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EXECUTIVE SUMMARY

INSURTECH CAUGHT ON THE RADAR

HYPE OR THE NEXT FRONTIER?

EXECUTIVE SUMMARY

CURRENT STATE OF INSURTECH

InsurTech – the term that captures the many and various facets of new uses of digital technology in the insurance industry – has been attracting a great deal of interest from founders, investors, and incumbents. In line with this, investments in InsurTechs have increased significantly. A good chunk of this investment is coming from insurers and reinsurers. This underlines the industry's strong belief in the necessity of change and the increasing relevance of new technologies to become more customer-centric, cost efficient, and even to re-invent the business of covering risk with new business models.

Not surprisingly, InsurTech has become a hot topic amongst venture capital investors. A number of major deals have hit the headlines over the past two years, including the $930 million investment in China based Zhong An, the $500 million raised by the digital HR platform Zenefits, and the $400 million investment in Oscar, a New York based healthcare insurance startup. The total number of InsurTech investments is still on the rise.

Surprisingly, this surge of interest has taken place in something of an analytical void. Though there have been many InsurTech-related articles and a number of studies, none of these have really asked the fundamental questions and provided meaningful guidance. What has been missing is an unbiased, well-structured, and in-depth analysis of the InsurTech landscape In short, a report which identifies the different existing business models and provides guidance by assessing InsurTech activities and projects which represent the next frontier in the insurance universe.

Oliver Wyman and Policen Direkt's global InsurTech Radar attempts to fill this gap by bringing onto the radar the previously unseen. Based on our global InsurTech database and our joint industry experience, we have developed a practical and consistent framework combined with a strong assessment logic, which not only reports about the status quo but analyzes the drivers behind the phenomenon in order to make forward-looking statements.

THE FRAMEWORK

Our framework follows the insurance industry value chain from proposition, to distribution, and operations. Within these three segments, we have identified 19 distinct InsurTech business model categories. We are assessing these by analyzing their individual market potential as well as their chances of success, especially their capabilities of matching needs and behaviors of all parties acting across the insurance value chain, namely customers, suppliers and all other partners a risk carrier is interacting with.

For each business model category, we then conclude who is most likely going to reach the next frontier of success – InsurTechs, established (re)insurance players, pure tech players, or attackers from adjacent areas.

OVERALL PICTURE

The overall picture that emerges from our InsurTech Radar is, first of all, that different business model categories vary significantly in terms of overall level of economic attractiveness and degree of startup activity. While some see little startup activity, others already appear overcrowded. The number of InsurTechs active in a category is not always in line with its relative attractiveness.

Secondly, even in the most attractive business model categories, it is not clear that InsurTechs will disrupt the industry and make the race. The players most likely to succeed vary by category. InsurTechs will not always be the winners. There are several categories in which either incumbents embracing digital change or firms from outside the insurance industry are most likely to succeed.

Thirdly, a number of underdeveloped categories present attractive opportunities. To be successful in these areas will require innovators to get creative on "demand side" thinking creating models that fundamentally change how risk coverage is presented and sold to customers, models that are not merely digital updates of traditional or slightly altered insurance propositions. Such thinking – substantially different from the "supply side" models of the current, first wave of InsurTechs – is essential for uncovering latent customer demand for risk cover.

Segment 1: Proposition

The proposition segment is less than half the size of the others. It is also the most varied in terms of outlook. The InsurTech Radar shows that there is currently a major mismatch in this segment between the categories with the highest level of startup activity and those with the greatest overall potential. Examples include Situational and Community-Based business model categories which we see as over-emphasized. Nevertheless, the proposition segment includes some of the most attractive categories of any InsurTech segment, as they represent true innovation on how risk coverage is presented and sold to customers – some of these currently see relatively little activity so far (such as the Risk Partner business model category).

While the news here is good for established insurers, in that they are likely to be the winners in several of these attractive categories, it is also quite clear that InsurTechs are here to stay. The emergence of newly funded and fully digital insurance carriers might bring forward real breakthroughs. It is very likely that the segment will look quite different in a few years.

Segment 2: Distribution

The InsurTech Radar shows the distribution segment to be much better matched in terms of the level of activity and the categories with the highest likelihood of success. On the down side, all but two of these areas have, comparatively only moderate potential at best, due either to limited premium pools, challenges in sustaining value generation, little opportunity for differentiation, or some combination of these (such as B2C Online Brokers). As in the proposition segment, some of the most crowded categories are also likely to see a shakeout.

