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ITC DIA EUROPE

Munich

22 - 23 November 2023

THE FUTURE OF INSURANCE IS HERE

Unveiling Insurtech

CONTENTS

FOREWORD

By Merlin Beyts, Head of Content, **ITC DIA Europe**

Insurtech investment trends make for fascinating reading. Like many sectors experiencing a boom, the initial excitement meant many huge investment rounds across every vertical and sector of insurtech. Over the pandemic insurers then started to accelerate their technology adoption to new and dizzying speeds leading to further injections of capital and therefore soaring valuations of start-ups. Those days are over, at least for now. While it's true that there has been a drop in investment across the board at the macro level, on closer inspection things start to become truly interesting.

Historically, insurtech start-ups were worth taking a punt on so investors could "get in" on the insurtech game. Any slice of the pie was worth claiming. Now investors are more discerning. Instead of flooding the market with capital across several insurtechs that had potential, they are looking at increasing investment in a more select group of businesses that they have real faith in. In short, there's less money and fewer deals, but more confidence in those that are getting funding. The types of insurtechs that are receiving money is also noteworthy. In times gone by, the challenger insurtechs such as Lemonade, Hippo and Oscar Health were grabbing headlines in the insurance journals. Now it's the start-ups and scale ups with either B2B or B2B2C business models who are all the rage – looking at you, bolttech and Wefox! The enablers are currently kings of the castle with embedded insurance all the rage.

For this special report, our treasured friends at FinTLV have been interviewing the most informed and prominent names in insurance and insurtech to shed light on what to make of these market valuations. They have also dived deep into what trends are driving the changes we're seeing and what technologies will be taking the market by storm. A special thanks to Gil Arazi, Nicola Fihrer and the whole FinTLV team for putting this together and for partnering with us on this report as well as all of the interviewees who took part.

Let's dive in!

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UNDERSTANDING MARKET VALUATIONS IN THE INSURTECH SECTOR

By **Gil Arazi**,
Founder and Managing Partner, **FinTLV**

In 2021, the insurtech industry experienced a record-breaking surge in investments, with an injection of $16 billion into highly valued enterprises. Mega rounds, involving hundreds of millions of dollars each, led to a dramatic increase in valuations, often doubling post-money valuations within a year or even less than the previous funding round.

As investments continued to pour in, investors were optimistic about the potential disruption that insurtech companies could bring to the insurance market. The digital expansion fueled by the COVID-19 pandemic was expected to result in significant market shares for these technology-driven insurers. However, many investors failed to consider the intricate nature of the insurance business, characterized by slim profit margins. Merely relying on volumes alone cannot guarantee profitability in the insurance industry. Underwriting profitability, ample capital, robust reinsurance treaties, and a profound understanding of the insurance business and its unit economics are essential for success.

When challenges began to emerge in the technology market, investors started to realize that the insurance industry operates under different dynamics. Insurtech companies are not simply Software-as-a-Service (SaaS) platforms, and incumbents are not willing to relinquish their market share easily. These realizations, coupled with other factors, have significantly dampened market sentiment in the insurance industry, particularly within the insurtech segment.

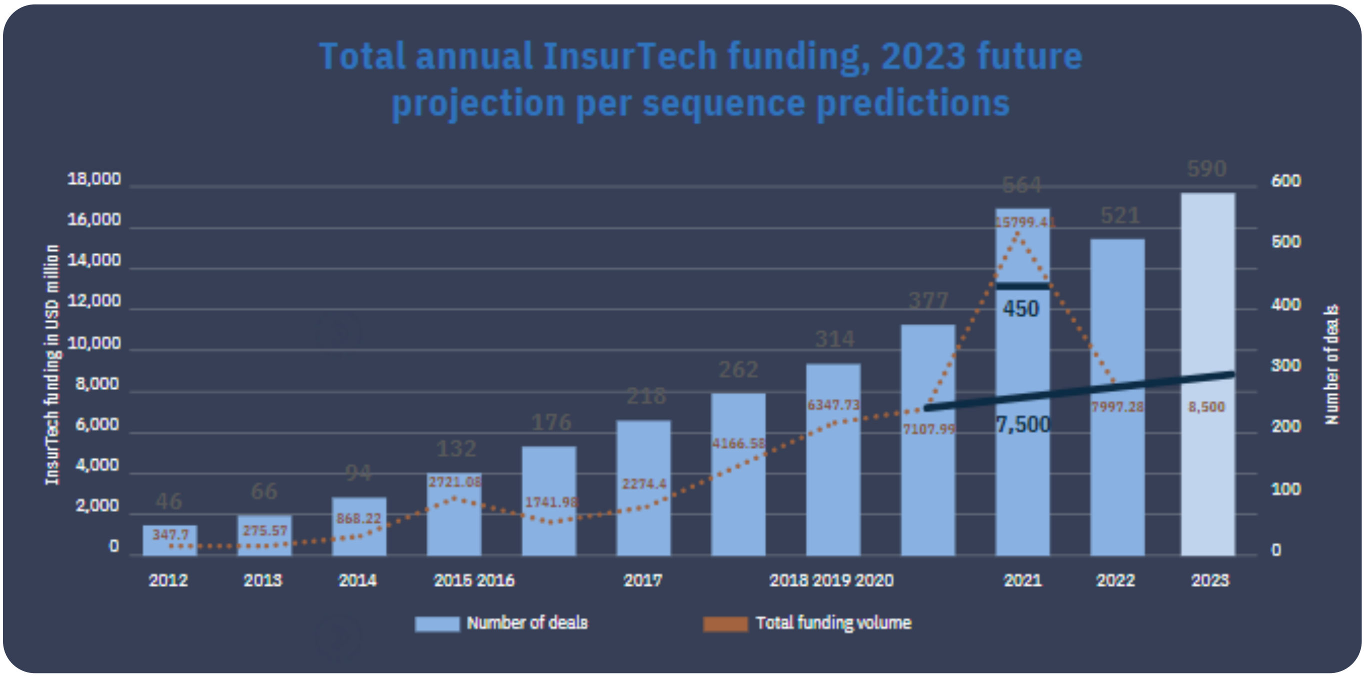
Curious to uncover the future trajectory of this dynamic industry, we embarked on an extensive research project with a primary focus on assessing the long-term viability of insurtech valuations. Our aim was to gain insights from industry leaders within the global insurance ecosystem, addressing the major question of whether the current situation is sobering or temporary. Through a comprehensive series of 25 interviews, we delved into the intricate details of the insurtech landscape, meticulously analyzing market trends and developments. In this report, we summarize the key findings from our research, revealing both the sobering reality of insurtech valuations and potential indications of temporary setbacks. By presenting our conclusive insights, we shed light on the critical factors shaping the industry's future prospects. Let's have a look at some of the conclusions.

