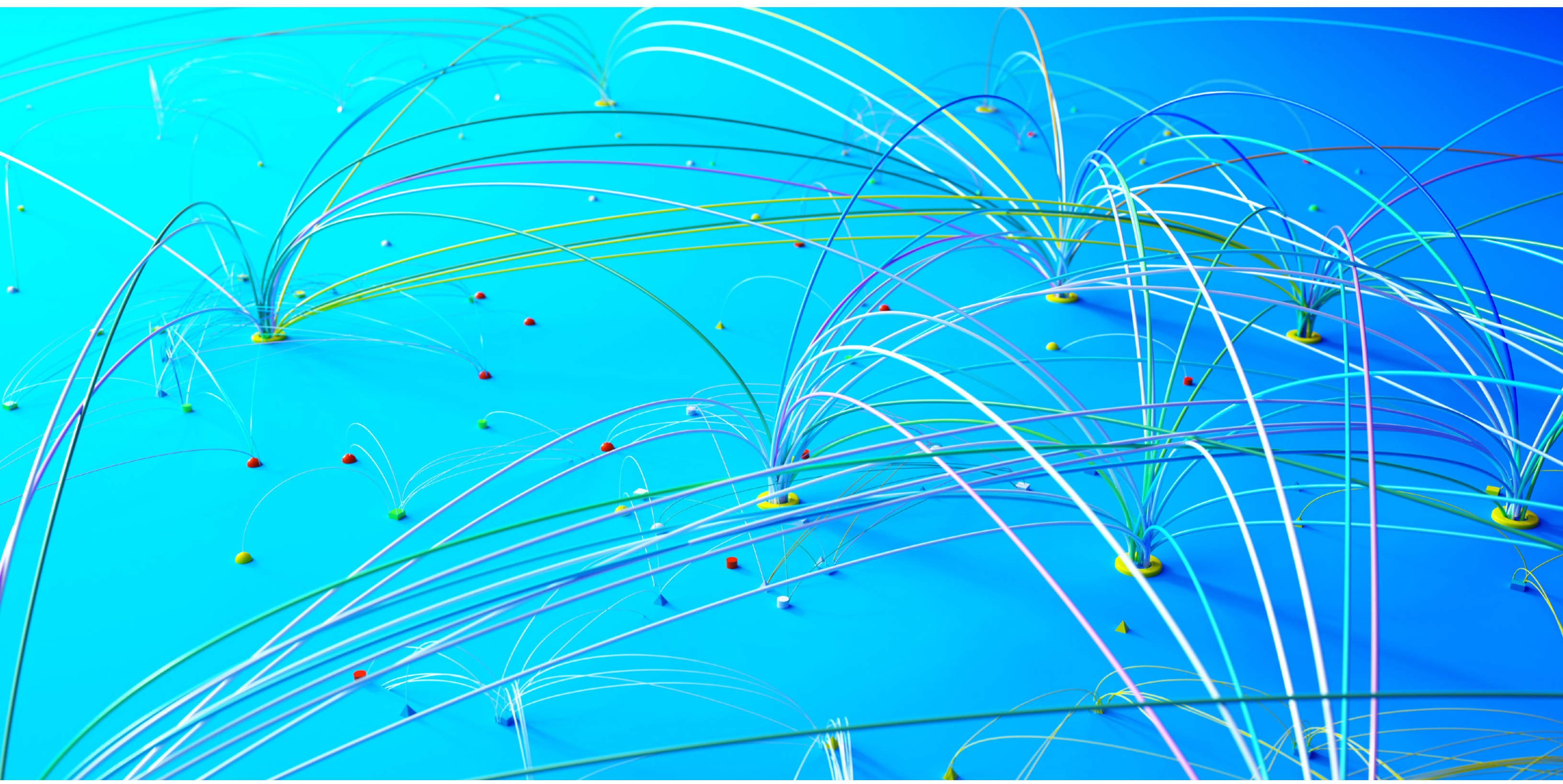
Insurance Practice

Can European insurtechs live up to the hype?

European insurtechs have the potential to become a €200 billion market by 2030. How can they turn this opportunity into reality?

by Anne Dreller, Christian Irlbeck, and Simon Kaesler



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Despite a recent period of disruption, the European insurance industry has remained stable. Insurers recovered quickly from the short-term profitability hit caused by COVID-19, and the outlook is positive: we project about 3 percent annual premium growth and 8 percent growth in profits by 2025.

This relative economic steadiness is an asset. But when it comes to digital transformation, is the insurance industry resilient in the face of change, or is it resistant to it? The past decade has seen multifaceted technology trends emerge in the industry.[1] Some shifts, such as the adoption of digital channels for claims notifications,[2] have accelerated because of the pandemic. Others have remained stagnant for years: for example, adoption of direct and digital distribution has hovered at 18 percent in the European property and casualty (P&C) market. (For information on the research presented in this article, see sidebar, "About the research.")

