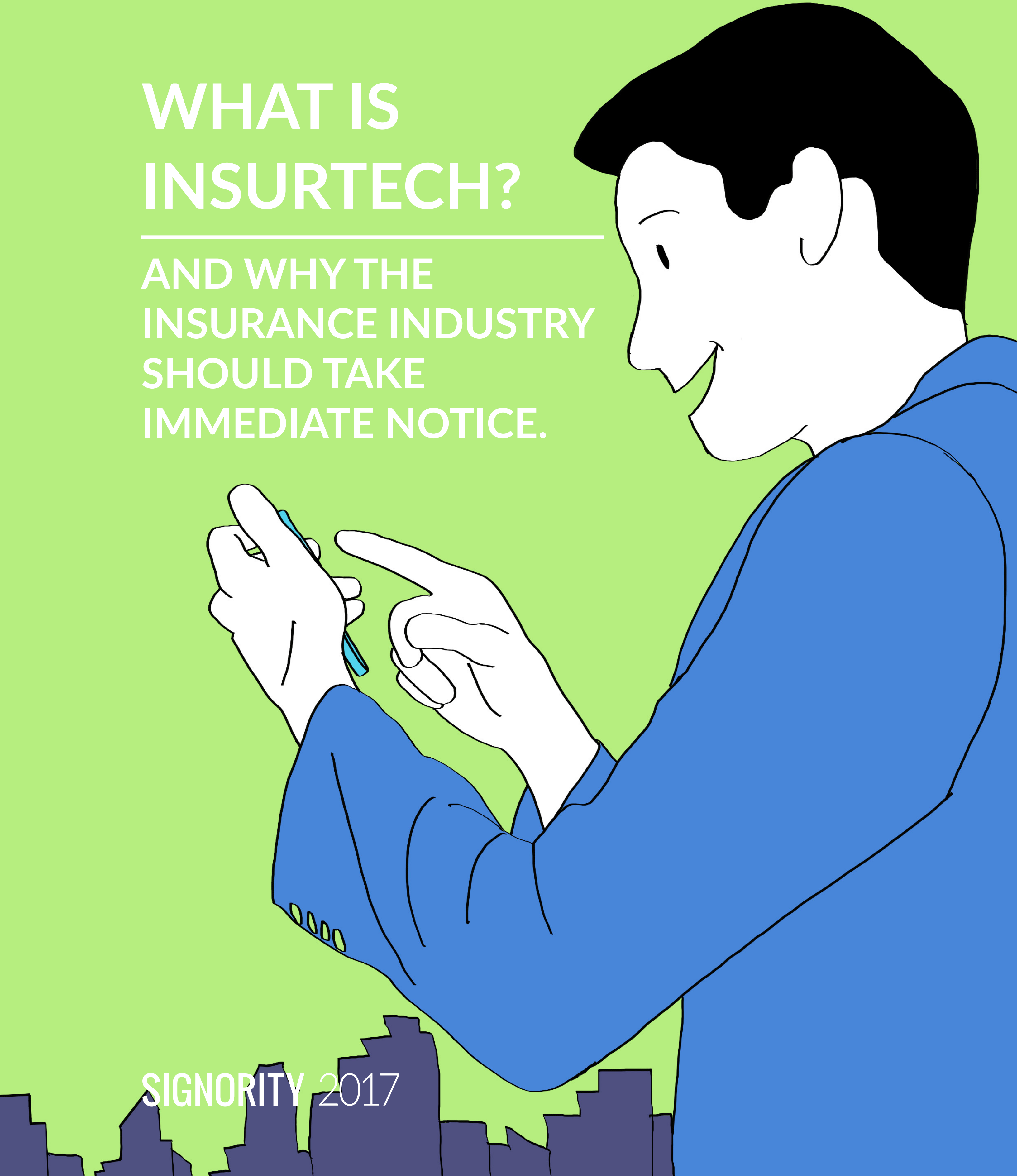
WHAT IS INSURTECH?

AND WHY THE INSURANCE INDUSTRY SHOULD TAKE IMMEDIATE NOTICE.



SIGNORITY 2017

WHAT IS INSURTECH?

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When compared to other sectors of “big business,” the insurance industry has—at least historically speaking—been left to operate uninterrupted, out of reach from the aggressive startup movement that has radically transformed and reshaped so many other industries.