CASH FLOW AND INVESTOR UNDERSTANDING

The insurtech industry's recent decline in valuations should be viewed within a broader context, considering the anomaly of 2021's inflated figures. By running a Fibonacci sequence projection on prior years' data, Gallagher Re research suggests that the extraordinary numbers of 564 deals and USD15.8B in funding during 2021 may not accurately represent the industry's underlying trends. A more realistic estimate would have been approximately 450 deals and USD7.5B in funding.

Despite the recalibration in valuations, it is essential to recognize that investments in the insurtech sector continue to flow steadily. When we remove the anomaly and examine the industry's trajectory, the consistent pace of investments indicates a positive outlook for startup companies and future investment rounds. This sustained investment activity is a testament to the industry's potential and the confidence of investors in the long-term growth prospects of insurtech.

> *We still have strong confidence, which is why we're deploying more capital in the insurtech ecosystem as a whole, because the problems that insurtech are trying to solve are the customer needs.... So we think it's a good time to go again, in terms of making investments and there will be some great winners.*
>
> **BEN LUCKETT,** AVIVA



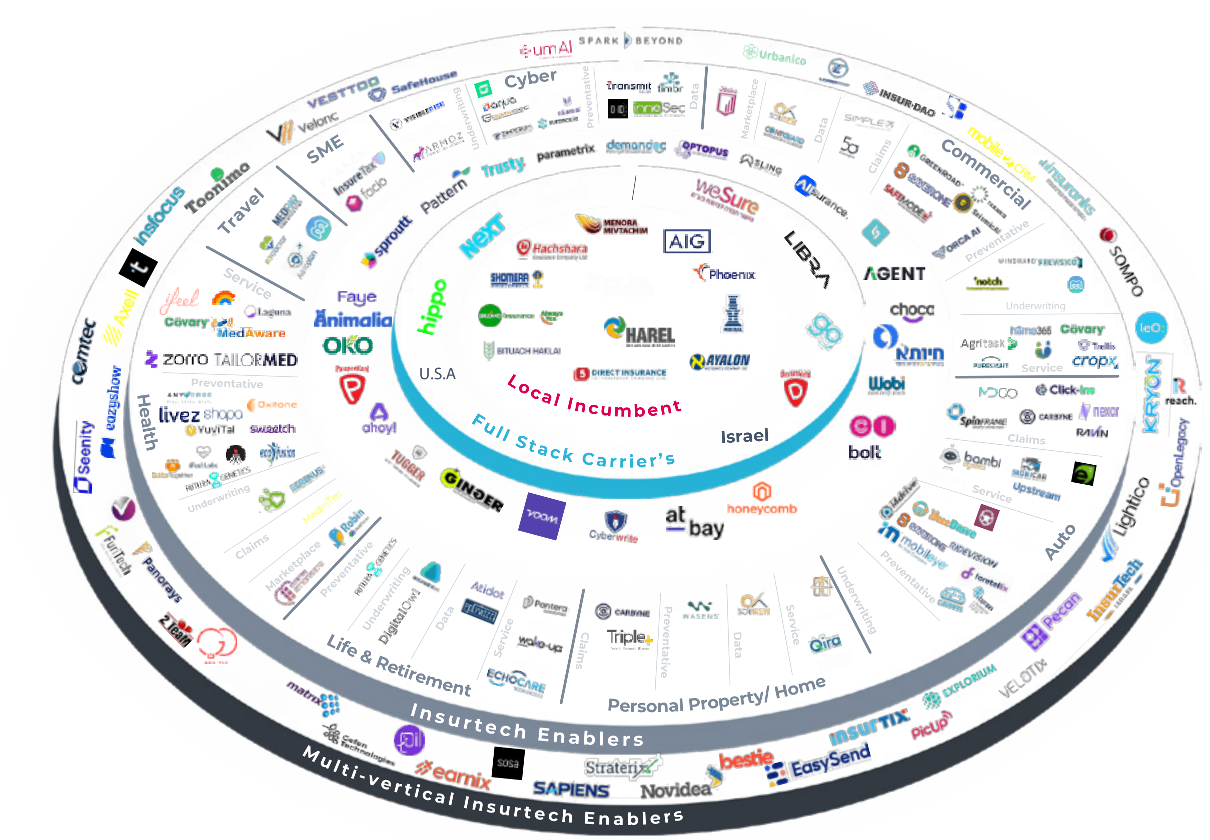
SOURCE: GALLAGHER RE.

