10 insurtech predictions for 2019: XL Innovate

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More in Insurtech, Blockchain, Start-up funding, Artificial intelligence

It's been another big year for Insurtech, with venture funding surpassing 2017 levels, the first unicorns outside of health insurance, and incumbent carriers doubling down on new technologies and solutions. At XL Innovate, we're watching all of these developments and trends closely and expect to see a number of exciting changes occur in 2019. Here are 10 predictions for the coming year.

Amazon and Google will put their elbows out in personal lines

In 2019, tech giants will continue to leverage what they know about their customers to provide the innovative and unique insurance offerings we've been talking about for the last few years. Large companies like Amazon and Google have one major competitive advantage when it comes to providing insurance options: a deep trove of customer data. There is no question they see opportunities in the financial services and insurance spaces. Amazon, in particular, is acquiring and funding insurtech startups and initiatives, both in the U.S. and abroad, while partnering with carriers. Travelers recently partnered with Amazon to bundle insurance discounts with the purchase of smart home
products. It will be increasingly challenging for carriers to ignore the potential dollar signs that come with the 95 million, credit card-ready Amazon Prime subscribers in the U.S. alone.

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Some partnerships will be surprising

Travelers and Amazon won’t be the last novel partnership in insurance. In fact, we’ll see many more in the coming year, including some that may raise eyebrows. What if Tesla forms a deep partnership with an insurtech like Metromile, and snubs traditional carriers after poor reviews of Liberty Mutual’s ‘Insure My Tesla’ plan? What if Google integrates PolicyGenius directly into search (after its own insurance comparison tool failed a few years ago) and circumvents organic search results from carriers? What if Zhong An and Lemonade partner to share technology, UX learnings, and AI know-how to cement themselves as the most innovative insurtechs in China and the U.S., respectively? The potential combinations are endless.

AI will spread exponentially and incumbents will unlock massive data troves

Insurers are already seeing the ROI of AI applications, and it’s now a race to realize those gains, institute new workflow efficiencies, and identify AI-powered underwriting and claims data. According to Accenture, a quarter of insurers are
using artificial intelligence in some way, though I suspect that number is quickly increasing every month.

The landscape is slated to change in 2019: so far, digital-first insurtechs have had an advantage in creating and leveraging the data necessary to automate portions of their business and offer new products. However, incumbents are now using AI and data tools, like Quantemplate, to clean up their legacy data and make it machine readable and minable for the first time. Completing this ongoing process will unlock an enormous trove of information that insurers have been sitting on for decades. Soon, they will be able to tap into this data to find new correlations and insights that are otherwise impossible to identify.

**Blockchain still struggles to find a home**

In 2017 and 2018 we saw the creation of consortia, like B3i and Riskblock, to get a critical mass of reinsurers and insurers on the same page. However, these groups and incumbents are still struggling to pin down a particularly attractive use case for blockchain. The key here will be for blockchain to begin cementing itself further with financial institutions and other industries outside of insurance. Once a use case is proven out, we may see insurers feel more confident in moving forward. However, unless that happens, it'll likely be another year of uncertainty in how to effectively implement blockchain into insurer workstreams.
**Insurtech will go global in a big way**

Asia's insurance market is growing rapidly, with companies like Ping An and Zhong An leading the way, and with tech companies like Baidu, Alibaba, and Tencent investing heavily in insurance products that fit well within their existing mobile offerings. Since 2016, insurtech funding in Asia has more than tripled (from $140 million to $506 million according to CB Insights) while it's only up 60% in the U.S in the same time period (from $1.46 billion to $2.44 billion).

This will lead to two very different global insurance marketplaces: one in Europe and the U.S., and the other in much of Asia, Africa, and South America. In the latter areas of the world, insurtechs will be able to skip the legacy systems and jump straight into digital-first infrastructure and technology that is more suitable to smaller-scale products. The low penetration of insurance products in these markets makes them even more attractive as companies look beyond China. In addition, countries like China have far less stringent rules around data privacy, which will allow insurtechs in those countries to experiment with potentially invasive customer data to learn more about their lives and associated risks.

**We’ll see increasing crossover between fintech and insurance**

This year SoFi started to provide life insurance through Ladder, while Credit Karma began offering an auto insurance score and comparison tool. These relatively new, successful fintech companies started with a single, focused product that traditional financial institutions were doing a poor job of providing. Now, fintech companies are looking to broaden their scope (and sources of revenue) with new products and a rebundling of traditional offerings. Personal lines are one natural upsell opportunity for their existing customer base. Square or Kabbage, for example, have an opportunity to sell SME insurance.

I see two scenarios emerging in the coming year. First, incumbents will look to compete with insurtechs by offering their products through fintech companies. Second, fintech companies will dive in deeper and begin acquiring insurtechs, in a bid to integrate insurance DNA and know-how into their companies.
Insurance will (slowly) become more transparent

New insurers are already changing the nature of insurance and how people view it. Just look at how people rave about their experience using Lemonade, compared to traditional insurers. With better, human-centric design, users can now see why insurance decisions are made – even if those decisions do not go the customer's way. Customers will increasingly appreciate and gravitate to transparency, pushing incumbents to follow suit. In addition, better data and usage-based insurance will create more efficient and personalized policies that will make more sense to the end customer, which will then provide more clarity around the necessity and worth of their insurance policy.

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Commercial insurtech will build on 2018 successes

I predicted the rise of commercial insurtech in 2017, and we have indeed seen it come true in the last year. Companies like Windward and Cape Analytics are gaining leverage in the space to provide more granular commercial-grade data. Now, I expect the industry to gain momentum, for insurtechs to begin answering the more challenging questions around risk and loss prediction that will allow them to move further into the value chain and solve more complex problems.

We’ll see the rise of large-scale ventures that are internally funded

The formation of ventures and consortia formed by incumbent insurers and reinsurers is accelerating. Recently, we’ve seen the creation of B3i and now there are internal initiatives at Hiscox, Travelers, Hartford, and others. In 2019, we’ll
continue to see incumbent-grown teams and companies raise large funding rounds and make some noise in the marketplace as they establish themselves.

**Insurtechs will crack the SME market gap**

There are 30 million small businesses in the U.S., and small and medium-sized businesses are the major driver of job growth and economic vitality nationally. Unfortunately, smaller companies have long been neglected by traditional brokers, who don’t consider the commission large enough to devote their time and service to a small business. This has resulted in many SMEs being passed over for coverage and support. Now, a slew of insurtechs like [Embroke](#)r and [Next Insurance](#) are using digital tools to solve the SME market gap and make waves. Another set of companies, like [DataCubes](#) and [Terrene Labs](#), are enabling this trend by integrating third-party information to prefill SME data, leading to faster and more accurate policy decisions. Incumbent insurers are taking notice. Recently, for example, Travelers bought an SME-focused MGA called Simply Business for a half billion dollars, and is looking to roll their solution out in the United States. The SME tranche of insurtech is still in its infancy, but we will see some major momentum in the year ahead as industry leaders emerge.

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