INFORMATION PAPER ON INSURTECHS

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INTRODUCTION

Insurtechs have over the past few years emerged in the insurance landscape and have grown significantly. This is largely as a result of the proliferation of technology that seeks to ease business processes and at the same time improve customer experience.

Insurtechs are at the forefront of the insurance industry revolution as they are significantly changing the business models and competitive landscape.

Definition: The term Insurtech is a combination of "insurance" and "technology". Insurtechs are technology-led companies that are taking advantage of new technologies to develop innovative business models to meet the demands of the modern, digital savvy insurance consumer.

To remain relevant and competitive amidst the disruption, insurers need to constantly align themselves with the technological advancements, by developing solutions that meet the evolving customer demands and address the changing business environment.

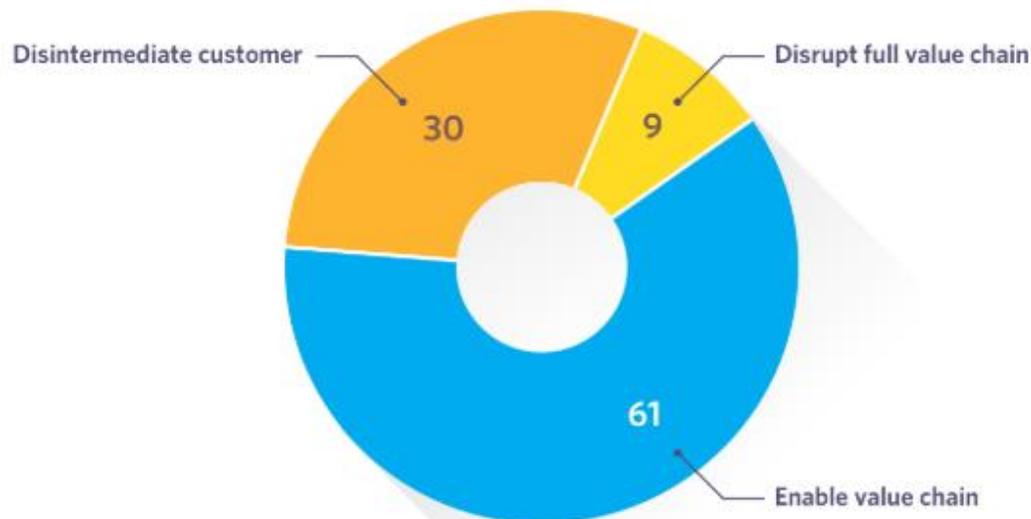This paper gives a bird's eye view of the role insurtechs are playing in the overall insurance value chain.

ROLE OF INSURTECHS IN THE INSURANCE VALUE CHAIN

Insights generated by McKinsey Panorama Insurtech database in 2017 show that:

- 61% of insurtechs focus on providing services to insurers by simplifying and digitizing parts of the insurance value chain;
- 30% are focused on disintermediating the customer and;
- 9% are focused on disrupting the full value chain to replace the incumbents.

Most InsurTechs are focused on enabling the insurance value chain as opposed to disintermediating and disrupting the value chain

Role in insurance valuechain[1]

Disintermediate customer — 30

Disrupt full value chain — 9

Enable value chain — 61

[1] ~500 commercially most well-known cases registered in the database
Source: McKinsey Panorama Insurtech Database

A majority of insurtechs rely on existing insurance companies for key functions, such as underwriting and pricing since they have the financial muscle to undertake risk and have the benefit of experience and data collected over many years.

Insurance companies still have an upper hand as they also can access the same technologies, and have vast data which insurtechs will take some time to generate. If able to quickly embrace these new technologies, they can generate superior artificial intelligent systems.

Examples of full functioning digital insurance companies include;

Lemonade *Lemonade is a "peer to peer" (P2P) insurer that reverses the traditional insurance model. They treat policyholders who care about the same causes as virtual groups of 'peers'. They use each pool of money to: pay claims, give leftover funds to the group's common cause,*

