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THE RISE OF INSURTECH

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HOW YOUNG STARTUPS AND A MATURE INDUSTRY CAN BRING OUT THE BEST IN ONE ANOTHER

INTRODUCTION

Insurers recognise that the everyday lives of their customers are being transformed by new technologies. They also recognise that this transformation is affecting their own industry, which is undergoing an ecosystem disruption caused by technology-driven new entrants and existing competitors alike. Insurers are thus facing increasing pressure to evolve and reinvent themselves before that disruption hits the bottom line (see Figure 1).

While some of this disruption is undeniably coming from InsurTech, most traditional insurers still perceive their existing competitors as posing the greatest risk of disruption (see Figure 2). As such, there is a growing recognition among insurers that InsurTech ultimately represents more of an opportunity than a threat, and that they should seek to collaborate more closely with this latest breed of technology-fuelled startups. Accenture's Technology Vision for Insurance 2016 revealed, for instance, that 44 percent of insurers across the world intend to pursue digital initiatives with startups from the insurance industry over the next two years. And, perhaps more interestingly, 31 percent plan to work with startups from outside that industry.

But collaboration between old and new is not always straightforward. Some traditional insurers are more than 300 years old, whereas many InsurTechs are less than 300 days old. This can lead to significant challenges and differences surrounding culture, workforce, agility and technology. It can also lead to misconceptions on both sides and, occasionally, a lack of common understanding about the size of an opportunity or how best to realise it.

These challenges have not prevented the number and value of InsurTech deals from soaring in recent years. But if both startups and incumbent insurers are to extract maximum value from the InsurTech scene, changes in mindset and approach may be required. There is also a pressing need for insurers to integrate their InsurTech approach into their broader innovation agendas.

FIGURE 1

INSURERS ARE FACING DISRUPTION AND NEED TO EVOLVE QUICKLY

Data from Accenture's Technology Vision for Insurance 2017

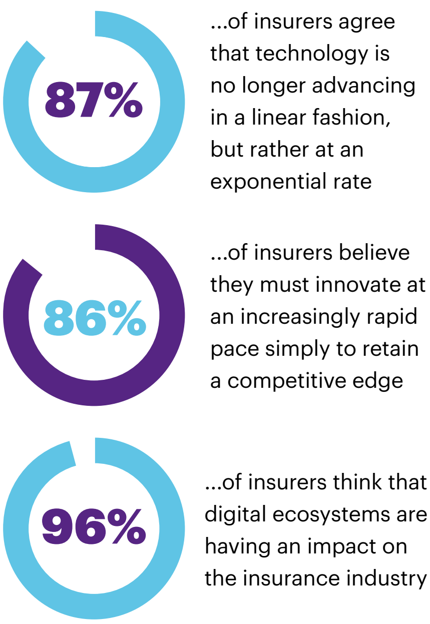
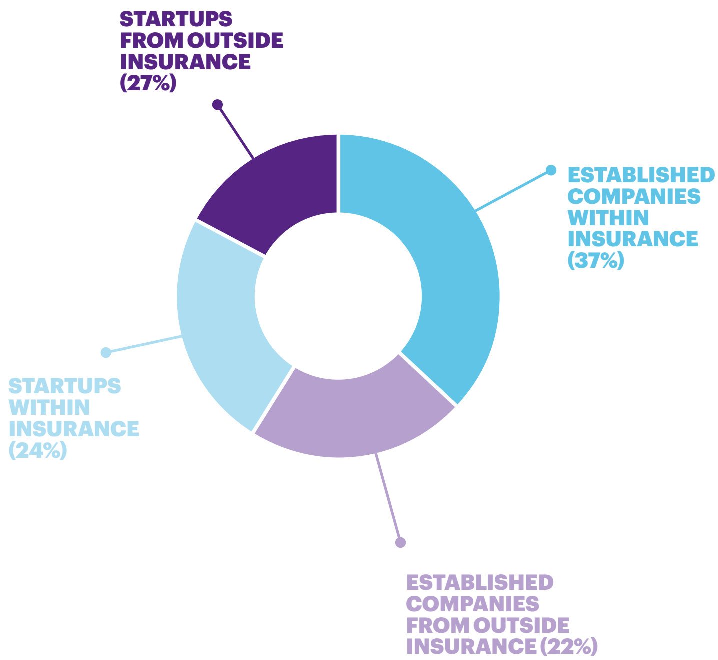


