



Insurtech's Hot Streak Has Ended. What's Next?

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READING TIME: 15 MIN

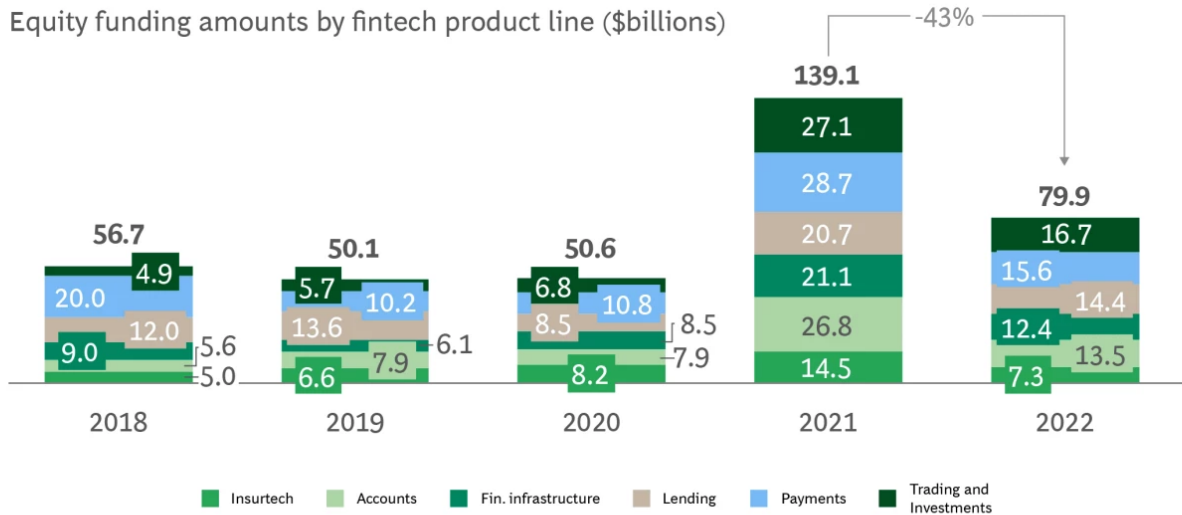
The global technology sector experienced a sharp reset in 2022 due to a combination of high inflation, rising interest rates, weak economic growth, and geopolitical tension. The NASDAQ 100 Index ended the year 33% lower; globally, venture capital investments in private technology companies fell by the same percentage.

Insurtech was no exception. Investments in the fintech sector decreased by 43% year over year, with insurtech registering the largest drop at 50%. After hitting a peak of \$4.9 billion in the second quarter of

2021, insurtech funding began its descent. By the fourth quarter of 2022, funding had reached its lowest level of the past 20 quarters, with only \$800 million invested. That marked a decrease of 64% from the previous quarter and 78% from the fourth quarter of 2021.

To a certain degree, insurtech is still reaping the benefits of record growth in previous years; global insurtech investment registered a compound annual growth rate (CAGR) of 34% between 2018 and 2022. But the pace of growth has slowed significantly, and the market shows no signs of a rebound. (See Exhibit 1.)

Exhibit 1 - Among Fintechs, Insurtech Funding Saw the Largest Decline in 2022



Source: BCG FinTech Control Tower.

The 2022 decline signals a turning point in the industry. Some product lines—notably personal property and casualty (P&C) and health insurance—have reached a stage of relative maturity and now have lower expectations of private investment growth. But even when private capital was at an all-time high in 2021, underperforming insurtech equities in the public markets were a clear indication of impending turmoil.

Amid the current downturn, investors have become more cautious in deploying capital and are performing more in-depth due diligence. After seeing what happened to the valuations of public companies, investors in private insurtechs are demanding more efficiency, sustainability, and solid operating and financial performance.

This investor caution has forced insurtechs to pivot from growth mode to cash conservation mode. Privately held insurtechs, especially the most established and cash-flow-positive ones, are now more

inclined to extend their runways by cutting costs, decreasing headcount, or looking at different sources of capital such as venture debt.