and use reinsurance to cover group claims that exceed the pool. Instead of profiting off of unclaimed money, Lemonade takes a flat 20% of all premiums. Lemonade uses AI bots to power its app, which can insure you in 90 seconds and pay a claim in three minutes. First licensed in New York, Lemonade's initial focus has been on homeowners and rental insurance policies. https://www.lemonade.com/
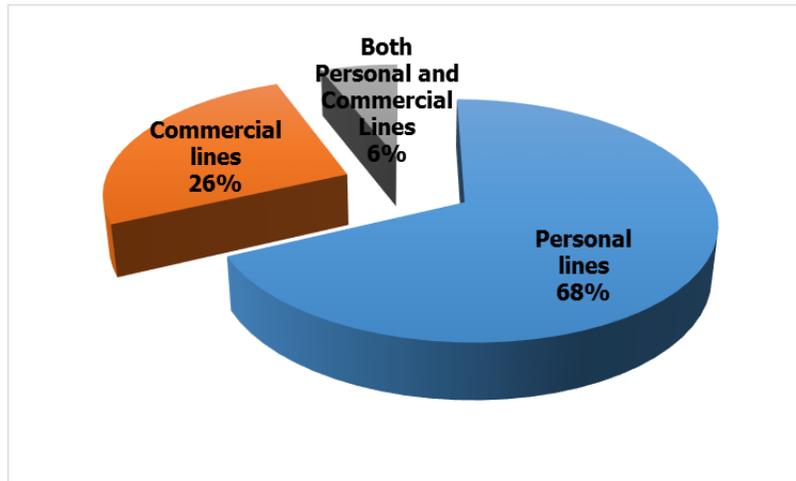

MetroMile is a US-based personal auto insurer offering pay-per-mile insurance, MetroMile offers its customers a free GPS telematics device and driving app that measure miles driven and collect data such as routes and car diagnostics. Metromile charges policyholders a flat monthly fee plus a per mile fee, which varies based on location, years driving, and other factors. Its automated claim service allows policyholders to file a claim entirely from their mobile phones or an online dashboard, with some claims resolved in under an hour. https://www.metromile.com/
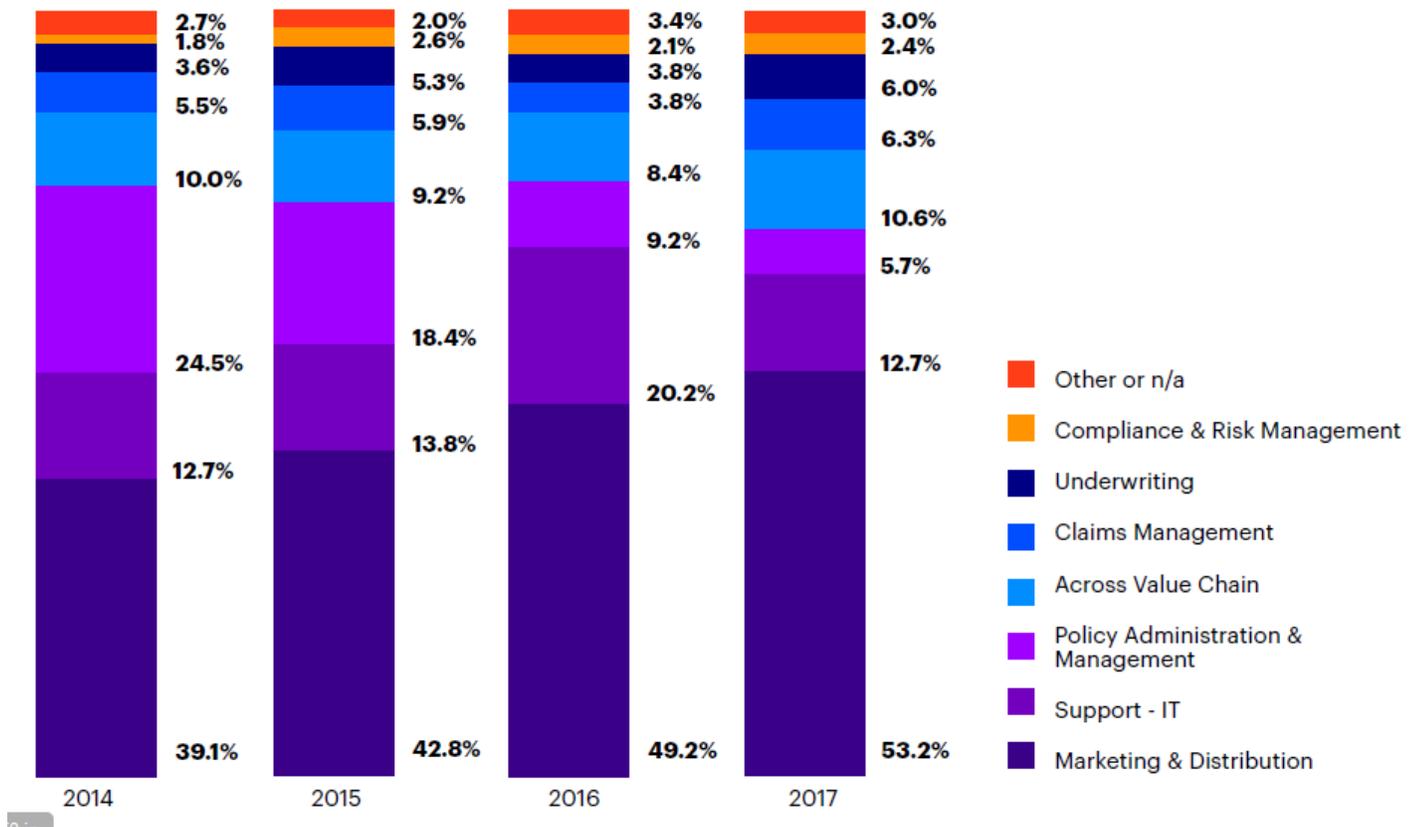
Of importance to note with the examples above, is their deviation from the traditional way of 'doing' insurance and their adoption of different business models and reliance on technology.

