Willis Towers Watson

Quarterly InsurTech Briefing Q1 2021

The era of acceptance

April 28, 2021

This briefing explores the InsurTechs, InsurTech initiatives and thought leaders focused on the future of product and service.

(https://web.willistowerswatson.com/Preference-Center-Unknown-Email-ENG-EMEA.html)

Throughout most of recent human history, the adoption of new technologies and innovative ideas has been as much a question of good societal timing as it has been the availability of said technologies and ideas. Generally speaking, ideas and technologies have to be acceptable to the community of which they will one day be a part if they are to succeed in being inducted (Thomas Edison's hydrogen battery springs to mind). In order to expand the production-possibility frontier, therefore, a society needs to be willing to embrace any such technology that can, at least in part, facilitate this transformation as much as its facilitation relies on the technology being available in the first place. Community-wide acceptance of anything transformative, or at least accelerated evolutionarily, is rarely instantaneous. It requires evidence-driven results and a legitimate period of "bedding in."

True technological "disruption" (i.e., innovation) almost never begins with a single invention; rather, it begins when a community emerges to support it.

In very rare cases, an outside force with such an innovative/ technological advantage can be a true "disrupter" and will not require the approval of the incumbent community. But even in those cases, the outsiders in question usually have the support of the state or the consuming class. Why write such a trite observation? Because this issue has probably been the single most important barrier to entry for InsurTechs wanting to be a part of the (re)insurance industry. This is evidenced by the fact that the types of technology that are now making industry headlines are not exactly new, but widespread willingness to engage and adopt is now growing at an unprecedented rate. The past 12 months of InsurTech-related activity has shown us this. True technological "disruption" (i.e., innovation) almost never begins with a single invention; rather, it begins when a community emerges to support it.

COVID-19, more than any other issue, has rapidly accelerated the ice-breaking process that was already well under way in our industry. One of the greatest contributions that InsurTech start- ups, as a whole, have made to our industry is to consistently extol the virtues of technology relative to the (re)insurance industry. Over the past five years, industry press has been inundated with new technologically enabled firms that are looking to work with our industry to support the ready adoption of technology to achieve (for the most part) a common goal: the better matching of risk with capital while improving end consumer experience and lowering operating expenses. COVID-19 has helped this narrative accelerate and demonstrably illustrate the results that are now being achieved at scale. As the ice is being broken, and more trust and confidence is being garnered, the flow of fresh water into our industry is gathering momentum.

Despite this positivity, we are not suggesting that our industry is now accepting any kind of technological initiative. In fact, with the ever-increasing understanding of the role that technology can have, it is becoming clearer which types of initiatives are likely to work and which ones are not. In order for our industry/community to accept InsurTechs, the solutions being offered must make sense (intellectually and commercially) for the community being targeted for adoption. At this particular juncture, the technology is the least interesting part of the discussion. In light of these thoughts, a number of InsurTechs, or at least InsurTech-esque initiatives, will most likely never achieve the grandeur of their aspirations. This is likely because they have misread our industry to the extent that they have mistaken who their target audience ought to be (and, more important, what that audience needs and currently does); as a result, they might may never be accepted by the one community that would need to emerge to support them.

