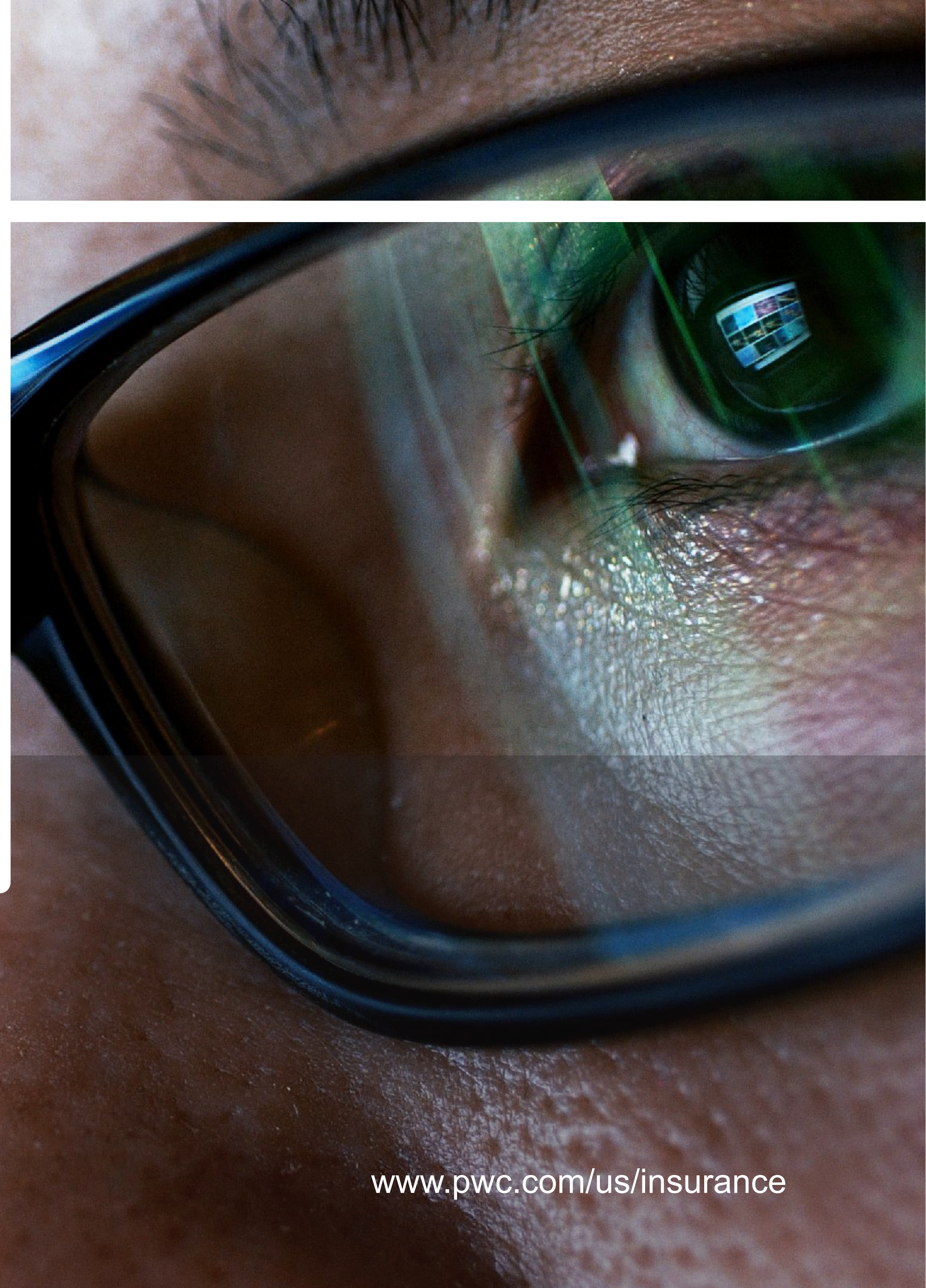
How insurers can seize InsurTech opportunities

InsurTech is a powerful driver of change, but it’s no silver bullet. Learn how to make its innovations work for you by focusing on the capabilities that make your company unique.



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Legacy companies, startups, and the drive for faster, cheaper, better results

Insurance is boring.

You might hear that from people who don't know better. But the ones who are paying attention understand that some of the most interesting work in technology is taking place in insurance.

Legacy insurers are paying close attention to newcomers. They've become some of the largest funders of these startups, recognizing that teaming up with technology firms can be a game-changer.

But here's the harsh reality: many if not most of these business relationships won't meet expectations. When insurers turn to InsurTech for the wrong reasons, or without a clear, sustainable plan to extract value, they'll fail.

How would you describe your organisation's typical forecasting accuracy in return on R&D and new product innovation?