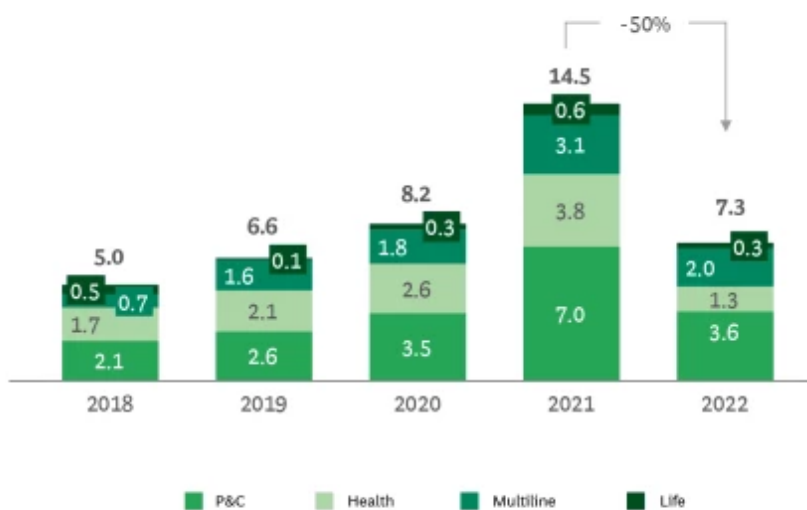
Investment Slowed Across All Product Lines

Insurtech investments slowed across all product lines and operating models. The sector as a whole raised \$7.3 billion in equity funding globally in 2022, a steep decline of 50% compared to 2021.

The strong annual growth rate of previous years was driven largely by megarounds of investment in digital carriers of P&C and life insurance.¹ (See Exhibit 2.)

Exhibit 2 - Investments Decreased Across All Insurtech Product Lines

Equity funding amounts by insurtech product line (\$billions)



2018-2022 CAGRs

P&C	39%
Health	39%
Multiline	30%
Life	29%
Total	34%

Source: BCG FinTech Control Tower.

Note: Because of rounding, the sum of the funding amounts for individual product lines may not equal the overall total for that year. 2018-2022 CAGRs refer to the compounded annual growth rates for each product line over that five-year period.

In 2022 P&C and multiline insurance continued to receive the lion's share of funding; of all capital raised for the year, 78% went into P&C (\$3.6 billion) and multiline (\$2 billion). However, investments fell across all product lines, with health, life and P&C insurance registering the largest year-over-year declines, at 65%, 49%, and 48%, respectively. Multiline insurance funding had a milder downturn of 35% year over year and accounted for about one-third of the total capital invested in 2022.

Our report notes the following sector trends.

P&C Insurance. After a record year in 2021, investments in P&C returned to more modest levels in 2022.² Although investments reached their second-highest level of the past five years, at \$3.6 billion, the decline from 2021 was steep, at 48%.

Personal P&C saw the largest drop, at 55%, with motor vehicle P&C experiencing the greatest decline, at 70%, with \$207 million raised. The personal motor vehicle category is the birthplace of insurtech, and as such it has reached a more mature stage.

Commercial P&C dropped by 45%, with commercial automobile and cyber security insurance registering the largest declines, at 81% and 55%, respectively. Funding for the personal and commercial P&C subsegment showed a smaller decline of only 25%.

P&C insurance still showed a relatively strong five-year growth pattern, with a CAGR of 39% from 2018 to 2022. Personal P&C, which showed a CAGR of 50% over that period, was the main engine. Significant investment over the past five years has gone into digital intermediaries in personal P&C that offer pet insurance—for example, ManyPets in the U.K. and Santevet in France. General P&C insurtechs such as Branch in the US and Friday in Germany were also major recipients of investment capital.

Investment in personal and commercial P&C also grew at a strong pace from 2018 to 2022, with a five-year CAGR of 48%. A major share of the capital went into risk-assessment technology platforms offering general P&C products—for example, Cytora in the UK and Bold Penguin in the US—as well as motor and commercial auto P&C products, including the US-based companies Cambridge Mobile Telematics and Nexar.

Commercial P&C on its own had a five-year CAGR of 30% through 2022. Digital intermediaries that provide cyber security insurance were a main driver, especially after the COVID-19 pandemic brought a worldwide shift to virtual workplaces. Major recipients of funding included Coalition, At-Bay, Corvus, and Cowbell Cyber, all based in the US.



Investors will be demanding when they assess insurtech value propositions and business models.

Health Insurance. This is a fairly advanced product line, and as such equity funding fell by 65% in 2022, reaching its lowest point in the last five years.³ The categories of general health care, along with benefits and network design, accounted for 75% of total investment despite registering declines of 75% and 59% year over year, respectively.

