



FEARLESS INNOVATION

INSURTECH AS THE CATALYST
FOR CHANGE WITHIN INSURANCE



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Insurtech is in good health. 2017 was characterized by strong growth, an increase in technological maturity, and the continued development of local and regional hubs around the world. Europe and Asia are playing a more significant role than in the past, and insurers are forming more partnerships than ever before.

However, the way the insurance industry currently views and leverages startups makes them far less effective – as a force for transformation and innovation – than they could be. Some insurers appear to be expecting the insurtech movement to deliver 100 percent of the changes that are required, whereas they should instead be looking to insurtech to set a good example and indicate the way ahead. And it's not simply about delivering radical innovation. Leveraging startups to help improve existing core processes and reduce traditional frictions in the value chain will be just as important. The industry still needs to address some basic but long-standing issues (in terms of poor customer experience, for example) before insurtech can really start to bring full-blown innovation to the mainstream industry or to everyday policyholders.

Startups can be an invaluable catalyst for innovation. They can play a major role in helping insurers transform and grow their existing businesses, as well as developing new revenue streams. But insurtech is not the only tool in the innovation toolbox. Insurers need to think more broadly and strategically about their innovation agendas. They need to become more fearless in their approach to change, and ensure they have the proper architecture in place to support and nurture innovation across all parts of their business.

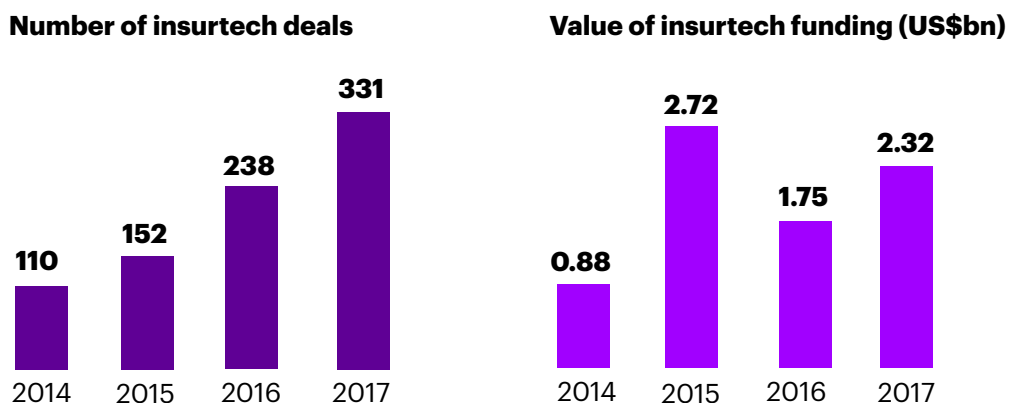
THE INSURTECH MOVEMENT CONTINUES TO GROW RAPIDLY

2017 was a year of strong headline growth for insurtech. According to Accenture's analysis of data from CB Insights, the number of deals rose by 39 percent compared to 2016, and the total value of funding reached US\$2.32bn – a 32 percent increase on the previous year. There were a handful of large (i.e. greater than US\$100m) deals, including the launch of UK-based challenger brand Gryphon plus, in the US, further funding rounds for Bright Health, Clover and Lemonade. And not all those large deals were purely about the technology. Gryphon, for example, used some of its funding to acquire a small / mid-sized customer portfolio, which its new technology will help to grow and scale. However, the strong numerical performance of insurtech illustrated in Figure 1 was not the result of a few mega-deals. Nor was it driven purely by exceptional performance within one quarter. Quite the contrary: the gains were consistent and supported by a broad base of activity.

One good indicator of the underlying health of the insurtech movement is to look at what's happening at grass-roots level, specifically seed and angel funding to early-stage startups. The number of deals taking place at this end of the spectrum has almost tripled in the last two years, from 60 deals in 2015 to 175 deals in 2017. Furthermore, the median value invested in this category of startup has rocketed from US\$0.1m to US\$0.8m over the same period. It's also encouraging to see that the volume and value of funding offered at Series A is now much higher than it was a few years ago.

Figure 1: Both the volume and value of insurtech deals increased in 2017

Source: Accenture Research analysis based on data from CB Insights



STARTUPS ARE BECOMING MORE MATURE AND MORE CONSIDERED IN THEIR APPROACH TO THE INSURANCE VALUE CHAIN

So where is all the activity focused? At the broadest level, it comes as no surprise that the majority of startups continue to target the personal lines space, with this category accounting for 68 percent of all deals in 2017. Commercial lines and mixed applications accounted for the remaining 26 percent and 6 percent respectively.

But digging deeper into the insurance value chain produces a more interesting (and evolving) picture, as shown in Figure 2. Between 2014 and 2017 there was a strong and steady increase in the number of deals for startups looking to address Marketing & Distribution issues, and these accounted for 53 percent of all deals taking place in 2017. Claims Management was another area that grew during 2017. Activity in these two customer-engagement categories is being driven by startups' desire to build new experiences that delight customers. To do this, startups are taking learnings from other sectors (such as retail, for example) and applying them within the context of insurance.