This simply isn’t the case any longer.

Over the last three years, in particular, startup funding has increased dramatically. In fact, according to a recent PWC report released last year, **90 percent** of insurers say that they fear they will lose business to startups as investment in InsurTech has increased five-fold.

In **this guide**, we’ll take a closer look at the world of InsurTech in order to examine the current state of the industry, including: why traditional insurance companies face serious threats from smaller, more nimble startups, how technology is transforming a heavily regulated, data-driven industry, and which companies, in particular, threaten to most significantly disrupt the insurance industry.

You should consider this guide a brief, albeit focused look at how technology (and startup activity) is rapidly changing the North American insurance sector.

WHAT WE WILL COVER IN THIS GUIDE

But first, a **disclaimer:**

This guide will focus on technology and its impact on the North American insurance sector, specifically. It's important to point out that Signority is **not an insurance company**, nor are we the expert authority on the subject. However, we *will* reference the experts often in this guide. It would be equally wise (and perhaps a bit obvious) to point out that the insurance industry is incredibly complex. Admittedly, this guide is a brief, simplified look at a complex topic.

Now, let's dive into the wide world of InsurTech.

INSURTECH ORIGINS:

The Problem(s) with Traditional Insurance Companies (and Why the Industry was / is Ripe for Disruption)

The global insurance marketplace, despite its many intricacies and nuances, is not unlike other "big business." That is, it is not immune from the Darwinian-like laws of natural selection.

Adapt or die.

It may sound cutthroat, but we've seen it time and time again:

Large, incumbent organizations displaced, then ultimately *replaced* by smaller, more nimble startups who've found new ways to address unmet needs in the marketplace.

These headlines should look familiar:

- How Netflix bankrupted (and destroyed) Blockbuster
- More proof that Uber is killing the taxi industry
- Is AirBnb killing the hotel business?
- Five stores that are getting destroyed by Amazon
- Spotify CEO claims the music industry would be dead without Spotify

Fast-forward to 2017, and we see headlines like these from the insurance industry:

- Insurance sector worried as InsurTech startups cosy up to customers
- Driverless cars could drive car insurance companies out of business
- Metromile raises $192 million to take on car insurance business
- Sequoia-backed Lemonade has raised another $33 million

And that's just a small sample.

Anyhow, I'm sure you get the point.

The problems facing most traditional insurance companies aren't unlike those that have plagued big businesses, regardless of industry:

They're too big, too slow, and too systemized to adapt.

Gartner, one of the world's leading research firms, reports that only 12 percent of insurance business and IT leaders "consider their organisations to be digitally progressive, while the majority believe that their organisations are digital beginners or intermediate, at best."

So, just to recap:

There's slow-moving incumbent insurance companies (operating outdated, legacy systems) on one side, and fast-moving, tech-driven startups on the other side.

Can you see what's happening here?

The two are already on an inevitable collision course (more on this shortly).

For the purposes of this guide, it's important to remember yet another critical point:

The insurance sector wasn't hit as hard or as quickly by startup disruption as other industries. In the past three years, however, nearly **$3 billion** has been poured into InsurTech startups.

As you might imagine, this tremendous influx of capital, cash, and startup talent has created even more competition, threatening the very existence of many of the world's largest traditional insurance companies.

Collectively, we call this startup talent "InsurTech." As you may have guessed, "InsurTech" is shorthand for "Insurance Tech."

But, what does it mean, exactly?

Nowadays, the term is used to describe an entirely new industry, one that includes new companies, particularly tech-driven startups, that have found new ways—primarily through the use of technology—to radically disrupt the insurance marketplace.

To simplify this concept even further, have a look at one of our favorite definitions:

“InsurTech is a new tradename for a growing class of apps, softwares, and startups that have reinvented a tired and lacklustre insurance industry” (source).

And one more just for good measure:

“We can define the insurtech as a set of innovative business models, platforms that bring in a new customer experience by applying innovative technologies in the insurance world” (source).

Making a little more sense now?

But, just how **BIG** is this whole InsurTech thing?