50%

of insurance CEOs say "below forecast" or "don't know"

Source: PwC's 24th Annual Global CEO. Survey Base: Insurance CEO's

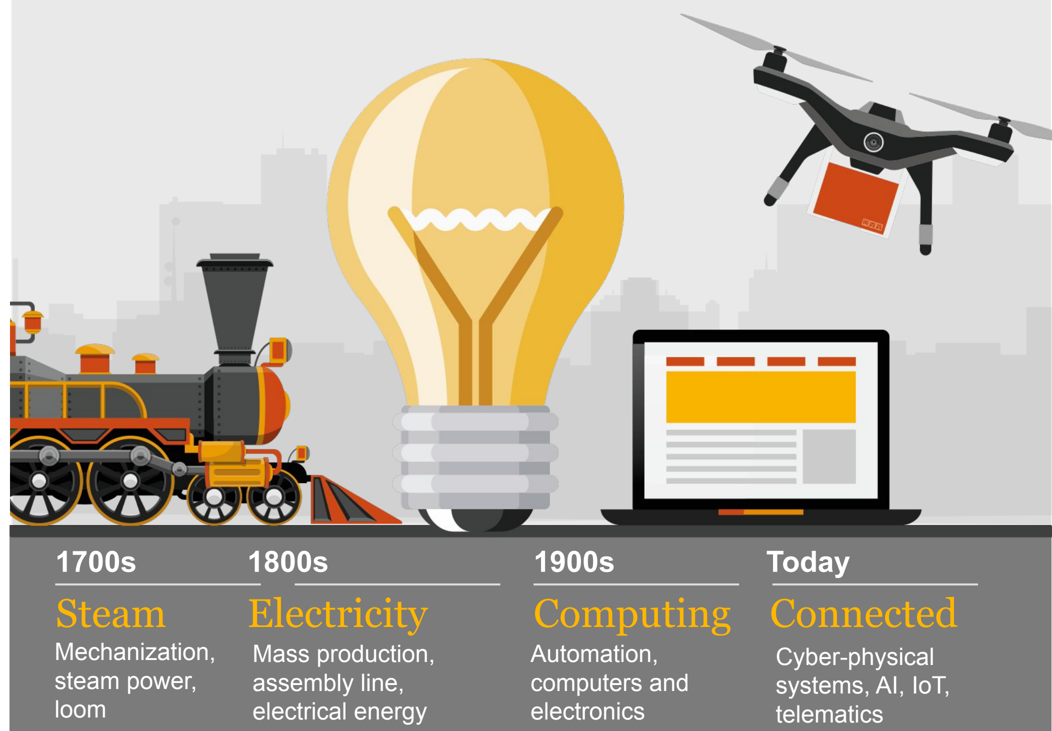
InsurTech and the Fourth Industrial Revolution (4IR)

How did we get here—and so quickly? The answer tells us a lot about what comes next.

The insurance industry has grown in parallel with the economy. Each time there's been a major leap in technology, the industry has responded with new products, new methods of distribution, and new ways to evaluate risk. We're at another inflection point, and the cycle is repeating itself in what has been dubbed the Fourth Industrial Revolution. We've arguably seen more technological innovation in the past decade than in the five decades that preceded it.

Fifty years ago, insurance companies were some of the earliest users of mainframe computers. The smartphone in your pocket today is literally thousands of times more powerful than those early machines, and customer data is now stored in the cloud rather than a carrier's premises. Similarly, communications capabilities have exploded, and as 5G mobile networks emerge over the next decade, still more transformative technologies will become more practical, such as drones and autonomous vehicles. Each of these shifts have upended long-held industry assumptions about business and operating models, organizational structures, and market strategies.

Exhibit 1:Four revolutions in tech



Source: PwC

What this means

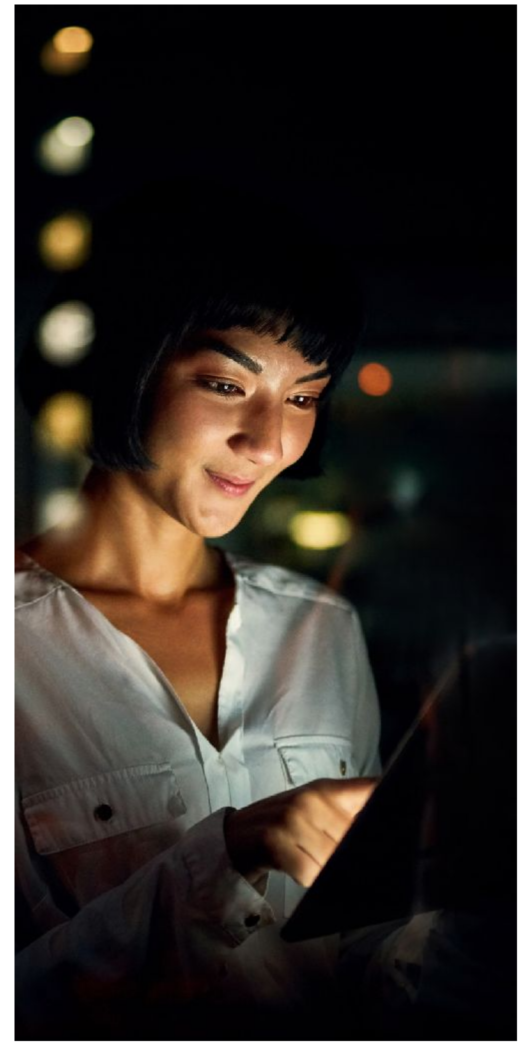
There are many ways to win, but you have to choose a clear path forward. The InsurTech space is filled with good ideas, and many young companies have outstanding people and technology. While many tie-ups may seem appealing on paper, prescient leaders know to ask why—and ask it again. Investors and other stakeholders look most favorably on insurance companies with a coherent strategy: from carriers and third party administrators to technology vendors, agents and brokers, and beyond.

