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GLOBAL INSURANCE INDUSTRY

YEAR IN REVIEW 2019

EXCERPT

Insurtech

Insurance, Technology and Innovation at a Crossroads: Build or Buy?

In last year's Year in Review, we noted that collaboration remained robust in 2018 between and among incumbent carriers, startups, venture capitalists and leading technology companies (among others) in the insurtech ecosystem. In 2019, collaboration continued and grew more mature as incumbent carriers increasingly implemented new technology and innovation to find ways to analyze data at a more efficient way while being cognizant of compliance with insurance and consumer protection regulations.

The strategy of investing in insurtechs through providing early stage funding or direct collaboration to develop data-driven digital platforms through smaller scale projects has proven to be a sound approach for many incumbents. Investing in technology and innovation at a smaller scale does not put significant stress on legacy systems, break the budget or create a potentially large loss that could dent an incumbent's return on investment statistics. According to data compiled by CBInsights, in 2019 over $6 billion has been invested globally in insurtech funding rounds compared to over $4 billion in 2018 and approximately $2 billion 2017. Most of this early stage insurtech funding still comes from traditional venture capital funds, but in the last several years, the amount of insurtech investment by incumbent carriers has rapidly grown. The number of deals by corporate venture entities is roughly 50% of the total insurtech fundraising deals per year. Compare this to years prior to 2014 when virtually only traditional venture capital funds invested in early stage insurance technology and innovation companies.

Direct collaboration deals have also increased in number and size of investment. Collaborations accelerate the pace of innovation by putting together the respective strengths of collaborators. This is in contrast to an early stage investment in an insurtech in which an incumbent carrier may not have the immediate opportunity to have direct access to the insurtech's technology.

The results and long-term benefits of these investments and direct collaborations are still in too early of a stage to declare victory for the insurance industry. Certainly, there have been challenges to this portfolio building strategy as many insurtech startups and collaborations with insurtechs have not met expectations. Some incumbent carriers are rethinking their strategy on the best way to build a sustainable, but yet cutting-edge, digitized platform to attract customers. Prudential's $2.35 billion acquisition of Assurance in 2019 could be an early indicator of a riskier but potentially more value-enhancing strategy of acquiring companies with larger scale technology and innovation. Such larger acquisitions could help an incumbent carrier to leapfrog its competition to become a modern technology-enabled insurance carrier in a short period of time to gain access to cutting-edge distribution, efficient underwriting/claims capabilities and new products appropriate for customers' lifestyles and risk profiles.

Is the Prudential-Assurance deal an early indicator of the start of a larger and more fierce technology arms race within the insurance industry? Or will financial, regulatory or other factors discussed elsewhere in this Year in Review put the brakes on larger scale technology acquisition and consolidation?

The Case for Building and Investing in Targeted Niches Through Investments and Collaboration

In the first three quarters of 2019, venture capital volume in insurtech actually declined compared to the same period in 2018. However, a flurry of deal activity in the fourth quarter resulted in insurtechs raising close to $2 billion in the last three months of 2019, which powered the insurtech venture capital volume to over $6 billion for the year. This is compared to $4.2 billion of insurtech venture capital funds raised in 2018.

In 2019, a greater proportion of venture capital cash flowed to a smaller number of insurtechs, many of which are full-stack with end-to-end capabilities to underwrite and distribute insurance products. Below are examples:

- Bright Health raise $635 million in a Series D round
- Collective Health raised $205 million in a Series E round
- Hippo raised $100 million in a Series D round
- Lemonade raised $300 million in a Series D round
- Next Insurance raised $250 million in a Series C round
- Policybazaar raised $152 million in's Series F round
- Root raised $350 million in a Series E round

There were 38 deals that raised over $40 million, a 90% jump from 2018 in which only 20 deals raised over $40 million. In 2017, only 13 deals raised over $40 million. This could be further evidence that investors are starting to concentrate their bets on insurtech companies that are sufficiently mature to use capital for larger scale projects. In addition, out of the 10 or so insurtechs valued at over $1 billion, five of them were created in 2019. The newest additions to the insurtech "unicorn" club are: Bright Health, Hippo, Lemonade, Next Insurance and WeFox.[1] This is in contrast to prior years where strategic and financial investors focused more on making smaller investments across a broader portfolio range.

