The Insurance Industry is gradually reinventing itself to respond to the digital transformation challenge, incorporating innovation into its DNA. It’s a question that goes beyond the use of disruptive technologies. It is imperative to offer an experience that exceeds customer expectations and systemizes the quest for efficiency. We at everis firmly believe that by fully integrating the potential that InsurTech has to offer into business models is key for insurers to be competitive in the current context.
A new digital ecosystem is emerging and modifying the insurance industry

The digital age and the changing client paradigm is posing a challenge to the status quo of a sector which is facing the entrance of new players. These players are digitally native, and are entering the insurance industry with their efficient use of technology, low cost and disruptive business models. They also present an attractive offer of products and services which maximize the clients’ experience.

Traditional insurance companies should take advantage of the potential use of data and new technologies in order to guarantee a differential experience, reaching operational excellence and explore new business models. The use of digital channels and personalized offers are no longer an option.

A new ecosystem made up of insurance companies, tech giants and disruptive start-ups is transforming the insurance industry. In this sense, the InsurTech industry has experienced a significant growth and this has led to a constant rate of innovation.

Insurers are creating venture capitals, digital labs and partnering with accelerators to analyse and invest in disruptive start-ups as an innovation (and survival) lever. Moreover, tech giants are also taking strategic positions in the sector by investing, acquiring and collaborating with InsurTech companies. In this context, tech giants are looking to complement their digital capabilities and their existing customer databases.

Insurers are changing their investment strategies, showing their interest in exploring new business models beyond traditional insurance business. The analysis of insurers’ funding rounds denotes concerns about sector transformation, justifying their portfolio diversification. In fact, this implies the search for new business models that would allow them to adopt a new role within the digital economy and new formulas to ensure sustainable growth.
The current report is an Executive Summary of the Global InsurTech Outlook analysis.

The objective of this report is to provide an overview of the main trends and challenges emerging from the appearance of new disruptive business models and start-ups which will potentially redefine the insurance industry.

The study also includes analysis of the roles of tech giants, investments made and partnerships formed by insurers with disruptive start-ups.

The research was carried out by everisNEXT, the world’s largest B2B-ICT start-up repository with 1.5m+ start-ups (www.everisNEXT.com). EverisNEXT records the related public investment operations on a database using artificial intelligence.
Insurers embracing digital transformation face a new set of challenges which will redefine their business

New trends and changes in the insurance market mean that insurers need to compete using disruptive strategies, with new client relations and Big Data playing a decisive role.

Challenges facing the sector

The following illustration represents some of the main challenges that insurers will have to face due to disruptive innovation:

**New Business Models**
- P2P platforms and sharing economy.
- New roles in the value chain, with a whole new type of intermediaries.
- IoT devices and connected health, home, and vehicle.
- Emergence of digital-first insurers.

**New Relationships With Customers**
- Omni-channel model to create a customer-centric approach, encouraging cross-selling capabilities.
- Customer engagement through solutions along the customers’ journey.
- Gamification and Virtual reality as tools to influence on customers’ behavior.
- Personalized insurance.
- Usage-based insurance and just-in-time insurance.

**Technology & Use of Big Data**
- Customer insights to develop new products and services.
- Sophisticated underwriting and risk reduction using machine learning and cloud computing.
- Operational excellence through innovative technology.
- Data protection challenges.
The emerging insurance sector is formed by a relationship between insurers, tech giants and disruptive start-ups

In this context, a complex scheme of interactions between insurers, tech giants and disruptive start-ups is constantly changing the InsurTech ecosystem in order to adapt to new customer needs and behaviors.

Source: everis analysis.
Note: Non-exhaustive list of insurers and Venture Capitals, tech giants and disruptive start-ups.

From this perspective, a large group of insurance technology start-ups (InsurTech) has emerged to bring disruption to the industry. These start-ups represent new digital opportunities and improved customer capabilities to redefine and disrupt core insurance processes. They increase competition by operating with low structure costs and an efficient use of resources. Additionally, they develop business models that encourage the disaggregation of core processes and the emergence of new roles within the value chain.
The industry is facing a strong transformation, converting every part of the business into a digital one. We are experiencing a new age of disruptive innovation that has never been seen before.
The boom in the InsurTech sector

The investment in InsurTech start-ups is following a clear positive trend and shows that the market believes in disruption in the insurance sector.

Compared to 2013, funding for InsurTech start-ups rose by over 7.5x in 2015, reaching $3.1 B globally. The market is far from mature and there is a high potential of business opportunities. This explains the fact that nearly half of the investments in 2015 were in stage A start-ups.

In 2015, funding to InsurTech start-ups rose over 7.5x compared to 2013, reaching $3.1B globally.

Nearly half of the investments in 2015 were in stage A start-ups, which reveal market willingness to invest in innovative and risky insurance business models.

To understand how the insurance market is changing, three key players are modifying and establishing the new insurance ecosystem: tech giants, insurers and disruptive start-ups.
Within this new insurance ecosystem, tech giants are leveraging their customer information and data capabilities to disrupt insurance

One of the key players transforming insurance are technological giants, corporations that can leverage their digital capabilities to compete against insurers and integrate innovative business models.