There are new sources of value. The model of collecting premiums for distributed risk has been fairly static for years, but InsurTech companies are now moving ahead with pay-per-use, an emphasis on loss prevention, restorative services, and more. Legacy carriers can learn from these startups by forgetting some of what they 'know' to be true.

What used to be a sign of success may not be anymore. Buyers don't necessarily correlate "large" with trust or stability like they once did. And while large organizations don't have to be more bureaucratic than smaller companies, they often are. Correspondingly, if insurers aren't careful when they team up with InsurTech companies, their size and often more stolid culture can actually destroy the value that a tie-up promised.

Speed matters more than ever. People want next day delivery and credit decisions in 60 seconds. Naturally, they also expect speedy underwriting decisions, claims adjustment, service requests, and even product development. InsurTech companies can often help carriers deliver these benefits to customers and prospects, if both parties share a common goal and understand their respective roles in achieving it.

The pandemic has accelerated the pace of change. The industry was starting to act with more urgency prior to the pandemic but the pace of change has greatly intensified over the past year-and-a-half. This is primarily the result of needing to almost instantaneously move to virtual work and client service. The good news is that the industry has responded effectively - often using InsurTech solutions and working with new entrants to develop even more ways to succeed in the new environment.



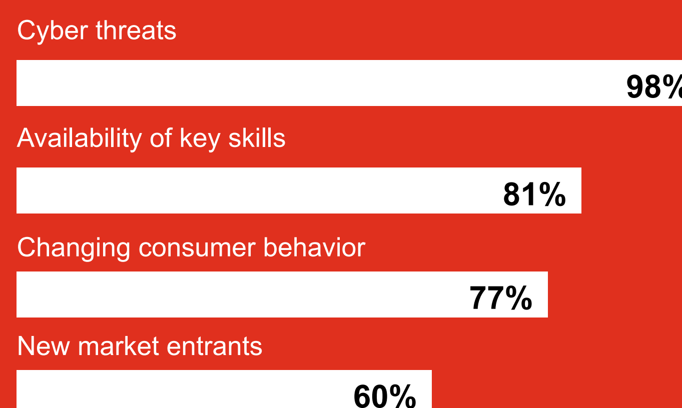
Defining InsurTech: It's bigger than insurance

What is an InsurTech company?

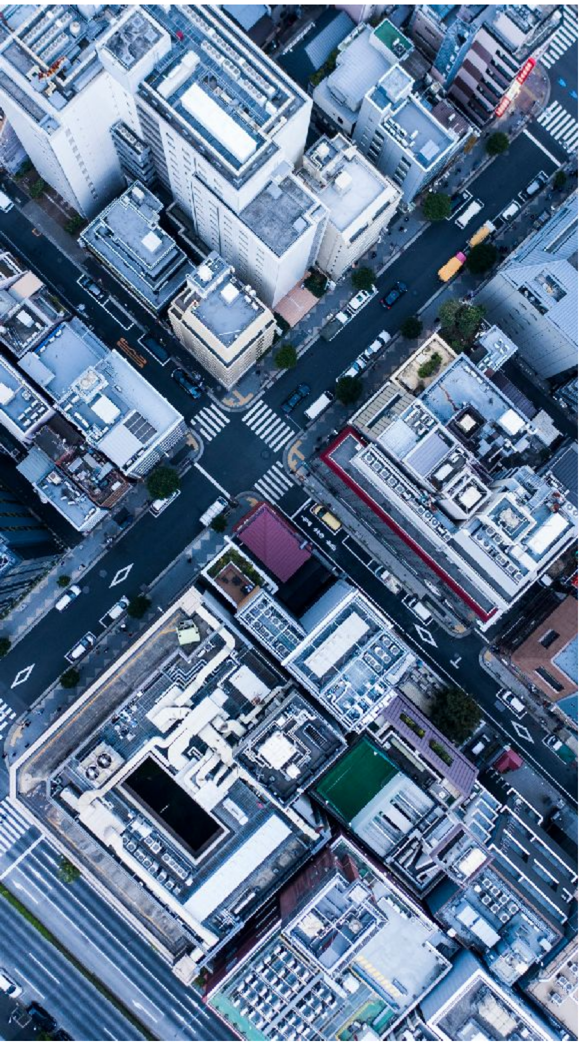
In 2016, when the term barely registered in Internet searches, it generally referred to a technology startup seeking to make a mark on the insurance industry. Only a few years later, the same search generates more than three million results. InsurTech offerings have grown exponentially, but there's still uncertainty about what InsurTech really includes.