From a five-year perspective, health insurance has been the slowest growing insurtech cluster, with investment increasing at a CAGR of 29% between 2018 and 2022. Among health insurance subclusters, benefits and network design was the second largest in terms of funding, with investments rising at a CAGR of 37%. Funding was driven mostly by digital insurers offering employee health benefits—for example, Alan in France, Sana Benefits in the US, and Ottonova in Germany.

Investments in patient-engagement insurtechs—another subcluster of health insurance—also saw sustained growth over the past five years, at a CAGR of 33%. The main funding targets were a small cohort of US-based technology platforms designed to reduce administrative and billing problems and improve the patient experience; for example, Cedar, GOQii, and Zipari.

Multiline Insurance. Although investment in multiline insurance fell by 35% year over year in 2022, funding nevertheless reached the second highest level over the past five years, at about \$2 billion.⁴ Life and health was the only subcluster to register an increase in funding in 2022, with a 78% rise driven by two megarounds worth a total of \$225 million: in the Chilean well-being platform Betterfly and the Canadian insurance aggregator Insurance Supermarket.

Investment in multiline insurance grew at a CAGR of 30% between 2018 and 2022. The top driver was life and health insurance funding, which grew at a CAGR of 46%. In particular, investors gravitated to intermediaries and technology platforms, including Betterfly, the Chinese mutual insurance broker Waterdrop, and the Swiss risk-assessment platform Dacadoo.

Funding for P&C and life insurtechs also saw sustained growth over those five years, with a CAGR of 30%. The growth was fueled by megarounds of capital that went to digital insurers and intermediaries, including US-based Lemonade and the price-comparison websites Zebra and Insurify.

Life Insurance. Equity investment for this product line decreased by 49% in 2022.⁵ Total funding for the year was \$319 million, which was the second-lowest level in the past five years. Term life was the highest funded subcluster, accounting for 60% of the total funding invested in the life insurance cluster to date. Of the \$1.4 billion that has gone into term life insurtechs, 78%, or \$1.1 billion, was raised over the past five years.

As a whole, life insurance has been a high-growth cluster, with a five-year CAGR of 39% through the end of 2022. The growth was driven largely by investment in the still fledgling subcluster of income protection, which showed a CAGR of 83%. The primary capital targets were a small group of players

that provide incomes and paycheck coverage, including Breeze and Asteya in the US and Coverhero in Australia.

The medium-sized subcluster of group life also registered above-average investment growth at a CAGR of 43%. The major recipients were intermediaries offering corporate employee life insurance, such as UK-based YuLife and technology platforms such as US-based Bswift.

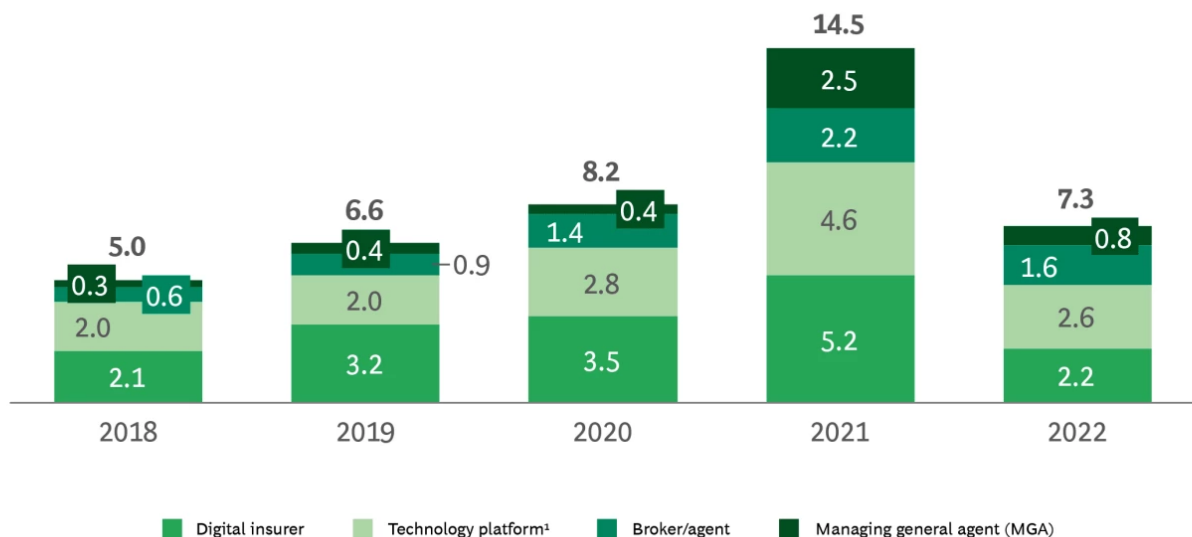
The Slowdown Affected All Operating Models

