Where do InsurTechs go from here?

InsurTechs have had a successful and awe-inspiring run over the last decade. The year 2022 was, however, not kind to the sector with funding down by at least 50% compared to 2021. **11eight**'s **Mr Ron Arnold** shares his views of why and how InsurTechs still remain relevant to the insurance industry.

By Anoop Khanna

Favourable macroeconomic and demographic factors, rising middle class with increasing disposable incomes, growing mobile access and digital adoption, abundant financial services and technology talent and the drive for digitisation spurred by the pandemic and government initiatives and regulatory efforts to create a favourable environment all helped InsurTechs to flourish.

Things have slowed down due to various geopolitical factors, yet many of the drivers that created the opportunities for InsurTechs to flourish, still exist. *Asia Insurance Review* spoke with 11eight managing director Ron Arnold for his views on how InsurTechs can continue to remain relevant.

Mr Arnold said, "InsurTechs have generated much interest in recent years. Primed by venture capital investors, there has been much hype about how InsurTech will challenge many traditional insurance paradigms and redefine the way insurance is done.

"Funding levels have been phenomenal. It is estimated that around $50bn has been invested in InsurTechs since 2012. Funding peaked in 2021 with record-breaking total funding of $17.8bn. Things have, however, slowed down a lot since then."

In 2022, global InsurTech funding fell by over 50% to $8.4bn. Only $1bn was raised in the fourth quarter of 2022 - the lowest amount raised since the second quarter of 2018.

There have been lay-offs and several well-publicised public listings that have failed to live up to the hype (e.g., Lemonade and Root Insurance).

He said, "There is no doubt the outlook for InsurTechs is challenging and the recent Silicon Valley Bank failure in the US is certain to create more angst. Indeed, some think the InsurTech era is largely over, with mainstream insurers having learnt from InsurTechs and already adopted the essential learnings and capabilities."

Where to now?

Mr Arnold said, "The reality is that many of the drivers that created the opportunity for InsurTechs still remain.

"Incumbents continue to face a kaleidoscope of issues that work against them advancing innovative and unproven opportunities - they remain risk averse, they confront legacy issues, regulatory pressures, claims inflation, climate change, increasing reinsurance costs, more demanding customers and challenge from large, cashed up non-traditional players."

He said, "InsurTechs are not burdened by these challenges. They have an immense risk appetite, are dynamic, can evolve quickly, can focus, are able to leverage the latest technologies, data and digital solutions - all in order to solve a particular problem."

Mr Arnold said success will be challenging. "Nonetheless, for the foreseeable future, it will be harder to access capital and it is likely to be more difficult to strike partnerships with insurers. Building and selling existing lines of cover (e.g. life, health, motor) will remain tough, very tough," he said.

Incumbents getting smarter

He said digitalisation alone cannot be the point of difference anymore between the legacy insurers and InsurTechs.

"Incumbents are getting their digital assets in order. Even though platforms like Policybazaar can help with distribution, marketing and building a brand to go head-to-head with incumbents is typically very expensive and can burn dollars," he said.

"There are good niches (e.g., cyber, sharing economy, small business insurances, aspects of health, pet) where there are opportunities to leverage digital, redefine the product coverage, bring new data and approaches to underwriting and pricing and digitally streamline the service experience."

Embedded is promising

Embedded insurance is a promising area. Embedded insurance involves incorporating coverage or protections within the purchase flow of a product or a service itself, offering insurance 'real-time' (e.g., travel insurance with airline tickets).

Mr Arnold said, "As a concept, embedded is not new, but the opportunity to help brands incorporate insurance offers at the right time during a digital transaction, removing underwriting questions by pre-populating data and removing the friction from the insurance buying process is compelling.

"Supporting merchants and activities in super apps like WeChat present a real opportunity. InsuranceDekho is offering insurance through the CarDekho online automobile financing and sales platform."

InsuranceDekho, the Indian InsurTech, raised $150m in Series A funding in February 2023. This was the largest ever series A round by an Indian InsurTech.

He said, "Cover Genius is another InsurTech making good inroads with embedded offerings and with partnerships such as Shopee, Booking Holdings, eBay and Skyscanner.

"Beyond that, it is clear the insurance value chain still remains clunky and there are many inefficiencies. Those InsurTechs that focus on unique solutions to remove friction and inefficiency in the value chain and offer compelling solutions should be well positioned."

Mr Arnold said, "Arturo is a good example. It utilises computer vision, and AI models to help insurers improve their underwriting, pricing and risk selection.

"Working with Arturo, the Australian insurer Suncorp removed half of its home insurance underwriting questions, benefitting both new business and renewals. The opportunity to use alternate data sources and analytics to simplify and speed up the underwriting and selling process is very real and exists in all classes of insurance."

Speaking about claims he said these are also a part of the value chain where there remains considerable friction and customer irritation in all classes of insurance.

Claims can be much better

He said, "Claims are particularly challenging for new and old insurers alike. Speeding up the claims process with the use of new data sources and AI to help automate decisions, identify fraud and quicken settlement remains a fertile area for InsurTechs. By way of example, Tractable is using computer vision AI to help insurers speed up motor and property assessments."

There remain myriad opportunities for InsurTechs. Traditional insurers simply cannot match the unique way InsurTech entrepreneurs can innovatively harness data, digital and analytics or the special type of dynamism and energy they can bring to a solution.

Mr Arnold said, "Ultimately, InsurTechs will give themselves the best chance of success if they get the basics right. They need to make that they are solving a real problem, the solution is unique and yields real sustainable benefits, that their investors and teams share their dream and vision. Finally, they need to make sure they are ready and easy to partner with, and they find the right partners."

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