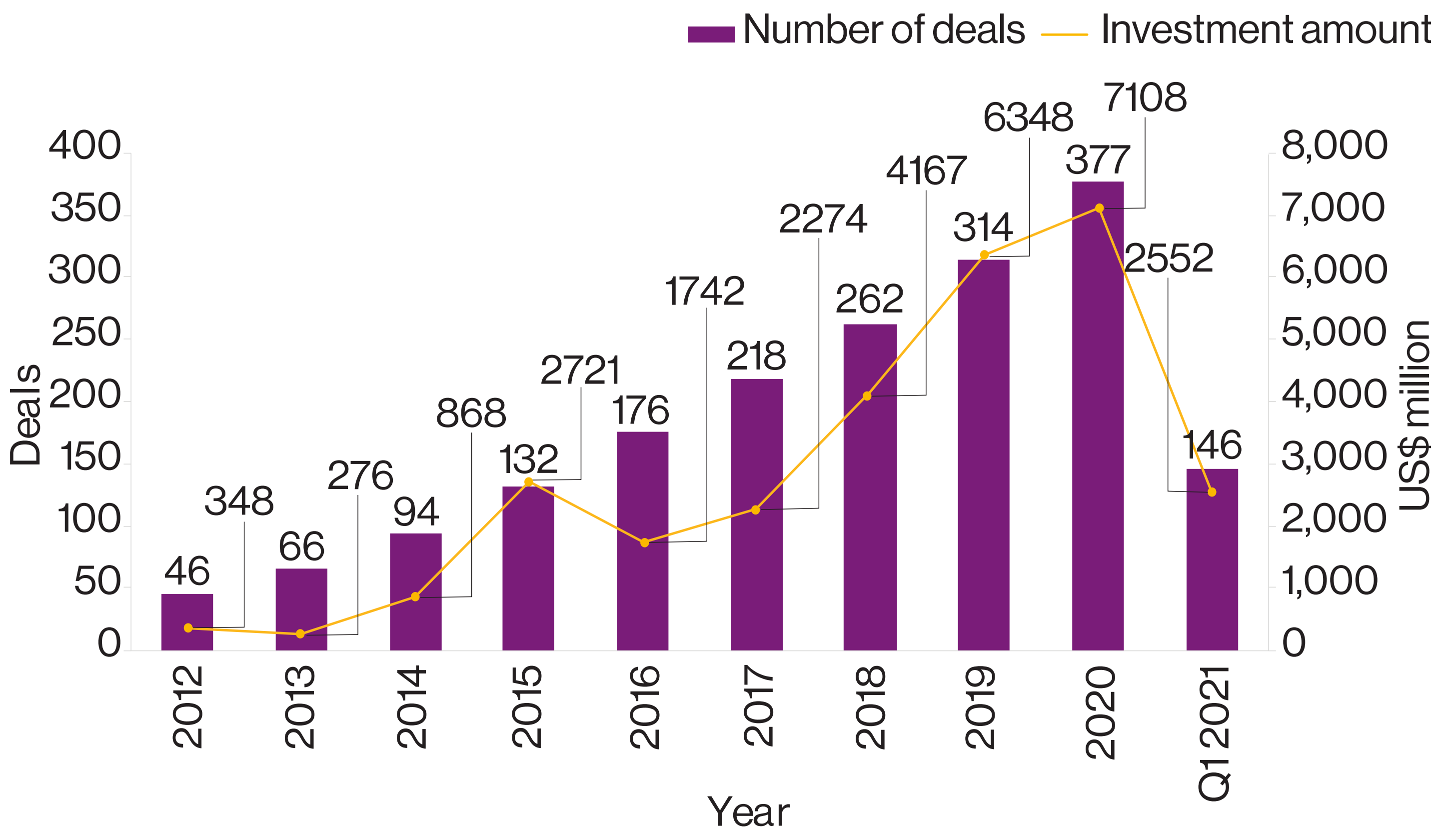
For example, any market-wide placement platform that aspires to have secondary trading capabilities, that is being incubated outside of a deal flow giant and has no long-term view of engaging with such players in the future (while development is still malleable) is unlikely to succeed. Such a simple error is most likely a result of misjudging what individual component parts of our industry do to "make it go around," or at least a naivete that "if it's built, they will come." For those InsurTechs that do correctly judge who their community of acceptance is, however, the past 12 months have provided a fantastic opportunity to make the most of a turning tide: the era of **acceptance and openness**.