That's because InsurTech goals keep changing. We've moved well beyond InsurTech-as-disruptor-and-threat. However, in our most recent Global CEO Survey, insurance CEOs were more likely than their financial services peers to be concerned about cyber threats, availability of key skills, changing consumer behavior, and new market entrants.

Exhibit 2: Insurance CEOs are the most concerned in FS about



Source: PwC's 24th Annual Global CEO.
Survey Base: Insurance CEO's



We've shifted toward collaboration, as both startups and legacy providers realize that they gain from combining the former's technology with the latter's customer knowledge, understanding of risks, and capital strength. Now, InsurTech is an ecosystem that brings together adjacent industries to provide an improved service of greater value to insurers and their customers. Adjacent industries of particular relevance include agriculture, health, cybersecurity, the sharing economy, wealth management, transportation, and more.

The InsurTech landscape

At the annual InsureTech Connect conference, you'll find legacy companies and tech-driven startups addressing every sector. There are pure technology firms providing core systems and components using a Software-as-a-Service (SaaS) model. There are companies selling artificial intelligence (AI)-based predictive analytics, and risk assessment offerings that introduce new data sources. There are plenty of other InsurTechs that address distribution, leverage telematics, pursue unserved niche markets, offer comparative pricing and broker services, and more. You get the idea: the sheer volume of companies that have emerged to support (or compete in) the insurance space reflects the appetite for change and the opportunities that potentially await.

These opportunities go far beyond the front office. Insurers, and many InsurTech companies themselves, are also turning to technology companies that provide more generalized business support: cloud computing, intelligent automation, human resources systems, loyalty programs, workflow management, and more.

Whether you lead a legacy provider or a startup, there are many, many options to explore. But too much choice can be distracting or even counterproductive, like getting 2,000 search results for sneakers when all you want is one pair. The best way to cut through the noise is to look internally first, identifying your strengths and assessing how you can build on them.

Have a coherent strategy for InsurTech innovation

What insurance industry problem are you trying to solve?

Virtually every insurance carrier wants a world-class claims processing system. Most companies would agree that they can strengthen their underwriting abilities by incorporating artificial intelligence-based risk assessment, and that they could boost revenue by moving into an adjacent, niche market. Does that mean that your top priority should be to buy or partner with an InsurTech that focuses on claims processing, underwriting, or that adjacent niche? Not necessarily.

There are always opportunities to grow, but the companies that consistently outperform the market over the long-run know that they can't be good at everything. In fact, a temporary revenue boost can sometimes make things worse if you wind up spread too thin. Sustainable growth comes from understanding what capabilities make your company unique (or could). Step back: in a hyper-competitive market, you have to start by focusing on what you do well.

> "Insurers are often concerned that InsurTech innovation has a high risk of failure. That's not the risk to worry about. I'm more concerned when carriers don't tie their investments to a specific, competitive edge, or if they work with companies that don't live up to the brand promise."
>
> **Francois Ramette, Partner at PwC Strategy&**

