Adaption without disruption: the market's evolving view of insurtech

Insurtech innovations continue to fascinate the market, but how do incumbent players see the companies that are entering—and are their opinions evolving over time? Intelligent Insurer investigates.

> "THE REGULATORY AND CAPITAL REQUIREMENTS NEEDED TO PROTECT CUSTOMERS ARE TOO MUCH OF A BARRIER TO STARTUPS TO COMPETE WITH EXISTING INSURANCE COMPANIES." JAMES WILLISON, WEB CONNECTIVITY

The implications of insurtech continue to mesmerise the insurance market. Various players are assessing just how they will cope with new technology, and the insurtech startups are entering the market in the hope that they possess the technological key to succeed in it.

How do existing players view these new entrants—as existential threats, or as existential enablers? James Willison, managing director at Web Connectivity, a company that provides an XML messaging gateway solution enabling insurance organisations to exchange information using ACORD XML standards, says that in his view insurtech startups are a key element to the future success of the industry, but that it is difficult to disrupt a heavily regulated industry with a piece of technology.

For example, he points out, mobile phone and banking apps have changed the way we bank, but they have not fundamentally changed banking.

"I do not see insurtech startups looking to disrupt insurance companies—the regulatory and capital requirements needed to protect customers are too much of a barrier to startups to compete with existing insurance companies," says Willison.

"Rather, startups will provide an environment where insurers are able to access existing or new markets more effectively and service their clients better."

Data becomes critical

According to Willison, the key to enabling this will be the effective use of data, with structured data being the lifeblood in the market applications. He says that the insurance sector is clearly going through an evolution, and insurtech startups have a vital role to play in maintaining market players.

In addition, he says, they are making it possible for insurers and brokers to adopt the latest developments in technology without changing the fundamental business model, which will play a vital role in securing the future of the insurance market.

Tom Dawson and Andrea Best of Drinker, Biddle & Reath say that in their view insurtech startups are probably neither a threat nor an enabler. According to Dawson and Best, the vast majority of new product startups are structured as intermediaries rather than "full stack" risk bearers, so they need insurers.

However, to the extent that startups offer new or enhanced technology the possibility exists that the startup might pose an existential threat or, conversely, may provide the insurer with a game-changing advantage over competitors.

Justin Davies, head of EMEA, at Xceedance, says: "I believe carriers are now starting to view insurtech startups as enablers as opposed to threats. The proliferation of insurtech-focused subsidiaries of carriers—many of whom are partnering with insurtechs, and initiatives such as the Lloyd's Lab—supports this trend."

Are insurtech firms viewed as potential partners and if so, how could those partnerships develop? Dawson and Best's reply is yes, in part—depending upon one's view of the nature of a "partner" relationship. The spectrum includes relationships where the startup is simply a vendor.

But to the extent that the insurer or an affiliate of the insurer invests in the startup, obviously the relationship looks much more like a partnership or joint venture.

As for the development of the partnership, Dawson and Best state that there is a spectrum ranging from one-off commercial relationships, if the insurer is simply licensing a technology or a product, to the other end where the insurer or an affiliate is investing significant sums in the startup.

Willison says that any business should be looking to engage with partners, whether that be insurers, brokers or other software solution providers. He claims that the key to an insurtech startup being viewed as a partner rather than a vendor is to make sure their proposition can be easily integrated into an insurer's or broker's ecosystem.

A new ecosystem

The re/insurance industry has been transitioning to a more varied ecosystem mindset, rather than continuing to rely on a small number of very large inflexible software solutions, says Willison.

“In the same way that if you download an app to your phone, you would expect it to automatically connect with your network and other applications, an insurtech should look to fit into an insurance ecosystem that is already connected.

“For example, if a London Market insurer had a choice of working with an insurtech that was not connected to an ACORD-agreed messaging standard or one that already had a proven connectivity, it should not be a hard selection to make.” According to Willison, insurtechs will need to demonstrate and proactively establish a connected ecosystem to be viewed as partners.

Vikas Acharya, chief operating officer of ChainThat, thinks that partnerships can come in a variety of ways—for example, solution providers, new distribution partners, equity partners or joint ventures. According to Acharya, innovators in the insurance industry are embracing change like never before, with what he describes as a fearless approach to create a competitive advantage in this rapidly evolving market.

“In our world at ChainThat, blockchain technology is already providing the insurance ecosystem with the much-needed innovation it needs to facilitate transparent, seamless, and secure data storage and data sharing, which is enabling better processing across the policy lifecycle,” he explains.

Key lessons that ChainThat is learning while engaging with the insurers or brokers are a) engage with people at the right level within the organisation to get interest from the decision-makers and key influencers; b) always keep an eye on the regulatory impacts while building the product or proposition; and c) have agility in the solution delivery and adapt to the ever-changing market conditions.

ChainThat is not the only company learning lessons. According to Willison, there is a “noticeable shift from distribution to collaboration in the market”, but he feels that the view that insurance is antiquated and therefore ripe for disruption by technology ignores the fact that insurance companies have to work in a tightly controlled regulated environment, with appropriate capital reserves and controls in place to protect customers.

“Insurtechs do have innovative ideas and solutions that can greatly help existing companies, so marrying the two together will lead to the continued evolution of the market,” he says.

Dawson and Biddle conclude by pointing out two specific lessons. “First, the ‘full stack’ insurers such as Lemonade or Root are learning how long it takes to make an underwriting profit.

“Second, for product-developing startups that partner with insurers, it’s how difficult it is to convince the public to purchase the new product and how much marketing effort/expenditure is required.”