Digital insurers made up only 8% of the total number of insurtechs but received about 42% of the global investment funding over the past 20 years. In 2022, however, there was a significant decrease in equity funding for all of the operational models, with managing general agents and digital insurers registering the largest declines year over year, at 67% and 57%, respectively.

However, the funding levels for most categories were similar to those of 2020, or in some cases higher. The exception was digital insurers, which saw a 37% decrease from 2020. (See Exhibit 3.)

Exhibit 3 - The Funding Slowdown Affected All Operating Models

Equity funding amounts by operating model (\$billions)



Source: BCG FinTech Control Tower.

Note: Because of rounding, the sum of the funding amounts for the various operating models may not equal the overall total for that year.

¹Firms utilizing technology to aid incumbent insurers in digitization, automation, and improvement of business processes without holding an insurance license.

The share of funding for digital insurers decreased by about 20 percentage points from 2019, when it reached 49%, to 2022, when it dropped to 30%. The first wave of digital insurers has reached scale and

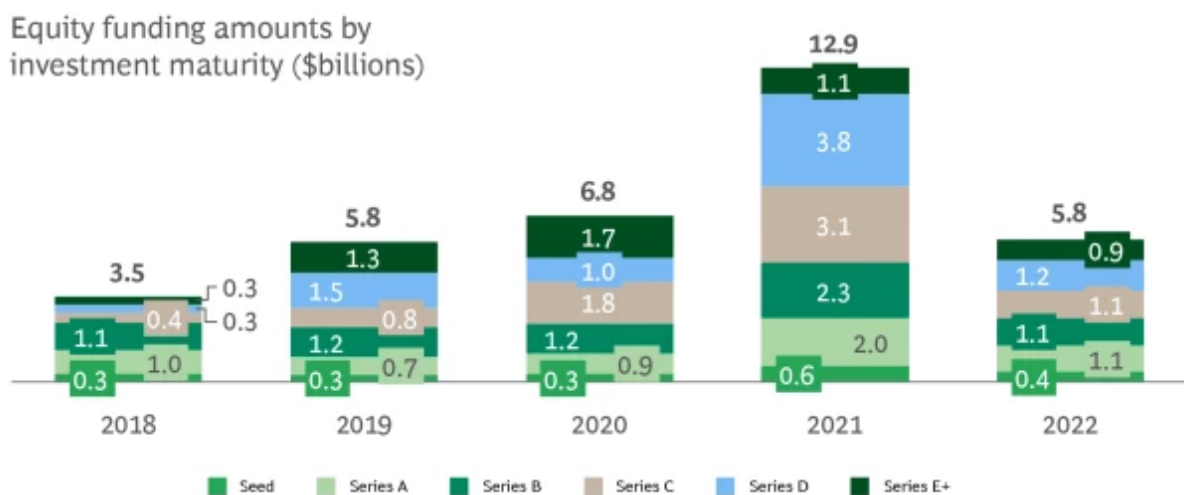
doesn't need massive fundraising rounds anymore, and investors have also set their sights elsewhere. As digital transformation accelerated during the pandemic, investors turned their attention to emerging categories of players such as technology platforms.

A Steep Decline in Late-Stage Venture Capital and Megarounds

Funding decreased at all growth stages, but the biggest decrease was in later-stage funding through Series C deals and beyond. Investments in this category totaled \$3.2 billion in 2022, a 60% decline from the year before, as many insurtech companies elected to cut costs in an effort to extend their survival period with the cash they already have rather than settle for deals with flat or only modest valuation increases.

However, early-stage venture capital also tapered off.⁶ A total of \$2.1 billion went into early-stage deals in 2022, a decline of 48% from 2021. Only \$400 million went into seed-stage capital, down 34% year over year. (See Exhibit 4.)

Exhibit 4 - Declines in Later-Stage Funding Were Particularly Steep



Source: BCG FinTech Control Tower.

Note: Unattributed equity funding rounds have been excluded from the analysis.