FIGURE 2

TRADITIONAL INSURERS PERCEIVE STARTUPS TO BE LESS OF A THREAT THAN EXISTING COMPETITORS

Entities viewed by insurers as posing the greatest risk of disruption to the insurance industry, 2016



INSURTECH IS BIG BUSINESS

And its size and reach are expanding

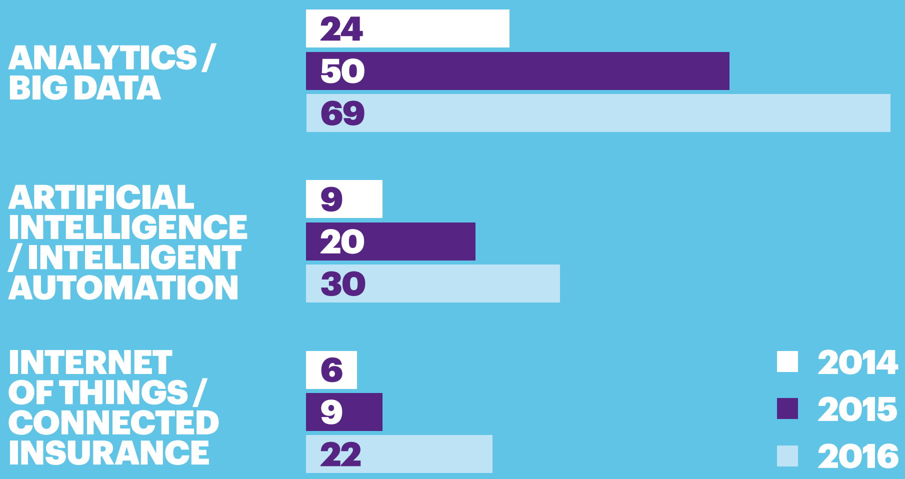
There are signs that the broader FinTech industry may have reached a new level of maturity, with investment in some regions beginning to cool off. Not so for InsurTech. There is a growing recognition across the financial services sector that, while banking and capital markets built up a considerable weight advantage by starting their FinTech journeys earlier, it is the insurance industry that will ultimately see the greatest benefit – and the highest levels of disruption – from this global upsurge of innovation.

Data from CB Insights reveals that global InsurTech investment totalled US$1.7bn in 2016, with both the volume and value of deals having roughly doubled since 2014. Furthermore, InsurTech is now a truly global trend. While more than half of all deals still take place in the US (whose primary InsurTech hubs are Silicon Valley, San Francisco and New York), the UK, Germany, China and India are now significant markets in their own right. And many other countries are following suit.

FIGURE 3

THE NUMBER OF INSURTECHS FOCUSING ON ANALYTICS OR BIG DATA HAS ALMOST TRIPLED IN TWO YEARS

Number of InsurTech deals involving each selected type of technology



What is driving this growth? The answer lies partly in the emergence of a cohort of startups whose products leverage technologies such as analytics, artificial intelligence (AI) and the Internet of Things (IoT). These are three elements the insurance industry views as critical in delivering increased levels of personalisation and better real-world outcomes for customers. Accenture's analysis of more than 450 InsurTech deals shows how the number of deals relating to each of these technologies roughly tripled between 2014 and 2016 (see Figure 3). This trio of technologies collectively accounted for 56 percent of the total number of deals that took place in 2016 – and approximately 70 percent of the total value invested.

What is notable about this funding is that it is mainly coming from outside the traditional insurance and reinsurance space. Just 14 percent of the InsurTech deals taking place during 2016 featured an insurer or its strategic venture arm. But this number does represent a significant increase over the preceding two years – up from 3 percent in 2014 and 12 percent in 2015. This positive shift shows that insurers are willing to wager an increasingly large stake in the future of their own industry.

Insurers' investments might represent just a small proportion of total InsurTech funding, but these companies are actually investing significantly larger amounts in other types of startup. Accenture's global analysis of investments made in 2016 by 75 leading insurers revealed that only 17 percent of deals related to InsurTech companies; the other 83% related to startups from outside the InsurTech space, but often with a focus on technologies that hold potential for the insurance industry in the future. Insurers have routinely funded startups dealing with payments, analytics, data protection, and healthcare, for example. As such, insurers have for some time been playing a more significant role in funding future technologies than the InsurTech numbers alone imply. Furthermore, as InsurTech becomes ever more established, a greater number of insurers will likely channel more of their funding activities there, and drive further growth in the InsurTech space.