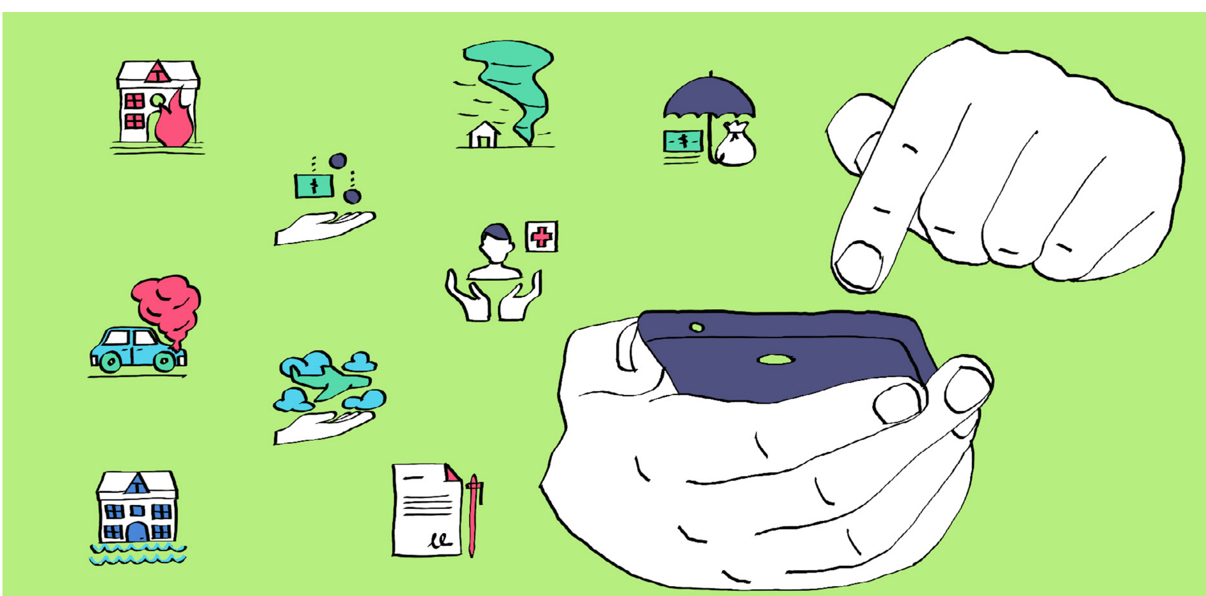
Consider this:

More than 1,000 startups currently make up the global InsurTech industry. That is, their *primary* business objective is to disrupt the traditional insurance industry. Collectively, global InsurTech startups are backed by more than $18 billion in committed funding.

That’s a LOT of money.

Spoiler alert:

There’s even *more* money on the way.



INSURTECH UPDATE:

The Current State of the Global InsurTech Market (with an Emphasis on North American Growth)

Okay, now that we've established a common vocabulary (and hinted at what's to come), let's take a closer look at the current state of the InsurTech market itself.

For context, let's take a quick look at a few numbers:

In 2014, InsurTech investments fell just short of $1 billion (actuals were closer to $700 million). What's more, nearly 80% of those investments were directed at U.S. based startups.

In 2015, CB Insights reports that InsurTech startup funding topped $2.6 billion (nearly 50% of the total contributed to U.S. based startups).

And just last year, in 2016:

Funding to InsurTech startups topped $1 BILLION in the first six months of 2016 alone (63 percent of the total went to U.S. startups). Actual numbers haven't yet been made public, but earlier forecasts projected nearly $2.9 billion in funding by the end of 2016.