DIFFERENTIATION

Moving forward, a deeper understanding of the industry and clearer differentiation between various types of insurtechs will contribute to a more accurate assessment of valuations. With a comprehensive understanding of the sector's dynamics and the ability of companies to generate sustainable cash flow, investors can make informed decisions and provide the necessary support to fuel the growth of insurtechs. As the industry continues to mature, this increased understanding and investor confidence are expected to contribute to a more stable and realistic valuation landscape for insurtech companies.

> ***Every storm has a cleansing effect, right? It really, it sucks for those that don't make it, but I don't think a storm where there is more scrutiny is a bad thing.***
>
> **DR MAGDA RAMADA,** WTW

FinTLV Israeli Insurtech Ecosystem Map



This map was created by FinTLV ventures and is continuously revised. Release date 26 March 2023

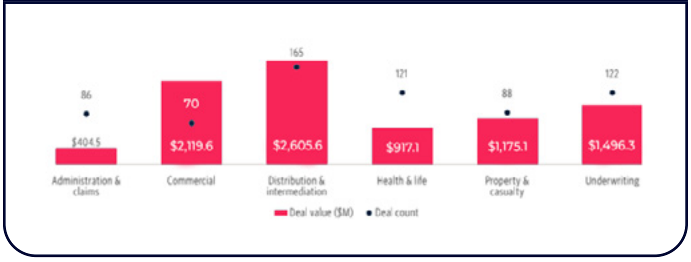
At FinTLV, we encountered this challenge while analyzing and investing in the global insurtech market. Recognizing the need for a clearer understanding of the insurtech ecosystem and the differentiation between various types of insurtechs and business models, we developed our own market map. This breakdown of the ecosystem enables us to identify the unique value propositions and potential growth opportunities based on the specific type of insurtech. We broke down the industry and differentiated between what we termed as 'Insurtechs' and 'Insurtech Enablers'. The first meaning companies that are based on the insurance value chain. The latter meaning companies that help and innovate the insurance value chain by offering different services or products whether it be underwriting, claims process, preventative services or CRM's. These companies have all been put in the same basket which has contributed to the lack of understanding when appraising and evaluating the Insurtech industry.

Additionally, within 'Insurtech Enablers' and 'Insurtechs' there are multiple sectors. It's essential to step back and see that certain sectors may be performing better than others, and they may have unique challenges. Even though investments declined in most segments throughout 2022, the commercial insurance sector bucked the trend. Investment deals for commercial insurtech startups rose 14.4% in 2022 to $2.2 billion, as reported by PitchBook..

> ***Companies that were on a big growth trajectory had to grow without enough leeway, and they got washed away. It really hurt good companies that had a lot to bring to the market***

RICHARD DE SOUSA, SCOR

Trailing 12-month insurtech VC deal activity by segment*



SOURCE: PITCHBOOK · GEOGRAPHY: GLOBAL · *AS OF MARCH 31, 2023

Q1 2023 insurtech VC deal activity by segment*

SOURCE: PITCHBOOK · GEOGRAPHY: GLOBAL · *AS OF MARCH **31, 2023**

FROM GROWTH TO PROFITABILITY

Based on the interviews conducted with industry leaders, there is a notable shift in the market from a focus on growth to a focus on profitability in the insurtech sector. Here are some key takeaways:

1. The Importance of Profitability:

Several industry leaders emphasized the need for insurtech companies to demonstrate profitability and positive cash flows. Investors are now more interested in sustainable business models and financial stability rather than just growth potential

> *Having a plan to become the biggest insurer in the world, if you're not capable in the end to remunerate the capital of those that made it possible, does not matter, it will never be economic*
>
> **STEFANO BISON**, GENERALI

> *The basics of insurance is that you have to monitor cost of acquisition and loss ratio. If the answer is no on both times, then the valuations are just crawling down.*
>
> **OLIVIER JAILLON**, WAKAM

2. Scrutiny of Unit Economics:

There is increased scrutiny on the unit economics of insurtech companies. Investors are now more interested in sustainable business models and financial stability rather than just growth potential. Times have changed, with the cost of capital rising the need to reach profitability has grown to a pressing issue that is being discussed by all investors and in every boardroom.

