KPMG

Insurtech's place in a COVID-19 world

Who will benefit as insurers accelerate innovation efforts?

COVID-19 has impacted every sector of the economy, and insurance is no exception. The pandemic has highlighted inefficiencies and created new friction points for carriers and customers alike — but the experience has also validated carriers' efforts to innovate and invest in a digital future. Insurtech is sure to play a vital, ongoing role in bringing digital innovation to the insurance sector overall. However, in the short term, many insurtech companies may face significant challenges.

Insurance companies stay the course on innovation

As countries begin to ease COVID-19 restrictions and reopen their economies, insurance carriers will continue to focus on stabilizing their businesses, adjusting to new ways of working, and meeting their customers' needs while protecting the health and safety of both customers and staff. For many carriers, the crisis has further fuelled their innovation ambitions, and accelerated efforts to adopt a digital-first approach to customer and worker interactions, to modernize technology infrastructure and improve data capabilities, and embrace touchless, digital underwriting and claims processes. And insurtech companies will play a key role in helping carriers achieve these longer-term ambitions, whether as partners or acquisition targets.

Insurtech companies should be encouraged by the fact that these carriers are choosing to stay the course with their insurtech providers — and even speed things up. In our conversations with insurance leaders, we found zero inclination to either pull back on existing insurtech relationships or switch from an insurtech company to a larger, more established technology provider. Insurance carriers continue to see opportunity and value in their insurtech relationships.

However, while carriers are committed to the innovative projects and insurtech partners they're already involved with, they are less likely to take risks on new, unknown insurtech companies. For new B2B insurtechs trying to build relationships and get a foot in the door with potential customers, it's likely to be a highly challenging business environment and an unbalanced market in the near term.

Operational enablement a key focus for insurers and their insurtech partners

In discussing the challenges of doing business in a COVID-19 world with a number of insurance leaders, it became clear that operational enablement is a key focus of carriers' innovation efforts. And they're eager to work with insurtech companies that can improve and enhance their operations.

Carriers are accelerating work in such areas as digital customer interactions in distribution, customer service, and claims. They're working to augment their underwriting through the use of new data sources and decision models. They're investing in improving data capture and ingestion, especially with regard to unstructured data such as audio and video. They're looking for ways to improve how data is accessed and shared among different business units and teams, which has become even more important now, at a time of widespread remote work. They're also looking to leverage remote data capture and analysis to support claims submissions and decisions.

The property and casualty insurance leaders we've spoken with feel the COVID-19 situation has been a powerful accelerant to their innovation efforts. The pandemic has validated digital-first strategies, but it's also led to some new perspectives. Where efforts to develop digital-first customer service and touchless claims processes were once seen entirely in terms of speed and efficiency, they're now also seen in terms of protecting the health and safety of customers and employees — a powerful way to build trust with both groups. At least one carrier is focused on making the vast majority of their claims touchless in the near future.

For commercial insurers, remote risk identification is getting a lot of attention. Carriers are not only looking for ways to make more — and more effective — use of remote imaging to assess underwriting risk and evaluate claims, they're also ramping up efforts to harness the power of Internet of Things-connected sensors and devices for the same purposes.

Life insurers are, not surprisingly, in the current environment, especially driven to find "fluidless" solutions for underwriting — such as health data from connected devices or algorithm-based approaches. However, life insurers are also looking for ways to improve the profitability of their underwriting and operations overall. The low interest rates we've seen for the past several years, and which seem likely to continue as the world recovers from the COVID-19 situation, have greatly dampened life carriers' investment returns and profits.

In many cases, the initiatives and projects carriers are focused on aren't entirely new: insurers have made efforts to enable customers to connect with them over digital channels and submit claim information using their smartphones, for example. Yet what is different now is the scale and speed of these initiatives. Carriers are emboldened to move well beyond pilots, proofs of concept and small-scale rollouts. Now, their intent is to move these innovations into the mainstream of their business — they want to "go big," fast. The leaders we spoke with report that the risk review process for new innovation projects and partnerships has dramatically shortened; what once took several weeks of deliberation and input from dozens of decision makers now takes a day or two and a handful of conversations. Carriers recognize the direction the world is heading as the result of COVID-19, and they have no intention of being left behind.