VALUE CHAIN PENETRATION

In 2017, a majority of insurtechs (68%) have targeted personal lines of business while commercial lines is at 26%. Those that combine both personal and commercial are 6%.

On the overall value chain in 2017, a majority of Insurtechs, 53%, are trying to solve marketing and distribution problems, while 12.7% are providing IT support. 10.6% are working across the value chain. Others are playing within the spaced of policy administration and management; claims management; underwriting and compliance and risk management.

	2014	2015	2016	2017
Other or n/a	2.7%	2.0%	3.4%	3.0%
Compliance & Risk Management	1.8%	2.6%	2.1%	2.4%
Underwriting	3.6%	5.3%	3.8%	6.0%
Claims Management	5.5%	5.9%	3.8%	6.3%
Across Value Chain	10.0%	9.2%	8.4%	10.6%
Policy Administration & Management	24.5%	18.4%	9.2%	5.7%
Support - IT	12.7%	13.8%	20.2%	12.7%
Marketing & Distribution	39.1%	42.8%	49.2%	53.2%

Source: Accenture Research Analysis based on data from CB Insights

NEW TECHNOLOGY TRENDS AREAS

New technologies are making it cheaper and easier for the insurance industry players to come up with innovative products especially for low-income consumers in emerging markets.
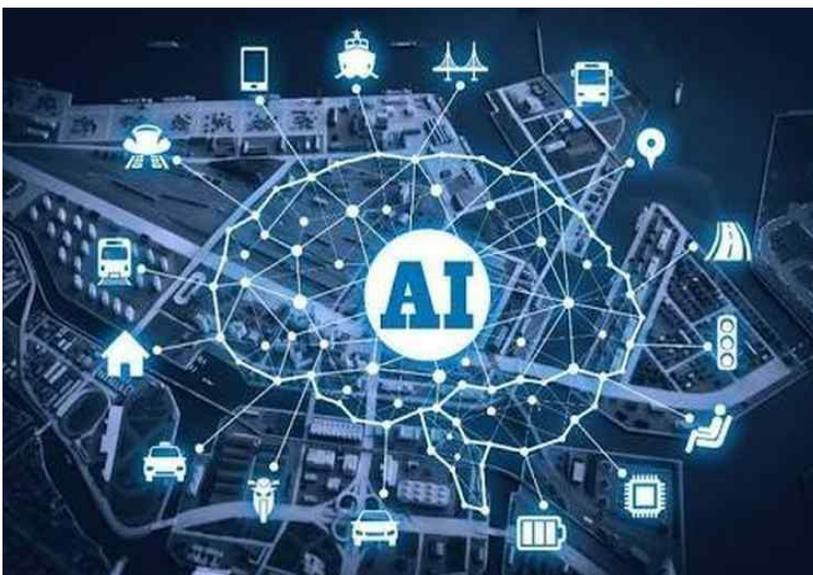
The products are designed with the customer journey at the core with an emphasis on simple, convenient, transparent and personalized and an easy claims process.