Megarounds had been a key growth driver for equity funding in 2020 and 2021, accounting for 54% of the total amount invested each year. In 2022, however, the share going into megarounds plummeted to a five-year low, accounting for 42% of the total. The actual number of such deals declined by 63% compared to 2021. There were only two megarounds of early-stage venture capital in 2022, down from

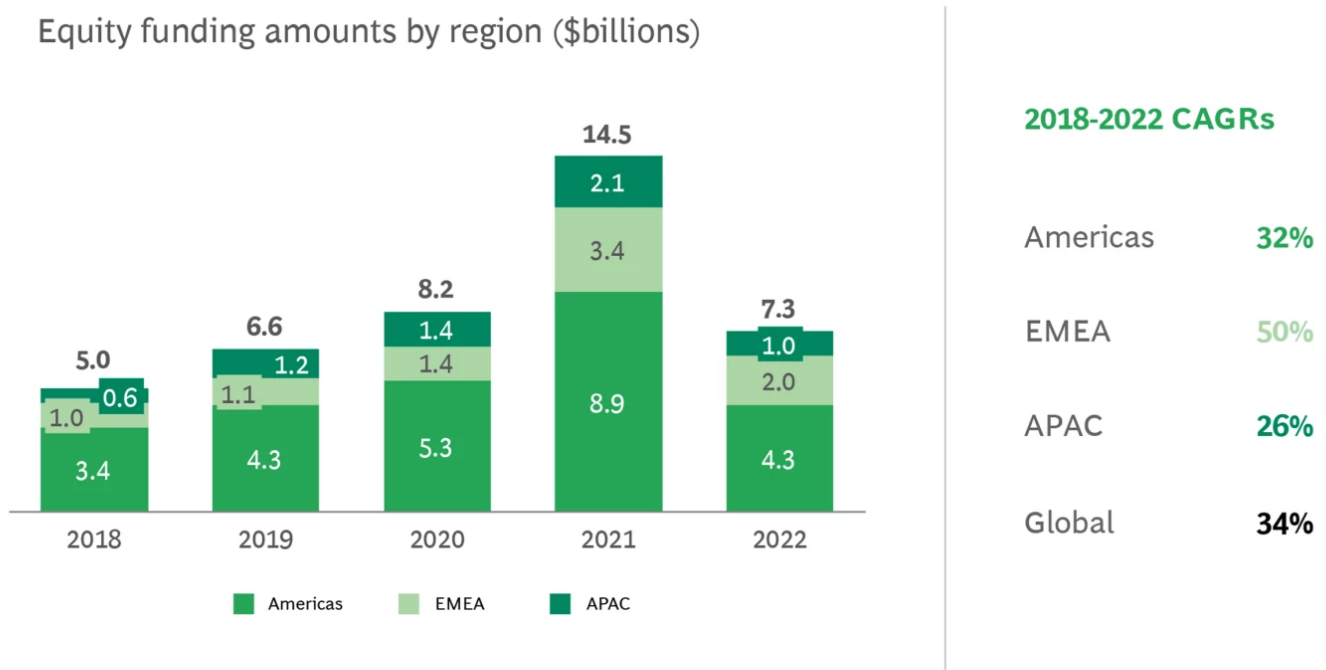
seven in 2021. Megarounds for late-stage venture capital decreased by 61%, with Series D registering the largest drop, at 77%.

The three largest rounds of funding included two Series D round and one Series E+ round. Of these deals, the largest was a Series D investment of \$400 million in the German general P&C digital insurer Wefox. US-based Pie Insurance, a digital insurer of workers' compensation for small businesses, raised \$315 million in a Series D round. The third largest investment was a Series E+ round that raised \$250 million for cyber digital insurer Coalition, also in the US.

A Few Bright Spots in Latin America and Europe

Investments decreased in all parts of the world in 2022, the first global decline in five years. The Americas and Asia-Pacific (APAC) registered the largest drops, at approximately 53% each, with total investments of \$4.2 billion and \$1 billion, respectively. (See Exhibit 5.)

Exhibit 5 - Insurtech Funding Decreased Across All Regions



Source: BCG FinTech Control Tower.

Note: Because of rounding, the sum of the funding amounts for individual regions may not equal the overall total for that year. 2018-2022 CAGRs refer to the compounded annual growth rates for each region over that five-year period.