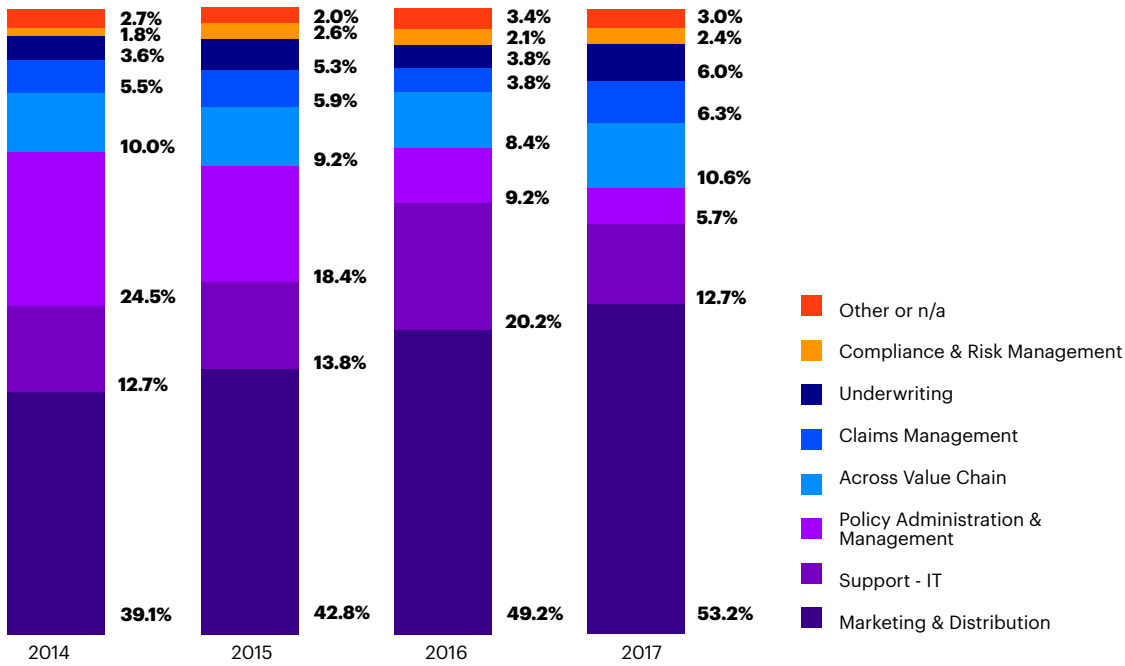
On the other hand, there has been a marked, long-term decrease in the relative importance – and, indeed, the absolute number – of startups targeting the Policy Administration & Management part of the value chain. Not only is this part of the insurance value chain perceived as having difficult problems to solve, but it is also dominated by a relatively small number of platform providers, making penetration seem like a challenge. However, there is arguably huge potential for startups to disrupt and enhance this core part of insurance operations through co-creation and partnership with existing platform providers.

These value chain observations will likely resonate with anyone who has attended an insurtech conference or 'pitch day' recently. There has been a palpable increase in the number of startups pitching slick, app-based sales and distribution experiences and, similarly, those hoping to improve the customer claims journey (through mobile photo-evidencing or chatbot-driven First Notice of Loss, for example). It's also clear that the maturity of the technology being demonstrated on stage is rising, with many insurtechs now choosing to showcase live journeys rather than just talk in front of static slides.

THE MAJORITY OF INSURTECHS ARE TRYING TO SOLVE MARKETING & DISTRIBUTION PROBLEMS

Figure 2: Number of insurtech deals, segmented by value chain positioning

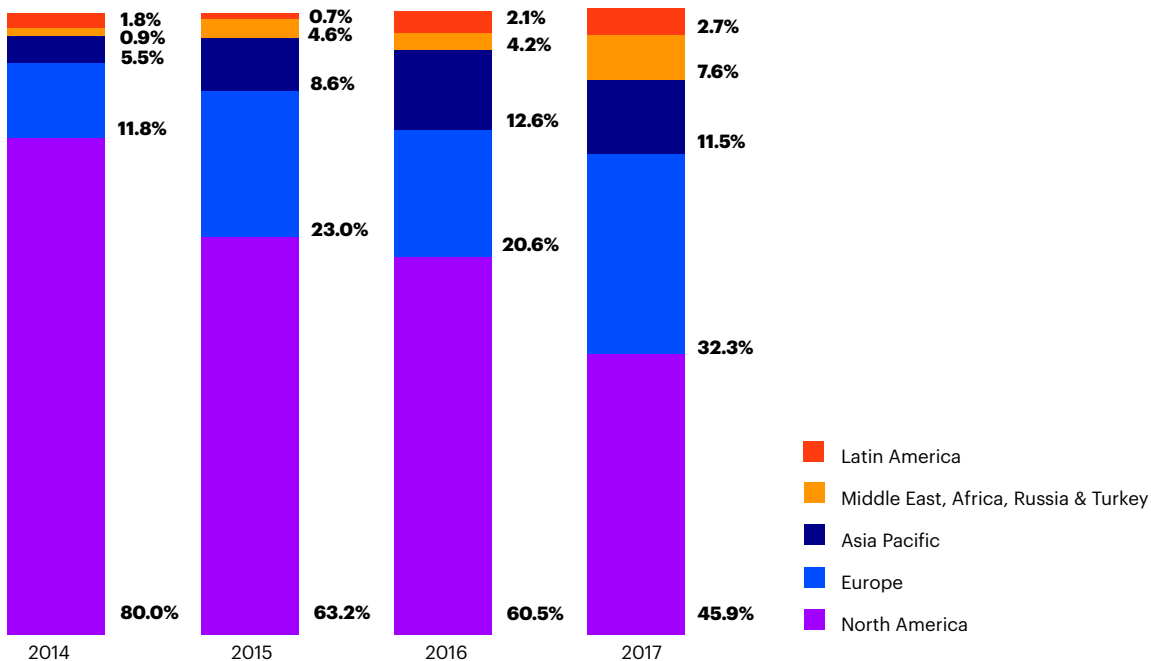
Source: Accenture Research analysis based on data from CB Insights