Uneven insurtech funding likely to benefit established players

Uncertainty, driven by COVID-19, had significant impacts on the funding environment for insurtech businesses. Venture dollars to the sector fell to US$2.3 billion in the first half of 2020, a marked decline from almost US$13.4 billion for full-year 2019 and a quarterly value not seen in years. Venture capital funding in general, and fintech venture funding in particular, by comparison, were much more stable over the same period. Fintech funding fell by 30 percent relative to Q2 2019 even though deal value held relatively steady, while venture capital invested as a whole fell 4.5 percent below Q2 2019 values.[1]

Insurtech valuations have been high in recent quarters, however, and this has limited opportunities for further investment — particularly for larger insurtech companies that had raised significant funds already. For these insurtechs, mergers and acquisitions will likely be the most viable source of funding going forward, as investors hold off until valuations drop. We've already seen several insurtechs and managing general agents (MGAs), facing challenges in scaling growth in line with investor expectations and prior valuations, use acquisitions to boost growth and acquire new capabilities.

Given recent market dynamics, we expect to see established insurtech companies receive the overwhelming share of any new funding in the near term. Investors will be looking for insurtech opportunities with proven business models, solid customers, and good growth prospects. New products and companies will struggle to find funding in this environment.

Which insurtechs will be winners?

Insurtech companies tend to fall into one of three broad categories — which we describe as enablers, partners and challengers. The groups aren't exclusive, of course: a new insurtech carrier may offer B2B technology as a distinct offering, for example.

— **Enabler** insurtechs provide B2B point solutions that are designed to improve an aspect of a carrier's value chain. Examples include using aerial imagery or data algorithms to improve the underwriting process; deploying digital platforms to help agents and brokers write more, and better, business; harnessing machine learning to read and manage policies to help carriers identify and understand their true policy-related risk; implementing AI-powers chatbots to provide "human-like" customer service when human representatives aren't available; or installing telematics into customers' vehicles to enable actual driving behaviour to be incorporated into underwriting and claims.

— **Partner** insurtechs typically go to market together with traditional carriers. The insurtech company provides the technology platform on which a carrier can create a new insurance policy or product; the carrier underwrites the product, and the two companies take it to market. A variation of this is digital MGAs, where an insurtech launches and operates a new insurance brand (e.g., one focused on small businesses or other niche market) and a traditional carrier underwrites the products and policies.

— **Challenger** insurtechs are new standalone, licensed insurance carriers in their own right, and they represent a growing segment in the insurtech space. Challengers are often MGAs that decide they no longer want to rely on a carrier's capital, but instead underwrite their risk themselves and compete with insurers directly. These insurtech companies may buy underwriting capabilities or acquire shell insurance companies that have licenses.

1. Pulse of Fintech H1'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 30 June 2020.

Whether enablers, partners or challengers, some insurtech companies will be better positioned than others to navigate the challenges of today's uncertain business environment and thrive over the long term. Insurtechs that have existing relationships with carriers are in a much stronger position than those without such ties, as we've noted — but this isn't the only determinant of success.

Winning enabler insurtechs will be those most closely aligned to carriers' current priorities — innovating around underwriting, claims, customer experience and more. Partner insurtechs that are focused on accelerating carriers' digital transformation efforts will be highly prized. Digital MGAs that target new risks and emerging customer needs in areas such as life, health, and cyber risk are also well positioned to succeed; term life products with speedy underwriting have seen a sharp rise in interest in recent months, for example. Digital MGAs that license their technologies to carriers may also find themselves able to offset slowing premium revenues.

As for challenger insurtechs, their success will be largely driven by how well their offerings reflect the needs and realities of the market now and over the near term. Insurtechs that had been focused on niches such as small business, ridesharing, home and renters, or targeted highly specific geographies, will find it increasingly challenging to stay relevant.

A promising future for insurers and insurtechs

The insurance sector is right to stay the course on their efforts to innovate and embrace the digital transformation of their business — even as they face the ongoing uncertainties stemming from the COVID-19 crisis. Now is the time for carriers to seize the opportunity to change their business, how they operate, and how they serve their customers. For insurtech companies, this is the time to deepen existing relationships with B2B insurance customers and deliver products and services that align with carriers' priorities, accelerate change, and mitigate insurance companies' pain points. Together, insurers and insurtechs can reimagine what insurance can be and make sure it meets the needs of a post-coronavirus world.

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