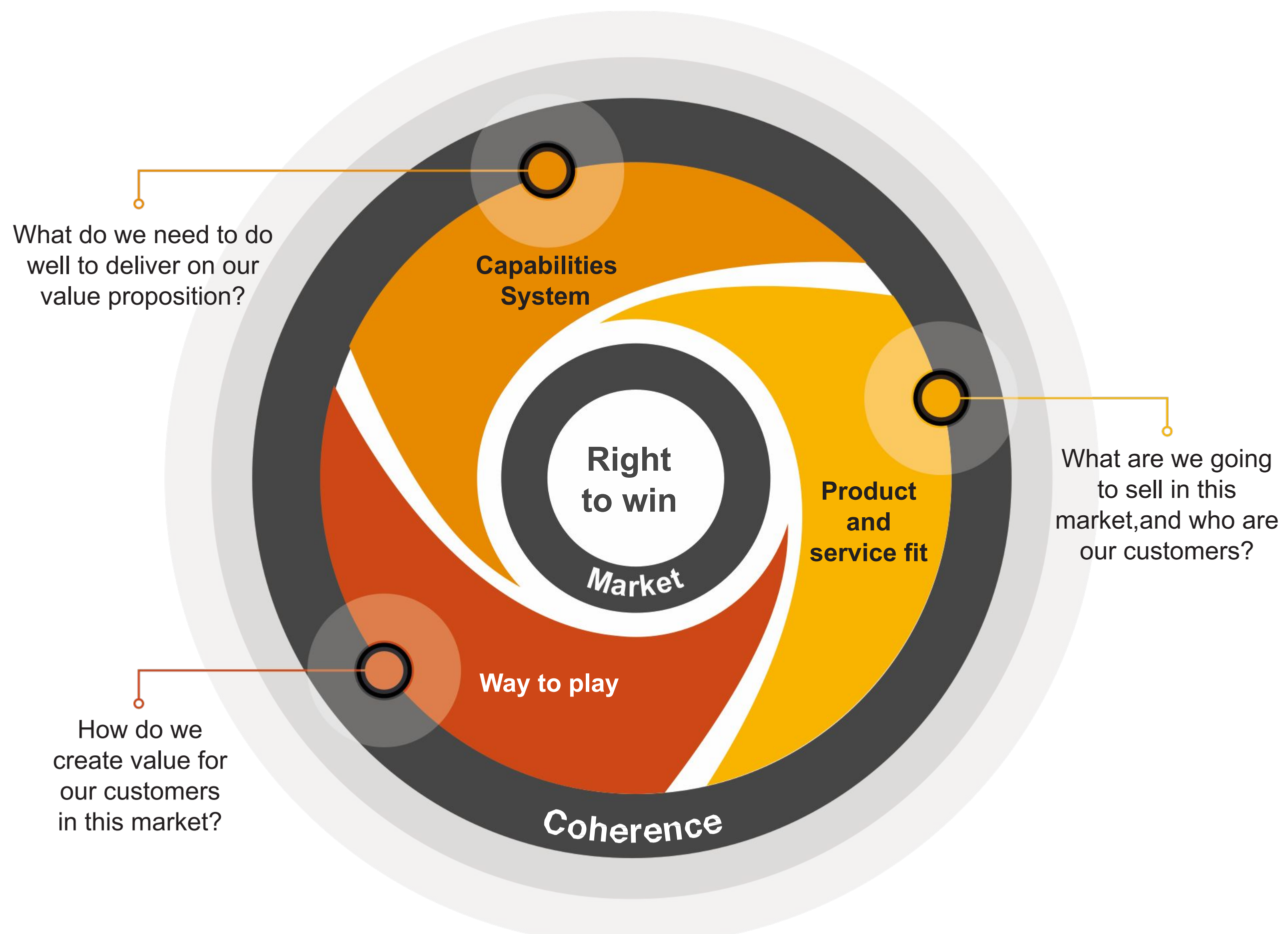
Key takeaways

Choose wisely.
You may find dozens of tempting opportunities to work with InsurTech or insurance companies. But the costs of any tie-up, in dollars and management attention, can be significant. Is this the most important project right now?

Build on your strengths.
Your stakeholders know, or should know, what your brand promises: value, service, innovation, etc. Make sure your InsurTech strategy is more than a hobby by adding to your differentiation.

We do it too.
We also work with a number of external partners, using their products and services to support projects with our own clients. There are many excellent InsurTech companies, but we have only chosen to work with those that reinforce what our clients have come to expect from PwC.

Exhibit 3: Insurance leaders have a coherent strategy



Source: PwC

The power of coherence

Insurers that consistently succeed are ones that understand how they deliver value to their customers. They have an angle—a “way to play”—that everyone from the executive suite to the back office can articulate. “We’re the innovators.” “We’re the customer service leader.” “We’re the low-cost leader.” And to support the path they’ve chosen, they’ve developed a handful of mutually reinforcing capabilities that let them deliver that value. Finally, the products and services they offer align with that same set of capabilities.

Increasingly, the InsurTech world offers compelling opportunities for most legacy providers. But just how should your company take advantage of them? At many insurers, there are offerings or even entire business units that are not aligned with the firm’s core strengths. Adding more to the mix, however interesting, doesn’t add to a sustainable engine of growth unless the InsurTech company builds on the legacy carrier’s existing strengths.

Any time your company teams up with a third party—a payments processor or even a contract programmer—you are balancing the benefits with some additional risk and management overhead. So, even when you identify a would-be partner that is accretive to your strengths, you’ll want to understand those trade-offs.

The importance of cultural fit

Culture can determine InsurTech success or failure

When traditional players in the insurance industry start discussing how they might work with InsurTech companies, the conversation usually goes pretty quickly to tangible elements: technology compatibility, financial projections, legal structures, and terms and conditions. This is understandable; it's what corporate development teams do well. But companies often neglect one factor that looms particularly large in determining success or failure: culture.

Understanding cultural fit is important when considering any transaction involving two distinct organizations. It's particularly important when considering how a large carrier might work with an InsurTech company, whether as an acquisition, a joint business relationship, or just as a service provider. The very factors that often make InsurTech appealing—agility, non-traditional thinking, tech-oriented staffing, and so on—may struggle when integrated with an incumbent provider. If employees don't see the value in staying, much of the relationship's appeal can quickly erode.

Once you make cultural fit a priority, you may start to see potential problem areas, even early in the due diligence stage. In some rare cases, you may find that there are issues that can't be overcome. More often, you'll be able to address them by clarifying your assumptions about what is important to your potential business partner, and why.

Key takeaways

Don’t ignore cultural differences.
Legacy insurance companies and InsurTech startups often have very different ideas about cultural norms for behaviors such as risk tolerance and how decisions are made. These can be overcome, but only if you make it a priority to do so.

Integration management involves more than technology.
Once you’ve made a decision to work with an InsurTech partner, the choices you make can influence behavior, and these may be directly linked to the project’s success. Reward the behaviors you want to encourage.

Exhibit 4: Companies often struggle when combining teams

Only 22%

of companies surveyed reported “very favorable results” about their employees understanding of company direction in the wake of a deal.

Only 19%

of companies surveyed reported “very favorable results” about employee morale in the wake of a deal.