Direct collaboration deals have also increased in number and size of investment. Some notable collaboration deals between incumbent carriers and insurtechs in 2019 include:

- Allianz's strategic partnership with Dinghy. Dinghy offers flexible on-demand business insurance for freelancers where coverage is charged by the amount of time coverage is required. Cover levels may be flexed up or down, on or off, and payment is settled through a mobile app.
- Liberty Mutual entering into a strategic alliance with Intellect SEEC to harness the power of big data to more proactively identify target opportunities with individual brokers, and develop solutions for customers. Through the relationship, Liberty Mutual underwriters and risk managers gain automated access to thousands of third-party data sources including, court filings, industry data, government records, and social media content to assist in underwriting and to assist customers in managing their exposures.
- Société Générale and Roadzen formed a strategic alliance to jointly build a digital and contextual insurance player for Europe. Roadzen acquired a minority stake in Moonshot, an insurtech startup incubated by Société Générale. Moonshot develops usage-based insurance products and services to offer consumers affinity insurance solutions.
- Travelers' strategic partnership with Groundspeed Analytics to simplify its new business and policy renewal processes through the use of artificial intelligence ("**AI**"). The two companies will also collaborate on the design of additional AI capabilities that can provide increased efficiencies through the automation of commercial insurance analytics.

[1] Other insurtech unicorns include Clover Health, PolicyBazaar and Root Insurance.

Collaborations can increase the pace of implementation of technology and innovation while still managing enterprise risk at a reasonable level. Most insurtech related collaborations so far have been relatively small and contain risk sharing mechanisms among the collaborators to limit potential downside. There are other challenges with collaborations such as allocating ownership of jointly developed intellectual property and data and determining a clean exit once the joint enterprise has met its objectives or the collaboration no longer makes sense to continue for one or more of the parties to the collaboration.

The Case for Accelerated and Broad-based Growth through Majority Investments and M&A

When investing in an insurtech startup or entering into a technology collaboration with an early stage insurtech company does not accomplish the rate of change necessary to meet an insurance company's goals, acquiring the technology and the people who know how to implement it, may be a viable option.

In 2019, there seem to be early signs that at least some players in the insurance industry are making the decision to buy entire technology-enabled platforms rather than slowly building up capabilities through minority investments or niche-focused collaborations with insurtechs. Incumbent carriers have seen over the last several years the challenges and rate of success (or lack thereof) of the strategy of making more passive investments and smaller, less ambitious collaborations that generally push technological progress forward but incrementally, especially compared to the lightning speed in which other industries are adopting technologies to improve their operations and interactions with consumers. In addition, incumbent insurance carriers are not alone in M&A activity in the insurtech space. Private equity, technology companies and full-stack insurtechs are potential acquirers. While the threat of disruption to incumbent insurers has been tempered somewhat, the threat of a full-stack insurtech with access to ample capital through private equity or elsewhere gaining traction with consumers is still real. The increasing number of insurtech unicorns underscores this potential threat.

We have already mentioned Prudential's acquisition of Assurance for $2.35 billion plus an additional $1.15 billion in earnouts if certain targets are achieved. Assurances uses data science and machine learning to speed up the application process and purchasing of health, life, medigap, home, and auto policies and already has a sizeable customer base. The combination of the data analytics technology and customer affinity group developed by Assurance gives Prudential a ready-made platform for interacting more effectively with customers in the digital age—a platform which it presumably could not easily develop on its own in the short term. Also in 2019, Zurich acquired Sea Pine Technologies, an insurtech company specializing in digital applications for the marketing of auto financing and insurance products and Willis Towers Watson acquired TRANZACT for $1.2 billion. TRANZACT helps link consumers to insurance carriers. Similar to Prudential's rationale for acquiring Assurance, Willis Towers Watson stated that one of the reasons for acquiring TRANZACT was TRANZACT's comprehensive technology platform to enable a digital driven direct-to-consumer strategy.

Private equity funds and insurtechs are also competing for insurance consumers' market share through M&A. In February 2019, Solera, a data analytics and SaaS company, acquired in4mo. In4mo is a property claims solution provider operating in the Nordic countries and provides an end-to-end property structural claims adjustment platform to insurance carriers through a mobile platform. In June 2019, GI Partners acquired Insurity with the rationale to improve innovation. Insurity provides policy administration, claims, billing, and data analytics software to more than 200 insurance clients and was established in 1985. Home insurance startup, Hippo, also acquired home protection startup, Sheltr, in its first M&A transaction.

Whether or not these deals are early signs of an acceleration of the adoption of insurance technology and innovation through M&A is to be seen. The investment landscape is in flux as insurtech winners get stronger and funds continue to flow into the insurtech sector to fuel new startups. Also, we anticipate that some insurtechs are approaching their performance and funding limits operating on their own. This could create some consolidation among insurtechs as the smaller, less well-funded companies become attractive acquisition targets. We expect that these forces at work, in addition to further technology advances and regulatory changes discussed elsewhere in this Annual Review, will help make insurtech deal activity an interesting area to watch in 2020.

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