In the Americas, although overall investment declined, Latin America registered an 18% increase in funding year over year, with \$219 million invested in 2022. Historically, the US has been the main driver of funding in the region as well as worldwide, but the insurtech ecosystem in Latin America is gradually picking up steam. Most of the region's investment is going into firms headquartered in Brazil, Mexico, and Chile. The Americas' five-year CAGR from 2018 to 2022 was 32%.

In APAC, investments decreased across all of the subregions. The largest decline was in East Asia, where investment fell by 75%, followed by Southeast Asia, which saw a 55% drop. From a five-year perspective, APAC was the slowest growing region, with a CAGR of only 26% from 2018 to 2022.

Investments in Europe, the Middle East, and Africa (EMEA) decreased by approximately 43% year over year. The decline was less severe in the EMEA region thanks largely to five megarounds, with notable targets including Wefox, which raised \$400 million in Series D funding; Alan, which received \$193 million in Series E+ funding; and Descartes Underwriting in France, which raised \$120 million in Series B funding.

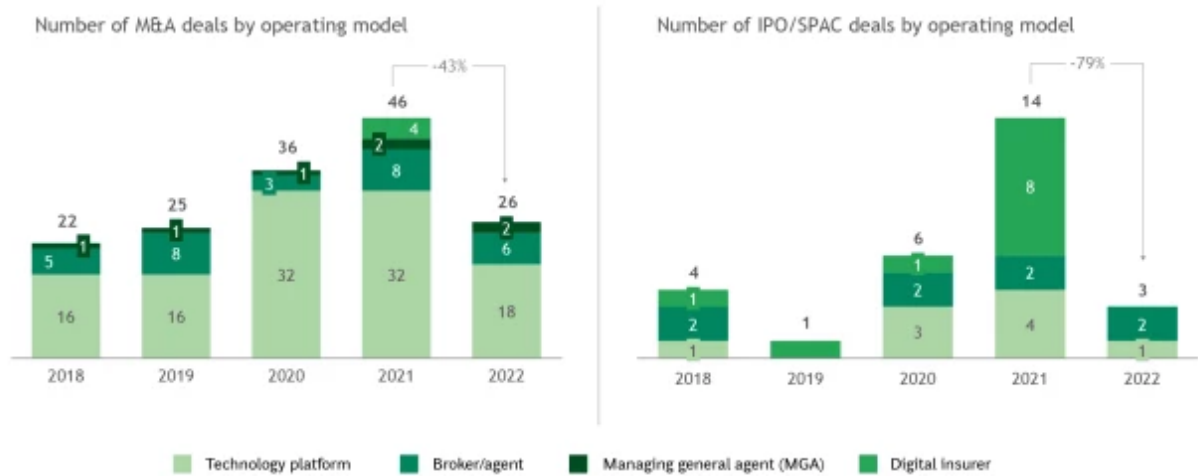
Investments decreased across the entire region with the exception of the subregion known as the “rest of Europe,” which saw an increase of 9% year over year.⁷ Within the EMEA, the Middle East and Africa and the rest of Europe cumulatively account for only 14% of the total funding—but they account for 36% of all insurtechs in the region. These areas are still-nascent markets that will drive the next phase of growth in EMEA.

EMEA was the fastest-growing region over the past five years with a CAGR of 50%, driven by insurtechs in Western and Northern Europe that account for approximately 86% of the total capital deployed to date.

Market Turmoil Has Held Up Exit Plans

Exits dried up in 2022 as macroeconomic conditions and potential exit valuations worsened, resulting in fewer initial public offerings (IPOs) as well as fewer private exits through M&A. (See Exhibit 6.)

Exhibit 6 - Exit Counts for Insurtechs Fell Dramatically in 2022



Source: Source: BCG FinTech Control Tower.

Note: SPAC = special purpose acquisition company.

M&A: In 2022, the number of M&A deals dropped by 43% from 2021. Basically, M&A returned to the levels seen before the favorable macroeconomic conditions of 2020 to 2021—low interest rates, low inflation rates, and high demand for technology solutions during the pandemic—led to a boom in the number of exits through M&As and IPOs. Technology platforms have been the most targeted assets, accounting for about three quarters of the total number of M&A deals since 2018. Acquiring firms have found them attractive because they serve a strategic function in digitizing specific insurance value chain segments, in addition to a tendency to be balance-sheet light and inexpensive compared to digital insurers and insurtech managing general agents (MGAs).