NORTH AMERICA ONLY ACCOUNTED FOR 46 PERCENT OF THE WORLD'S INSURTECH DEALS IN 2017

Figure 3: Number of insurtech deals, segmented by region

Source: Accenture Research analysis based on data from CB Insights



ONE OF THE BIGGEST EVOLUTIONS WITHIN THE INSURTECH MOVEMENT IS ITS GEOGRAPHIC LOCATION

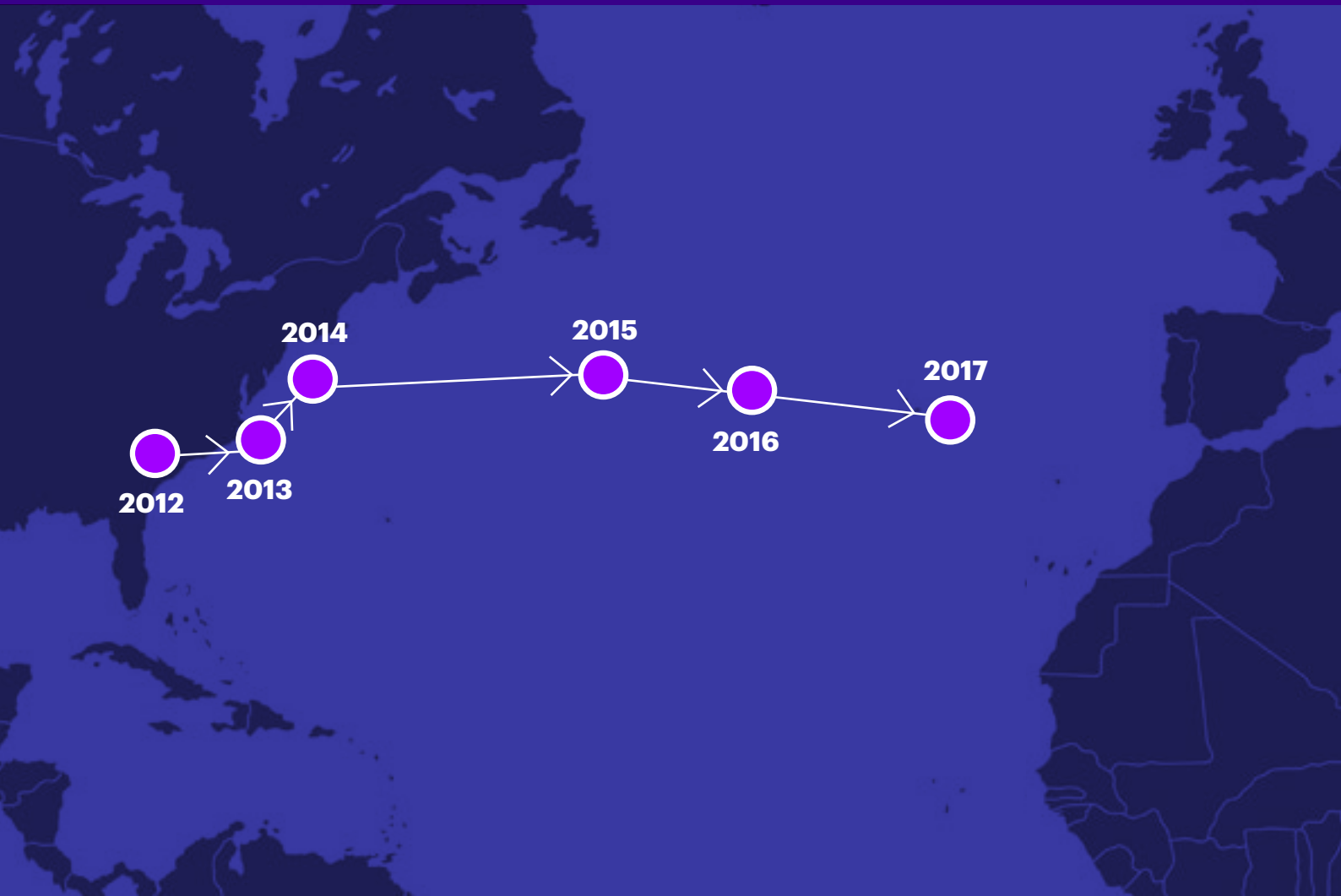
As shown in Figure 3, the percentage of deals taking place in North America (with its traditional heartlands of Silicon Valley and New York City) declined from 80 percent in 2014 to just 46 percent in 2017. Europe, on the other hand, went from strength to strength – with its share of the number of deals rising from 12 percent to 32 percent – and the importance of Asia Pacific more than doubled during this same timeframe. It should of course be noted that, in terms of the absolute value of funding invested, the US remains the world's largest market. However, the number of deals is arguably a far more valuable (and certainly a more stable) indicator of underlying insurtech activity, and this also has the benefit of not being skewed by isolated mega-deals.