A wave of startup-driven innovation is putting insurers' approaches to innovation and technology under the spotlight, highlighting the challenges these traditional companies often face.

The majority of large retail and investment banks embraced the FinTech concept several years ago. Their innovation agendas and digital strategies are now relatively mature as a result, and there is typically significant support for these programmes among the C-suite. The picture within insurance is more mixed. While many insurers are already active in this area – in having well-defined innovation agendas or running their own incubators, for example – they can sometimes find their programmes are not delivering as much value as they might. Other insurers are yet to take any substantive action at all, and do not even know their own innovation approach, let alone how to collaborate with the myriad new partners and technologies flooding the industry.

Every insurer, irrespective of where it sits on this spectrum, faces some common challenges. Innovation can be risky. Can the insurer trust new partners? Can it trust new sources of data? Is it willing to fundamentally change how it does business, or consider alternative operating models? How will it align with a startup's culture, workforce, agility and technology? The differences in approach between a 300-year-old insurer and a 300-day-old InsurTech may be stark.

InsurTechs need to understand what they're solving for, and how to integrate themselves into an industry that wants to change but doesn't know how. Get it right and the size of the prize – for InsurTechs, insurers and indeed the customer – is huge.

Insurance is a data-hungry business, and insurers recognise that new technologies such as the IoT, advanced analytics, AI and Big Data will be key to driving new offerings. Insurers also recognise the need to improve customer experience to keep pace with other industries. As such, there should be two key areas of common ground where traditional insurance and InsurTech can meet: data and the customer.

If it sounds easy in theory, the reality is more challenging. The '300 years versus 300 days' culture conundrum is a big sticking point. InsurTech involves agile business approaches, coupled with a spirit of 'try and see' rather than 'learn and do'. InsurTech culture does not truly understand the insurance culture, and startups can become frustrated by the sheer size of insurance organisations and their risk-adverse cultures. InsurTechs need to recognise this disparity and amend their approaches to business and market integration while the industry gets up to speed.

This will require patience from InsurTechs. They must understand the realities of the market they are entering, which also means recognising that traditional insurers will need to embark on their own cultural and technological journeys. Are a startup's products and technologies well-aligned with an insurer's current stage of development? Clever startups will support insurers on their transformation journeys by taking conscious decisions over speed of implementation and engagement. Baby steps to an insurer's end-state may prove more palatable than a single, big jump to the new. Furthermore, it will be vital to determine where the solution and business boundaries between InsurTech and insurer sit, and to be flexible on the partnering approach.

On a more practical level, InsurTechs should bear in mind that their technologies are inherently cutting-edge, whereas many insurers' legacy platforms – which are key for system integration – are not. Decentralised, old technology surrounded by traditional corporate and IT governance structures can be difficult walls to break down.

InsurTechs should also consider working with other technology firms to create digital ecosystem-based offerings. Traditional insurers are increasingly cognizant of the importance of ecosystems – Accenture's Technology Vision for Insurance 2016 found that 83 percent of insurers think the digital economy is driving a major shift in power from supply-side economies of scale to demand-side economies based on ecosystems, for instance. Furthermore, 94 percent of insurers view adopting platform-based models and forming digital ecosystems as critical to the success of their business.

How do startups see the challenges and motivations of working in the insurance space? Customer-centricity and the need for mutual understanding are high on the wish-list. Two founding CEOs share their thoughts.