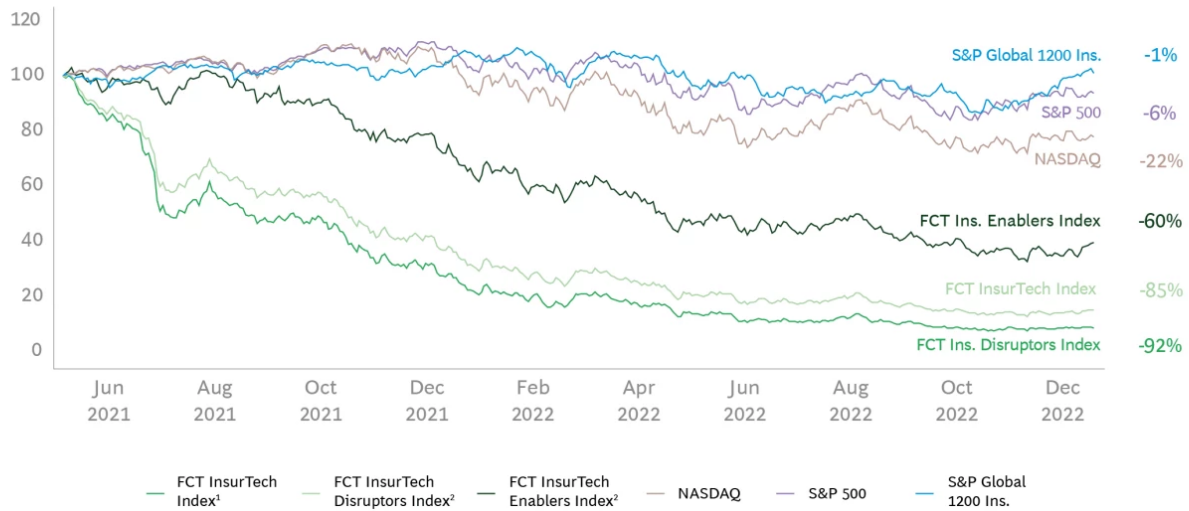
IPOs: While 2020 and 2021 were characterized by a frenzied race to go public, in 2022 the combination of global macroeconomic turmoil and rising interest rates brought the activity to a grinding halt. Around the world, public exits of insurtechs have slowed to almost nonexistent levels, dropping by 79% since 2021. That translates to only three IPOs in 2022: Italian general P&C insurance broker Yolo, Chinese health insurance intermediary Medbanks, and UK claim-prevention platform Ondo.

Kin Insurance, TypTap, and Policygenius in the US, along with FWD Group in Hong Kong, were among the insurtechs that put their IPOs on hold until market conditions become more favorable.

Our analysis of listed insurtechs finds that since mid-2021 the sector has underperformed not only in comparison to the broader stock market but also to publicly traded traditional insurance firms and technology companies. Between June 2021 and December 2022, the FinTech Control Tower (FCT) InsurTech Index of publicly traded companies dropped by 85%, whereas the NASDAQ declined by just 22%, the S&P 500 index by 6%, and the S&P Global 1200 Insurance index by 1%. (See Exhibit 7.)

Exhibit 7 - Listed Insurtechs Have Underperformed Since Mid-2021

Relative performance by index, June. 2021–Dec. 2022



Source: BCG FinTech Control Tower; S&P Capital IQ.

Note: FCT = FinTech Control Tower.

¹The FCT InsurTech Index is calculated as the weighted average of the share prices of 17 public insurtechs: Lemonade, Hippo, Oscar, Doma, Duck Creek, Accolade, Guidewire, Clover Health, Waterdrop, Fineos, Huize, Bright Health, Farmers Edge, EverQuote, SelectQuote, GoHealth, and Root.

²The FCT InsurTech Disruptors and Enablers indexes are calculated as the weighted average of the share prices of 17 public insurtechs clustered by operating model. The Disruptors Index includes 12 digital insurers and intermediaries (Oscar, GoHealth, Clover Health, Bright Health, Waterdrop, Hippo, Doma, Lemonade, EverQuote, Huize, Root, and EverQuote), and the Enablers Index includes 5 technology platforms (Guidewire, Duck Creek, Farmers Edge, Accolade, and Fineos).

Within the sector, insurtech enablers outperformed disruptors, owing to fundamental differences in their operational models, which investors partially took into account. The FCT InsurTech Disruptors Index dropped 92% from June 1, 2021, to December 31, 2022, while the FCT InsurTech Enabler Index was down 60% over the same period.