The development of global insurtech hubs and rising deal activity beyond the US has had a big effect on the world's 'Centre of Insurtech Gravity'. This concept is illustrated in Figure 4, which plots the moving track of this point based on the number of deals taking place in each city around the world. It shows that the notional centre of the insurtech universe left the shores of the US in 2013, has since made its way across most of the Atlantic, and is expected to make landfall in Europe or North Africa during 2018 or 2019.

The fact that insurtech is migrating eastwards is significant, and many startups are taking this into account when deciding where to base themselves. London now has more insurtechs than New York, for example. There are also signs that some of the boldest investors and insurers are now to be found beyond the US. For example, insurtech growth between 2014 and 2017 (both by number and value of deals) was far stronger in China and India than it was in the US, and the median deal sizes available in China and India in 2017 were also significantly higher. Similarly, when it comes to investing in large numbers of startups, China's Ping An Insurance tops the ranking, having invested in at least 51 startups between 2012 and 2017.

Figure 4: The world's Centre of Insurtech Gravity is heading east

Source: Accenture Research analysis based on data from CB Insights. Centre of Insurtech Gravity calculated based on the number of deals taking place in each city around the world.



INSURERS WILL NEED TO ADDRESS THE 'BRILLIANT BASICS' BEFORE INSURTECH CAN REALLY START TO BRING FULL-BLOWN INNOVATION TO THE MAINSTREAM INDUSTRY OR EVERYDAY POLICYHOLDERS

There's no doubt that all parts of the insurance industry continue to battle against long-standing business issues and customer pain points. In many cases it boils down to a partial failure to get the basics right. For example, insurance is consistently ranked as one of the worst industries for customer experience: levels of trust are often very low, customer loyalty sometimes goes punished rather than rewarded (at the time of renewal, for example), and the industry has fallen behind the levels of personalization people have come to expect from other consumer-facing industries. Identifying and pursuing some 'brilliant basics' is, therefore, a good place to start: things like having a single view of the customer, being able to launch rates and change pricing in real time, offering customers a multichannel experience without requiring them to fill in the same information over and over again, and paying claims quickly without the need for multiple touchpoints.

But how much of that transformation can a few hundred startups really be expected to deliver, globally and across the entire value chain? It could be argued that, apart from isolated ventures or niche products aimed at self-selecting, digitally-savvy customers, we're not really seeing the dial move a great distance. Insurance is certainly not experiencing the levels of disruption and innovation that the arrival of the MP3 brought to the music industry, or that Uber has brought to the taxi industry, for example. By those standards, insurtech is not delivering significant change to the mainstream insurance industry, and most customers' experience of insurers and insurance products has changed little during the past decade.

This is not the startups' fault, of course. A cynic might say that swinging a US\$2.3bn hammer (insurtech) at a US\$4.2tr nail (the insurance industry) was never likely to produce the sort of radical transformation the industry needs or its customers expect. But a more thoughtful response might conclude that it depends on how you swing the hammer. And, arguably, the way some of the insurance industry currently views and leverages insurtech makes it a far less effective force for real change and innovation than it could be.

Insurtech should serve as a catalyst for improvement and innovation within the mainstream industry. Insurers could (and indeed many do) learn a lot from startups – not just in terms of technology, but also when it comes to strategy, organizational culture, and operational agility. However, some traditional insurers are becoming so distracted by engaging with startups through isolated initiatives that they are failing to promote innovative behaviours across their broader businesses. Those insurers are hoping that the insurtech movement will deliver 100 percent of the change that's required, whereas they should instead be looking to insurtech to set a good example and indicate the way ahead.

SOME INSURERS REMAIN FEARFUL OF INNOVATION AND RELUCTANT TO EMBRACE CHANGE

Part of the industry's understandable reluctance to embrace innovation as part of 'business as usual' comes down to a straightforward fear of change and an inherent aversion to risk. Insurance primarily exists to help reduce and manage risk, so it's not surprising that some incumbents remain quietly fearful of change. For such insurers, dipping their toes into insurtech – either alone or through a hosted accelerator programme – can offer an effective and relatively safe introduction. On the other hand, it can also offer them a way to put a brave face on their fears and avoid taking substantive action when it comes to the broader innovation agenda.