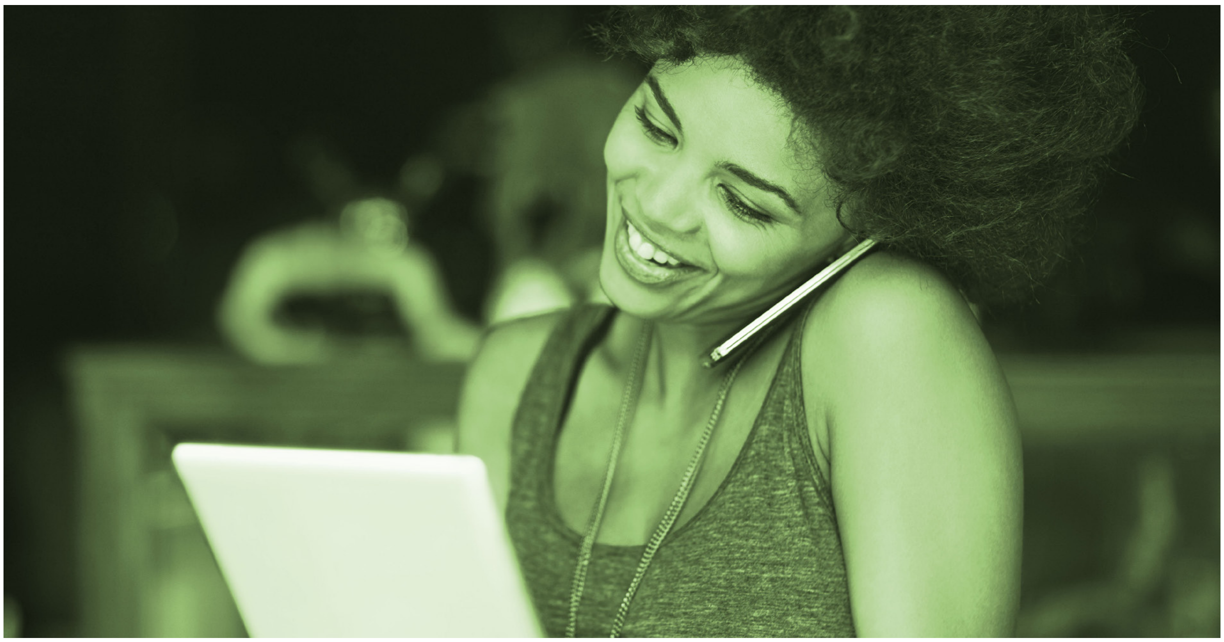
That's a three-year increase of more than **200 percent!**

What's more, new research reports that nearly two-thirds of the world's largest insurance companies have made some sort of investment in InsurTech. According to the same report (produced by Gartner), the majority of insurance companies will have made a significant investment in InsurTech by the end of 2018.

But, what's driving this massive growth?

INSURTECH DYNAMICS:

The Powerful Forces Driving Massive Change within whe Insurance Marketplace



To understand why the InsurTech marketplace has seen such explosive growth over the past few years, you need to understand the competitive forces that are most significantly impacting the insurance sector as a whole.

For the purposes of this guide, there are five, key forces you need to understand:

1. **Incumbent carriers are feeling the heat from more nimble, tech-focused startups**
   Historically flat IT budgets and outdated legacy systems have made it more difficult for large, incumbent organizations to adapt to a new, modern marketplace. More importantly, InsurTech startups have shown the ability to quickly fill gaps in the marketplace, creating entirely new products and service offerings specifically tailored to tech-centric Millennials — the largest living generation of American consumers.

2. **Legislation simply cannot keep pace, leaving startups to quickly fill the gaps** The rise of the peer-to-peer (P2P) sharing economy (think Uber and AirBnb, among others) highlighted an important fact; legislation, as a general rule nowadays, simply cannot keep up with the pace of change. Lawmakers and startups could not be more polar opposites of each other—one group moves begrudgingly slow and the other lightning quick. This divergent movement creates gaps and loopholes (not to mention regulatory nightmares), allowing nimble startups to introduce never-before-seen products and services that often threaten the very existence of larger, more traditional insurers. While usually good for customers, it can spell doom for big business.

3. **Big data continues to confound traditional insurers, empower new entrants.** Insurance is a data-driven business, and big data is BIG business. The rapid increase in available software, specifically cloud-based computing, connected devices and telematics, has made data more accessible than ever. Still, most traditional insurance companies, burdened by rigid, antiquated systems, have yet to capitalize. Instead, smaller, more agile InsurTech startups have stepped in to fill the void. Big data remains one of the most difficult challenges for large, incumbent insurers.

4. **New entrants are joining forces to solve the cyber security puzzle:** Cyber crime costs are projected to reach $2 trillion by 2019, which makes cyber security a puzzle that's obviously worth solving. Yet, as the free flow of data (specifically, Cloud data) becomes more accessible, insurers—not unlike other big businesses—face mounting security challenges. To solve some of these challenges, there are new entrants like Cyence, a startup that provides a first-of-its-kind cyber risk analysis for insurers. According to Cyence, the economic cyber risk modeling platform "helps companies when they're the target of cyber-attacks." Many of these companies have joined forces with FinTech (yes, that would be "Financial Tech") startups who are solving similar challenges.