Disruptors, which maintain a balance sheet, underwrite policies, and manage capital, have found themselves confronted with a number of challenges in their efforts to develop the underwriting capabilities they need. Consequently, they've had trouble finding a path to profitability. Their loss ratios are significantly higher than the industry average.

Enablers have also had their share of setbacks. On the one hand, they've been able to adopt SaaS business models and operate with light infrastructures and little or no balance sheets. Much of this advantage has been offset by the global tech downturn, however, and the dismal performance of disruptors has had an indirect impact.

Valuations of public insurtech disruptors have dropped from the billions to the millions. Root Insurance, Bright Health, and Doma almost halved their valuations. The decline can be traced to the

increased skepticism among investors and market participants over the long-term viability of disruptors. Investors are now questioning whether companies in this segment can actually deliver on their promises and whether they will be able to generate enough revenue to justify their valuations.

The recent downturn in insurtech raises a number of questions about where the industry is headed. It is likely that in 2023 equity funding amounts will remain in line with 2022, and valuations of private companies will start to drop as well, mirroring the valuations in the public markets. M&A activity might rise for privately held insurtechs, especially since those at risk of running out of cash might be willing to sell to strategic buyers at a discount rather than risk going out of business. The next M&A wave might also result in some publicly traded companies becoming privatized—as happened when Lemonade acquired Metromile in 2022 and Vista Equity Partners acquired Duck Creek Technologies in 2023.

Rising interest rates and uncertain markets are benefiting many insurance carriers, in contrast to the previous decade when insurers struggled to earn their cost of capital amidst low interest rates and premium growth that often fell below GDP growth. Incumbent insurers are now in an advantageous position, with opportunities to acquire digital and analytical talent and buy insurtech market access and capabilities.

There is still a lot of dry powder in the market available to successful players, but investors will be demanding when they assess insurtech value propositions and business models. For digital carriers and MGAs, it is crucial to achieve accurate underwriting and align operational performance with industry standards. Technology platforms will need to identify customer concerns and design innovative solutions that address these issues while adopting a scalable and efficient operational model that generates long-term profitability.

It is very likely that insurtechs are facing a period of slower growth and reduced valuations. Transitioning from a growth-oriented mindset to one focused on conserving cash and achieving profitability may not seem ideal, but it is the best way to ensure that today's players are able to survive the downturn and reach the next phase of growth.

ABOUT THIS REPORT

This “state of insurtech” report is the result of a five-year collaboration between the FinTech Control Tower by BCG and the firm’s insurance knowledge team, strengthened by a global network of insurance advisors and subject-matter experts. Our annual report provides a data-driven view of the global insurtech ecosystem and explores emerging trends across product lines, geographies, investment maturities, and value chain segments; the report also showcases key players while analyzing winning

business models and the latest technologies.

About FinTech Control Tower by BCG

FinTech Control Tower by BCG is a practice within BCG X with a focus on the fintech, insurtech, and regtech ecosystems. Drawing on proprietary data and analytics tools, the latest market intelligence, and worldwide subject-matter experts, we help financial institutions understand innovation across the financial services industry, uncover new opportunities, and execute on their fintech agendas. With an unparalleled database of around 30,000 fintechs and adjacent insights, the FCT offers clients deep-dive studies that capture fintech opportunities, including partnerships, deal sourcing and M&A, and market trends.

The FCT also offers a digital platform that helps users perform fintech and insurtech market monitoring, intelligence, and scouting. The platform is built and specialized for financial services, leveraging third-party sources for funding and investment data as well as proprietary data assets such as partnerships and news sentiment.

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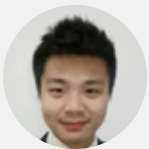
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KNOWLEDGE EXPERT

New York

- 1 Equity funding rounds greater than \$100 million.
- 2 Includes personal P&C, commercial P&C, and personal and commercial P&C insurance.
- 3 Includes general health care, benefits and network design, care planning and delivery, and patient engagement.
- 4 Includes life, health and P&C, health and life, life and P&C, and P&C and health insurance.
- 5 Includes term life, group life, income protection, and other life insurance.
- 6 Early-stage VC refers to Series A and B rounds.
- 7 The “rest of Europe” is comprised of Spain, Italy, Greece, and Central and Eastern Europe.

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