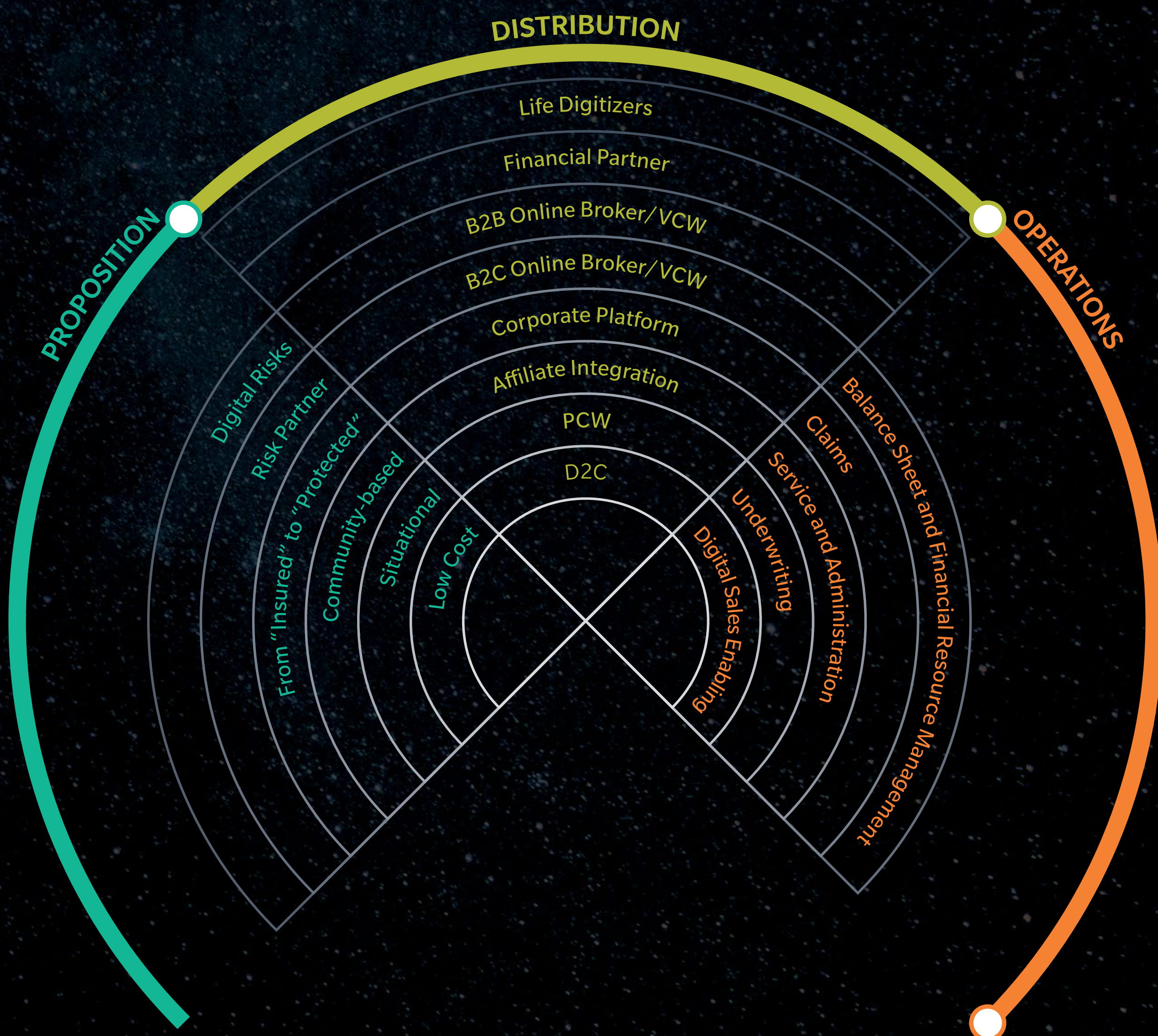
Segment 3: Operations

The operations segment is the most consistent of the three: Only one business model category here currently shows limited potential (the “Balance Sheet / Financial Resource Management” category). Most others are highly attractive. InsurTechs are likely to dominate the segment, albeit sharing honors in the underwriting category with reinsurers.

OUR VIEW OF THE FUTURE

In looking at the bigger picture, this report identifies areas of substantial potential in InsurTech in categories that are as yet not being fully exploited. One key reason for these surprising gaps in the investment landscape is likely that much of the first wave of digital investment originated from legacy “supply side” thinking. InsurTech opportunities were seen in digitizing the value chain of existing insurance product-lines, or in attempts to apply e-commerce thinking to the insurance industry. As this report shows, such methods might work in some categories but miss the bigger picture. They have a blind spot for some of the most attractive opportunities, which require truly innovative engagement models that go beyond the current value chain. However, exploiting these opportunities requires a major change in approach.