Of course, occasionally insurers are right to be cautious in their approach to startups. Ashley Prebble – a Partner at Clifford Chance who specializes in insurance M&A and regulatory issues – points out that “some insurtechs have relatively little experience of financial services regulation, and so an insurer would need to carefully assess the legal and regulatory risks of the partnership or proposed technology. Indeed, the struggle between innovation and regulation is a persistent hot topic; many startups dream of building purchasing experiences that are simply too quick – or conducted with too little disclosure – to satisfy the regulator.” However, progress is being made on this front in some jurisdictions. In the UK, for example, many startups have either been through or plan to go through the Financial Conduct Authority's regulatory sandbox. And, as one venture capitalist and entrepreneur commented recently, “you will always have risk no matter what you do. The key thing is getting the regulator onside early in the process. Risk is not an excuse for a lack of innovation.”

At a more fundamental level, sometimes it's hard for an insurer to fully believe in a startup's ability to deliver what they claim their technology will do. After all, traditional insurers have been trying to solve many of these problems for years, often with only limited success. Erik Abrahamsson – Founder and CEO of startup Digital Fineprint – has observed several startups grappling with this issue. “Fortunately, though, most startups are beginning to rise to this challenge. They are trying to become more quantifiable in their approach to pitching and partnering, i.e. by talking less about how their product will change the world, and more about the numbers and business results they can generate.” But Abrahamsson also cautions that, whilst most startups are trying to build and sell technologies that resemble fast and glamorous sports cars, most traditional insurers are only willing and able to incorporate safe, reliable family cars into their existing businesses. “We are always focusing on what our clients, the insurance companies, can actually integrate, and this has brought us outstanding results”.

INSURERS ARE FORMING MORE PARTNERSHIPS THAN EVER BEFORE

AND BROADER ECOSYSTEMS INVOLVING MULTIPLE STARTUPS COULD ACCELERATE THE PACE OF IMPROVEMENT AND THE DEPTH OF INNOVATION

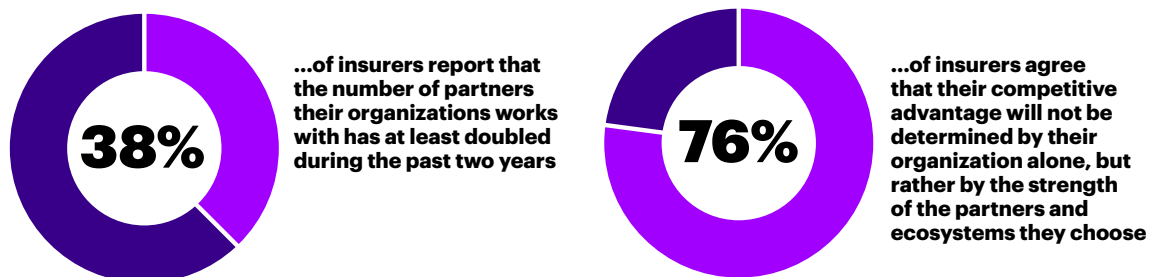
The good news is that many insurers are now embracing partnerships like never before. As shown in Figure 5, 38 percent of insurers report that the number of partners their organization works with has at least doubled during the past two years, according to Accenture's Technology Vision 2018 survey. Furthermore, in the previous year's survey, 76 percent of insurers agreed that their competitive advantage would not be determined by their organization alone, but rather by the strength of the partners and ecosystems they choose.

There is also a growing sense that, rather than partnering with just one or two insurtechs to solve an isolated problem, insurers should instead be collaborating with a much broader ecosystem of startups, and allowing those startups to inspire and drive each other's technologies forwards. This kind of collaboration and cross-pollination should ultimately help insurers tackle bigger issues around customer experience and product innovation.

But partnering can be difficult, as noted by one of our entrepreneurs: "Partnering is really hard. A good incumbent is one who is willing to play along. You need to put energy and focus into making it work. If banks behaved like Google they'd have bought a lot more fintechs." Also, many insurers are simply not equipped to form and manage ecosystems of multiple startups, and that's where having a trusted advisor to manage and integrate the various technologies can prove invaluable.

Figure 5: Partnerships and ecosystems are becoming increasingly important to insurers

Source: Accenture's Technology Vision for Insurance 2017 and 2018



STARTUPS ARE GREAT AT UNLOCKING TRAPPED VALUE IN NEW AND EXISTING MARKETS

One of the main things traditional insurers can learn from startups is how to identify and release trapped value. Across all industries, startups are inherently good at this, sometimes to the extent of causing significant disruption to – or even extinction among – incumbents. While traditional insurers almost always view disruption as something that is ‘done to them by others’, there’s actually no good reason why those incumbents shouldn’t release the trapped value and create the disruption themselves. After all, the best way to predict the future is to invent it. Indeed, some large firms have become very good at this, and there appears to be a formula to their success. In 2017, an Accenture survey of 1,440 C-level executives (across multiple industries) found that companies with higher growth rates placed a particular importance on the characteristics and behaviours shown in Figure 6.