Continued investment into InsurTech

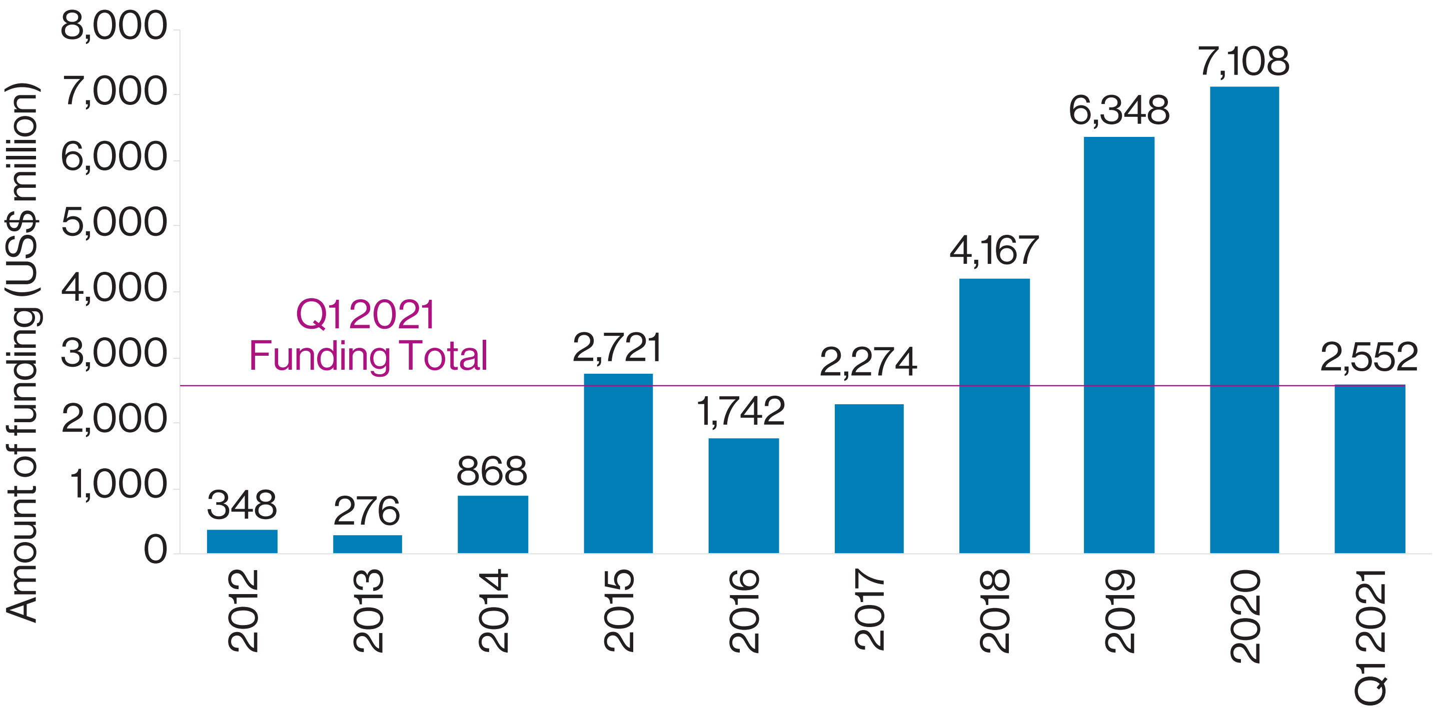
Over the past few years, we have seen a ramping up of investment into InsurTech across the globe. We are often asked, “When will we start to see InsurTech funding decline?” Not too long ago, this question would have been met with an educated guess. That guess was, in part, anchored in the observations taken from other periods of investment-driven technological speculation, relative to the number of great businesses that have been entering our industry that fit the bill for what was traditionally understood to be InsurTech. This was considered against the number of possible winners that our industry might be able to support. Over time, however, it is becoming increasingly clear that any halting of funding into InsurTech is not going to be driven by the act, or lack, of committing capital to firms that identify as InsurTechs but rather a reevaluation of the term itself.

It is fair to say that a significant percentage (i.e., most) of new commercial initiatives in our industry are being supported by some kind of technology; in fact, our industry is becoming increasingly reliant on technology, across the board. At the same time, most new entrants and initiatives into our industry are identifying as InsurTech (for all manner of reasons ranging from its power of speculative returns to simply not wanting to seem out of touch). When putting these two things together, in addition to the natural maturation of those InsurTechs that genuinely are “InsurTech” as we used to define the term, it is quite possible that we will see year-on-year investment into InsurTech continue to grow as the use of the term shrouds what is actually going on — a situation that might have previously been classed as a traditional investment but is now captured by an increasingly diluted term. That is to say, the term is being adopted more widely by the day, and firms self-identifying as InsurTechs are growing by the day; therefore, any capital raised by such things will be captured as investment into InsurTech.Widening goalposts are redefining what we used to mean by a more specifically defined phenomenon. This investment growth could theoretically continue in perpetuity until such times that the term InsurTech becomes completely irrelevant (because it will go without saying that a business or idea is fueled by technology) and we, collectively as an industry, choose to drop it because it no longer serves any purpose.