The areas in which Insurtechs are making bold moves to revolutionize the insurance industry by using technology are:

a) Artificial intelligence (AI)

Artificial intelligence (AI), sometimes called machine learning, is the development of computer systems able to perform tasks normally requiring human intelligence such as analysis and decision-making. It is the intelligence demonstrated by machines in contrast to the natural intelligence displayed by humans and other animals.

AI has the ability to analyze huge chunks of data to produce meaningful insights. At the same time, it can be used to generate new data from new sources or unique tools such as telematics for motor vehicles, wearables for health insurance, home data for home security and many others

Insurtechs are able to provide analytics and generate accurate insights from these data sources, significantly improving risk pricing.

Accurate risk assessment can lead to tailored insurance solutions based on the customer's needs and risk profile.

Artificial intelligence (AI) tools are emerging at many points in the customer journey and will reshape pricing, distribution, underwriting and claims.

Examples: https://mnubo.com/ ; https://www.pixoneye.com/; https://enterprisebot.ai/

b) Platforms and Ecosystems

Insurtech platforms makes policy acquisition simplified and fast with minimal human interaction i.e. finding, applying, purchasing, etc.

Insurtechs are also leveraging on partnerships by integrating their services into already established platforms to create a vast insurance ecosystem.

Examples include:

- Self-service dashboards that help the consumer to manage everything from finding the right policy and making a claim, to tracking their car repair all from one convenient point.

- **Compare And Purchase Options -** helping to compare policy features and costs from different insurance companies at the click of a button.

Most of Kenyan Insurtechs are in the 'compare and purchase' space. They provide online insurance comparison services, advising clients on the right products that fit their needs at the best price available in the market.

Sample Kenyan Insurtechs;

https://www.pesabazaar.com/; http://www.insureafrika.com/; https://bismart.co.ke/; www.blue-wave.co.ke/ https://afrinsure.com/; https://www.savekubwa.com/; https://www.sokompare.com/webinsurance	https://www.grmicroinsurance.com/; http://www.sinbad.co.ke/; https://www.cheki.co.ke/car-insurance; https://wazinsure.com/; https://www.kakbima.com/ https://www.jambosure.com/

Other Markets: https://www.insurance.com/; https://www.zhongan.com/;	https://www.imbursepayments.com/; https://www.amodo.eu/

c) Insurance as a Service (IaaS)

Insurtechs aim to provide customers with transparent coverage and the flexibility to decide what and when to insure. Allowing people to insure items only when they are in use, reflects how policies are increasingly being tailored to the customer.

Examples: http://coverapp.co.ke/; https://trov.com/; http://gobuzzvault.com/ ; https://www.valoo.com/; https://www.slice.is/

d) Customer Engagement

Insurtechs offer new value propositions that make the insurance processes more engaging and integrated into their customers' lives. By keeping the customer more "engaged" with their insurers it encourages retention and eventually loyalty.

For example having an app that helps the consumer interact with their insurer with the same ease and speed they expect in other commercial relationships. The same app can enable the consumer set up a policy or file a claim and provide a centralized platform for storing customer information.

Another example of engagement is through mobile phone apps that monitor and award scores for driving behavior and offer rewards of lower premiums or tie-in merchandise for scores reflecting safe driving