Source: PwC’s 2020 M&A integration survey

Exhibit 5: Distinctive cultures drive business results

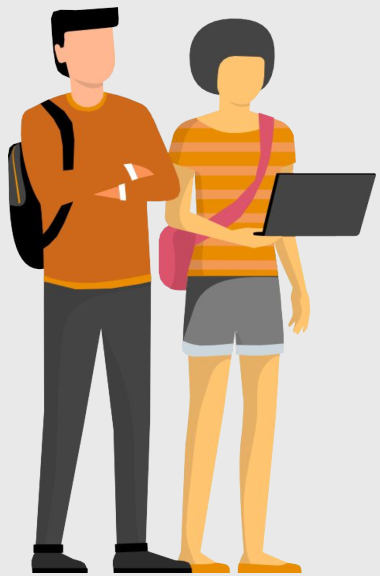
Organizations with a distinct culture were more likely to see an increase in:

customer satisfaction 89%

employee satisfaction 80%

revenue 48%

Source: PwC 2021 Global Culture Survey



InsurTechs' demographics and cultural values aren't like insurers'.

Just because one team is more entrepreneurial than another doesn't mean that they can't work together. But if there's any hope of bridging this cultural divide, it depends on real transparency: understanding who the highest value employees are in the new organization, determining what they want, and designing an integration program accordingly. In popular culture, this is sometimes interpreted as "let's add a foosball table and a coffee bar." Amenities are nice (full disclosure: PwC has foosball tables and a coffee bar in our New York headquarters), but the underlying issue is anything but cosmetic. InsurTech companies often bring different demographics and cultural values to the party. How can you make this new kind of employee feel rewarded and valued as part of an incumbent provider?

You can start by making change management much more than an afterthought. All organizations have explicit and implicit employee norms. It's natural that there will be adjustments needed on both sides when Big Insurance and Scrappy InsurTech meet. In fact, as the integration process begins, everyone will be watching to see which norms will survive on either side. The most effective combinations happen when management is clear on what key employees value, and then designs programs to reward behaviors it wants to encourage.

Choose business models that work for InsurTech

The many ways to form InsurTech alliances

A few years ago, insurance companies tended to look at InsurTech as a competitive, disruptive threat. Now, they see tend to see a growth opportunity. But what does this really mean? There are a variety of ways to structure a working relationship, and there are tradeoffs involved in each. In some cases, the form of the relationship may depend on the degree of control that either is willing to give up; in others, it comes down to the size of the investment involved.

Exhibit 6: The activities insurance CEOs are planning in the next 12 months to drive growth

34%
Form a new strategic alliance or joint venture

32%
Pursue new M&A

28%
Collaborate with entrepreneurs or start-ups

Source: PwC's 24th Annual Global CEO. Survey Base: Insurance CEO's

Key takeaways

Understand the tradeoffs.
There's no single best way to structure a joint business relationship. When you begin to think about working with an InsurTech company (or with an insurer, if you're not a legacy firm), start with strategy. The form of the relationship will vary, based on what you want to accomplish.

Use corporate venture capital (CVC) wisely.
Legacy insurers often use CVC as a mechanism to source and evaluate potential investments. It can be very effective, but you'll want to use rigor when making investment decisions and considering how to benefit beyond a purely financial return.

The growth of corporate venture capital

In the early days of corporate venture capital, insurers tended to focus on strategic investment. The bounds were rather loose, and strategic investments were never pushed hard for a financial or economic return. That has changed.

Increasingly, we're seeing insurers participate as lead investors in InsurTech startup deals. We've also seen some significant new investments in industry CVC funds. For many carriers, CVC's appeal is the structured discipline it brings to sourcing, gathering, filtering, and selecting ideas that are worth pursuing.

Leaders are now bringing effective controls to the practice. There are clear boundaries on how to make InsurTech investments, decision authority definitions, investment theses, and leaders are appropriately coupling these investments with the core business.

There are a variety of options in between "we'd like to acquire this company" and "we'd like to purchase these InsurTech services." In some cases, insurers will find structural alliances to be most appropriate:

- Joint ventures
- Limited partnerships and LLCs
- Minority equity investments

Others will find that contractual alliances are more useful, in whole or in part:

- Virtual JVs
- Long-term contracts
- Seller financing

After slumping during the uncertainty at the outset of the pandemic,the InsurTech market has become even more active that it was in 2019. In personal lines, commercial, and general P&C in June 2021 alone, there were:

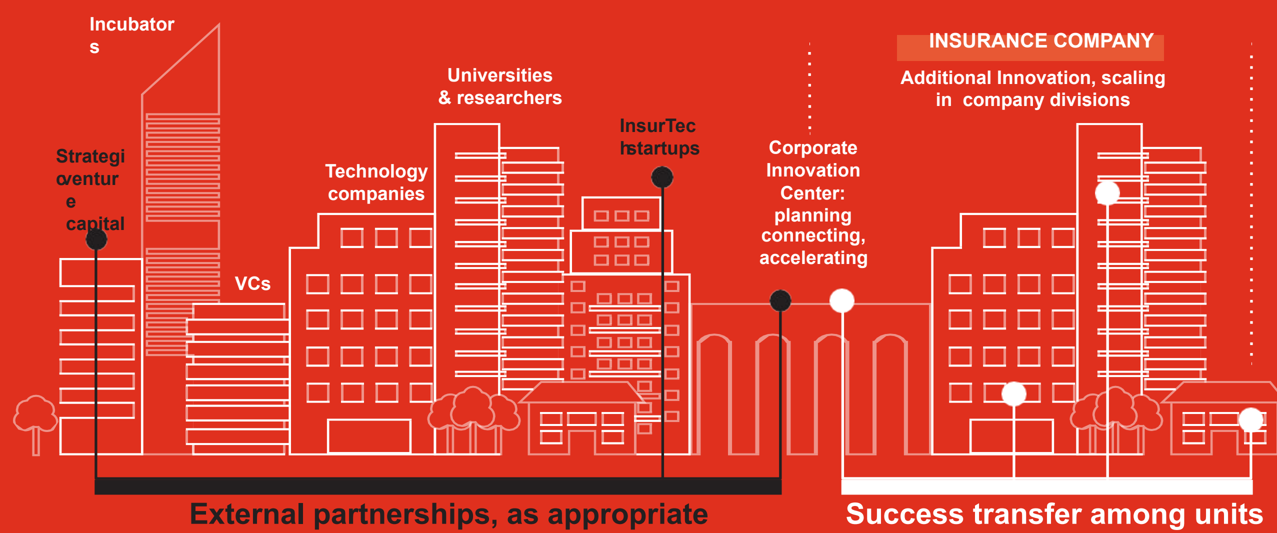
- 19 IPOs and key funding rounds worth just over $1.5bn,
- Nine new product launches,
- Ten new announced partnerships, most between incumbents and newere market entrants.

Manage innovation

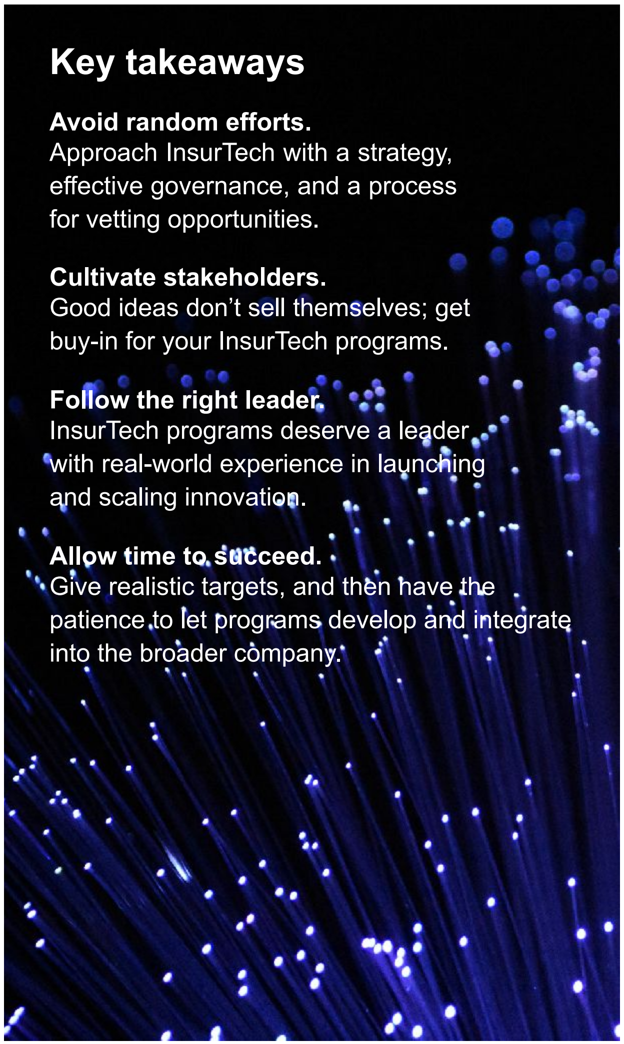
Many legacy companies look at InsurTech startups as an opportunity to outsource innovation: "we're often too bureaucratic too innovate quickly, but we can team up with others who do it well." That reasoning works, up to a point. But a diversified company typically has a fair amount of overlap. Without an effective governance program, those innovation programs become inefficient, or worse. Consider a company with teams in claims, underwriting, auto, and homeowners insurance, all looking at innovation opportunities, and all scanning the InsurTech landscape. What are the odds that they will align behind a common, coherent approach?

As valuable as it can be for units to scan for relevant InsurTech investments, this is not an innovation strategy. There are many models for doing innovation well: internal labs, minority equity investments, acquisitions, corporate venture capital, and more. The most effective approaches have a broad view: global governance tied to a unified strategy, a global investment committee, criteria tied to corporate priorities, and the flexibility to allow individual business units to drive their own investments where appropriate.

Exhibit 7: Make innovation work for you.



Source: PwC



Key takeaways

Avoid random efforts.
Approach InsurTech with a strategy, effective governance, and a process for vetting opportunities.