	SPIXII	DIGITAL FINEPRINT
	Renaud Million Co-founder & CEO of SPIXII	**Erik Abrahamsson** Founder & CEO of Digital Fineprint
Why did you choose to target the insurance space?	I felt that the insurance industry was very traditional and suffering from a communication issue with its customers, especially the digital customers. I'd experienced this problem myself when buying and claiming – and I wasn't alone. For me, it was clear that insurance products should start from the customer rather than from pre-existing processes.	The founder of Wired magazine once quipped that all successful startups in the past 10 years have done only one thing: they have taken what was done offline and moved it online. Uber, Airbnb and the whole Fintech phenomenon are examples of this. Insurance is the last remaining frontier in this megatrend, with just one in ten policies (globally) being sold online today. So we decided to move into insurance to help insurers make the transition.
What are the biggest challenges facing startups entering or already operating in this area?	To understand the industry deeply. Startups with little or no prior knowledge of the insurance industry struggle to quickly demonstrate their value proposition and make tangible impacts. Another significant challenge is recruiting people who have that 'startup agile' spirit but who can also cope with the often slow pace of the insurance industry.	As with any regulated industry, it takes a long time to get your initial proposition off the ground. But once that does happen, growth can follow very quickly. This means that startups are often simultaneously having to deal with very slow decision-making and very fast execution, which for some teams can feel unbalanced.
How easy is it to partner or collaborate with traditional insurers, and what could be done to improve these working relationships?	Our approach to new partnerships is simple: we open the discussion by sharing why SPIXII exists, and ask in return why the insurer exists. SPIXII exists to make insurance simple, accessible and personal for everyone. If the 'why' of the insurer resonates with ours, then the basis of understanding is set – the rest is just about figuring how we can work together and what it will look like!	I've been very impressed by insurers' willingness to learn, and the involvement of the broader ecosystem (analytics firms, consultancies, conferences and the media) has also helped bridge the gap between InsurTechs and traditional insurers. That being said, we can always do more. Often it comes down to personal relations between young companies and the incumbents in the area, and finding win-win propositions that ultimately benefit the customer.

InsurTechs are primarily targeting the personal non-life insurance space, whereas life insurance and commercial insurance could be riper for technological disruption.

Which segments of the insurance industry are being targeted by startups? Accenture's analysis of more than 450 InsurTech deals that took place between 2014 and 2016 shows that deals relating specifically to non-life insurance still account for most InsurTech activity, although the proportion declined from 69 percent in 2014 to 63 percent in 2016 (see Figure 4). Deals relating specifically to life insurance accounted for just 7 percent of the total in 2016 (and the remaining 31 percent were applicable to both non-life and life sectors).

Accenture's analysis also shows a strong – and growing – bias towards personal lines. Just 22 percent of the deals taking place during 2016 related to commercial insurance, compared with 40 percent in 2014 (see Figure 5). This change must be seen in context: the total number of InsurTech deals more than doubled between 2014 and 2016 and so, in absolute terms, the number of commercial-lines deals did show a slight increase over that period. But that increase was completely outstripped by rampant growth in personal-lines activity.

Why might InsurTechs be overlooking, or even consciously avoiding, life insurance and commercial lines? There are three core explanations. The first is a straightforward lack of awareness and understanding of these parts of the industry: startups are often founded and staffed by relatively young people whose personal experience of insurance might be limited to buying their own non-life products. The second is a misplaced belief that cutting-edge technologies are somehow less applicable to other parts of the industry: in fact, the impact of analytics and the IoT on commercial and industrial insurance could be huge. The third relates to corporate culture and the pace of change, and is potentially harder to overcome: personal non-life insurance brands typically lie at the more fashionable end of the insurance spectrum, non-life insurers are typically more digitally innovative than their life insurance counterparts, and commercial insurance is evolving at a comparatively slower pace.

But InsurTechs should not feel discouraged from targeting life insurance and commercial lines. Indeed, the size of the financial prizes on offer might ultimately prove larger than those in the personal non-life space. Furthermore, traditional providers in these areas have often not invested strongly in customer engagement, and startups that are truly passionate about improving customer journeys could deliver significant transformation.

In practice, the distinction between personal and commercial lines need not be as clear-cut as many startups initially think. Often the same or similar technology can be applied to both sectors. It is not uncommon for InsurTechs to begin their journeys with only personal lines in mind, but to ultimately end up targeting commercial lines partners also. Accenture has seen evidence of InsurTechs repositioning themselves in this way as part of its FinTech Innovation Lab in London. And commercial insurers are increasingly willing to explore new ways of delivering greater value.

