The Pandemic Pushed Insurtech Funding to an All-Time High

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> **Globally, insurtechs raised $7.5 billion last year, as COVID-19 accelerated the need for digital transformation in insurance.**

By one obvious measure, 2020 was a disastrous year for the insurance industry. COVID-19 saddled insurers with a loss of around $55 billion, second only to Hurricane Katrina [1] as the largest loss event in the industry's history. At the same time, it was a year of

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extraordinary transformation: as the world shifted to social distancing, incumbent insurers had to rapidly increase their technology requirements and capabilities.

This, in turn, helped fuel a record year of equity financing for insurtechs, especially those that enable insurers to leverage digital and analytics in new ways. The pandemic has accelerated the industry's digital transformation by at least five years—forcing incumbents to open or enhance digital distribution channels and to make corresponding upgrades to back-office capabilities. The demand for digital solutions is increasing across the insurance value chain, from quote issuance to claim settlement, as our interviews with insurtech C-suite executives showed.

The BCG FinTech Control Tower's (FCT) annual "State of Insurtech" report aims to provide a data-driven view of the global insurtech space, applying three lenses—products [2], investment maturity, and geographies—to explore emerging trends and the most disruptive technologies.

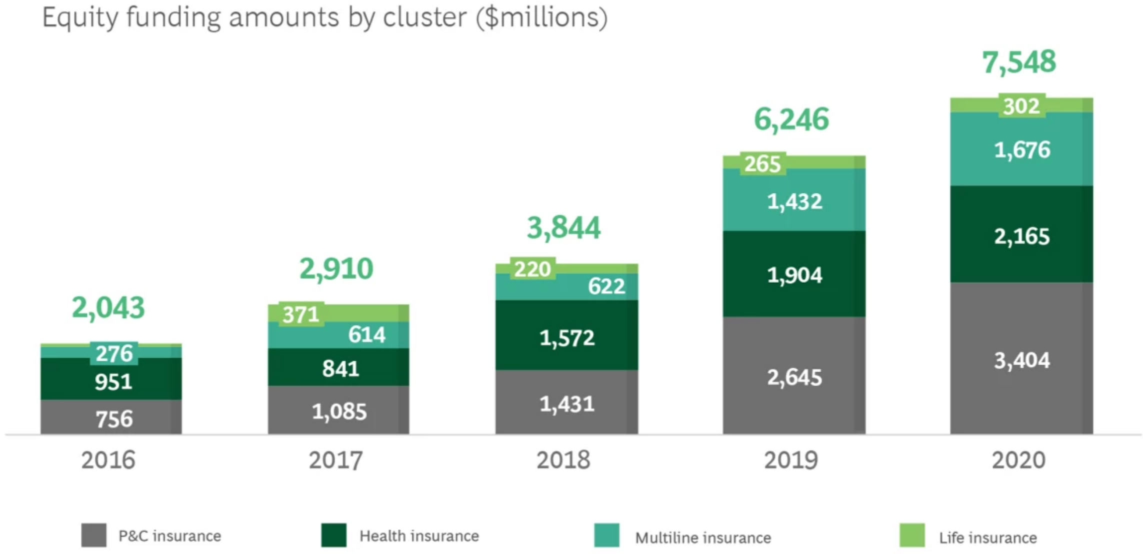
In particular, we investigated the impact of COVID-19 on insurtechs as well as the role technology companies played in the industry. There are five core takeaways from 2020:

- Cumulative equity funding reached an all-time high of $7.5 billion
- Insurtech is maturing, and reinsurers invested accordingly
- 2020 saw a flurry of insurtech M&A deals and seven notable IPOs
- All regions registered record-breaking funding inflows
- COVID-19 shook up the industry, altering risk pools for all lines of business

CUMULATIVE EQUITY FUNDING REACHES AN ALL-TIME HIGH

2020 was a record-breaking year for the insurtech industry, with global funding at $7.5 billion—up 21% from the previous year. It was the highest annual mark for the industry, despite the outbreak of COVID-19. (See Exhibit 1.)

Exhibit 1 - Global Insurtech Funding Surges to a Record, With P&C Accounting for About 45% of the Total



Source: BCG FinTech Control Tower.

Property and casualty (P&C) insurance was the highest-funded cluster at $3.4 billion, accounting for about 45% of the 2020 total, followed by health insurance ($2.1 billion, 29%), multiline insurance ($1.6 billion, 22%) and life insurance (about $300 million, 4%).

