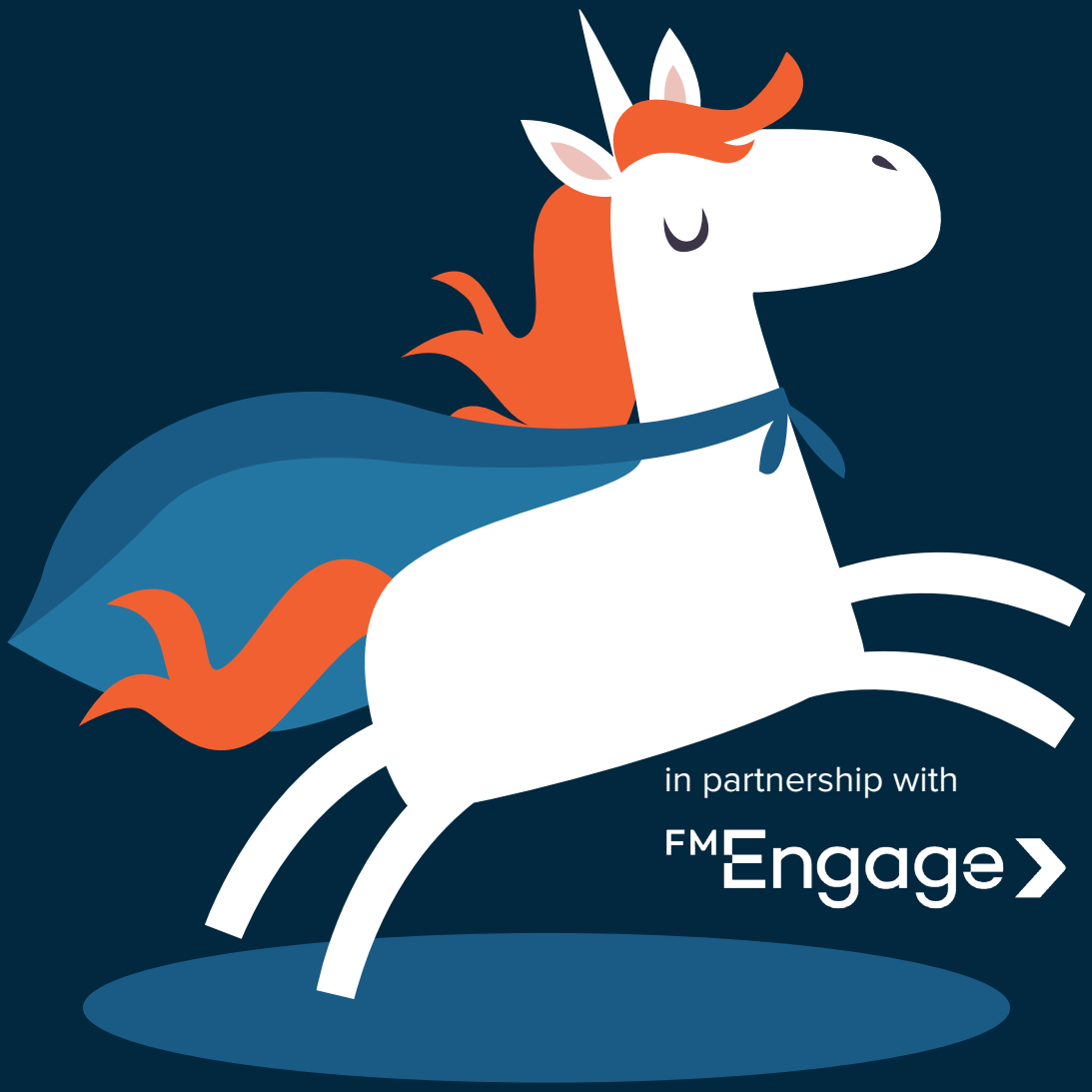
Insurtech Insights | AMERICAS

Finding & Scaling the next Insurtech Unicorn



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There has never been a better time to explore founding an insurtech start-up. Record funding and immense potential in the industry defined 2021 and looks set to continue for the foreseeable.

In the same way that many of us wish we could time travel back to 2012 and buy a stack of Bitcoins, many will now wish that they could hop in a time machine and set up an insurtech in 2018.

