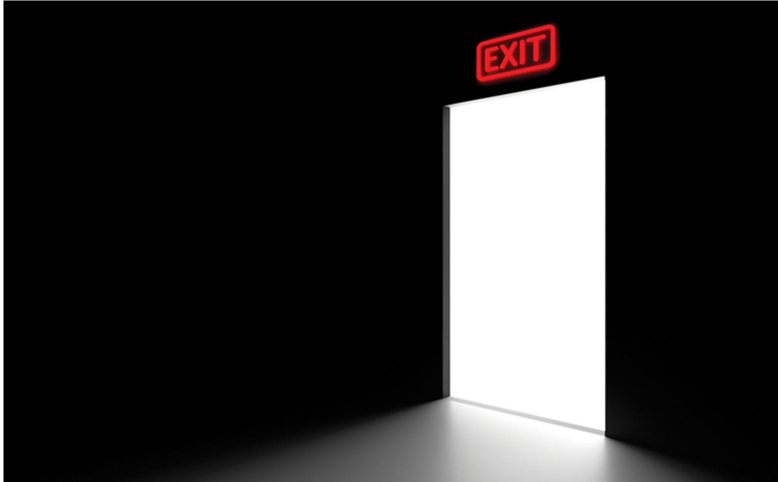
Insurance POST

# Analysis: What do recent market exits mean for insurtechs targeting millennials?

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## NEED TO KNOW

- Experts suggest more insurtechs are likely to follow suit and exit the market, or bow to consolidation
- Those in the personal lines market are most at risk, with some identifying it as over-saturated
- UK insurtechs have failed to pick up big ticket funding seen on a global scale, and some say they are struggling to find an investor base
- There is a continued sense among some that many millennials remain disinterested in personal lines insurance that is not a requirement

**Three insurtechs have pulled out of the insurance market so far this year, raising questions around the efficacy of selling insurance to millennials and whether more of these firms will fall.**

**Kinsu**, Ageas' **Back Me Up** and Trov's personal lines **app offering** have all quit the personal lines space in recent months.

The three companies have some elements in common. They were either usage-based, or monthly subscription-based, products. They operated solely in the personal lines space, targeting a millennial consumer base.

In addition, they focused heavily or exclusively on gadget insurance.

## Is the ‘bubble’ bursting?

Some had predicted that the insurtech space was a ‘bubble’, waiting to burst.

Marcus Ryu, Guidewire CEO, cautioned in 2017 that 95% of investment in insurtech would “be wasted”.

Experts have remained cautious, suggesting this is not yet a trend. However, they do expect that more companies are likely to follow.

Matt Connolly, Tallt CEO, said: ”Is the bubble bursting? No, we’re just maturing as an industry moving from hype to validated business models. Will more businesses crash in the coming year? Yes, absolutely. But it wouldn’t be innovation if you didn’t see and expect some level of failure.

He added: “Is this restricted to personal lines? Absolutely not. It’ll be across the board. But this will always be the case and there’ll always be a good churn of these businesses, whether it’s a product market fit, a lack of distribution or other.”

Nick Pester, Capital Law head of insurance and insurtech, said: “Frankly there are quite a few businesses now that have outlined what they are doing, and I ask: ‘Isn’t that exactly what Laka or By Miles are doing?’. They believe it is really different, but it really isn’t that different.

“Companies have got that foothold now in those markets, it’s going to be very difficult for someone to displace them unless they have got an innovative, disruptive proposition which is genuinely different. There isn’t really anything like that.”

With retailers also looking to implement their own insurance offerings, this makes insurtech partnerships less palatable, according to Pester.

He added: “We are getting to a point where the retailer is saying OK, well we could partner with these guys, but we know our customers better than they do.”

## Over-saturation and consolidation

These appear to be more problematic for personal lines insurtechs. While Axa-backed Trov may have left its personal lines offering by the wayside, it is building a presence in the commercial space in the US, has raised $98.8m (£79.2m) so far, and has vowed to return to the UK with a different proposition.

Some 60% to 70% of the insurtech companies Capital Law is now engaging with are on the commercial side, according to Pester.

He added: "The problem is saturation. The personal lines space is becoming over-saturated. Unless you have attraction, good volume and most important distribution partners and channels, it's very difficult at the moment for further propositions to launch.

"I expect consolidation will happen. Part of the problem with personal lines insurtechs is they are so niche, they are so specialised and focused on very particular needs, of a very particular customer, that volume is always going to be a problem.

"If you splinter the market to that extent, it is going to be very difficult to get the critical mass that you need to run a profitable book of insurance business."

However, voices from within the insurtech community disagree that the market is too saturated.

So-sure CEO, Dylan Bourguignon said: "It is absolutely not. If you look at adtech, there are hundreds and thousands of firms. There are not many in our space. It is not easy to set up an insurtech. It is highly regulated, there are a lot of hurdles you have to overcome, which makes it a lot harder to set up a start-up in the insurance world than other sectors."