Figure 6: Companies that successfully and consistently release trapped value have six characteristics

Source: Accenture's Rotating to the New Survey of 1,440 C-level executives in 2017.

1

HYPER RELEVANT

Knowing how to be and how to stay **relevant to customers** by sensing and addressing their changing needs (e.g. affordability, social connectedness, experience quality).

2

NETWORK POWERED

Harnessing the power of a carefully managed **ecosystem of partners**, to bring the **best innovations** to your customers.

3

TECHNOLOGY AND DATA PROPELLED

Mastering **leading-edge technologies** and **data manipulation**, to enable business innovation, at an unprecedented level and scale.

4

ASSET SMART

Optimizing **asset positions** to enable a faster shift to new business models, by making bold and timely changes (often at the balance sheet level).

5

HYPER LEAN

Adopting **intelligent operations** (automation and digitization of manufacturing, supply chains and functions) to optimize cost structures and **free up capacity for innovation**.

6

AGILE WORKFORCE CHAMPIONS

Creating new, **modern forms of workforces** (specialized, flexible, augmented and adaptive) required to gain a competitive advantage in existing and new markets.

INSURERS NEED TO GROW AND TRANSFORM THEIR CORE BUSINESSES WHILE 'ROTATING TO THE NEW', AND INSURTECH CAN HELP THEM ACHIEVE ALL OF THESE THINGS

Many insurers find themselves stuck in their existing business models and / or constrained by legacy technologies. As a result, they often miss out on opportunities to release trapped value, both within their current business but also across the wider product and service landscape. As shown in Figure 7, insurers know that innovation is crucial and that technology will play a vital role in helping them provide better, more relevant customer experiences. However, finding ways to successfully scale technological innovation is challenging. And striking the correct balance between developing new activities while simultaneously transforming and growing the existing core business is very hard indeed. At Accenture, we refer to this process as 'Rotating to the New', and this concept is illustrated in Figure 8. Partnering with insurtechs can play a valuable role within this process, and not just in relation to building new business opportunities or capabilities; insurers should also engage with startups to help transform and grow the core business, which includes getting the 'brilliant basics' right.

Figure 7: Insurers recognise the need for innovation, and the importance of new technologies

Source: Accenture's Technology Vision for Insurance 2017 and 2018

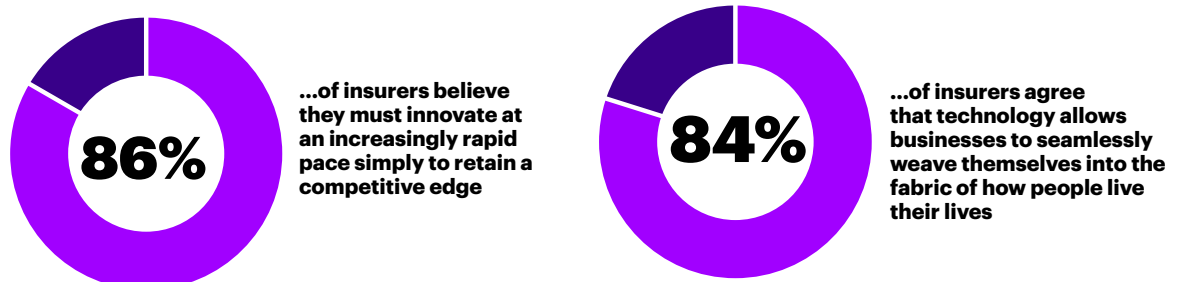
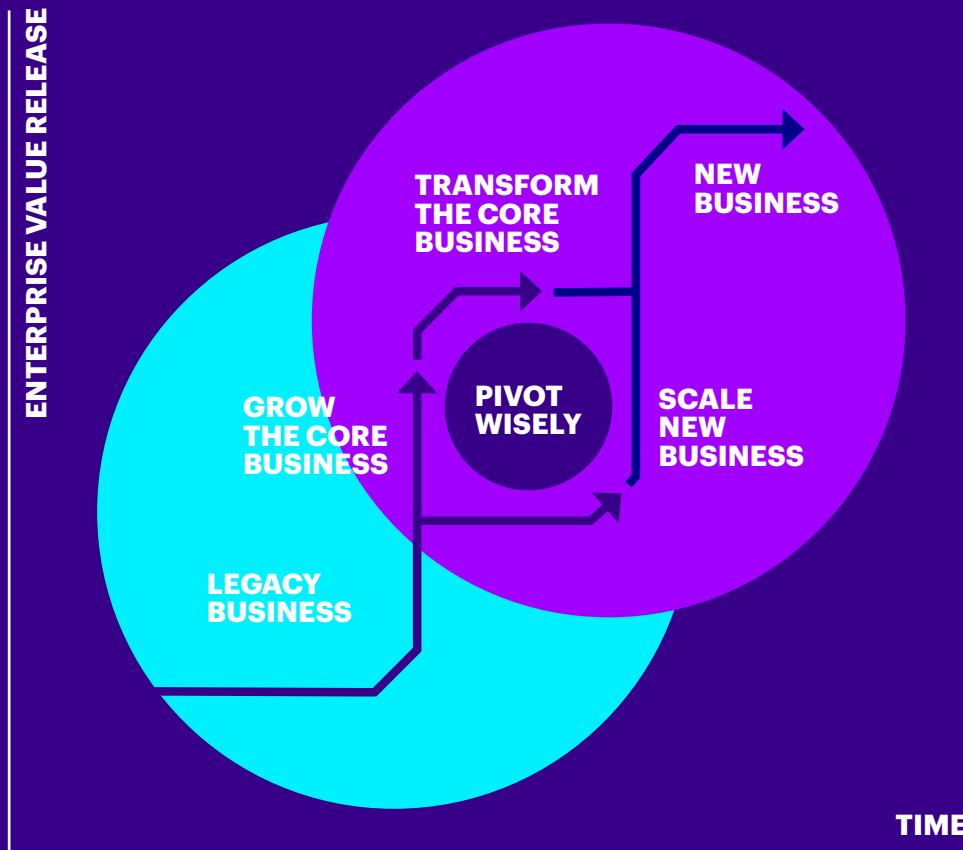