But there is still no time like the present for founders hungry to get into the insurtech game. There may be more competition than ever, but founders with the right solution to fit the right problems could still outpace the unicorns of the first insurtech boom.

Apple didn't manufacture the first smartphone, Google didn't develop the first search engine, and Meta didn't design the first social media platform – but by entering into markets with the most elegant solution, timed perfectly before a stratospheric rise of consumer adoption, these companies emerged as tech giants with valuations larger than the GDP of a small nation.

We have yet to scratch the surface and we are likely to look back at 2022 in a few years as a point at which the insurtech sector was still very nascent, but explosive in its innovation and growth potential.

There is no greater greenfield opportunity in the tech sector right now than insurtech. This may sound unsurprising coming from us – we are Insurtech Insights, after all – yet for those who want to make their billions in the tech game, this is the place to be.

So, who is going to be the next unicorn?

In this report, we speak to those scaling up insurtechs and those investing in such businesses to provide insights into finding and scaling the next Insurtech Unicorn.

With thanks to:

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Fenris Digital

Gil Arazi
Founder
FinTLV

Ruth Foxe-Blader
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Shifting sands in the insurance landscape

These are still turbulent times, but one of the biggest challenges to the insurance industry – COVID-19, appears to be finally receding in the rear-view mirror. However, don't be complacent. In February 2022, McKinsey noted that in **"a deceptively calm market ... the insurance industry's apparent calm is misleading"**[1].

The analysts cite ongoing COVID-19 uncertainty (it may be receding, it is not gone), regulatory change, supply-chain disruption, economic fluctuations and more. We must add to that the Russian invasion of Ukraine and the impact of political instability.

But McKinsey insists that amid the uncertainty is positivity. The insurance industry is becoming a much more agile, adaptive beast thanks in great part to the insurtech sector. The analysts' report suggests insurtechs are **"a relatively small share of the market"** but their innovations and ability to push into new spaces are galvanizing the sector as a whole. In our interviews with leading executives in the insurtech marketplace, we uncovered some of the challenges the industry faces and what its reaction should be.

Gil Arazi, Founder and Managing Partner of leading global insurtech VC FinTLV, described the landscape as he sees it evolving in the next decade. Embedded and parametric insurance will prove critical for underserved and underinsured communities, while increasing life expectancies will demand an evolution of health coverage. This is one of the reasons insurers are shifting their focus to prevention rather than mitigation.

[1] https://www.mckinsey.com/industries/financial-services/our-insights/insurance-blog/2022-outlook-setting-a-course-for-the-coming-decade

"We see prevention as a major focus for the next [few] years. It's already strong in P&C insurance but we are going to see a substantial number of companies encouraging policyholders to become more active, to manage chronic diseases for example,"
Arazi suggests.

Technology has already had a massive impact on insurance in the form of new automotive coverages (autonomous and electric vehicles) and digitized services such as the internet of things (IoT) for home monitoring; or heavy machinery in the case of industrial coverage.

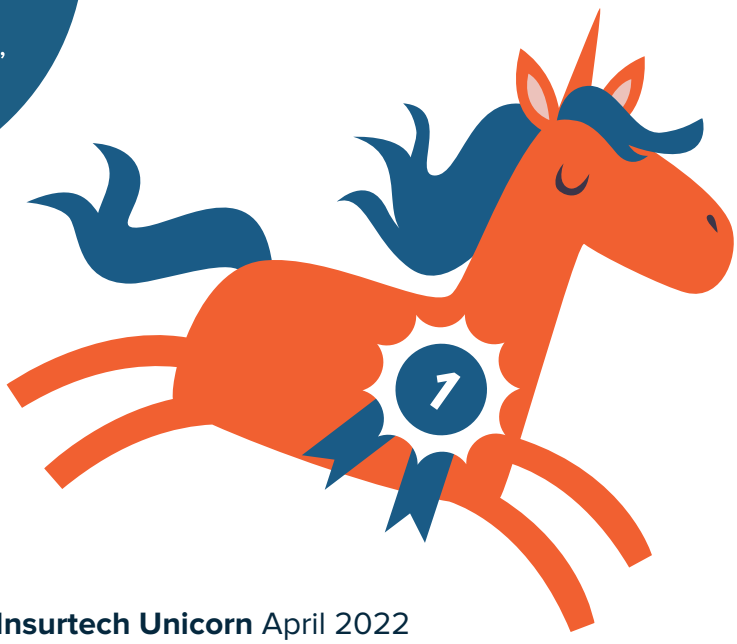
This is going to expand, Arazi insists, as cryptocurrency, NFTs (non-fungible tokens) and the Metaverse become more mainstream. With around $1.3bn stolen from cryptocurrency exchanges since 2009, the sector has a challenge on its hands, making sure both policies and client procedures are robust enough to cope. Indeed, as with wider cyber coverage, this is an emerging area that needs better understanding and it could well be looking to the insurtech sector for the newest tools to manage it.