Over the past year, the insurtech ecosystem grew by about 35%, driven by P&C insurance, which had a compound annual growth rate (CAGR) of about 38%, and multiline insurance, with a CAGR of 35%. Health and life insurance were below the industry average, but they still demonstrated strong overall growth, with each having a CAGR of about 31%.

Among insurtechs, there were 20 megarounds—the largest number of any year to date. Funding attracted in megarounds increased sevenfold over the past five years, with its share increasing from 27% of the total funding in 2016 to 55% in 2020.

Global investors are fueling the megaround phenomenon, as insurtechs continue to mature and prove their business models, injecting large amounts of capital into successful players—especially US-based full-stack digital insurers operating in the P&C and health insurance space.

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The largest three rounds of 2020 were:

- A $500 million Series E round for Bright Health, which offers individual, family, and Medicare Advantage plans in 43 markets across 13 states in the US, working exclusively with curated networks of doctors, clinics, and hospitals.
- A $500 million private equity round for UK-based Ki Insurance—a fully digital and algorithmically driven insurance syndicate incubated by Brit, Google, and University College London—which offers low-touch capacity instantly to brokers at Lloyd's of London evaluating risk in real time.
- A $350 million Series E round for US-based Hippo, a digital insurer offering insurance products for homeowners as well as complimentary smart-home devices and home-care services.

INSURTECH IS MATURING, AND REINSURERS INVESTED ACCORDINGLY

In 2020, late-stage VC [3] funding accounted for $4.1 billion, up 27% year-over-year, driven by 15 megarounds worth a total of $3.2 billion: three at Series C, worth about $1.2 billion; three at Series D, worth $700 million; eight at Series E+, worth $1.9 billion; and one at growth equity stage, worth $230 million. (See Exhibit 2.)

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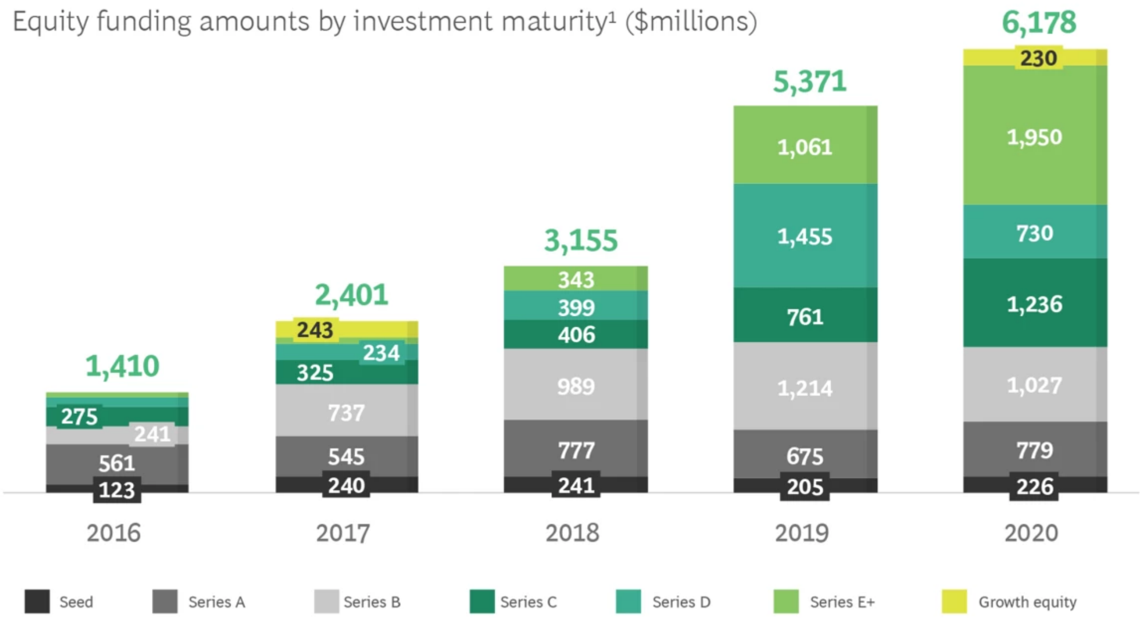
Exhibit 2 - Late-Stage VC Funding Led the Insurtech Boom, Accounting for $4.1 Billion



Source: BCG FinTech Control Tower.