> *You kind of have to be in that stage within two years because you're going to run out of cash otherwise. So by hook and by crook, you're either going to be profitable, or breakeven, or you're out.*
>
> **YARON KINAR**, JEFFERIES

3. Market Correction:

The view was unanimous that current decline in insurtech valuations is seen as a market correction. The initial hype and inflated valuations have given way to a more realistic evaluation of companies based on their economic viability and profitability prospects.

> *Market sentiments go through cycles. I think sentiment will return and this correction is seen as healthy for the industry.*
>
> **YARON KINAR**, JEFFERIES

4. Need for Differentiation

Insurtech companies need to differentiate themselves and provide unique value propositions. The market is no longer solely focused on the “insurtech” label but rather on specific business plans, unit economics, and fundamental strengths. Companies that can effectively demonstrate their competitive advantage and market differentiation are more likely to succeed.

> *For the larger companies, they still are two or three years away from being able to show how their strategy plays out, because iteration takes time.*
>
> **BEN LUCKETT**, AVIVA

> *Now, it’s slightly coming back again slowly and the reason is, because there’s always a need for innovation, especially in a traditional regulated industry.*
>
> **YINNON DOLEV**, SOMPO HOLDINGS

5. Collaboration with Incumbents:

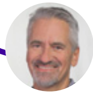
Collaboration between insurtechs and traditional incumbents is gaining importance. Incumbents recognize the need for disruptive technology to reduce costs and improve customer service. Insurtech companies that can address these needs are likely to be in high demand.

Overall, the shift from growth-focused to profitability-focused is reshaping the insurtech market. Investors are looking for sustainable business models, strong unit economics, and differentiated value propositions. Companies that can meet these criteria have a greater chance of success in the evolving insurtech landscape.

> *I believe that the insurance industry and the Insurtech startups have a mutually beneficial relationship...we need to build tighter partners with insurtech startups*

TED SHIONO, MS&AD

> *Incumbents still need disruptive tech. Any insurtech that provides such services is going to be needed and will succeed in the future.*



STEVE BLUMENFIELD, WTW

A few quotes on that from ChatGPT:

1. **The Importance of Profitability**
2. **Scrutiny of Unit Economics:**

   "If you look at their ratios, if you look at their evolution, if you look at their technology, if you look at the growth in the markets they're going after, if you read their strategies, fundamentals are strong for many of these companies." - **Magda Ramada, InsurTech Innovation Leader at WTW**

   "Now, it's slightly coming back again slowly and the reason is, because there's always a need for innovation, especially in a traditional regulated industry." - **Yinnon Dolev, Head of Sompo Digital Lab Israel & Europe at Sompo Holdings**

3. **Need for Differentiation:**

   "Just because an insurtech is an insurtech is no longer enough to really gain the attention of investors right now." - **Magda Ramada, InsurTech Innovation Leader at WTW**

ATTRACTIVE INVESTMENT OPPORTUNITIES

Based on the discussions, there is an expectation that valuations in the insurtech sector will return, albeit with a more discerning approach. While the valuations have experienced a decline, cash is already flowing back into the system. Companies that can demonstrate a path to profitability, stable business models, and the ability to weather market challenges are likely to attract investments and see their valuations increase.

In terms of the recipients of these valuations, there are a few key players:

Companies with strong fundamentals: Insurtech companies that have solid business plans, robust unit economics, and a deep understanding of the insurance industry are expected to regain investor confidence and see their valuations improve.

1. Companies with strong fundamentals: Insurtech companies that have solid business plans, robust unit economics, and a deep understanding of the insurance industry are expected to regain investor confidence and see their valuations improve.

2. Companies with differentiated offerings: The industry is calling for a more nuanced approach where business plans, unit economics, and fundamentals become deciding factors. Insurtech companies that can differentiate themselves with unique value propositions, innovative technologies, and effective execution strategies are likely to attract investments and see their valuations rise. This includes also specialty and E&S market etc. .

3. Companies addressing incumbent needs: Incumbent insurance companies are still in need of disruptive technologies to reduce costs and enhance customer service. Insurtech companies that can provide solutions to these pain points and collaborate effectively with incumbents have the potential to be valued highly in the market.

4. Companies focused on specific sectors: As we monitor a few top trends for the upcoming years – companies that would meet these trends with firm business models can greatly succeed.

TRENDS

The Insurtech industry is one that is ripe for disruption. There are constantly multiple trends that are evolving and fundamentally impacting the sector. Our interviewees touched on many different trends that they see in the industry from their various viewpoints. They all have different touch points along the insurance value chain and therefore identify different growing trends and areas of innovation. Throughout our interview process there were major themes that remained constant across all industry leaders. The first and most prominent was embedded insurance, although not new, was a major theme. The belief was infamous that embedded insurance is the way of the future and will change how the insurance sector looks. Generative AI was another trend that was mentioned across the board. Its pivotal role in shaping the insurance sector was recognized as well as the unknown implications and effects it will have in the future. Climate change was also a major theme and the necessary steps that need to be taken in order to combat this rising threat to insurers globally.
With the markets changing so drastically the potential departure of experienced individuals and talent leaving was also a concern discussed. Lastly, the desire to increase partnerships between incumbents,