Cultivate stakeholders.
Good ideas don't sell themselves; get buy-in for your InsurTech programs.

Follow the right leader.
InsurTech programs deserve a leader with real-world experience in launching and scaling innovation.

Allow time to succeed.
Give realistic targets, and then have the patience to let programs develop and integrate into the broader company.

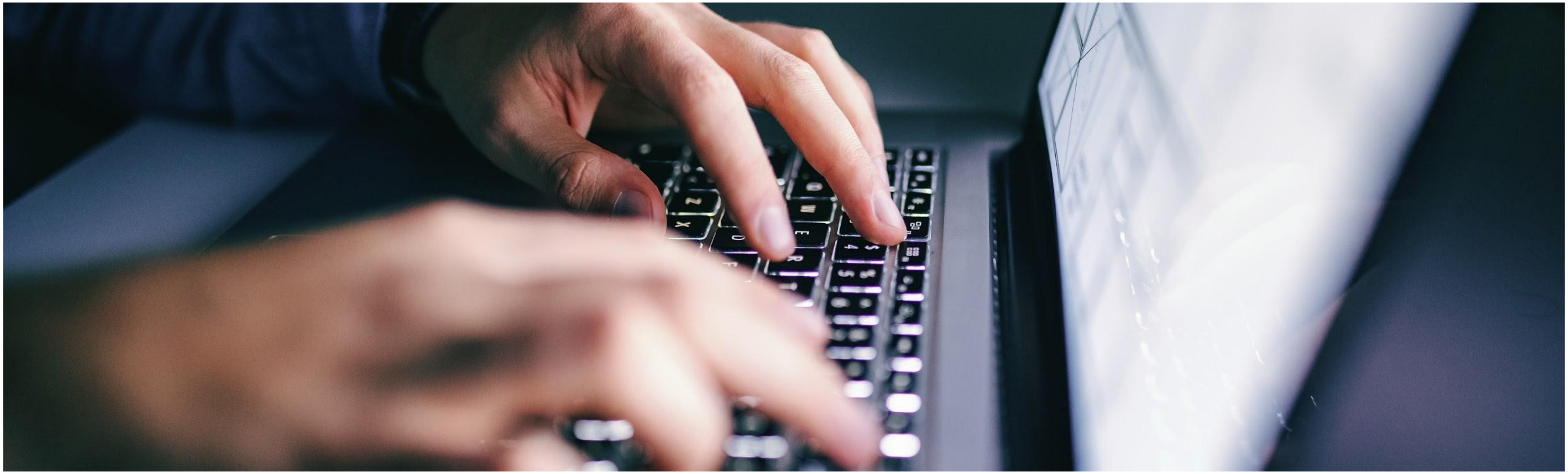
Insurance companies that succeed with this kind of outsourced innovation tend to have a good idea of what they want to accomplish and a well-defined innovation charter. This includes a sound investment hypothesis and criteria, clear allocation of authority for making decisions, and a thoughtfully selected investment committee that is aligned to the overall business strategy. For every dozen attractive InsurTech partnerships, another two dozen are emerging with ideas that might be even better. So, you'll want a systematic way to source, gather, filter, and select the innovation programs that can be most powerful for your company.

Manage InsurTech innovation with rigor

While there's more risk and opportunity associated with InsurTech, that doesn't mean "set and forget." Even if your expectations are more variable, you'll want to apply the same managerial principles you'd use with any investment or cost-cutting program. You'll need the buy-in of key stakeholders to answer critical questions.

You'll need the buy-in of key stakeholders to answer critical questions

How tightly are we going to couple our investment with the core business? Do we want it to affect the core within one to three years? What ROI do we expect to achieve? What happens if we don't make that goal? Getting buy-in for InsurTech initiatives can be a constant struggle, but it's worth the effort. Don't try to force colleagues to see the wisdom of innovation investments. Involve people organically throughout the organization with various innovation projects. Show them how innovation can help improve business results. Most important, look for a few quick wins. There's nothing better than tangible results to help people see the value of your program.



Choose the right people to lead your InsurTech program

Too often, we see companies install a leader with no relevant background as head of an innovation unit because either the person wants to move to Silicon Valley or is close to the firm's leadership. The innovation unit becomes a parking place for these managers, with predictably negative results. You'll want to choose a leader with real-world experience in getting innovation off the ground—or the wisdom to hire someone who does. Look for someone with a forward-thinking attitude, perspective and personality needed to drive change, and concrete experience growing revenue for the business.

Don't expect immediate results

While some short-term InsurTech projects can generate an immediate return on investment, you shouldn't judge all projects using the same metric. Many carriers often move on to something else without allowing the current initiative enough time to generate returns. This is particularly true for companies pursuing InsurTech distribution opportunities, as they identify sales growth as the most important innovation metric. This can lead to a bias for short-term results and deter companies from making wise innovation investments that can pay off over the long haul. We encourage our clients to strive for a healthy mix of quick wins and long-term aspirational projects, using metrics that make sense for each project. And, yes, there may be cases where you'll treat some innovation projects as purely experimental, without any formal measurement.

For more information

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