By mastering the use of Big Data and favouring investment in smart devices and the Internet of Things (IoT) start-ups, tech giants are aiming to transform the industry. They have the potential to monetize consumer data and open the path to develop new insurance products and redefining smart insurance policies.

In the study, an analysis of the current and potential future roles of tech giants was carried out focusing on the group commonly known as “GAFAAs”; Google, Apple, Facebook, Amazon and Alibaba.
<table>
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<tr>
<th>Current role in insurance</th>
<th>Potential impact on insurance</th>
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<tr>
<td>Collecting useful data for risk analysis from smart home devices, vehicles and health lenses.</td>
<td>Leverage its search data for improved underwriting and distribution.</td>
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<tr>
<td>Possesses superior ability for lead generation, incentivizing purchases of insurance products.</td>
<td>Using data from smart devices for risk pricing.</td>
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<tr>
<td>Developed “Google Home”, a voice recognition assistant for the connected home.</td>
<td>Creating new CarPlay features for driving analysis and risk prevention.</td>
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<tr>
<td>Collects fitness and lifestyle data from various apps and provides an overview of the users’ health.</td>
<td>Enhancing capabilities of Apple Watch for data collection, remote monitoring of health, and more accurate risk pricing.</td>
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<tr>
<td>Developed CarPlay and Health Kit, allowing access to the connected car and health sector.</td>
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<tr>
<td>Provides insurers the tools to strengthen their brand presence, as well as using Facebook as a distribution channel.</td>
<td>Use customers’ group buying power for homogenous insurance policies needs.</td>
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<td>Bought the fitness-tracking App “Moves”, which insurers may recommend to their customers.</td>
<td>Improved advert targeting by tracking activities from outside the web.</td>
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<td></td>
<td>Exploit the activity data from the fitness apps it owns.</td>
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<td>Building its presence in home automation through “amazon Echo”, as well as working on the future interactive capabilities between connected cars and Amazon Echo.</td>
<td>Use insights from customer browsing, purchasing, and review history for targeted insurance adverts.</td>
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<td></td>
<td>Further development in home automation capabilities to play a key role in home risk pricing.</td>
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<tr>
<td>Through its affiliates in the financial, insurance and social media sector, launched Zhong An, an online insurer, which manages policies and underwrites risks.</td>
<td>Sells low cost micro-insurance with minimal distribution costs, using its online payment platform Alipay.</td>
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<tr>
<td>Announced a new joint venture specifically for online health insurance operations in China.</td>
<td>Offers smart-insurance products for the auto insurance line, as it is preparing to launch its first Internet-connected smart car.</td>
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Start-ups with disruptive business models are bringing innovation to insurance companies embracing digital transformation

Numerous start-ups of diverse types are entering the insurance market and complementing the core activities of the industry with disruptive technology.

The following categorization of start-ups is a result of an analysis of the investments and partnerships derived from insurers’ venture capitals with start-ups from both inside and outside the insurance ecosystem:
| Cyber security              | Claims fraud detection. | KYC identity verification. |
|                           | Cyber breach insurance. | Secure internal messaging.  |
| e-commerce & on-demand platforms | Vehicles.               | On-demand service.         |
|                           | Apartments.             | Other final products.      |
|                           | Travel Experiences.     | Comparison/search engines. |
| IoT devices               | Health wearables.       | Environmental sensors.    |
| Wealth Management         | Home security.          | Provenance/asset tracking.|
| Technology Applications   | Vehicle telematics.     |                            |
| Data & Analytics          | Asset management.       | Pension management.        |
| Education & Entertainment  | Digital savings plans.  | Portfolio investments management. |
| Payment Systems           | Wireless.               | Lending.                   |
|                           | Machine learning software. | Data visualization and analysis. |
| Data & Analytics Data & Analytics | Data storage. |  |
|                           | Real time risk mitigation. |                            |
|                           | Gaming.                 | Marketing decision-making. |
|                           | Photos and video sharing. | User experience.           |
|                           | Education.              |                            |
| Payment Systems           | Secure payments.        | Digital wallets and trading engines. |
|                           | Blockchain.             | Money transfer.            |
|                           | Media insights.         | Energy consumption.        |
| Health                    | Energy exploration.     | Chronic condition mgmt.    |
|                           | Health analytics.       | Health tech & Biotechnology. |
Insurance companies are increasingly creating venture capitals to invest in a wide variety of start-ups to expand beyond their traditional activities

Insurers’ VCs are diversifying their investments and leveraging new digital capabilities as a key lever in their business strategies. This capital diversification beyond their core insurance activities, shows the immaturity of the InsurTech market, and the insurance companies’ concern for fulfilling consumers’ needs through value offers not included in traditional insurance.

The graph only measures the participation of insurers in InsurTech start-ups through their venture capitals.