5. **Traditional insurers, in an effort to close the gap, continue to gobble up talent.** Talent tends to follow funding. As a result, there has been an influx of skilled software talent. Traditional insurers, too, have joined the hunt for top-notch tech talent — albeit in a slightly different way. According to Gartner, the global insurance industry (North America, in particular) is investing heavily in insurance technology start-ups. In fact, Gartner reports that 80 percent of life, property and casualty insurers worldwide will "partner with or acquire InsurTechs to secure their competitive positions by the end of 2018."

That last statistic is worth repeating:

80 percent of insurers worldwide will partner or acquire InsurTechs by the end of 2018!

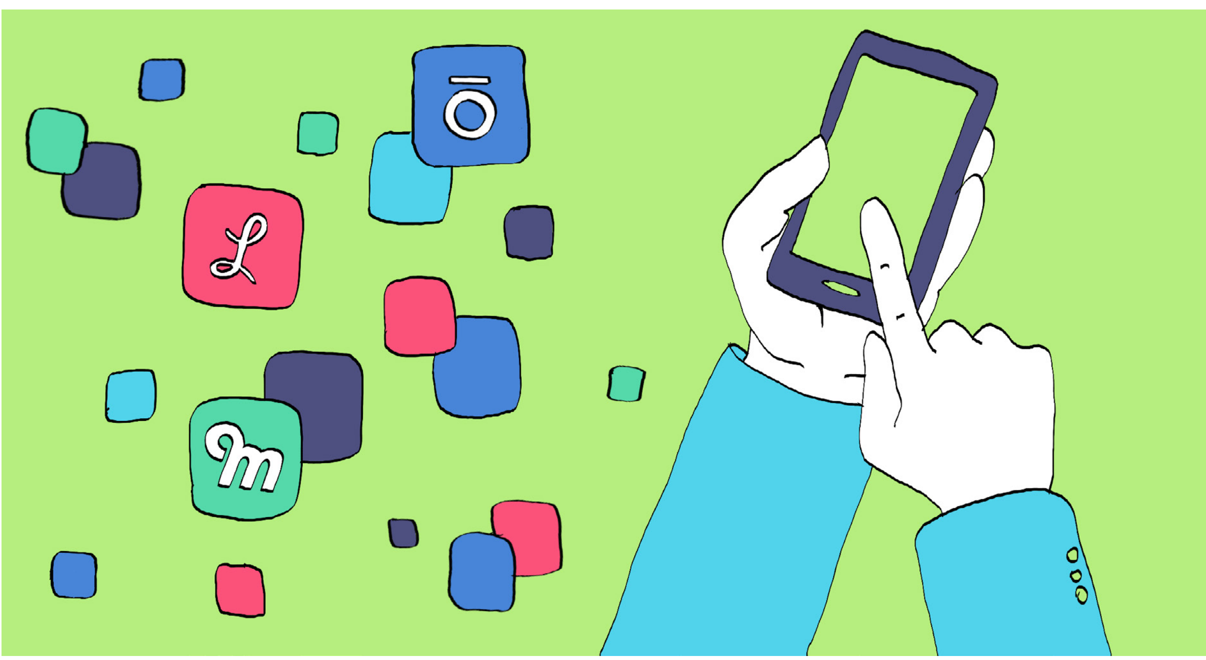
Needless to say, traditional insurance companies are at a crossroads. And judging by the number above, most have made their decision.

But, who are these InsurTech startups?

Let's take a look.

INSURTECH STARTUPS:

The Most Disruptive, Well-Funded Startups Currently Reshaping the Insurance Marketplace



There is an ever-growing laundry list of startups currently taking aim the insurance sector (here are more than 100 of them)—and that doesn't even count other FinTech startups who are attempting to do the same thing!

Some are taking aim at auto insurance, exclusively.

Not to be outdone, here are eight more hoping to disrupt the life insurance market.

You get the idea.