Insurtechs have long been viewed as a promising vehicle for driving widespread digital transformation in the insurance industry. At the same time, incumbents and distributors question whether insurtechs will act as catalysts for their own digital transformation—or as a competitive threat to their core business and market share.[3] It is time to take stock of how European insurtechs are creating value and what to expect in the years to come.

About the research

The research presented in this article is based on a wide-ranging study of data from a variety of leading sources, including Crunchbase, Deal-room, PitchBook, and S&P Global, as well as proprietary databases such as McKinsey Global Insurance Pools, McKinsey Insurtech Database, and McKinsey Panorama Database. Where our colleagues have published related research, we offer links to their work.

The current value proposition of insurtechs

Insurtechs know how to reap the benefits of digital: they create simple, intuitive journeys and products for the end customer, with a high degree of transparency and fast processes in claims and customer service. It can seem nearly impossible for traditional incumbents to achieve the same level of customer-centricity, transparency, and speed.

While insurtechs are no doubt transforming the industry, incumbents and distributors may view them as enablers or challengers, depending on the insurtech's business model: B2C, B2B, or B2B2C.

B2C insurtechs are challengers

B2C insurtechs compete directly with incumbents to underwrite premiums for personal customers.[4] However, their customer and product focus tends to be narrower than that of incumbents, limiting their disruption of the market. In 2021, B2C insurtechs accounted for only 10 percent of the property and casualty direct market, totaling roughly €4 billion in annual premiums (exhibit). Managing general agents (MGAs) captured approximately 75 percent of this volume, with B2C underwriters capturing the rest.

B2B insurtechs are enablers

As industry utilities, B2B insurtechs help incumbents upgrade their value chains with digital assets and capabilities. For example, some offer digital claims or fraud solutions based on advanced analytics and intuitive, user-friendly apps. B2B insurtechs can be positioned as specialists, third-party administrators, or even end-to-end solutions or capability providers. The growth potential for this model is strong, as it can create a win–win–win scenario for customers, incumbents, and insurtechs.

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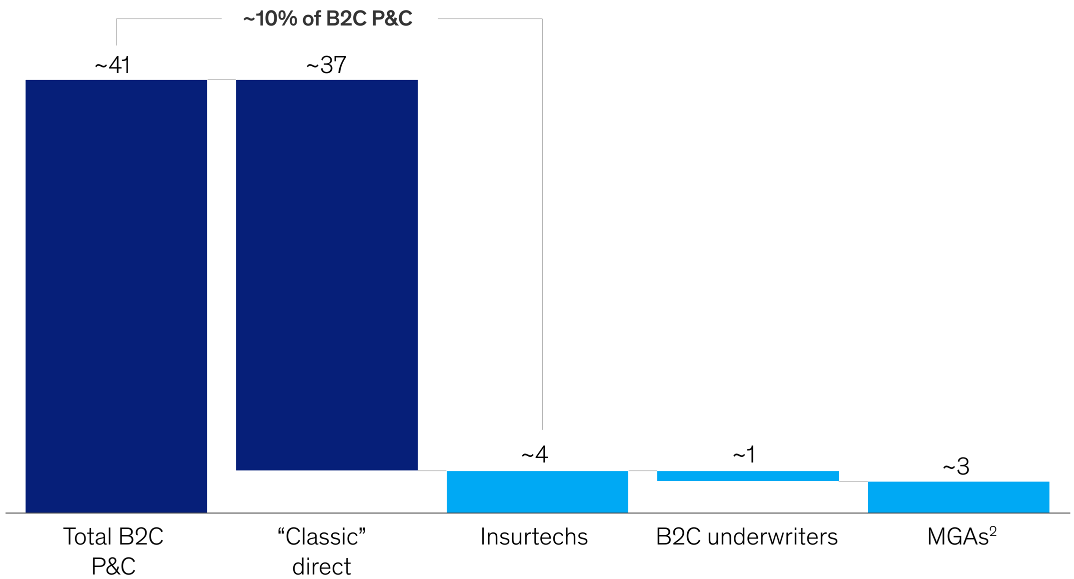
[1] For more, see Krish Krishnakanthan, Doug McElhaney, Nick Milinkovich, and Adi Pradhan, "How top tech trends will transform insurance," McKinsey, September 30, 2021.
[2] Elixabete Larrea, Michael Müssig, and Samantha Prymaka, "The new standard for insurance claims," McKinsey, May 2, 2022.
[3] For more, see Peter Braad Olesen, Ari Chester, Scott Ham, and Sylvain Johansson, "Commercial lines insurtech: A pathway to digital," McKinsey, October 1, 2018.
[4] For more, see Christian Irlbeck, Doug McElhaney, Katka Smolarova, and Grier Tumas Dienstag, "How insurtechs can accelerate the next wave of growth," McKinsey, May 5, 2022.

