

Insurance Practice

# Insurtechs are increasingly ripe for insurer investments and partnerships

A new analysis of 2,000 global insurtechs reveals rapid growth, evolving product focus, and a growing crop of innovative opportunities.

*by Shitij Gupta, Varun John Jacob, and Shalija Raheja*



**The insurance industry** has experienced a technology revolution over the past decade. Emerging capabilities such as telematics, artificial intelligence, big data, aerial imaging, and claims automation have become more prevalent as insurers have doubled down on using technology for optimization of both cost and processes.

However, not all insurers have been quick to adapt their in-house capabilities. Instead, they have increasingly relied on the platforms and services of a burgeoning landscape of insurtechs, which has witnessed staggering growth in recent years.

We expect insurers' investments in and partnerships with insurtechs to continue to increase and flourish. In this blog post, we highlight the technology, investment, and value-chain trends that can help guide insurers and investors interested in identifying promising opportunity areas.

### **Technology trends**

Insurtechs offering software as a service (SaaS), artificial intelligence, and machine-learning solutions have been at the forefront of insurtech focus in recent years. Key tech trends include the following:

- innovations in personalized product designs, in which new insurance value propositions from insurtechs reward customers for avoiding

risk—for example, telematics that reward customers for safe driving and vitality programs that reward healthier lifestyle practices

- use of machine-learning models to determine potential customer lifetime value and elasticity modeling to complement traditional underwriting models, with external data also being increasingly used to generate optimum price points for customer segments
- a focus on a digital, omnichannel customer experience, further accelerated by COVID-19, reiterating the need for integration of remote and intermediary channels on digital platforms

### **Investment trends**

An analysis of approximately 2,000 global insurtechs focusing on life, property and casualty (P&C), and health insurance found that from 2010 to 2020, about one-third of them secured funding, and a handful established strategic partnerships with at least one incumbent. Insurtech funding peaked in 2020 with €6 billion in deals (Exhibit 1).

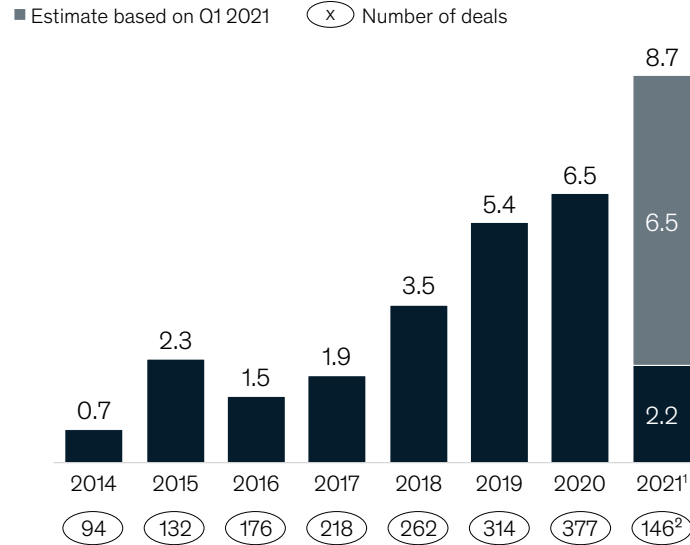
In terms of product categories, 66 percent of insurtechs operate within P&C lines of business (led by auto insurance), while 18 percent and 16 percent focus on health insurance and life insurance, respectively. Around 47 percent of insurtechs

**The small and midsize enterprise segment's need for customization, experience, and lower complexity of products makes this space ripe for insurtech interest.**

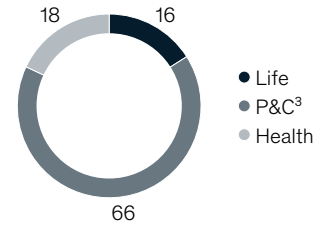
Exhibit 1

**Insurtech funding has grown rapidly in recent years.**

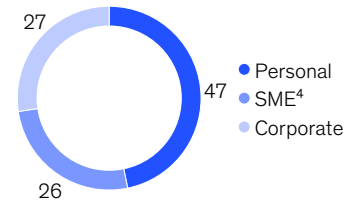
**Insurtech funding, € billion**



**Insurtech focus by line of business, 2020, %**



**Insurtech focus by customer segment, 2020, %**



<sup>1</sup> Data for Q2–4 2021 reflect estimates based on Q1 2021 figures.  
<sup>2</sup> Number of deals in Q1 2021.  
<sup>3</sup> Property and casualty.  
<sup>4</sup> Small and midsize enterprises.  
 Source: CB Insights; Dealroom; McKinsey Global Insurance Pools Insurtech Database

launched between 2000 and 2020 focused on personal lines, with the number that operate in commercial lines increasing in recent years.

