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Reinsurers, Insurtech Startups Increasingly Seek Mutually Beneficial Partnerships

By Marc Jones | July 18, 2018

Reinsurance companies increasingly are funding insurtech startups in order to structure more innovative products and improve their business efficiencies, but how much impact on the industry will these investments have?

There are a number of reasons reinsurers are getting involved in insurtech, primarily to change the way re/insurance is distributed, priced, underwritten and administered, according to Mike Belfatti, chief operating officer at Greenlight Re. "We're seeing interest in new technologies in insurance from all levels."

"As capital sources for insurance risk continue to be abundant, reinsurers remain under pressure to justify their place in the value chain," Belfatti told Carrier Management. *


Michael Belfatti

"Some companies are responding by continuing to pursue scale; others are operating status quo. But some look at technology and innovation as a way to get closer to their clients and deliver value in a different way," he said.

At Greenlight Re, the view is that change will continue for the reinsurance market as a whole, and as a result, the company has an opportunity to differentiate itself from its rivals, especially larger players, stressed Belfatti.

He explained that insurtech could play a part in leveling the playing field, as it will allow companies to show that good ideas and effective execution can make a real difference.

"Expertise, ideas and execution are becoming more and more important in today's marketplace," said Belfatti. "Reinsurers are aware of the potential implications that new technologies could bring to the space. Innovation and change will highlight the importance of these new ideas and the ability to actually execute them."

Looking at the other side of the coin, namely why insurtech companies are interested in working with reinsurers, Belfatti pointed out that tech-driven startups need investment capital to build operations as well as risk capital to support products that cover insurance risks.

As many of these startups are quite small, it makes sense for them to seek out reinsurers, which are taking similar risks, know more about the regulatory and operational challenges, and are familiar with the way the market functions—in other words, reinsurers are sought out for their expertise, not just their balance sheets, he said.


Justin Davies

Justin Davies, head of EMEA at Xceedance, which provides managed services, said the ongoing soft market has increased interest in insurtech as re/insurers seek to improve process efficiencies and thus save money.

"Insurtech organizations tend not to be deeply experienced in insurance," said Davies. "And reinsurance is a slightly different business model to consider as well, in addition to the fact that reinsurers might be a source of capital for insurtech."

How much will reinsurers be affected by insurtech developments?

Davies pointed out that in 10 years' time the reinsurance market will contain jobs for roles that use technology in ways that can't be imagined at the moment.

He added that many reinsurers don't think they will be greatly affected by technological advances. They have a tendency to think they are like Lloyd's of London, which has been around for some 300 years, Davies said, warning that this might cause complacency.

Other companies, however, are very active in the sector and are aiming to be first movers.

"Tech divisions have been set up [by companies], but I'm not sure that they are all doing this for the right reasons. Some are paying lip service to tech matters for shareholders so that they are seen to be doing something, whilst others are taking it more seriously," Davies said.

Seeking to identify trends, he said that Xceedance is working with reinsurance companies to develop and process improvements for their business models, specifically working on technology and operational improvements.

As a result, he said, lots of clients are seeking strategic guidance and support to try to find the right mix of people, processes and technology while also looking for partner suppliers that are agile and able to help with the use of modern technology to improve process efficiencies.

Efficiencies seem to be the common thread that tie re/insurers to technology, as the market is always looking to keep ahead of costs, especially in lean times.

Blockchain, for example, could be used to modernize commercial and specialty insurance accounting, according to a joint report by research company R3 and insurance innovation company ChainThat, which received a "Series A" equity investment from Xceedance in 2017.

Commercial and specialty insurance contracts and the resulting financial transactions between counterparties are complex and costly to administer, said the report, titled "Modernizing Commercial and Specialty Insurance Accounting with Blockchain Technology," which was published in March 2018.

"Operating inefficiencies cost the insurance sector and its clients billions of dollars annually," the report added. "Blockchain-based platforms can reduce costs in the core accounting and settlement processes by coordinating shared processes and reducing complexity. Blockchain technology can also facilitate the final payment netting between counterparties."

"Reinsurers are also battling with brokers. They are trying to get more capital and also to get closer to their clients," commented David Edwards, chief executive officer of ChainThat. "Insurtech allows that. Reinsurers have been setting up investment funds that they have been using to invest in insurtech created by other companies, cutting out a segment of the market. As a result, the market will look different in five to 10 years."


David Edwards

Edwards pointed out that reinsurers and insurtech companies can develop mutually beneficial partnerships.

Reinsurers have capital as well as networks and connections within the market, which insurtech companies need. On the other hand, as reinsurers have expense ratios that need to be drawn down, technology is one of the few options to do this with, making cooperation with insurtech companies important.

He noted that developments with blockchain technology will also benefit the market, ultimately resulting in savings of up to $50 billion just by enhancing process efficiencies.

Large industry consortiums are being formed to develop the technology, he said.

"There is a risk in this area of the market, but [blockchain] can mean that the client can be much closer to the capital. Technology is creating new marketplaces that can give access to areas all over the world, and as a result this could disrupt the market," Edwards added.

"Some insurers are trying to lead the way to getting cheaper costs. They feel that they need to do something on this now or get left behind," he said. "The problem is that re/insurance can be a risk-averse industry. When it comes to technology, they need to learn that if they fail on an insurtech concept, then they can learn from this and then move on quickly."

Turning to the trends that can be seen in the space, Belfatti noted that companies are taking different approaches to change, with some actively pursuing new products and services firsthand, some not actively engaged at all, and others hedging somewhere in between.

Several companies have created their own internal innovation teams, while a number of players have opted to invest in insurtech venture funds, thereby relying on the ideas and leadership of others. Belfatti said that Greenlight Re's approach is to have an active, leading hand in the strategy and execution of its innovation initiatives while relying on external partnerships to access some unique areas of expertise.

Belfatti also stressed that new ideas in insurance will have a significant failure rate and that those who participate in this area should realize this.

"Everyone understands that 'new' doesn't always mean 'smart' or even 'possible.' New tools and methods are, per definition, untested—and not all of them will succeed," he emphasized. "Even some good ideas may just not be feasible yet or may be adopted slowly by customers who are averse to change. Companies therefore need to prepare for failures in innovation and manage the costs of failure."

How serious is the threat of disruption to insurers and reinsurers?

According to Belfatti: "It's hard to say definitively, but we suspect the changes over time will be significant and thus a serious threat for re/insurers that do not adapt to the new landscape. The real promise of innovation is better products and services for end customers—individuals and businesses—and failing to keep up with valuable innovations that customers demand can threaten the long-term viability of laggard companies."

How much will the re/insurance market eventually be affected by insurtech?

It's reasonable to conclude that it all depends on if you take a short-, medium- or long-term view of the market. There will be some companies that choose to be at the forefront of the technological wave and react quickly, even at the risk of taking the wrong path. Conversely, there will be others that decide to adopt the technology that emerges in order to make sure it fits their business model, perhaps at the risk of not moving as quickly.
