaging with them as full-fledged partners in a historic effort to transform how the industry does business. However, we also heard from many incumbents that InsurTechs often lack the industry-specific expertise, organizational know-how, or simply the time to offer much help to insurers beyond the solutions they are developing.

Going forward, carriers should reconsider the broader and longer-term strategic implications for their business as they engage with InsurTechs, or risk defaulting to ongoing incrementalism. To accomplish this, they need to rewire their DNA and jump-start change management to become more like the innovative InsurTechs they are investing in and acquiring.

The goal should be more than simply installing the latest widget. Instead, insurers should be striving to put their people in an environment that fosters innovative thinking and collaboration with nontraditional partners. Performance metrics and associated compensation need to reflect this shift in emphasis to transformation, from business unit leaders on down.

The world is changing so dramatically—technologically, economically, and socially—that insurers no longer own the narrative as they have for decades in dictating where and how change gets done. Rather, carriers will need to depend more and more on innovation generated by InsurTechs to evolve how their own industry conducts business. However, if insurers don't radically alter the way they prepare for and consume what InsurTechs are offering, then there will likely continue to be a significant level of suboptimal investments.

As noted in Deloitte's report on the "revolution" being spurred by fintech, this may indeed be "a moment of truth" for the insurance industry.[12] Insurers should start to consider InsurTechs enabling more of a digital evolution rather than continuing to call this "transformation," and see if that helps reframe behaviors and investment approaches. The industry might just benefit from this different way of thinking.

In the end, insurers can either adapt accordingly to these changing times, and fast, or risk being supplanted by more proactive competitors in the InsurTech and incumbent insurance worlds.

Endnotes

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