FIGURE 4
THE MAJORITY OF INSURTECHS ARE FOCUSING ON THE NON-LIFE SECTOR
Total number of InsurTech deals, segmented by type of insurance business

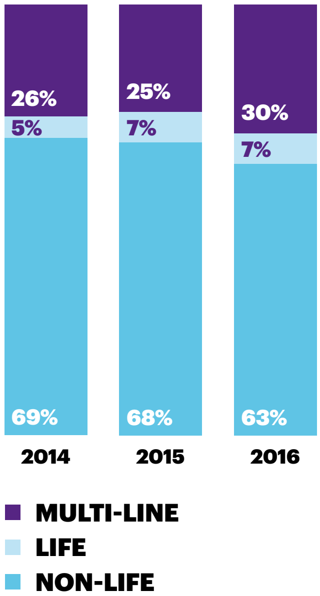
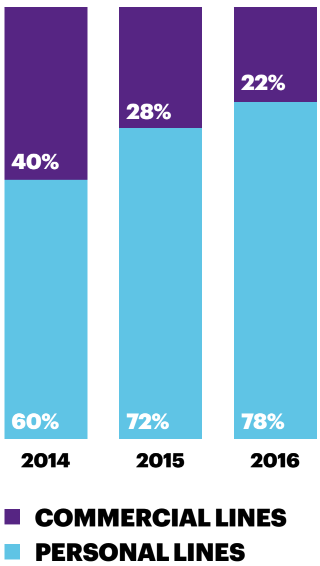


FIGURE 5
COMMERCIAL LINES ARE INCREASINGLY BEING OVERLOOKED BY INSURTECHS
Total number of InsurTech deals, segmented by type of insurance customer

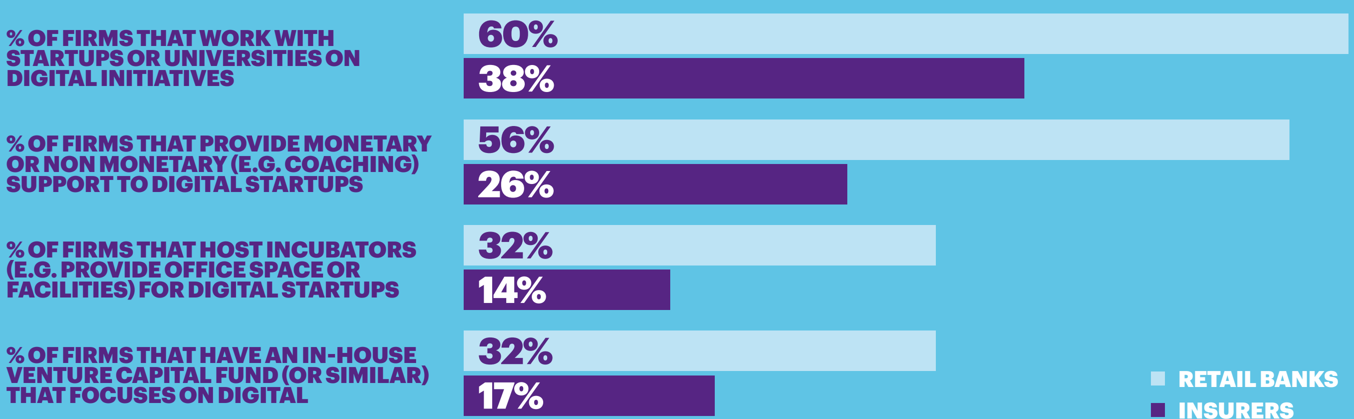


INSURERS ARE WAKING UP TO INSURTECH, BUT LAG BEHIND RETAIL BANKS WHEN IT COMES TO ENGAGING WITH STARTUPS.

When it comes to digital and technological collaboration with startups, insurers are significantly less developed than their retail banking counterparts. Accenture's proprietary analysis – using publicly available information – of the activities of more than 200 insurers and 80 retail banks worldwide found that only 26 percent of insurers were providing monetary or non-monetary support to digital startups (see Figure 6). Furthermore, just 17 percent of insurers had an in-house venture capital fund (or equivalent investment vehicle) targeting the digital or technology space. The proportion of retail banks engaged in these and similar activities was approximately double the figure for insurers.

Insurers should draw inspiration from the enthusiastic example set by retail banks. They can also learn from the different models employed by banks when engaging with the FinTech scene. Some choose to invest in startups or acquire them outright, for example, whereas others seek a more informal, collaborative approach. And some banks simply take inspiration from startups and then build their own solutions in-house. Each of these four approaches has its pros and cons, which must be carefully considered in line with an insurer's objectives.