As our industry contemplates entering the fifth technological revolution (increased synergy between humans and machines around the foundations of artificial intelligence [AI]) the role of the human, and our judgement as humans, will somewhat perversely become more important. Perhaps it will be this iteration of the next evolution of our industry that ends our current obsession with the term InsurTech. In any event, as what otherwise might be classed as ordinary businesses (but with a technological slant) in a different era continues to attract hundreds of millions of dollars, we will most likely see a continued rise in investment into InsurTech.



Annual InsurTech funding trends including transaction volume and dollar amount, 2012 – 2021



Annual InsurTech funding totals, 2012 – Q1 2021

Global InsurTech activity reaches an all-time high, with Q1 2021 being the strongest on record

This quarter, InsurTech funding reached an all-time high raising US$2.55 billion across 146 deals. Specifically, total funding grew by 180% when compared with Q1 2020 after a precipitous drop in funding as fears surrounding the COVID-19 pandemic reached its pinnacle. Compared to Q4 2020, total funding grew by 22% as investment activity steadily bounced back.

Looking beyond dollars invested, the number of deals also grew by 52% from Q1 2020 and 42% from the previous quarter. P&C-focused InsurTechs continue to drive the majority of investment activity, representing 69% of deal share, with L&H representing 31% – a two-percentage-point increase from Q4 2020.

Notably, this quarter saw a record number of mega-rounds. Eight companies represented over US$1.13 billion in funding, or 44% of total funding raised. The increase in deal activity was driven by a more than 12 percentage point increase in early-stage deals compared to Q4 2020, and a ten percentage point increase from Q1 2020. Roughly 60% of this quarter's deals went to early-stage companies.

InsurTech's reach becomes increasingly international

The U.S. has been a long-standing InsurTech hub, but we continue to see the growth of InsurTech in new geographies. In 2020, InsurTech from 38 different countries raised investment – in 2016, this number was 29.

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This quarter, U.S. InsurTech deal share grew to 48%, up three- percentage-points compared to Q4 2020, but U.S. activity hasn't rebounded to pre-pandemic levels. In Q1 2020, U.S.-based companies represented over 57% of global InsurTech deals –a near nine-percentage-point deficit year-on-year.

The international cohort of InsurTechs has been driving a growing share of activity. Q1 2021 marked the most geographically diverse set of early-stage start-ups in a single quarter, representing 24 countries including Bangladesh, Estonia, Brazil, Nigeria, and U.A.E.

A record number of mega-rounds, earlier on in the funding cycle

The number of mega-rounds (US$100 million plus) represents an all-time record with eight companies driving roughly 44% of this quarter's funding. These companies represent start-ups tackling issues across both P&C as well as L&H, including Next Insurance, Coalition, Zego, Sidecar Health, Pie Insurance, Clarify Health, Corvus Insurance and TypTap.

The top three largest rounds from this quarter went to Next Insurance, a full-stack SMB insurer, Coalition, a commercial cyber insurance and security provider, and, Zego, the usage-based motor insurance built for businesses. While Next Insurance was already valued over US$1 billion, following its most recent US$250 million Series E and its acquisition of Juniper Labs and AP Intego, Next Insurance nearly doubled its valuation to US$4 billion. After the latest funding rounds, Coalition and Zego both have achieved unicorn status with valuations of US$1.75 billion and US$1.1 billion, respectively.

While historically mega-rounds are typical of late-stage companies (Series D and later), this quarter, the majority of companies were raising Series C growth rounds, potentially an indication of expanding funding requirements earlier on in the cycle, of froth in the markets, or both.

(Re)insurers are investing more in technology than the InsurTech data alone reflects