We expect a second wave of InsurTechs to emerge that are more industry-savvy and better prepared than their first-wave peers. These InsurTechs will create new forms of consumer and partner engagement, incorporating true “demand side” thinking. To succeed in the most promising of these areas, such as the “Risk Partner” category, InsurTechs need to make much more creative and ambitious moves, using and creating real customer pull to actualize this largely unrealized potential. However, InsurTechs are not alone. Incumbents are catching up. Digital innovation has become a top priority on the radar of most insurance CEOs. The race to the next frontier is on.



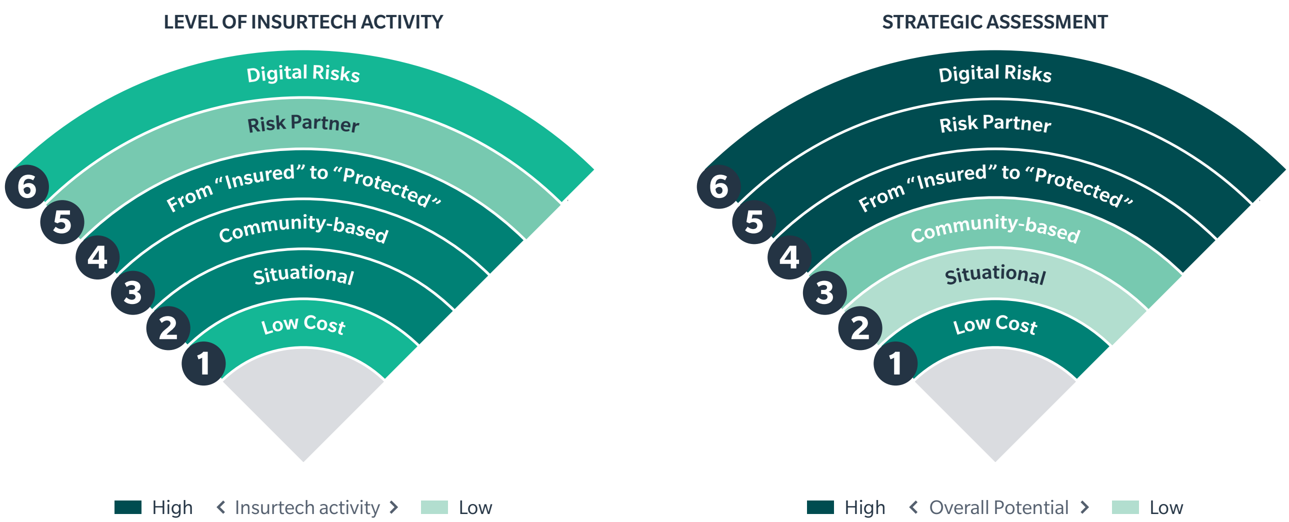
DISTRIBUTION
Life Digitizers
Financial Partner
B2B Online Broker/VCW
B2C Online Broker/VCW
Corporate Platform
Affiliate Integration
PCW
D2C
PROPOSITION
Digital Risks
Risk Partner
From "Insured" to "Protected"
Community-based
Situational
Low Cost
OPERATIONS
Balance Sheet and Financial Resource Management
Claims
Service and Administration
Underwriting
Digital Sales Enabling

PROPOSITION

The six business model categories in this value chain segment contain businesses that offer innovative insurance-based products and services, either on a stand-alone basis or as part of a broader offering. The segment represents about one-fifth of current InsurTech activity, making it the smallest segment (See Exhibit 1). InsurTechs face strong competition from established insurers. Nonetheless, there are significant opportunities for those pursuing opportunities along the right avenues. The segment might in the future even bring forward the first true insurance disruptors.

A comparison of InsurTech activity and our assessment of their potential reveals a mismatch running across almost all business model categories (From Insured to Protected being an exception). The highest level of activity in the segment is currently in the two (comparatively) least promising areas (Situational and Community Based), while two of the three attractive categories have seen – up to now – low levels of activity (Digital Risks and Risk Partner). One of the three, the Risk Partner category, has the lowest level of investment of any of the categories within this segment even though it is one of the areas that might generate truly disruptive business models one day (together with Low Cost).