Insurtech growth will spring primarily from dealing with these new risks, given the sector is best placed to understand the new demands these innovations will make on expertise.

"Insurance incumbents will look profoundly different a decade from now," insists Ruth Foxe-Blader, a venture capital investor with Anthemis.

"The best ones will capitalize on data analysis and machine learning to dramatically reduce expenses, efficiently bundle insurance products with services and claims prevention opportunities, and address customers in the new ways that they work and live."

"Cyber insurance is going to be an essential. The total addressable market will grow significantly in the coming years so the potential is huge but capacity is hard to find. The industry needs more ways to find that capacity as well as secure it against CAT events," Arazi warns.



Finding a market in changing customer habits and expectations

Indeed, the way customers work and live has shifted dramatically – not all due to COVID-19. There has already been a shift to digitization that means customers do not differentiate between a retailer or insurer. They differentiate instead on experience – Amazon versus Alibaba. They want their insurer to deliver on the same metrics as their ecommerce store or streaming service.

For some insurtechs, simply targeting consumer digitization has proven to be fertile ground **"It was a natural decision for us,"** insists Dan Bratshpis, CEO at Inshur. **"We saw a big opportunity in the growth of the UK rideshare market. We also had a local team here and supportive platform partners. We were able to launch the UK MGA in the same year as the US."**

This is one of the many defining characteristics of insurtechs – they spot an opening, whether it's in end consumer products or tools for the industry and move fast. But it's not enough just to chance a still amorphous idea. It's a rapidly growing and already highly competitive marketplace. **"Something new is not enough to stand out among thousands of insurtech start-ups,"** warns Dr. Robin Kiera, CEO digitalscouting. **"There must be a solid business model and expertise with a clear vision and a well-identified market."**

Jeffrey Chen, CEO of Verikai, did exactly this:

"As an insurtech, the space we play in has an easily identifiable primary market (underwriter organizations) for our product (predictive risk scores). Fortunately, within the end-to-end underwriting workflow, there is an obvious and important secondary stakeholder in brokers. We knew if the greater goal is to improve the overarching underwriting process, we would need to find a way to help brokers as well."

Similarly, while many insurtechs are staffed by a powerful combination of industry insiders, technologists and data specialists, it doesn't mean every proposition is right first time: **"For our broker product, it was figuring out exactly what our brokers needed. Upon receiving market feedback (due to the beta launch of our broker product), it forced us to go back to the drawing board. Once we did, we came up with the Marketplace, which solved a major problem for our brokers,"** Chen admits.

A keen eye on the market to identify those gaps is vital. **"There's a lot of hype in insurtech and the alphabet soup of AI, NLP, ML, RPA and so on. I'm most excited about not the technology, but the plethora of challenges insurers still face in driving growth and profitability while simultaneously improving policyholder experiences,"** reveals Jeff To, CEO and founder of subrogation specialist, Safekeep.

"As an insurtech, if you carefully look for points of friction in the value chain, there is still room to be the best-of-breed solution. Our journey began by co-designing a subrogation solution with an innovative insurer. We then found repeatable ways to increase recovery potential up to 37% with other insurers. That was when we became a real company" To adds: **"...almost by serendipity."** However, it is clear that there is little luck involved and rather a great deal of market insight needed on which to base decisions.

If it looks like a unicorn and sounds like a unicorn...?

What makes a successful insurtech, other than coming across a gap in the market? As entrepreneurs rely heavily on investment capital, at least in the initial stages, it makes sense to ask the investors.

FinTLV's Arazi reveals:

"We are mostly looking into companies that are taking an active place in the value chain of the insurance industry. We are working with more than 200 global insurance incumbents and constantly following the global insurance trends that we foresee for the future. Having said that, we are focused on companies that would meet these trends and become the leaders of the insurance industry in the near future."