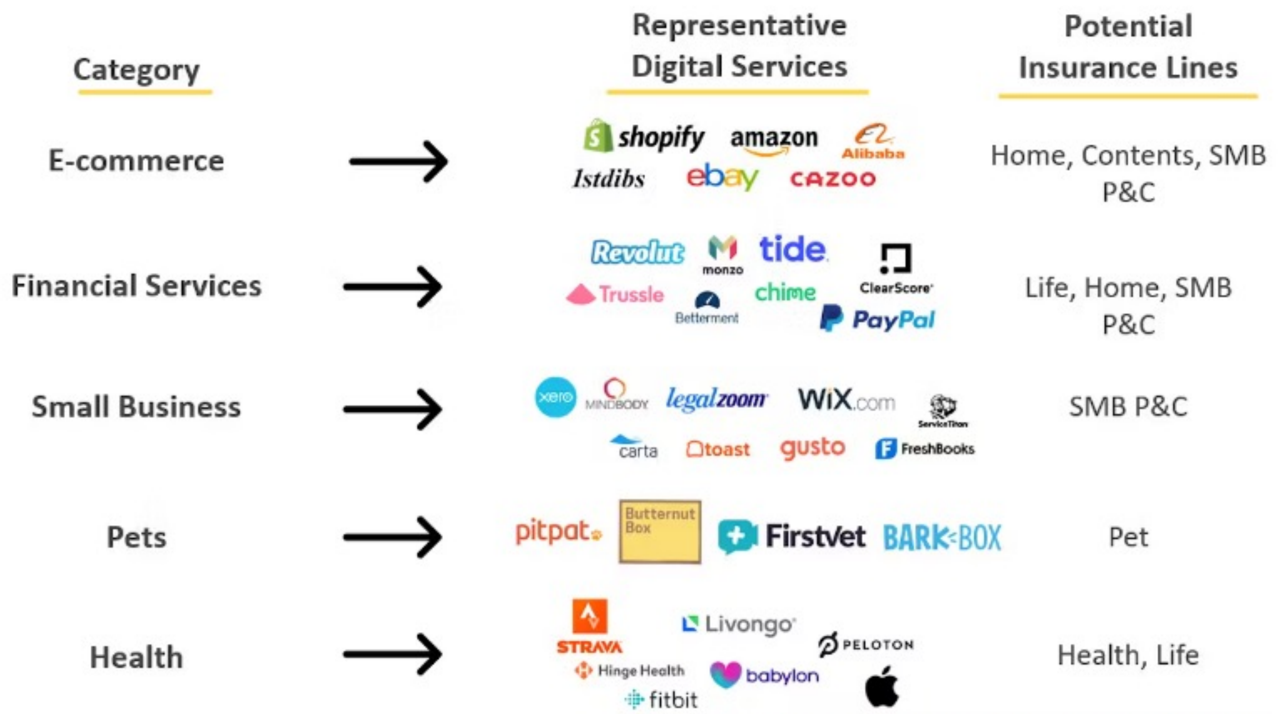
reinsurers and insurtech in this new environment was covered. Our industry leaders shed a new perspective as to why it has not had the necessary success up until now and why that might be changing. Longevity and aging are also strong themes that were discussed. We at FinTLV share a strong view on and belief in regards to longevity and will share our insights as well as the interviewees. We will go into each of these trends, break them down and analyze them below.

When we draw back all the hype and excitement around "embedded insurance" we understand that it is just a business model. It is not a new model, originally it was used when individuals would go into a bank and buy insurance. This was the first type of embedded insurance. So why are our industry leaders focusing on it now? What is new or what has changed? Digitization, data sources, customer acquisition costs (CAC) and COVID-19. These factors have had far reaching impacts on the insurance industry and how we interact with it. The progress made in digitization and the ability to market directly to individuals has changed customer journeys and experiences in all e-commerce. It began with an underinsured population, that suddenly was exposed to new digital super Apps such as AliPay, Wechat etc. The increase in use of APIs (Application Programming Interfaces) has led to significant advancements in embedded insurance, enabling seamless integration of insurance products and services into various platforms, applications, and customer experiences, ultimately expanding the accessibility and convenience of insurance for consumers. This was accelerated by COVID as no one had the option for in-person experiences and wanted easy, accessible, all-in-one experiences. These macro events have provided the new framework that insurance must step into.

Why is this a no brainer for Insurers?

Embedded insurance automatically drops your customer acquisition costs, which have historically been much higher within Insurance then other industries, Insurers are no longer spending any costs on marketing or targeting the customer. When you have lower premiums or specific target audiences it allows for dynamic and modular products.

Adrian Jones from HSCM Ventures spoke about the digitization efforts that incumbent insurance companies are actively investing in digitization to improve their core systems, enhance customer interactions and address challenges.



Embedded insurance opportunities by sector by Albion VC

The reality is that future generations are going to have different interactions with insurance. The customer journey has already changed from previous generations and will continue to grow and evolve. Furthermore, incumbents are not standing idly by but are actively innovating and driving technology to gain a competitive edge. The industry has capital resources and the capacity to invest in innovation. However, successful execution and organizational adaptability are key factors for driving innovation and staying ahead.