In the analysis, nearly 70% of insurers’ funding in start-ups and companies targeted first and second stage rounds, indicating that venture capitals believe in insurance disruption from newly created business models.

In addition, insurers are also increasingly creating digital garages and establishing collaborations with accelerators to analyze and invest in digitally-born start-ups, with the objective of stimulating their digital transformation and develop new business models.

Source: everisNEXT start-up repository overall funding by start-up categories includes investments of selected insurers’ VC and aggregate VCs.

Note: The graph doesn’t include Didi Chuxing, taxi calling application which made e-commerce receive 52% of total funding
Disruptive innovation is coming from a wide variety of start-ups and is modifying the whole value chain

The analysis of the value chain illustrates how insurance companies are supporting innovative start-ups and companies from both inside and outside of the sector. The impact does not come from the technologies, but from how they are incorporated into the business.

**The impact on the insurance value chain**

**Outside the sector**

- **New tailored products & services** (usage based insurance & just-in-time insurance)
- **New data sources**, such as IoT devices, e-commerce, and review sites
- **Flexible & customized** policies, e.g. social sharing (P2P)

**Distribution and relationship model**

- **Diverse e-commerce sites** (home, auto, travel, health products, etc.)
- **Targeted ads**, social media and online assistance platforms for risk prevention
- **Underwriting technology** to understand and evaluate individual risk scoring and behaviour analysis

**Policy Administration & Renewals**

- **Data from IoT devices** for additional insights into policyholder risk
- **Online health appointments**
- **Platform to manage financial items** through any channel
- **Transaction platform for secure payments** with digital currencies and **blockchain technology**

**Claims**

- **On-demand platform and apps** for road assistance, repairs, and related services
- **GPS asset-tracking** for real-time decision making and online mapping service

**Inside the sector**

**Product Development**

- Secure web-based platform for regulatory reporting and risk pricing
- **Disintermediation** from digital start-ups, new online distribution channels, and usage of data analytics to offer the right product at the time and channel of choice of customers

**Business Generation**

- **Reduce customer acquisition costs** by leveraging data for adjusted quoting and dynamic underwriting **Real time risks assessment**

**Collection & Sisbursement**

- **Multichannel, customer-centric digital platforms** for insurance policy
- **Fraud prevention, damage estimation, and report automation through machine learning Claims management app**
Disruptive innovation is coming from a wide variety of start-ups and is modifying the whole value chain.

The disruption in the value chain comes from the integration of more sophisticated data for useful data analysis, a more digitalized interaction which improves customer experience and the creation of specific policies covering tailored insurance needs. In short, insurers are required to become more flexible and adapt to fast-changing digital customers.

Source: everis analysis including partnerships and funding.
Insurers need to approach the changing ecosystem and understand their new role in this digital transformation.

Insurance companies should respond to the changes in the insurance market by re-thinking their business and not by adjusting their business accordingly. In order to embrace the current digital transformation, insurance companies should:

**Disruption is happening.** For insurance companies, it is key to **identify and locate innovative business models** by understanding the potential opportunities and areas of exploration.

**Be aware**

Accelerate the **capture of innovation** by creating, partnering, investing or acquiring starts-ups with disruptive business models. Implement pilot test to **validate and execute business ideas**.

**Be proactive**

**Develop and scale up** most disruptive businesses, establishing a **successful corporate digital strategy**.

**Be there**
everis NEXT, the world’s largest B2B–ICT start-up repository was used for this analysis

The sources of this study were the everis NEXT internal database combined with external data.

everis NEXT is the world’s largest B2B-ICT start-up repository. As an Open Innovation platform, it connects more than 1.5 million start-ups with both large corporations and other relevant players.

The study included:

- The information shown in the analysis was obtained from public sources and from information available in the everis NEXT start-up repository.
- Investment figures in InsurTech start-ups from insurers, venture capital firms and tech giants, taken from everis NEXT start-up repository analysis conducted in February 2016.
- Investment figures from insurers and aggregate venture capitals which invested within the same funding round, taken from everis NEXT start-up repository analysis carried out in February 2016, including 284 investments from a sample of insurers.
- A graph with start-ups which have modified the insurance value chain and which have received investment or partnered with insurers.

**Description of financing stages:**

- **Pre-A** Consisting of Seed, Business Angel, Crowdfunding and Early-Stage funding rounds. Investment amounts are typically small and used for launching start-ups. They represent high risk. For example, accelerators are active early-stage investors for new start-ups.

- **A** Financing rounds for optimizing product and user base aimed at start-ups / companies showing more stable business plans. These rounds represent higher investment compared to Pre-A stages.

- **B** Investment rounds to take start-ups past the development stage, and which show steady growth and need more finance for market expansion.

- **C** Rounds of financing for successful businesses to scale up. For example, when considering acquisitions.

- **Late-stage** Financing rounds beyond C stage, for more consolidated companies which require larger amounts of finance for growth.

- **Not listed** No public information regarding the funding stage nor the amount invested.

- **Others** Contains financing rounds such as private equities, debts and loans, etc.

Note: Other public internet sources have been used to complement the research.
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