Anthemis' Foxe-Blader has an open mind – with conditions: **"We like all lines of business and all parts of the value chain, provided the company is innovating on:**

1) product, usually on the basis of new data;

2) underwriting, similarly based on innovations in data analysis;

3) distribution, either embedding insurance in other distribution opportunities, or generally reducing CAC (acquisition costs) through some other innovative distribution model."

There's certainly a sense that despite making up a small part of the market today, insurtechs will become significant players either through growth, acquisition or market influence. In 10 years' time, they may well be the incumbents of the future. Certainly, there are few areas where experts believe they cannot get involved. **"The sure-fire list is certainly a long one,"** digitalscouting's Kiera admits:

"There were successes in B2C distribution, reinsurance, full-stack, peer-to-peer, and industry-related software solutions."

Analysts and insurtechs themselves are often at pains to point out that it is the end customer experience that should drive differentiation, but no denying that expert use of the tools that make that happen will be vital. Kiera continues:

"The tech trends embedded in one's business model are certainly a critical success factor. Artificial Intelligence, Machine Learning, IoT, Cloud Computing, and Blockchain have been reshaping the industry for several years, and they are surely here to stay. Why and how these technologies will be used can galvanize a start-up's success."

Great minds think, if not alike, then together

Getting the alchemy of people and technology right is a difficult balance to strike but one that is absolutely critical to success – even more so than the initial ground-breaking idea. That's because it is the structure of the insurtech and the people in it that are going to be able to move the business forward in the future. As Foxe-Blader reveals:

"We look for a fantastic team tackling a big problem. The initial solution, or "wedge pro duct" might be narrowly focu sed, but we need to believe that the business is capable of growing into something large and important."

"If it's a new venture or early stage insurtech, then we firstly look at the team. If it's not a 'dream team' as we call it, then we would probably pass on the opportunity. If it is a dream team, then we will look at their expertise and their ability to disrupt the market with their solution," says Azari, hammering home the point that it's the people that are the potential.

In many cases, those people already have expertise in both technology and insurance sectors, having cut their teeth at established businesses. The start-up environment can be invigorating but there's no hiding that it's a huge risk. While go-getters are clearly valued by investors, what does it take to join this elite club of innovators?

Inshur's Bratshpis says that when you leave the corporate comfort blanket behind for insurtech **"it feels like taking the training wheels off a bicycle for the first time - exhilarating and unnerving."** He makes no bones about the fact that it's the constant threat of someone pulling the plug that fuels progress.

"There is a certain amount of do or die pressure to succeed that I think helps entrepreneurs - knowing that there is a cash cliff coming and no safety net to catch you really forces you to focus on the stuff that matters - traction, traction, traction."

Jen Linton, Founder and CEO of Fenris acknowledges that there's a sense of trepidation as you take that big step.

"Fenris was my first time as Founder and CEO. Although I had been directly responsible in launching two other start-ups (Elephant Auto Insurance and DriveFactor) from scratch, this was still a big step up from my comfort zone."

But there's a difference between being CEO at a start-up and leading an incumbent, and it is not just about size.

"My team inspires me and we share a camaraderie you don't find at big companies."

Bratshpis adds that there's definitely a sense of everyone in it together in the start-up environment. Even if you come from an established leadership role elsewhere, hierarchies are quite different beasts in insurtech. **"The people joining need to realize and be comfortable with being the chef, server and dishwasher all at the same time to thrive - some people love it but it's not for everyone. Our first couple of hires are still with us and are much more specialized now!"**

Verikai's Chen acknowledges that lines blur when scaling an insurtech: **"We really focused on fit; who we could work well with personally and professionally. The two will always intersect in a rapid-growth startup. The people that join early on absolutely must believe in our mission, have grit and determination, and be able to put the greater good of the company ahead of individual accolade. We hired talented people who needed minimal direction to get a function started and gravitated towards finding and solving complex challenges."**

Innovation and positive culture springs from diversity

That positivity, passion and drive to win against all odds is even more important when it comes to challenging stereotypes. In insurtech, as in both the wider technology and financial services markets, there still isn't gender parity. While the balance is evening out in lower seniority roles, there are few women in leadership roles. Linton is on a mission to change that.

"Access to funding is still dismal for female founders.