> ***Embedded insurance is here. It's here to stay. And it is growing and it is evolving like the world is evolving around us. And you just have to be adaptable. If you're adaptable, if you're flexible, if you're agile, you're going to understand that as these trends happen you adapt your organization to the opportunities that get presented. But I think there's no such thing as "this doesn't work", or "this is impossible", or "this is not going to be a part of the future." It is a part of the future. The future is happening right now. And I would say get on board.***

ROB SCHIMEK, BOLTTECH

AI

OpenAI has changed the conversation and taken generative AI to the forefront of every conversation. Many believe that chatGPT is the internet of our time. The potential implications for how generative AI will disrupt the insurance industry is limitless. From product design, data analysis, underwriting and customer interactions. Decision-makers are increasingly realizing the practical applications of AI, making it a top priority in their business strategies. CEO's are making a point to understand as much as they can and we will have to wait and see how it fits into the value chain.

> *I see three [trends]. First one being AI pushed in everywhere in the insurance value chain. AI is not a single technology, it's a set of different things. In all these transformation engines, the GPT1 is the most famous one because we really think that this is going to change the world. The acceleration that we've seen, with GPT3, and now GPT4 is crazy. This is available to the general public, including our agents and our customers, so we need to act fast. This is happening today and It's available to everybody.*

STEFANO BISON, GENERALI

CYBERSECURITY & INSURANCE

Cyber attacks can decide the survival or death of a company. Despite all the progress that has been made in this field it is not enough. As businesses increasingly transition to digital platforms, the risk of cyber attacks will only grow. Interviewee's from the reinsurer and incumbent sides stressed the importance of innovation and adoption within cyber insurance.

There is a huge need for new solutions to combat these emerging risks. Nigel Walsh from Google spoke about the evolving landscape of cybersecurity insurance. He raised the possibility of individuals owning their identity rather than traditional assets, leading to personalized cyber insurance products for consumers. Additionally, the significant potential for the collaboration between technology companies, insurers, and other stakeholders to address the cybersecurity needs of small and medium-sized businesses (SMBs).

The cyber insurance vertical is a perfect example of how incumbents can partner with insurtechs to create the right products and innovation. Incumbents

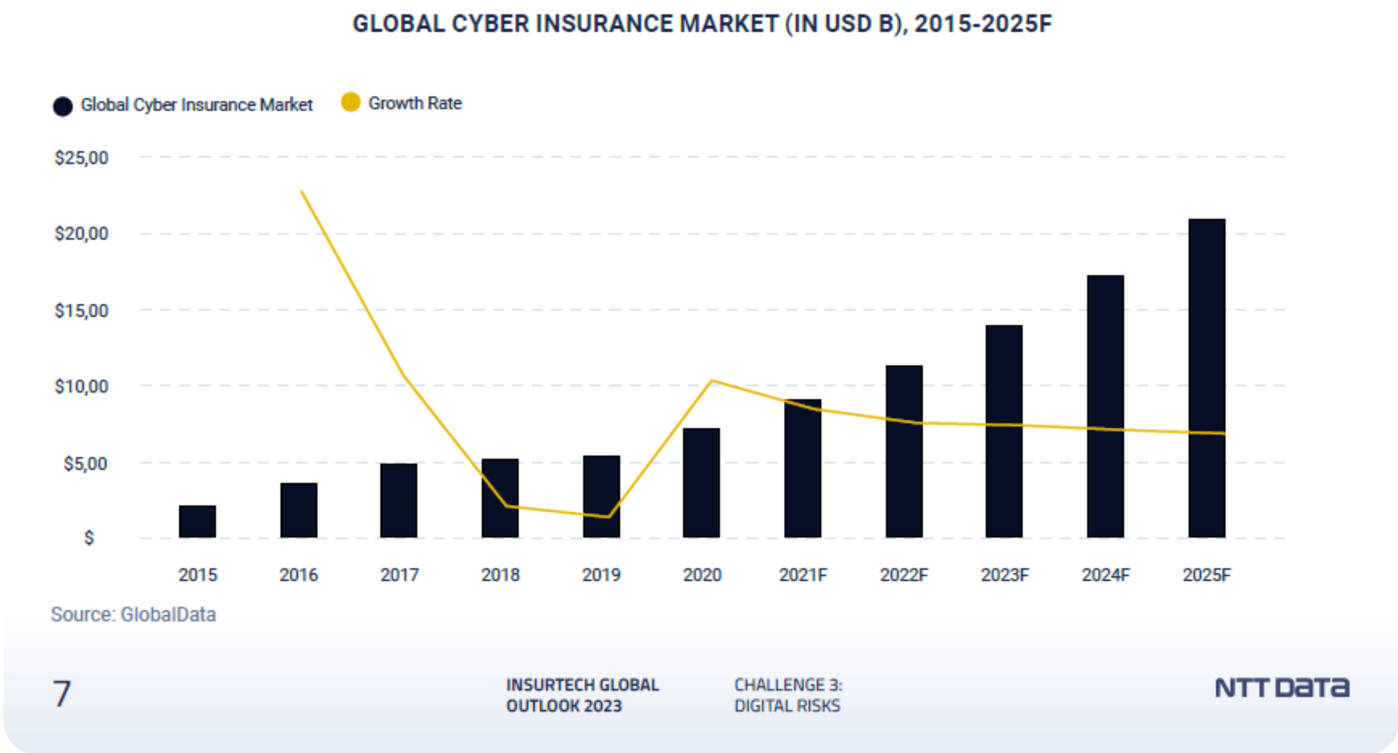
> *We are experiencing skyrocketing demand and traditional carriers' approaches don't make sense. It's not really new entrants, stealing market share or underpricing. We need to build a new solution.*