### Insurtech: in numbers

Investment in UK insurtech in 2018: **$1bn**

**The largest investments in UK insurtech firms for the year to date**

## Investment

One major challenge for UK insurtechs can be raising capital. Kinsu co-founder and CEO Chris Sharpe told *Post* at the

**include:**

**Zego**

*(Series B - $42m (£33.1m)*

Commercial driver, rider and fleet insurance provider

**Cytora**

*(Series B - £25m)*

AI solutions provider for commercial market

**Bought By Many**

*(Series B – £15m)*

Pet insurance provider

**The largest investments in global insurtech for the year to date include:**

**Lemonade**

*(US, Series D - $300m)*

Renters and home insurance

**Policybazaar**

*(India, Series F – $152m)*

Aggregator

**Waterdrop Mutual**

*(China, Series C - $145m)*

Health insurance

time of putting the business on hold that investment and lack of funds was the reason the insurtech was unable to continue.

While some insurtechs overseas have seen huge levels of investment in one funding round, this has not been mirrored in the UK. Due to large outliers, some argue that global volume and deal metrics for insurtech investment are not a reliable measure.

Bourguignon added: “Unfortunately the reality is for many startups even if they have got the right product for the right market, if the investor base decides it is not flavour of the month and they are moving on to something else, that is it for the business. On the business to consumer side we need to be supported for quite a long time, because we need volume. You’ve got a constant dilemma of building out a customer base very quickly and having a large number of customers, but having not necessarily resolved all the logistical and underwriting issues that arise from being a B2C proposition. It’s not like any other sector.

"There seems to be a confusion on the amount of investment going into insurtech. They can announce very high, big numbers, but if you take an old technology business and you say their buyout is included in the numbers of insurtech, of course insurtech gets lots of investment. But that is not what we are talking about. That is an incumbent software provider."

This is one key challenge that **Insurtech UK**, a recent body that has made a partnership with the government, is seeking to tackle.

The trade association launched in November 2018, in a bid to raise awareness of and bring funding into the sector. It is also acting as a gateway for foreign investment.

James York, Insurtech UK spokesperson, said: "On a couple of occasions the Chicago ecosystem alone has raised more than the UK ecosystem annually. Given that we are such a huge insurance economy, there is a bit of risk aversion about the amount of investment.

"It's a mixed picture from the incumbent perspective. A lot are focused on what they do best. Selling something unrelated for millennials is not always going to be their strategic focus if they have a very tight strategy. From a venture perspective, a lot say they are early stage, but set a bar that isn't early stage relative to our market. The cost of acquisition in insurance is incredibly high, because there are no guaranteed and easy ways to get in front of people.

"The gatekeepers argument in distribution is an issue and there is not enough being done at the early stage. If you look at our largest raise, it pales into insignificance versus some of the raises happening in the US. The community incumbents are not maybe adding enough from their budget as they could do, which would really pay off for them, and we don't perhaps have enough venture capitalists putting enough seven figure raises into the market. It is a bit more of a battle for UK companies."

## Price and value

While investment opportunities are weighing heavily on start-ups, others believe that price and value make some models very difficult to take off.

In a competitive aggregator-driven market, it can be difficult to get a proposition out there without a huge marketing budget, particularly if the price is not a key draw.

In the US, a market not dominated by price comparison sites, Lemonade spent $7.7m on marketing in 2017 alone, while delivering **underwriting losses** of $15.8m. The **figure shrank** to $6.7m for the following year, while customer acquisition rocketed.

Talking about Kinsu, Back Me Up and the Trov app, Mark Andrews, Altus director of general insurance, said: “They all seem to be gadget or contents insurance. If you compared it to a standard home and contents policy, they were massively overpriced. You could get a £60,000 to £70,000 cover on your home insurance policy for less than you were paying on the gadgets.

“They were setting themselves up – even though it was a really nice user experience – and it was something insurance companies don’t traditionally do with nice apps, short question sets, they were pricing themselves out the market.

“I wasn’t surprised to see them go by the wayside or maybe not pick up the full volumes they were going to pick up.”

## Selling to millennials

There are 17 million millennials in the UK, making up over a quarter of the population. This has been often been touted as an under-served market in terms of insurance.

At the height of the buzz around insurtech start-ups in 2016, a Guidewire survey of 2000 under 30-year-olds in the UK revealed that 60% of them did not have contents insurance.

However, it also demonstrated that 60% of those who had found their items damaged had not then considered insurance.

## Potential disconnect

There is a potential disconnect in how businesses believe insurance products will be received by millennials.

Greg Brown, partner at Oxbow, said: “The challenge is, I don’t know how much of that is an addressable market.

“Someone like Lemonade has spent a ton of money on marketing, which is why it has seen success in customer acquisition. It is a behaviour change. You are asking people who don’t buy insurance to buy insurance. And if they do buy it, it is typically in annual policies, while you are asking them to buy monthly policies.

“Everyone was doing it for two or three years. You would expect something to happen, either consolidation or something disappearing. Everyone did the same equation - they said many millennials don’t have insurance, so let’s sell to them.”

Chris Sandilands, another partner at Oxbow, added: “My fundamental reservation is that a lot of these businesses require people to take care of items which they didn’t previously take care of, at least with an insurance product.

“You’ve got two things: suddenly everyone decides they want to buy a product in good faith to protect against damage to the item. The other one is you buy a product, because you know it is a high risk product and you’re so bothered about damaging it. For example, skiing over a rock. You are less likely to mind damaging your skiis if you know the policy is there to protect them. I am a little sceptical that there is that amount of good faith demand and that there is a profitable business model at the end of it.”

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