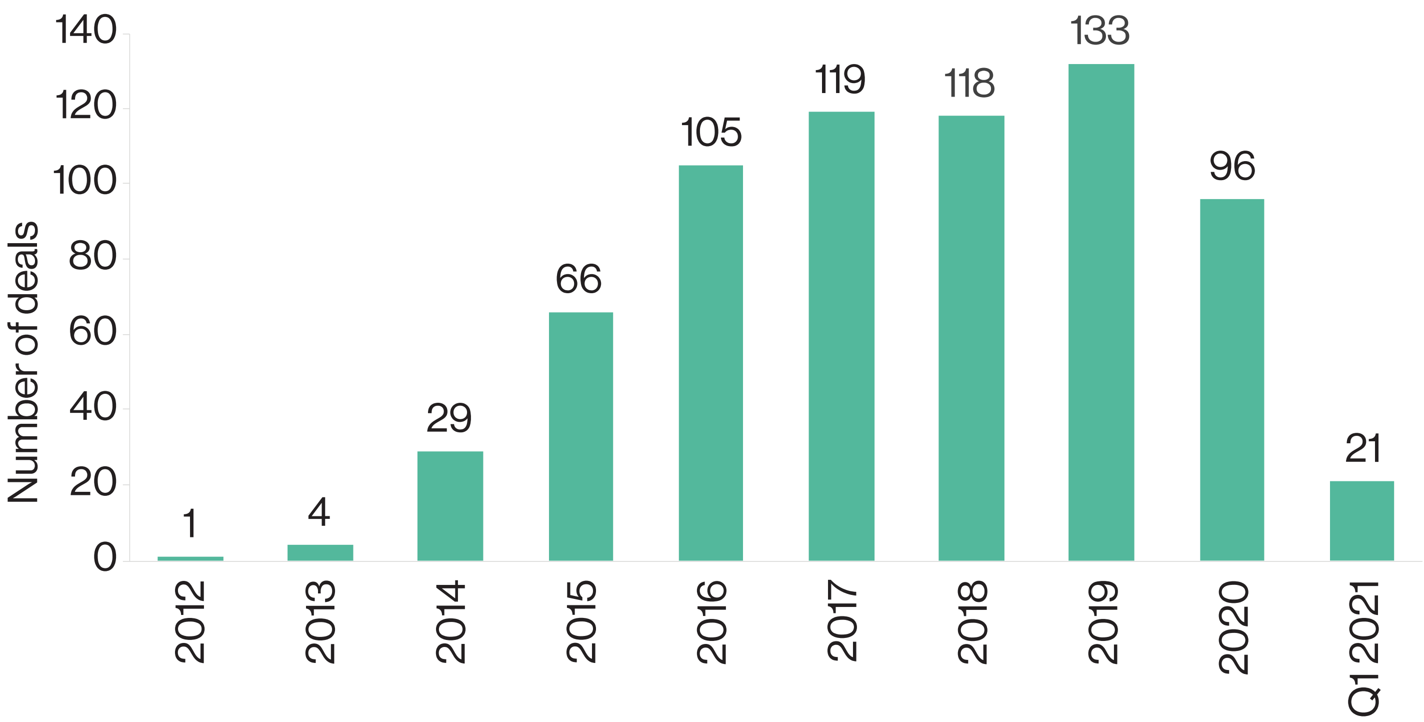
In addition to tracking global InsurTech investment data, we also publish private technology investments by (re)insurers. This data captures all (re)insurer investment into tech-enabled start-ups and includes investment identified as InsurTech and all non InsurTech investment. It is worth noting that the captured equity investments into private companies include those made from a dedicated venture arm or directly from corporate balance sheets from global (re)insurers. It does not capture investments that are made on behalf of (re)insurers by third parties (i.e., Eos Venture Partners or MTech Capital).

This, of course, immediately begs the questions, what is an InsurTech and what is not from the standpoint of the data? In our datasets, it primarily comes down to how the start-up itself has self-identified: What community is it looking to target? Let's take a parametric company that is looking to limit the loss of crops to weather-related damage. This company could market itself as a claims prevention tool for insurers to leverage or as a tool for farmers/suppliers to manage the supply chain and ensure resilience – simultaneously an InsurTech and an agritech (agriculture tech). How the start-up in question chooses to position itself will be reflected in the received data and determine whether it is captured as an InsurTech or as a broader technology-based investment. As a result, some investments captured in this data could easily be redefined as InsurTechs with a simple re-codifying of the InsurTech's intent.

This data, however, does also give us an interesting insight into some of the longer-term game planning that seems to be taking place. By tracking these investments, we can gain an awareness as to the motivation of (re)insurers, and the role of investment capital in this space outside of the traditional InsurTech arena. Given that, the motivations are invariably the same as those for traditional InsurTech investments: partnerships, access to technology and growth from burgeoning technology firms. We know, for example, that (re)insurers are looking to invest in tech-enabled payment technology; one such signal of this would be AXA and Allianz both invested in Stripe's Series H.