MADHU TADIKONDA, CORVUS

> *More than 90% of attacks last year were uninsured.*

STEFANO BISON, GENERALI

and insurtechs can establish efficient partnerships by leveraging their respective strengths and collaborating on various fronts. The first and most obvious would be an access to expertise. Incumbents, with their deep industry knowledge and experience, can provide valuable expertise in risk assessment, underwriting, and claims management. Insurtechs, on the other hand, bring innovative technology solutions and data analytics capabilities. By combining their expertise, incumbents and insurtechs can develop comprehensive cyber insurance products that effectively address emerging risks.



TALENT & PARTNERSHIPS WITHIN INSURANCE

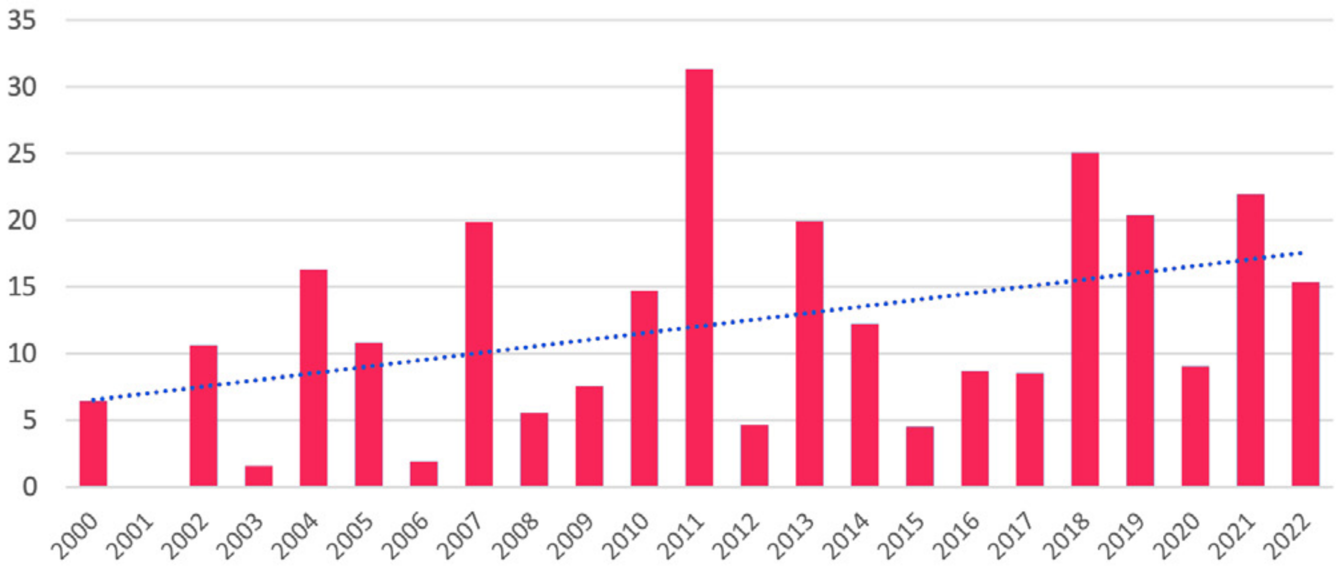
This takes us to our next major trend of talented individuals within Insurtech. Many interviewees shared a concern of a departure of talent from within the ecosystem. When the markets were at their peak there was an influx of talent into Insurtech. This also led to issues as you had talented individuals within insurtech companies that did not necessarily have any past experience with insurance. As a result, they were unable to navigate the relationships with incumbents and sustainable partnerships were difficult to create. There is a need for these partnerships and retaining the correct type of talent going forward. This was expressed across the board from reinsurers, incumbents and insurtech.

ESG

Climate change has been a known macro risk for many years. However, its effects on the frequency and severity of natural catastrophes has cost the insurance industry billions. Natural disasters pose an increasing threat and create challenges to customers' lives. The ecosystem needs to utilize geospatial data technology to expedite appraisal and claims processes in order to combat this growing crisis. All industry leaders mentioned that more innovation is needed in this space to close the coverage gap and improve the overall function of insurance in the face of climate change.