The increased funding, coupled with the mounting focus on commercial lines, may push insurtechs to explore new, exciting opportunities, especially in serving small and midsize enterprises (SMEs). The SME segment’s need for customization, experience, and lower complexity of products makes this space ripe for insurtech interest.

**Value-chain trends**

P&C insurance leads other segments, namely health and life, in technological innovation, according to analysis of the McKinsey Global Insurance Pools insurtech database. Across the insurance value chain, the strongest insurtech presence has been felt in marketing and distribution, with a number of insurtechs gaining footholds in investment and partnerships with traditional insurers. However, increasing innovation is also evident in operational aspects such as policy servicing (especially in life), claims (especially in auto), and back-office functions and operations (especially in health). (See Exhibit 2.)

Exhibit 2

**In recent years, the focus of innovation within products has shifted slightly toward claims and policy servicing.**

Sample analysis

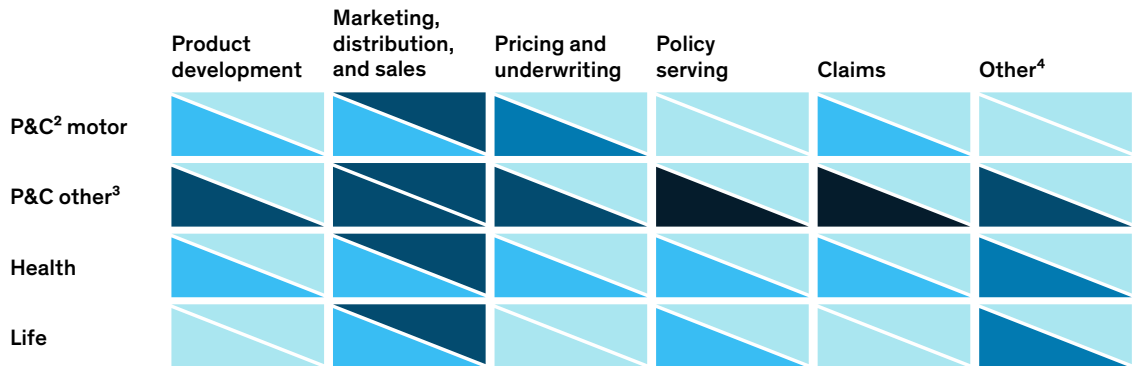
Share of innovations: Low High

Significant gain in share

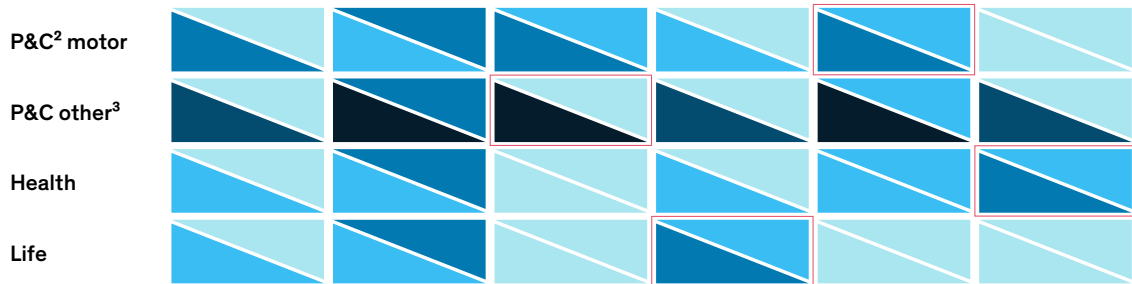
Share of innovations in specific value chain

Share of innovations in specific product

**Insurtechs<sup>1</sup> launched 2000–15**



**Insurtechs<sup>1</sup> launched 2016–20**



<sup>1</sup> Approximately 2,000 successful insurtech innovation case examples were launched in or before 2020.

<sup>2</sup> Property and casualty.

<sup>3</sup> Includes accident, fire and property, liability, and other P&C insurance.

<sup>4</sup> Includes IT, HR, finance, and other internal functions.

Source: McKinsey Global Insurance Pools Insurtech Database

Because insurance is a dynamic industry, the timing of entry and focus is critical. Focusing on the aforementioned themes at the right time

can be a distinguishing factor—not just for investment and acquisition but also for mutually beneficial partnerships.

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