A further example of (re)insurer diversification of investment would be Munich Re's Q4 2020 investment into Span.IO – a company that has created a smart panel that replaces the electrical panel, integrates with different energy resources and allows users to prioritize the areas that should be powered during outages and backup scenarios. Has this investment been made for potential future returns (i.e., purely an investment play)? Or has it been made with the foresight of preventing damage following a power cut (i.e., a claims prevention perspective)? Maybe both?

The data alone cannot definitively identify a (re)insurer's investment strategy, but reviewing this data alongside the broader market and sociocultural trends can lead to informed observations as to the longer-term game plan that a (re)insurer may be pursuing. Needless to say, all of this demonstrates that (re)insurers are making more technology investments than the InsurTech data alone captures. Since 2012 to date, roughly two-thirds of (re)insurance investments fell outside the parameters of InsurTech – indicating that by simply considering the InsurTech-specific investments made by (re)insurers, we are only seeing part of the picture.



`Number of private (re)insurer investment, 2012 - Q1 2021`

2021 Quarterly InsurTech Briefing series

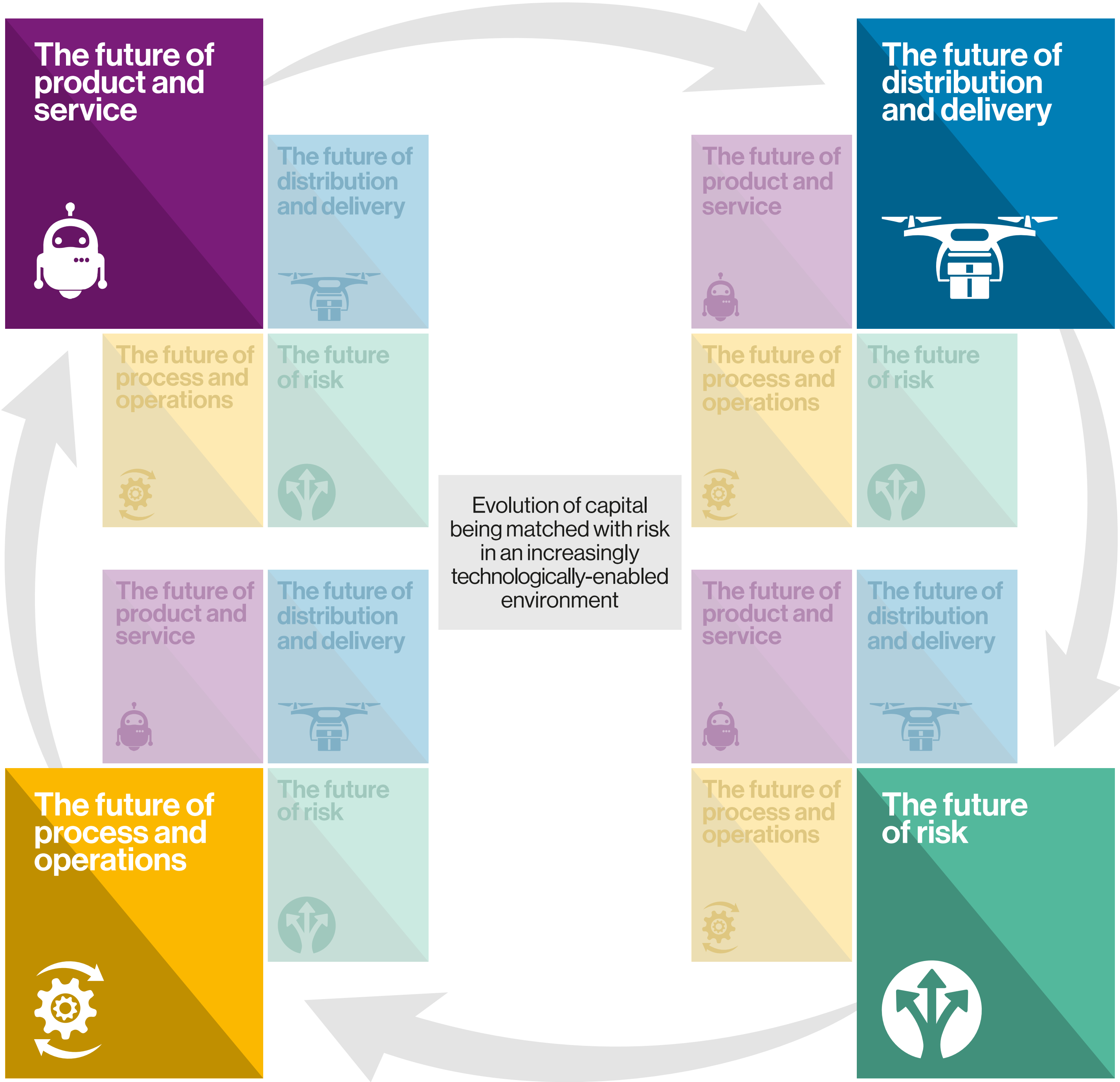
Looking to the year ahead, there are many encouraging signs of things to come. The learnings from 2020, coupled with the advancement of new technology, and increasingly adopted technologies have begun to lay the foundations for the future of our complex industry. As we ponder the art of the possible in addition to a commitment to the commercially required, this year's Quarterly InsurTech Briefing series will delve into the depths of the future of our industry — taking a longer-term look at the possibility of things to come as technology relates to areas of growth, improvement and defense.