FIGURE 6
RETAIL BANKS ARE FAR MORE ACTIVE THAN INSURERS WHEN IT COMES TO DEALING WITH STARTUPS
% of retail banks and insurers engaging in each activity, 2016



InsurTech is not a silver bullet – the real challenge for insurers is to become more innovative in their everyday business. This means not holding new technologies at arm's length, and not taking a piecemeal approach to innovation.

Insurers need to embrace innovation as part of business as usual. Simply participating in third-party incubators or investing in a few startups will not be enough. Insurers who engage with innovation only via self-contained programmes run the risk of stifling innovative behaviour in other parts of their organisations. Having the right corporate culture, innovation strategy and funding are all important. But the most innovative insurers will also make data strategy central to their change agendas – data-related innovation will often have a widespread, catalytic effect on innovation in other parts of the business.

In all these respects, traditional insurers can learn much from the way InsurTechs operate, and from partnering with them. Indeed, the importance of partnering cannot be overstated. It is relatively easy to acquire or invest in a startup, but truly integrating that startup's real value – its technology, people and philosophy – into an existing business can be challenging. Yet this will be the key to unlocking the full potential of the partnership.

Partnerships between insurers, startups and other collaborators should be built on a win-win basis. And identifying additional 'wins' greatly improves the chances of success. The startup might greatly benefit from access to a subset of the insurer's customer base to test out its propositions and capabilities, for instance. Equally, the insurer will most likely find additional accelerators for enhancing customer value, propositions and operations.

But startups are not the only answer to the innovation conundrum. Many insurers are already leveraging design thinking and other techniques to solve business problems in-house. Others are holding hackathons or design sprints to generate innovative product ideas or improved customer experiences. There is a whole toolkit available to insurers looking for ways to drive innovation within their own industry or, for the bravest organisations, to create disruption elsewhere.

To fully benefit from the innovation tools and options available to them, many insurers find it helpful to focus on three types of activity, which act as complementary pillars. The first involves becoming (and remaining) aware of industry innovations and market shifts – participation in third-party incubators is a good way of kick-starting this process. The second involves running internal innovation initiatives, such as hackathons and sprints, to generate specific ideas and outputs. And the third involves ensuring the firm's overall innovation strategy and approach is well-developed and widely supported – without this, ideas and outputs from specific initiatives will never be taken forward into production.

KEY TAKE AWAYS

FOR INSURTECHS...

- Understand the market and the challenge you are solving for.
- Ensure that your proposition is clear, concise and related to that specific challenge or business problem.
- Consider the broader insurance industry – not just the personal non-life space.
- Be patient, and support traditional insurers on their cultural and technological journeys.
- Determine where the solution and business boundaries sit.
- Adopt a flexible partnering approach, and consider forming broader ecosystems.

FOR INSURERS...

- Develop your overall innovation agenda – and then determine where InsurTech sits within it.
- Embrace innovation as part of your everyday business, across your whole organisation.
- Promote the right corporate culture to foster innovation, driven from the C-suite down, with incentives linked to new roles and capabilities.
- Draw inspiration and learning from retail banks' FinTech journeys, and from their ability to look beyond the FS space.
- Do not feel threatened by startups whose cultures or working practices seem radically different to your own.

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ACCENTURE'S INSURTECH PROGRAMME

As part of our FinTech Innovation Lab in London, Accenture has been working closely with InsurTech startups and insurers over the past five months. It is the first year that InsurTech has been allocated its own specific workstream within the global Accenture programme. Over sixty startups applied to be part of the InsurTech workstream (which also involves thirteen insurers), and the programme eventually selected five startups focusing on Social Data, Artificial Intelligence, Distribution, Enhanced Telematics, and Risk Profiling. During the programme, Accenture supported collaboration between the startups and the insurers, gaining unique insight into the challenges, learnings and opportunities InsurTech brings to the industry. The startups themselves developed their business propositions to ensure they were market-ready and addressing a specific part of the insurance value chain. The insurance partners gained valuable insights into the new technologies coming into the market, and were also able to develop and enhance their own innovation agendas. Application for the 2017-18 programme will open in September 2017. For more details visit www.fintechinnovationlablondon.co.uk or follow us on Twitter @FinTechLabLDN.

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