In the past few years, less than **2.5%** of VC funding went to female founders.

The solution is to change this from the top down. The problem is systemic, and the only thing that seems to move the needle is to promote/ establish / invest in more female and minority led VCs, because they tend to fund more female founders, and that's a more virtuous cycle."

Far from being a box-ticking exercise, alongside taking ESG measures, investing in diversity and sustainability are about making sure the business itself is sustainable for the future.

Linton adds: **"The numbers are even worse for other minority populations. But ask most people, and they'll agree that talent, grit, and integrity can and does come in many different kinds of packaging."**

It is an important insight that to rise to the top of the tree in a competitive insurtech marketplace over the next few years, these start-ups will have to build in diversity of thought right from the top of the business.

Finding your unicorn

The insurance and insurtech markets are an exciting place to be right now. There is an intense concentration of innovation and talent and competition is already fierce. But, despite the volume of people and organisations getting involved, the sector still needs more. It needs more investors with open minds as well as open wallets. It needs those investors to push for start-ups to look further and stretch their boundaries, in terms of diversity as well as innovation.

Why is this so important?

Insurtech is a vibrant sector which needs to attract new blood. Savvy executives at all levels should be fuelling new thinking but to attract them, the industry has to excel in technology, demonstrate its ESG credentials move far beyond greenwashing and be willing to explore new, uncharted areas of cyber, metaverse and NFT.

Does this mean there's no room for innovation in 'typical' areas like P&C and health?

Not at all. Every insurance segment is ripe for renovation. But it is brilliance in idea backed up with solid business due diligence and a devotion to securing absolutely the right people for the job that will be at the heart of the next insurtech's success. It will be these traits that make up the beating heart of the next insurtech unicorn.

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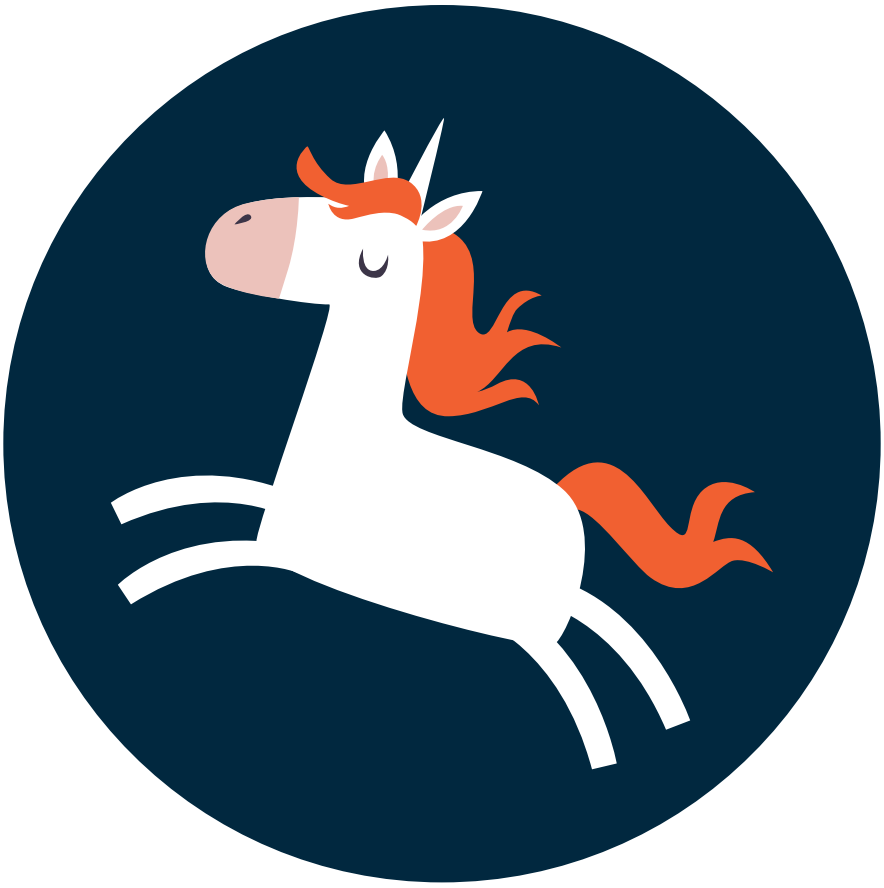

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