Insurtech Is Hitting Critical Mass

The wisest insurance incumbents will seize the collaborative opportunities springing from this new environment.

Launched in 2013, Chinese non-life insurer ZhongAn has already reached a market cap of **US$13.6 billion** on the Hong Kong Stock Exchange, where it started trading in late September this year. ZhongAn uses artificial intelligence and big data to generate mass market sales over the internet. Its flagship product is a policy that covers the cost of returning products bought on shopping platform Taobao.

ZhongAn has sold over **7 billion policies** to 490 million customers so far. While it has **yet to turn a profit**, its runaway revenue growth is a sign of things to come in the insurance industry: Insurtech is no longer an interesting fringe experiment, but a major activity supported by millions of customers.

Insurtech start-ups represent 15 percent of all fintech investments

How large is the insurtech wave? Buoyed by the success of fintech giants such as PayPal, Venmo and Alipay, insurtech has succeeded in attracting about 15 percent of the US$50 billion invested in the global fintech arena during the 2010-15 period (Figure 1).

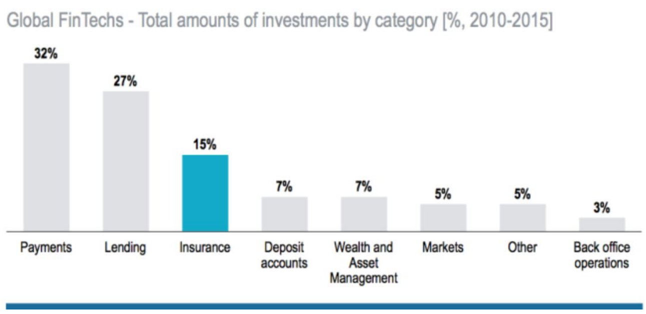

Figure 1: Investments in fintech start-ups. Source: CB Insights; Roland Berger.

This investment pace has continued since 2016 (though there was a **slowdown** in the first quarter of 2017). Looking at the 173 insurtech deals completed in **2016**, the value of American unicorns Oscar ($3 billion) and Zenefits ($2 billion), respectively, is dwarfed by ZhongAn's.

Collaboration or competition?

Start-ups have sprung up in many industry segments, including car insurance (e.g. pay-as-you-drive), home insurance (e.g. intrusion, leakage detection, video expertise of insurance claims), health insurer services (e.g. tele-consultation, doctors' orientation, health coaching programmes) and retirement planning services (e.g. simulation tools such as robo-advisors, video chats).

Figure 2 provides a high-level view of the non-life insurance supply chain that shows where insurtech firms fit in the activities of incumbent insurers.

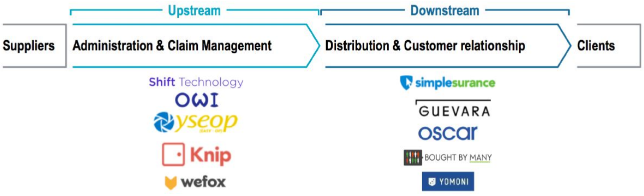

Figure 2: Competitive and collaborative insurtech models. Source: Roland Berger.

Taking the car insurance supply chain as an example, Suppliers include car body shops and towing services. Administration & Claims Management handle the back-office policies and claims tasks. Distribution & Customer relationship are the client-facing activities performed by a variety of channels, including agents and brokers, call centres, price-comparison engines (such as Confused.com in the United Kingdom) and the insurers' own sales channels.

Many of the insurance products have become commoditised, driving prices and margins down. For example, 70 percent of people renewing their car insurance policy in the U.K. **use** price-comparison sites. Burdened by legacy costs and a long overdue automation, traditional insurers have much to gain from working with start-ups in administration and claims management.

Collaborative, win-win opportunities in the upstream part of the supply chain are possible for insurers and start-ups alike. For example, Shift Technology, a Paris-based start-up, provides artificial intelligence solutions for insurance fraud detection and automated claims management. Such firms can benefit incumbents even as they disrupt them.

Opportunities for collaboration also exist downstream, but the relationship tends to be more competitive. Take Berlin-based simplesurance. It offers its e-commerce partners a plug-and-play, cross-selling digital solution that allows end-customers to buy insurance with just one click. It insures a broad variety of products, from smartphones to baby strollers. While creating new business for traditional insurers such as Allianz, the German start-up also positions itself between the customer and the insurer as a new gateway or tollgate. While there are clear collaborative benefits in the short term, the longer-term relation appears much more competitive. This could give rise to intense competitive pressure for the insurtechs – or sell-out opportunities.

The case of Google Compare

In 2012, Google began its foray into the price-comparison market for insurance products. Starting with the U.K. and later in the United States, Google aimed to become the unassailable partner for companies offering car insurance, credit cards, mortgages and travel insurance. In March 2016, however, it shut down its Google Compare operation, **explaining** that the service hadn't driven the success it was hoping for. Major insurers had been unwilling partners and, while there had been quite a bit of site traffic, conversion had remained low.

Many in the insurance industry rejoiced at the exit. Some **claimed** that insurance was too difficult a product to sell online. Google decided that focusing on AdWords would provide it a better return in financial services. Google's late entry might have been a serious handicap: The comparison market in the U.K. was already crowded with sites such as Confused.com, Moneysupermarket.com, GoCompare.com and Comparethemarket.com.

Opportunities for insurtech ventures

Traditional insurers are burdened by legacy administration costs and often archaic sales structures and practices. The legal environment has also lulled them into complacency for too long. Now that the customer base expects the smooth experience offered by companies such as Amazon, Google, Apple and Netflix, this creates a wealth of opportunities for insurtechs that can address consumers' many pain points (Figure 3).

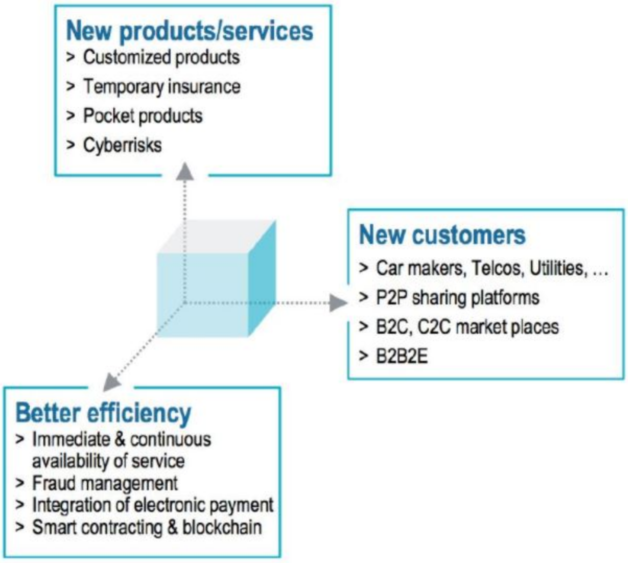

Figure 3: Opportunities for insurtechs in the supply chain. Source: Roland Berger.

Promising segments for market growth – or disruption – include mobile point-of-sale (e.g. inexpensive insurance for shipping return, flight delay, cracked phone screen), group healthcare and automated claims management. Traditional insurers quick to leverage the relevant start-up services while defining a digital vision for themselves might be able to thrive – and avoid the perils of legacy companies in industries such as travel, where many incumbents have been reduced to also-rans.

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