> *But we believe there are a lot more we can do for people in trouble. As climate change makes situations worse, the coverage gap would be widened accordingly. And insurance function will continue to deteriorate. So we think a lot of innovation should happen in this space.*
>
> **TED SHIONO**, MS&AD

WEATHER-RELATED CATASTROPHE LOSSES (USD BNL)



SOURCE: HTTPS://WWW.REINSURANCENE.WS/SIGNIFICANT-INCREASE-IN-WEATHER-RELATED-CAT-LOSSES-OVER-LAST-20-YEARS-CRESTA/

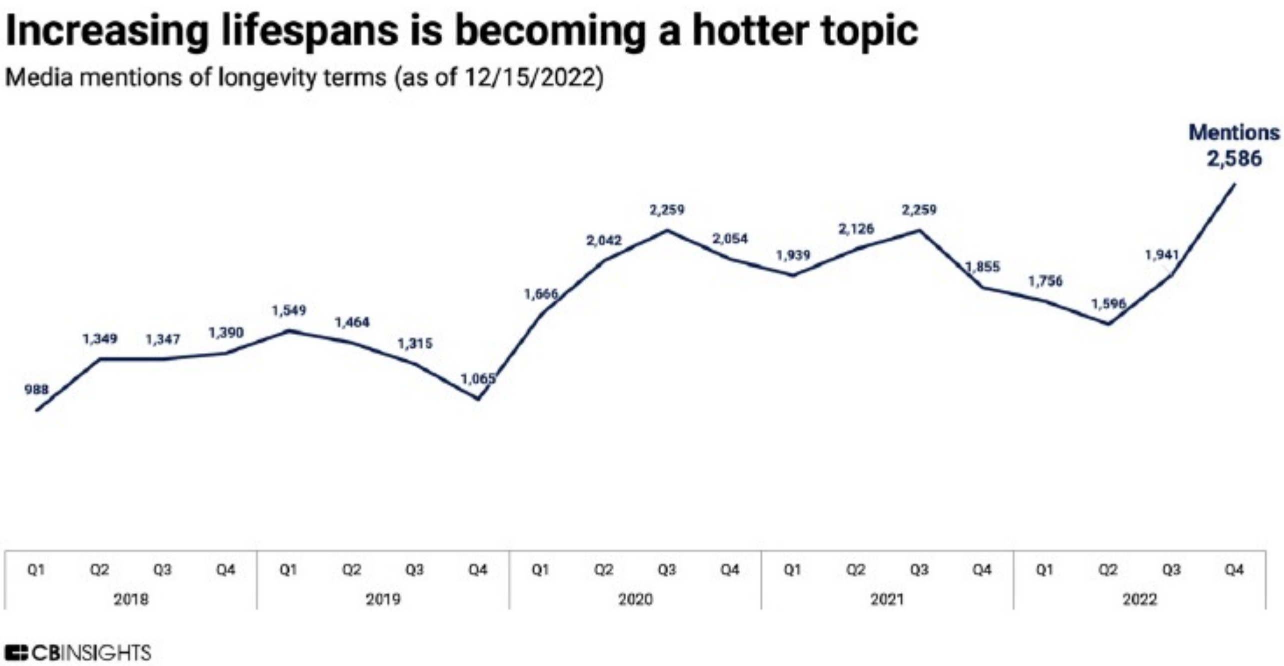
LONGEVITY & AGING

It is estimated that those reaching retirement age will more than double from 2010 to 2050, increasing to an estimated 88 million people, placing strains on social services & Insurers. A school of thought has emerged lead by many professors such as David Sinclair, Nir Barzilai and many others that the definition of 'aging' that we know today is changing. They believe that 'aging' as we know it can be reversed and longevity can be extended through the development and implementation of various interventions and technologies. Longevity poses a huge threat to insurers as if the theory of longevity holds, insurers are unable to predict lifespans affecting all aspects such as life settlements, pensions, wealth management and the entire healthcare space. The ramifications for underwriting and pricing are exponential.

Thanks to all the participants who contributed to this study. We loved learning from your insights and hope you will join us to learn more when we release our next edition of "Unveiling Insurtech

GIL ARAZI
FOUNDER AND MANAGING PARTNER
FINTLV

The U.S. average life expectancy at birth increased 62% from 1902 (47.3 years) to 2000 (76.8 years) and was approximately 79.5 years in 2020."



FINAL THOUGHTS

It will be fascinating to see where this takes the industry over the next few years. I'm a big believer in pendulums. The investment started with big investment rounds and market valuations and has swung in the other direction but reason tells me it'll return the other way at some point. When that happens, time will only tell. What's clear at the moment is that for some time, the larger carriers will have more enablers to help them innovate and improve important aspects of their businesses – particularly their customer experience in my humble opinion. Meanwhile, perhaps the challengers have some work to do to become profitable but having spent enough time in this space, I can say with certainty those founders and CEOs will be back to take the headlines soon.

Some of you may be thinking: "Well where's the impetus for the insurers to keep innovating if the challengers have gone quiet?"

My response is simple; beware the tech giants! Amazon, Google, Meta et al. are all starting to offer their insurance products and as tech-first companies they have the know-how and the talent to scale their operations. As has been said many times since the pandemic: insurers are no longer judged against their competitors; they're judged against tech companies. No rest for the wicked, eh?

Best get to work!

Merlin Beyts,
Head of Content,
ITC DIA Europe

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