Figure 8: 'Rotation to the New' is a deliberate and perpetual journey, rather than a single event



Typical activities and areas of focus include:

TRANSFORM THE CORE BUSINESS

...by building more competitive cost structures to improve flexibility, increase profits, and drive up investment capacity.

Sustained cost reduction, Shared services, Process standardization, Cloud, AI, Portfolio/M&A, Procurement

GROW THE CORE BUSINESS

...by redirecting some of that investment capacity to drive incremental growth in the core business.

'Brilliant Basics' (e.g. digital marketing and analytics, improved web/mobile interactions, personalized customer experiences)

SCALE NEW BUSINESS

...by identifying the new areas that are growing up next to the core—and are relevant in their industries—and scaling them.

'Cutting New Ground' activities (e.g. horizon scanning, corporate venturing, forming new business models and ecosystem partnerships, building a new innovation architecture)

PIVOT WISELY

...by keeping an eye on pace and balance. The "core" and "new" businesses usually need to co-exist for a substantial period of time.

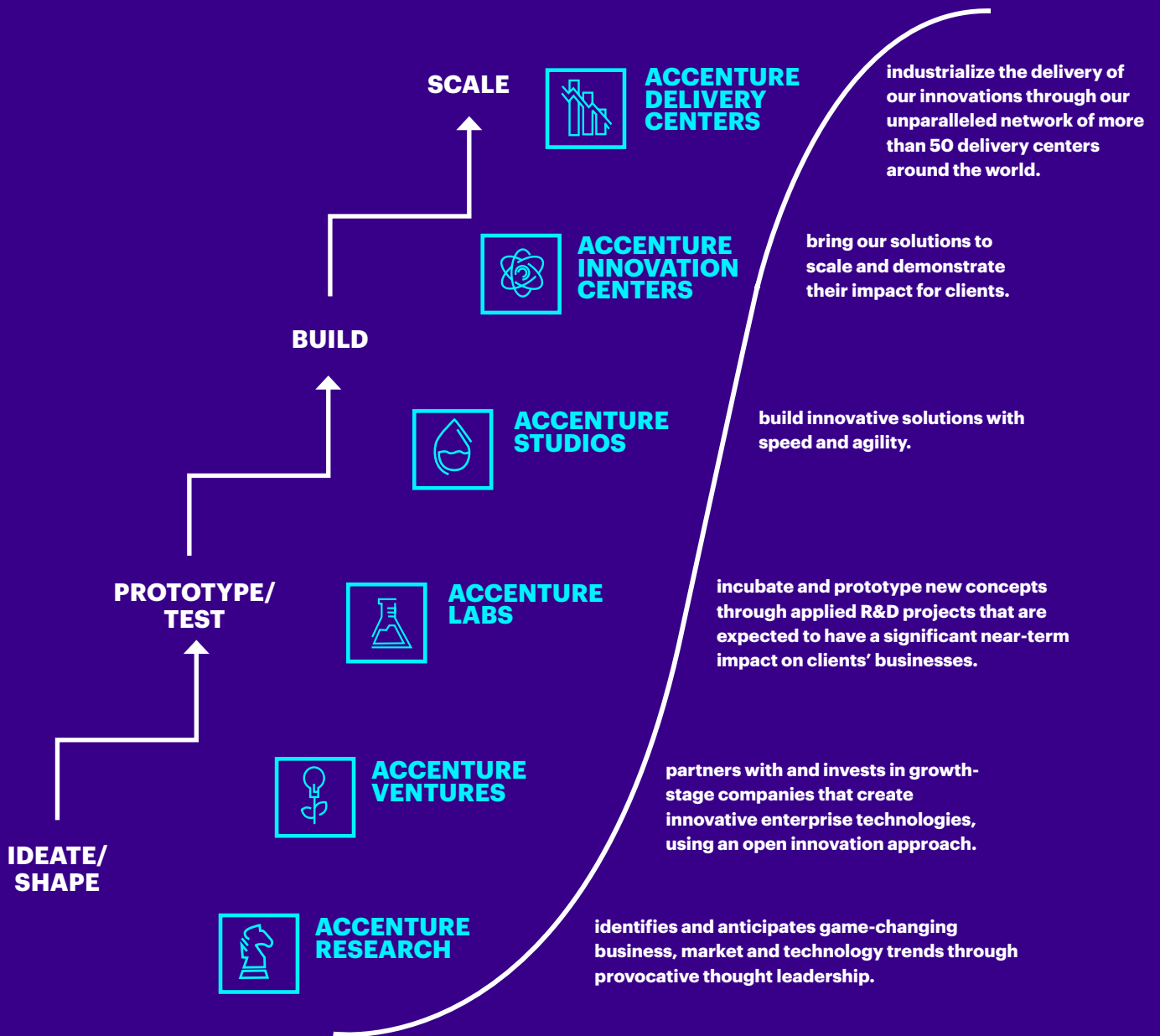
Capital allocation (from core to new), investment management (ideation and organic innovation vs. acquisition), Deal shaping, Leadership & People

