Insurtech's evolution to focus on partnership and enablement

David Kimmel, managing partner and co-founder of Insurance Advisory Partners, explains the latest investment trends in the insurtech space

How has the fundraising environment for insurtech changed in the last couple of years?

While more than $50bn of capital has been raised for insurtech companies over the past decade, there has been a large fall in funding since 2021. It has clearly become a more challenging fundraising environment – a far cry from the growth-at-all-costs conditions that characterised the sector before 2021.

A fundamental reason why private investment exits from insurtech companies have ground to a halt is that public market valuations have collapsed. The stock prices of Lemonade, Root and Hippo, for example, are around 90 percent lower than two years ago. Some commentators have even said that these companies prove insurtech does not work – but we believe this is a huge overstatement. Rather, markets have demonstrated that the original 'insurtech 1.0' model did not create long-term value. Great technology alone cannot make up for a poorly underwritten, poorly performing book of business.

Growth-stage insurtechs are feeling the pain. Some venture capital firms have thrown in the towel, making it harder to close funding rounds and casting a shadow over the sector.

What went wrong with the 'insurtech 1.0' model?

Valuations fell, in part, because the hypothesis of insurtech disruption has essentially failed. In reality, many insurtechs aggressively chased profits by underwriting difficult risks in relatively unattractive insurance books.

The insurtech 1.0 model was also predicated on the claim that brokers were too expensive, but often these legacy distributors are still relied on for advice. And some insurtechs that initially focused on direct marketing have pivoted to, or added, brokerage-enabled products.

Finally, many following this model believed incumbents had bloated operating structures and were easy targets. But the truth is, for many of the insurtech 1.0s, expense and loss ratios have been more destructive to operating profitability than their digital leverage could offset.

Ultimately, the prospects remain good for those insurtechs that provide value and serve a true market need. But the idea that they will totally disrupt traditional insurers is no longer a realistic possibility.

Has M&A become more prevalent among insurance companies?

As the insurtech market matures, we will definitely see more M&A activity. Traditional insurance players have been actively looking at insurtechs to access their technology and talent.

There have been some interesting M&A transactions, such as the sale of Bold Penguin to American Family Insurance. However, some other insurtech companies, for which M&A was the most viable or only exit strategy, have shut down after not being able to strike a deal. And there are fewer buyers for businesses in the growth stage that have negative cash flows.

Which insurtech sectors are still attractive to investors?

Technology remains very important in insurance. Some very reputable industry leaders continue to emphasise the value of technology. Insurance is an industry built on data, and the combination of granular data and technology creates interesting opportunities. More recently the focus for insurtechs has been on partnership and enablement, rather than disruption or displacement.

One of the areas we have seen investor interest growing recently is generative AI. We believe cyber is another category with huge growth potential. There are also various kinds of B2B software-as[1] a-service models, which can deliver efficiency and cost savings to traditional insurers, that remain very attractive to investors.