Examples: https://www.wrisk.co/ ; https://boughtbymany.com/
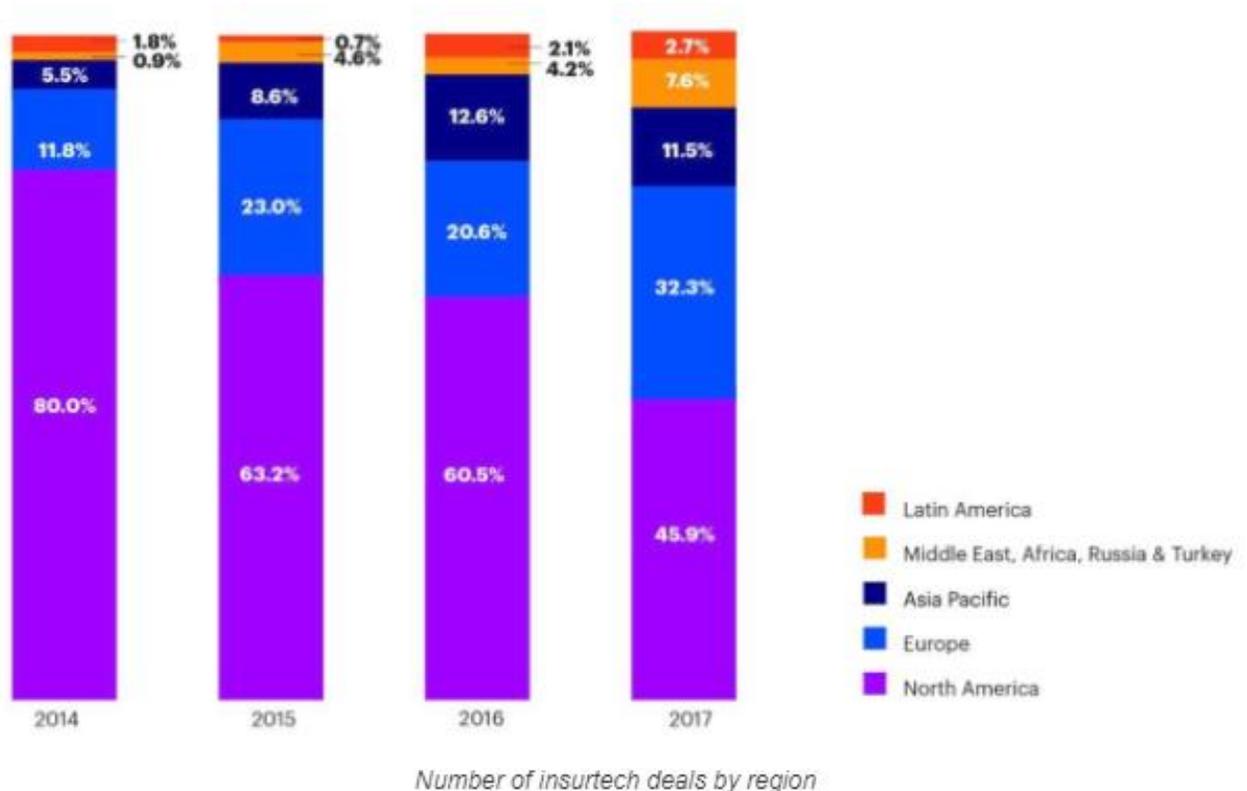
e) Automated claims processing

Insurtechs in this area focus on claim resolution services—making it easier to submit, adjust, and pay claims, usually while applying advanced fraud detection algorithms. Making it possible to do all what is required via mobile, without ever needing to talk to an agent.

Examples: http://www.snapsheetapp.com/ ; https://www.xtract360.com/; https://carpe.io/

INSURTECH FUNDING

Insurtech funding has been on the rise both in volume and value from all types of investors. The number of deals rose to 331 in 2017 from 110 in 2014, whereas the total value of funding grew to $2.32 billion in 2017 from $140 million in 2011.

North America leads in insurtechs investment in both volume and value with 46% of deals in 2017; Europe has 32.3%, Asia-Pacific 11.5%

	2014	2015	2016	2017
Latin America	1.8%	0.7%	2.1%	2.7%
Middle East, Africa, Russia & Turkey	0.9%	4.6%	4.2%	7.6%
Asia Pacific	5.5%	8.6%	12.6%	11.5%
Europe	11.8%	23.0%	20.6%	32.3%
North America	80.0%	63.2%	60.5%	45.9%

Number of insurtech deals by region

Source: Accenture Research Analysis based on data from CB Insights

REGULATORY FRAMEWORK

Changes to any regulatory laws governing a sector are slow to change. In contrast, changes in technology and innovation are complex and rapid. The risk of a regulatory gap as well as the risk of stifling innovation are real in the current insurance industry environment. Yet, it is critical for regulators to balance between oversight of the industry and enabling innovation.

Sandbox Regulation is what several countries have adopted as a way to address industry oversight, consumer protection and at the same time encourage innovation. Sandbox regulation enables insurtechs to experiment with new ideas and innovations across the insurance value chain within a controlled environment (sandbox) to contain the consequences of failure.

CONCLUSION

Insurtechs are in early adoption stages. They have been able to make headway because they are venturing into untapped markets and addressing unmet needs as well as their ability to leverage technology to provide a distinctively different customer experience.

Insurtechs will either disrupt or empower insurers. The question to the industry therefore is how to co-exist, compete or collaborate. How fast Insurers adapt to the market changes will determine their share in the next generation of the insurance industry.

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