BUT NEW IDEAS ARE FRAGILE, AND THEY NEED THE RIGHT ARCHITECTURE TO SUPPORT THEM THROUGH THE VARIOUS STAGES OF DEVELOPMENT AND IMPLEMENTATION

The perpetual and ongoing nature of the process described in Figure 8 means that insurers need to carefully nurture innovation and new ideas throughout their full lifecycle – from ideation right through to industrialization. There are many well-known tools and methods available for this, from so-called design sprints and hackathons through to hosted accelerator programmes and in-house strategic venture funds. But what really matters is that insurers create a properly-defined innovation agenda, and that they have the right structure in place to support the process end-to-end. Many forward-thinking insurers have made good progress here although, in general, insurance still lags behind other industries (including banking) when it comes to forming a consolidated approach to innovation.

Figure 9 depicts the ‘innovation architecture’ we use to manage this process within Accenture – both for growing and innovating our own business, and for helping our clients. Some insurers will leverage the full architecture in sequence from top to bottom whereas other clients have found it helpful simply to dip in and out to suit the nature (and maturity) of the problem they’re trying to solve. Note that partnering with, or investing in, startups is only one piece of the jigsaw.

Figure 9: The Accenture Innovation Architecture, which spans the full end-to-end lifecycle of an idea



INSURTECH CAN ACT AS A POWERFUL CATALYST FOR CHANGE, BUT INSURERS MUST ALSO LEVERAGE OTHER TOOLS AND TECHNIQUES AS PART OF THEIR BROADER INNOVATION AGENDAS

**INSURERS MUST FEARLESSLY EMBRACE
AND ENCOURAGE REAL INNOVATION
ACROSS THEIR WHOLE ORGANIZATION AS
PART OF 'BUSINESS AS USUAL'**

There's a difference between incremental change (which mainly requires thought and money) versus genuine innovation (which also requires courage and vision). The insurance industry requires wholesale change, not just a sticking plaster. Happily, the insurtech movement and its bold startups can act as an invaluable catalyst for this transformation. However, the ultimate goal shouldn't be to have all the fresh talent, ideas and energy tied up in startups; it should be to incorporate those much-needed qualities into the mainstream insurance sector, to deliver innovation at scale, and to help insurers rotate to the new.

KEY TAKEAWAYS FOR INSURERS...

1

Focus on delivering **'brilliant basics'**, and then use those as the foundation for driving more fundamental innovation. Leverage startups at both ends of this spectrum, and everywhere in between. Without getting the basics right, insurtech will continue to be on the fringes.

2

Truly **understand customer expectations**, how they are evolving, and how they are being driven by people's experiences in other industries. Not only do the startups have an excellent view of this, but many of them are run and staffed by relatively young consumers, and so they have an inherent feel for next-generation insurance customer preferences.

3

Become fearless. There's a difference between being risk-aware and being risk-averse. Learn from startups' own attitudes to risk and their willingness to fail in order to succeed. There are easy approaches to 'test and learn' that startups regularly adopt, and insurers can benefit from these – conducting staff pilots, or targeting the iPhone app customer segment (recognising that such customers are used to experiences that are not fully-proven), for example.

4

Ensure you have the right, end-to-end **innovation structure** in place to support and deliver your innovation agenda. Collaborating with startups is just one part of this process, and ultimately innovation needs to become engrained throughout the organisation.

5

Combine multiple startups (including those from beyond the insurtech space) into ecosystems to jointly solve some of the biggest challenges facing the industry. Market boundaries are becoming increasingly blurred – the advent of Open Banking and the shift towards an Open Insurance (and eventually a truly 'Open') ecosystem is happening.

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