Exhibit 1: Proposition – Comparison of activities worldwide and strategic assessment



Source: Oliver Wyman, Policen Direkt

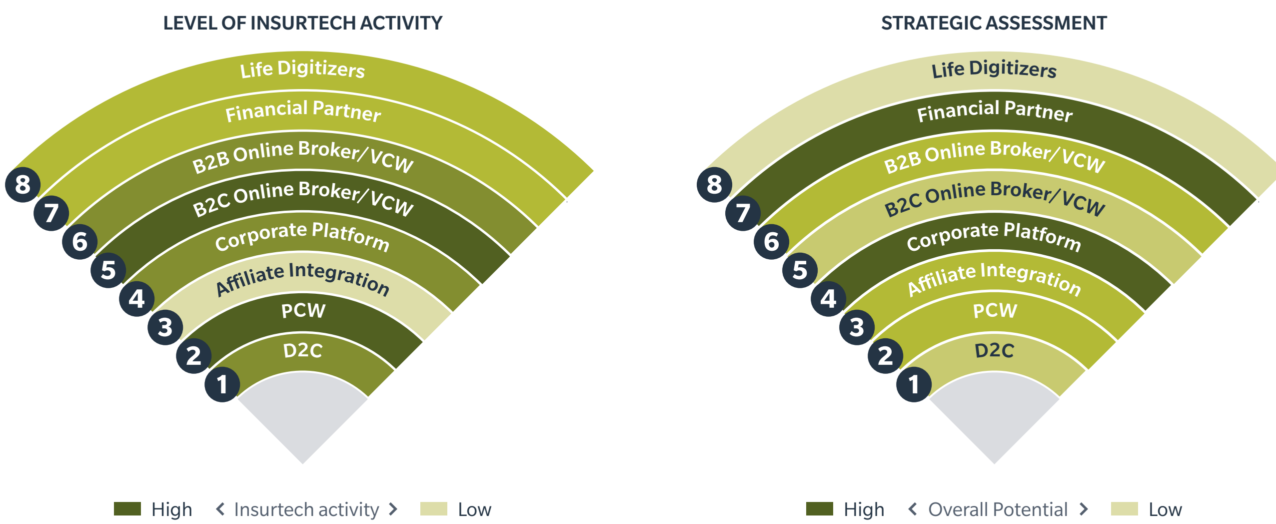
DISTRIBUTION

The eight categories in this segment all focus on the use of innovative digital platforms to reach customers. Currently, just over two-fifths of InsurTech companies are active in this segment. As such, this is the most active segment. As well as having a high level of activity, the segment offers a number of good opportunities. The categories with the best of these opportunities still offer room for further investment (See Exhibit 2).

Somewhat surprisingly, one of the categories that offers InsurTech businesses the greatest chances of succeeding, Corporate Platforms,has a fairly low level of activity outside of the Americas.

We assess one of the eight categories, Life Digitizers, as currently only an emerging opportunity. But a surprising number of mostly technology startups that are not yet monetizing their insurance offerings are already active here in the Americas and Europe, Middle East, and Africa geographies (EMEA).

Exhibit 2: Distribution – Comparison of activities worldwide and strategic assessment



Source: Oliver Wyman, Policen Direkt

OPERATIONS

The five categories in this segment all focus on using digital systems to improve the processes involved in creating risk-coverage solutions. Advances in digital technology – such as blockchain, big data, Internet of Things (IOT), and artificial intelligence – continually create opportunities for innovative solutions. In this report, we do not cover pure technology companies that offer general "horizontal" solutions based on these technologies, although they might be applied to insurance. Nor do we cover "vertical" innovations in functions like digital marketing, which are not insurance-specific. Our focus is on insurance-specific "vertical solutions," such as the application of new technologies to novel means of distributing insurance and managing claims. Currently, this segment has seen a similar level of InsurTech activity to that in distribution. Not only does the segment have a high level of activity, but its activity is the best matched of any segment to the level of opportunity (See Exhibit 3).

Exhibit 3: Operations - Comparison of activities worldwide and strategic assessment

Source: Oliver Wyman, Policen Direkt

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across nearly 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has about 4,500 professionals around the world who help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC].

For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

ABOUT POLICEN DIREKT

The Policen Direkt Group, based in Frankfurt, Germany, was founded over ten years ago as a start-up in the insurance industry. With a novel business model, the aim was to provide added value to end customers by extending the insurance value chain: life insurance resale in the secondary market on a newly created, proprietary technology-based platform. Since its establishment, the buying and selling of policies have been operated mainly via digital channels. The Group also operates a platform for consolidating and digitalizing the established insurance brokerage market.

Policen Direkt has successfully founded its own InsurTechs in the fields of business, annex and P&C insurance, invested in young companies, and is a sparring partner of founders and investors interested in the insurance market.

Additional information can be found at: www.policendirekt.com.

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