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Feature article

Insurtech – pandemic fuelled growth

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The demand for technology solutions in the insurance sector has always been strong, with digitisation in particular a key focus in recent years. However, in the post pandemic world, technology support has gained a new urgency, investment has increased and more overseas insurtechs have set up a local base. Not all parts of the insurtech ecosystem have flourished, but - as is the nature of the community - new paths are and will continue to be forged to overcome any barriers.

The insurance industry has always been a strong user of data and technology, but development hasn't kept up with the pace of innovation. The industry's inherent conservatism - founded on the need to predict the future using data from the past - can be a hindrance to building data and tech capability outside the pricing sphere for incumbents. For example, selling a business case to improve pricing capability is easier than a case to invest in data and technology to better understand and serve customers.

Capability development was in train pre-pandemic, with the recognition it was needed to respond to changes and pressures in the operating environment – such as changing consumer preferences, a more competitive landscape and rising costs. However, the pandemic has added fuel to these pressures, and the message was received loud and clear by the insurtech sector, along with the need to move faster.

Insurance industry players looking for solutions are increasingly tapping into the insurtech ecosystem. Purchasing from, and partnering with, insurtechs can often be quicker and can come at a lower cost than inhouse development – even if both the capacity and capability exists inhouse. After many years of restructuring and mass redundancies in the industry, many experienced insurance professionals have started, or joined, insurtech businesses. These people come with expertise and, importantly, contacts in the industry. This helps pave the way for smoother partnerships between incumbents and insurtech providers. In addition, we have seen more international insurtechs setting up in Australia, looking for growth by partnering with local entities to provide operational tech.

The demand for tech in insurance was noted by investors. An unprecedented amount of investment poured into insurtech globally this year. An estimated US$7.4b was invested in insurtech in the first half of 2021, which is already higher than the total investment in 2020. What was different this year was the dominance of investment in late stage players and, to a lesser degree, mid-stage (Series B and C) insurtechs. In Australia this year, Cover Genius raised A$100m in their series C raise, becoming the first Australian insurtech unicorn and Honey Insurance raised A$15.5m in the largest ever seed round for an Australian tech start-up. Insurtechs with an established product or proven technology were the winners.

The section of the insurtech ecosystem that didn't generally benefit in the post pandemic environment was the agency start-up looking for a capacity provider. Underwriters were distracted, time poor and risk averse, making it harder for new underwriting agencies without a track record to obtain underwriting capacity. Partnerships with reinsurers are assisting in Australia, and overseas a number of models are growing in popularity in response to the need for greater stability for Managing General Agencies (MGAs). Match making services (matching MGAs with carriers), specialist insurance capacity providers, joint ventures and hybrid arrangements are all becoming more common. In Australia, the technology advantages and reach that agencies often have with consumers mean there is still room for growth as they seek to support brokers who are becoming increasingly vocal about their dissatisfaction with service from insurers.

Where to next for insurtech in Australia?

Modularisation and embedded insurance are often cited as likely growth areas, and technology is the key enabler. Indeed, some market commentators have suggested, globally, embedded insurance could account for A$1 trillion of non-life insurance premium by 2030.

Modularisation in terms of technology bolt ons provided by third parties, enables a quicker capability lift and customisation for consumers (whether that be for sales support, offers or products). Embedded insurance is where non-insurance players embed insurance coverage in their offerings at the point of sale or service – resulting in a better customer journey and lower distribution costs for insurers.

But, regardless of the direction insurance heads, there is little doubt digital technologies are required, including AI, advanced data analytics, API/open insurance and IoT/connected devices. The future for the insurtech sector over the next decade will certainly be interesting!

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