Exhibit

B2C insurtechs account for 10 percent of the direct property and casualty market.

Property and casualty (P&C) premiums captured by underwriting insurtechs (excl pure distribution insurtechs),[1] 2021, € billion



Note: Insurtechs have captured ~1–2% of the overall European P&C market (€375–€450 billion).
[1]Includes incumbent direct players and direct business from traditional brands.
[2]Managing general agents.

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B2B2C insurtechs are enablers and challengers
B2B2C insurtechs open the doors to new markets in adjacent industries by integrating insurance into the point of sale for car dealers, travel agencies, tech suppliers, retail stores, and banks. Through their B2B partners, these insurtechs expand the pool of potential end customers. While the market is still in the early stages, the future looks promising. For example, our experience suggests that significant profits can be generated from extended-warranty insurance products, at least for corresponding business models.

The future outlook for European insurtechs—and the potential value at stake

The future trajectory of the insurtech market is heavily determined by investment flows. According to McKinsey analysis, European insurtechs today attract approximately 20 percent of global insurtech funding volumes—a share that has remained steady over the past five years. European insurtechs had a record year in 2021, with more than €3 billion in funding. While the overall number of deals declined, deal size grew across all stages, with a higher share of late-stage deals compared with previous years. European insurtechs were collectively valued at approximately €40 billion in the same year.

While the industry successfully bounced back from the initial disruption of the COVID-19 pandemic, a new set of challenges have emerged. The current macroeconomic environment is characterized by rising interest rates, decades-high inflation, and ongoing geopolitical unrest.[5] Across industries, tech companies have been falling short of earnings targets and investor expectations—a phenomenon that began in public markets in 2021 and spread to private markets.[6] Insurtechs were not immune to this asset overvaluation. For example, B2C insurtechs with balance sheet business models (especially those with high loss ratios or limited clarity on the sustainability of key economic drivers) could not meet the high expectations set by their software as a service–like tech counterparts.

As a direct consequence of this trend, both technology companies and insurtechs have seen a significant decline in valuations. The Nasdaq fell by 30 percent in the first half of 2022, and some insurtechs are experiencing valuation decreases of up to 95 percent (in extreme cases) relative to their all-time highs in 2021. This dynamic is slightly less pronounced in Europe than in the United States.

Funding volumes are also shrinking, especially in later-stage financing and IPOs. US venture capitalist funding decreased from $94 billion in the fourth quarter of 2021 to $36 billion in the fourth quarter of 2022. In Europe, the corresponding decrease was €29 billion to €13 billion. Nevertheless, there is still some market activity in Europe, and investors are looking for new deals, though more selectively.

The longer-term outlook for European insurtechs is more positive. If insurtechs follow a similar value capture trajectory as fintechs, which today account for approximately 20 percent of the market capitalization of traditional banks, insurtechs could generate roughly €200 billion of value in 2030—five times the current market value. While this rapid growth is achievable, it would require annual funding of approximately €5 billion, which is significantly higher than 2021 (approximately €3 billion) and 2022 levels (approximately €2 billion).

[5] “2023, a testing year: Will the macro-scenario range widen or narrow?,” McKinsey, January 16, 2023.
[6] Rohan Goswami, “Tech’s reality check: How the industry lost $7.4 trillion in one year,” CNBC, November 25, 2022.

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Critical enablers for value capture

To capture the full value at stake, leaders of insurtechs and incumbents alike will need to mobilize stakeholders across the entire industry ecosystem and embark on systematic programs to boost their performance. This is particularly critical during the scale-up phase, when insurtechs are most likely to fail.

While attracting funding and winning new business remain the priorities, efforts should also focus on developing the following enablers:

Close collaboration between incumbents and insurtechs. By embracing a symbiotic relationship, incumbents can benefit from digital acceleration, while insurtechs gain access to capital, professionalization, and scale.

Supportive ecosystems and networks. Insurtechs can focus on cultivating their access to talent, networks of potential B2B partners, and future customers to build a strong foundation for future strategic opportunities.[7]

Consumer-oriented regulation that fosters innovation. Appropriate regulatory frameworks can make it easier for insurtechs to develop scalable business models in domestic and international markets while ensuring stability and consumer protection.

European insurtechs have tremendous growth potential. But first, they will first need to secure their runway with improved costs and liquidity and increase the resilience of their business models. In a volatile and uncertain environment, the winners will be those that successfully navigate the headwinds and deliver superior quality that can become a lasting source of competitive advantage for years to come.

[7] For details on how to start an initiative based on these recommendations, see “Europe’s fintech opportunity,” McKinsey, October 1, 2022.

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