Yet, there are a handful of startups, in particular, that are making waves early in 2017:

1. Lemonade: Lemonade offers fast and low-coverage homeowners and renters insurance "powered by technology." It sells rental insurance policies for as low as $5 and home insurance for as little as $35. The company has raised more than $90 million, including $34 million Series B in late 2016.

2. Metromile: Metromile offers pay-per-mile car insurance powered by a proprietary device, Metromile Pulse, a free wireless device that plugs into your car. Once the device is installed, it calculates your monthly mileage to determine your bill. The company claims its customers save an average of $500 annually. To date, Metromile has raised more than $200 million in funding!

3. Trov: Trov call itself "on-demand insurance for the things you love." Essentially, Trov lets you purchase low-cost, accidental theft, damage, and loss policies on everyday items—with just a few text messages. That's right. The entire experience can be handled safely and securely from a smartphone. The Australia-based company has raised more than $46 million to date and plans to launch in the U.S. later this year.

4. Clover Health: Clover is a full-service insurance company that "implements metrics to figure out the best protocol for a patient who is at risk to health problems. It aggregates reports from a patient's various medical services to generate a comprehensive profile of the person's health" (source). Clover is currently available in New Jersey only, though it has plans to expand elsewhere in the near future. And get this—Clover has raised nearly $300 million in funding!

Obviously, this is but a small sampling of the types of startups who are benefitting from an influx of investment dollars (and clearly for good reason).

The competition has dramatically changed.

Startups likes these threaten the very existence of larger, incumbent insurance companies, which is why, one way or another, traditional insurers will have to find ways to partner and/or acquire these types of companies.

So, what does the future look like for InsurTech (and the insurance industry as a whole)?

INSURTECH FUTURE:

The Immediate Outlook For the Industry

At this point, we've (hopefully) established the following:

- Traditional insurance companies face serious threats from more nimble startups
- These startups have created a new industry entirely; it's called InsurTech
- InsurTechs are quickly filling gaps in the marketplace, unseating incumbents

- Two-thirds of traditional insurers have already invested in InsurTech startups
- The majority of traditional insurers will partner or acquire InsurTechs by 2018
- Yes, the InsurTech space is growing by leaps and bounds.

Yet, one important question remains:

What is the outlook for the insurance industry as a whole?

Perhaps not surprisingly, experts say incredible growth is possible.

According to Deloitte, the U.S. insurance sector remains the largest global market on a premium per dollar basis. Deloitte also says that the U.S. insurance sector offers more growth potential than any other global market.

Yet, potential is simply that—potential.

Remember at the beginning of this guide when we said, “the insurance industry, in particular, is incredibly complex?”

At any given time, there are a number of social, political, and macroeconomic forces at play that, when acting together have the potential to significantly impact big business. Insurance, as you may have guessed, is big business.

So, nothing is a given at this point.

Yet, one thing should be crystal clear:

Technology is also a driving force of dramatic, transformative change.

As we’ve outlined in this guide, the insurance sector is undergoing a massive transformation.

A tremendous influx of capital, cash, and startup talent threatens to completely reshape the industry within the next two to three years.

Without a doubt, InsurTech is here to stay.

SO, LET'S RECAP:

The North American insurance sector—driven largely by the exploding growth of InsurTechs—has the potential to radically transform the insurance marketplace in the next 2-3 years.

In this guide, you also learned that:

- Only 12 percent of insurance business and IT leaders "consider their organisations to be digitally progressive" (most actually call themselves "digital beginners").
- InsureTech is a "new tradename for a growing class of apps, softwares, and startups that have reinvented a tired and lacklustre insurance industry."
- More than 1,000 startups currently make up the global InsurTech industry.
- Global InsurTech startups are backed by more than $18 billion in combined funding (re: that's a LOT of money).
- Total InsurTech funding has increased by more than 200% over the last three years
- The majority of insurance companies will have made a significant investment in InsurTech by the end of 2018.
- There are four, tech-centric forces driving disruptive change within the insurance industry (the short version): startup growth, pace of legislation, big data, cyber security, and tech talent.
- Companies like Lemonade, Metromile, Trov, and Clover Health are just a small sampling of the InsurTechs with whom traditional insurers are now competing.
- According to Deloitte, the U.S. insurance sector remains the **largest global market** on a premium per dollar basis.
- Deloitte also says that the U.S. insurance sector offers more growth potential than *any other* global market.

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