This year's Quarterly InsurTech Briefing series will delve into the depths of the future of our industry.

Over the course of this year, we will assess the following themes:

1. The future of product and service
2. The future of distribution and delivery
3. The future of risk

4. The future of process and operations



Future of insurance

Specifically, we are looking to better understand the direction of travel for our industry as it relates the adoption of technology to deliver long-term value to all associated stakeholders (both new and old). Ultimately our industry is predicated on matching well-written risks with the most efficiently acquired and priced capital. Any technological innovation that can facilitate this core premise and enhance the businesses engaged in this pursuit in a more effective way is a welcome addition to our industry. In our 2021 series, we will be investigating these four themes to shed light on the InsurTechs (and incumbent InsurTech initiatives) and the thought leaders in this space who are looking to make this endeavor increasingly attainable.

This quarterly briefing's contents

This Quarterly InsurTech Briefing, the first in the 2021 series, will focus on InsurTechs, InsurTech initiatives and thought leaders focused on the future of product and service. In this particular briefing, we will be featuring the following InsurTechs:

Buckle

A U.S. based full-stack insurer that offers financial products and services to rideshare drivers and fleet operators.

02

Sure

A U.S.-based company that provides tools to enable insurance companies and consumer brands to distribute and service any insurance policy.

03

Thimble

A U.S.-based company that provides flexible insurance policies for small businesses owners, freelancers and independent contractors.

04

Zego

A UK-based commercial motor insurance provider that provides insurance solutions, from fleet owners to self-employed drivers and riders.

05

Collective Benefits

A UK-based company that designs insurance products and services fit for independent workers.

06

Pikl

A UK-based company that provides insurance to the sharing economy, focusing initially on the home-sharing market.

Investor perspective

In this quarter's The Art of the Possible, we speak to MTech's Kevin McLoughlin. Kevin gives his perspectives on embedded insurance, the role of technology in insurance and the role of consumer demand.

Alternative risk/Alternative capital

In this quarter, we are also unveiling a new chapter for the year: Alternative Risk/Alternative Capital. For this particular briefing, we speak to John Butler at Cohen & Company on the role of special purpose acquisition companies (SPACs) in the InsurTech space. We will speak to John about this recent phenomena in our industry which saw US$90 billion raised in 2020 (Metromile, Clover Health CCC, Corelogic and Otonomo), and a continuation of attention in 2021 — notably, QOMPLX's recent US$1.4 billion SPAC deal.

Thought leadership

This quarter's Thought Leadership comes from Willis Towers Watson's Dr. Magdalena Ramada. Magdalena shares her perspective on the transition to dynamic, modular products.

Transaction spotlight

In this quarter's Transaction Spotlight, we feature Porch's US$100 million acquisition of Homeowners of America, as Porch builds out its InsurTech suite of services.

As ever, we thank you for your continued support.

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Quarterly InsurTech Briefing Q1 2021 (https://www.willistowerswatson.com/-/media/WTW/Insights/2021/04/quarterly-insurtech-briefing-q1-2021.pdf?modified=20210426211546)	PDF	14.1 MB

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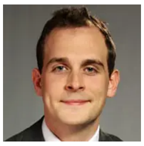

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