4 InsurTech and the disruptive insurance ecosystem

InsurTech is reshaping the insurance market with new players, enabling new products, services and processes

The InsurTech ecosystem is formed by startups developing disruptive business models; technological giants, that are leveraging their technological leadership; and big insurance companies. Other sectors of the economy, such as automotive, are becoming new players in the insurance market. As a reaction, traditional insurers are adapting their strategies, also playing a key role in the new ecosystem.

Introduction

InsurTech can be defined as the result of the extensive use of technology in the insurance sector, materialized in new innovative products and services, and it is causing a revolution in this sector. InsurTech is often considered a part of Fintech, so the same transformational ideas underly and collaboration between incumbents and challengers is also on the rise. Disruptive startups have knocked down some of the main barriers to entry, while focusing on the problems that the insurance sector traditionally has struggled with, such as user experience. The InsurTech innovation involves the adoption of new digital applications, but also new business models and new corporate structures.

InsurTech still faces **legal uncertainty**, especially as regards new entrants or startups disrupting a highly regulated sector where compliance with sector-specific rules is burdensome. Generally, there are several regulations that must be taken into account by InsurTechs, mostly related to online issues, including data protection regulation and online consumers protection, among others. 100% native digital insurers have to comply with all the e-commerce regulation and must have in mind all the challenges that the digital ecosystem is posing, such as cybersecurity. Essentially, these regulatory challenges are quite similar as the ones Fintech is facing. Nevertheless, determining the concrete nature of the agent, i.e. whether a company becomes an insurance company, an insurance broker, a marketplace, an aggregator, etc, has particular relevance in InsurTech, as it obviously has an impact on the applicable regulatory framework.

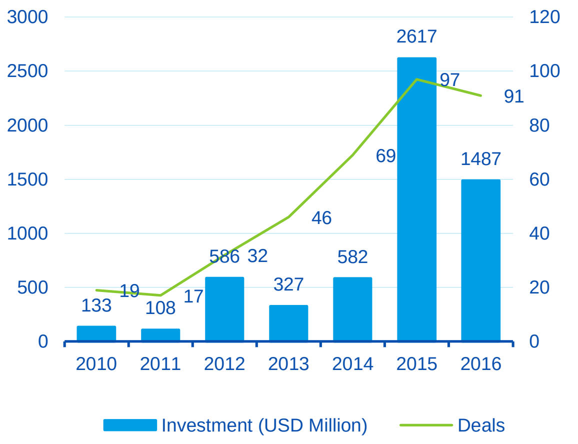
Investment

In accordance with a KPMG report[19], InsurTech attracted USD 2.5 billion of venture capital (VC) investment, a massive leap in funding compared to the previous four years. Annual investments in InsurTech start-ups have increased fivefold over the past three years, with cumulative funding reaching USD 4.3 billion since 2010. By comparison, the first three quarters of 2016 have seen over USD 1.4 billion in VC investment and significant activity by many traditional insurers that are increasingly creating their own VC funds in order to invest in InsurTech companies. It is still quite soon to support the idea of an upcoming slowdown in InsurTech investment, because during the last five quarters there have been significant investments in just a few companies, and it could happen again along the following quarters.

On a global basis, over 60% of VC-backed InsurTech deals occurred in the US during Q2’16. However, the UK is also seen as an important leader in the space. According to City A.M.[20], more than USD 22 million (GBP 16.5 million) has been ploughed into InsurTech so far this year in the UK - nearly triple the amount invested in the whole of last year and growing faster than any other country in the world.

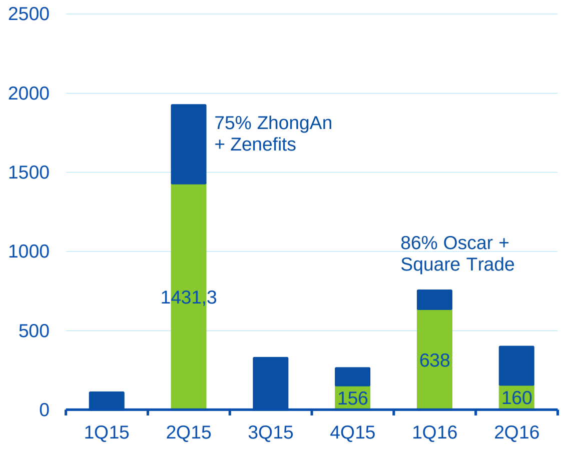
19: *The Pulse of Fintech, Q2 2016, Global Analysis of Fintech Venture Funding*, KPMG and CB Insights, 2016.
20: *Insurtech investment in the UK has tripled (press)*, 2016, City A.M.

Figure 4.1
Annual investments in InsurTech start-ups * (USD Million)



* Note: Updated as of 9/21/16
Source: FT Partners

Figure 4.2
InsurTech financing volume by quarter (USD Million)



* Note: Updated as of 9/21/16
Source: FT Partners

Ecosystem players behaviour

The emergence of a whole new ecosystem based on the extensive use of technology (it is the case of startups and technological giants) has brought new business perspectives and disruptive ideas that directly threaten the status of traditional insurance companies. All of theses new entrants have forced a reaction among incumbents. Based on the interaction of all players, the dynamics of this new ecosystem can be described as follows:

First, **startups** are arguably the most disruptive players at this stage. They have directly focused on long lasting issues in this sector. They are generating new business models based on **peer-to-peer insurance** (a reciprocity insurance contract based on the sharing economy concept), **usage-based insurance** (economic activity created by digital marketplaces that fulfill consumer demand via immediate access to and convenient provisioning of goods and services, e.g. Pay-as-you-Drive, in the auto insurance vertical) or **consumer platforms**, which aim to improve customer experience. These startups leverage in most cases **emergent technologies**, such as the Internet of Things (IoT) for SmartCars and SmartHomes; Big Data for managing and analyzing large volumes of information, blockchain technology and smart contracts for empowering contractual relations with customers in the claim process, for instance. Also, omnichannel, cross selling, and new 100% digital native insurers are new trends that are being observed.

Second, **technological giants** are entering the insurance sector for two main reasons: their technological leadership is a key advantage and their ownership of a huge volume of personal data allows them to make a better segmentation of their consumers. As a consequence, digital players are being able to offer more customizable insurance plans. Other players in the game are **top companies from other sectors** linked to mobility, such as the automotive sector, leveraging their competitive leadership, as in the case of Tesla and its new programme “Insure my Tesla”.

Finally, **traditional insurers** are rethinking their strategy to adapt to this new competitive landscape. As a consequence, they have identified four principal axes to guide their actions: **collaboration** (Axa and BlaBlaCar announced their european collaboration on May, 2015), **partnership** (AXA and Alibaba announced their joint agreement on July, 2016), **VC investment** (Munich Re invested in Slice Labs, a startup that is launching an on-demand, pay-per-use insurance) and **startup incubation** (Allianz launched Allianz X InsurTech incubator).

Conclusions

InsurTech follows a customer-centric approach. With the fundamental aid of emerging technologies, such as IoT, Big Data or Artificial Intelligence, these startups have focused on certain deficiencies of the insurance sector and certain segments of the value chain, mainly in those related to delivery, such as marketplaces and insurance comparison sites. These technology-based companies have brought with them new business approaches that directly impact the activity of traditional companies. In addition, digital giants and companies from other sectors are leveraging their competitive advantages (mainly technology and user knowledge) to enter the insurance sector. Due to the innovation introduced by these new players, incumbents are currently reshaping their business models in an increasingly competitive market.

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