[1]Unattributed equity funding rounds have been excluded from the analysis.

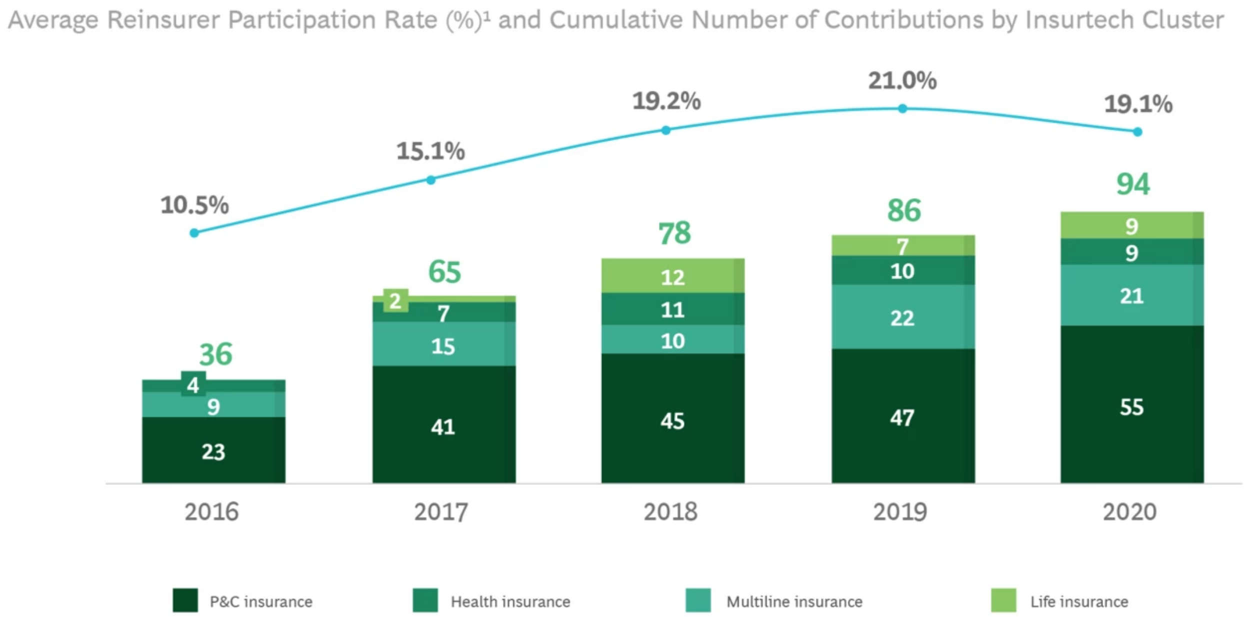
Early-stage VC [4] dropped about 5% year-over-year to $1.8 billion. Series A increased by 15%, as investors continuously supported early-stage portfolio companies; Series B, meanwhile, dropped by 15%, as investors were reluctant to finance relatively well-known but not particularly well-established insurtechs.

Seed funding accounted for $226 million, up 5% from the previous year, as investors kept joining smaller, earlier rounds in nascent businesses.

Venture capital firms were the most active investors over the past five years, with approximately 2,700 contributions, of which 75% were in insurtechs operating in the P&C and health insurance clusters. Incumbent insurers ranked third with a similar product mix.

Reinsurers largely played it safe in 2020, with the absolute number of their investment contributions increasing by about 10% year-over-year—from 86 in 2019 to 94 in 2020. They mostly targeted insurtechs in the P&C cluster, which are generally considered safer bets—being more mature companies whose value proposition is easier and quicker to validate. (See Exhibit 3.)

Exhibit 3 - Reinsurers' Contributions Increased by 10% Year-over-Year, with P&C Accounting for 58%



Source: BCG FinTech Control Tower.

[1] Calculated as the ratio of number of rounds with at least one participating insurer and the total number of rounds for any given year, excluding unattributed rounds.

However, reinsurers' average participation rate dropped by 2 percentage points compared to 2019, as reinsurers focused on fewer deals involving companies at later stages of maturity. In fact, while reinsurers' participation rate in Series C+ rounds increased by 14 percentage points, their participation in seed rounds decreased by 11 percentage points. (See Exhibit 4.)

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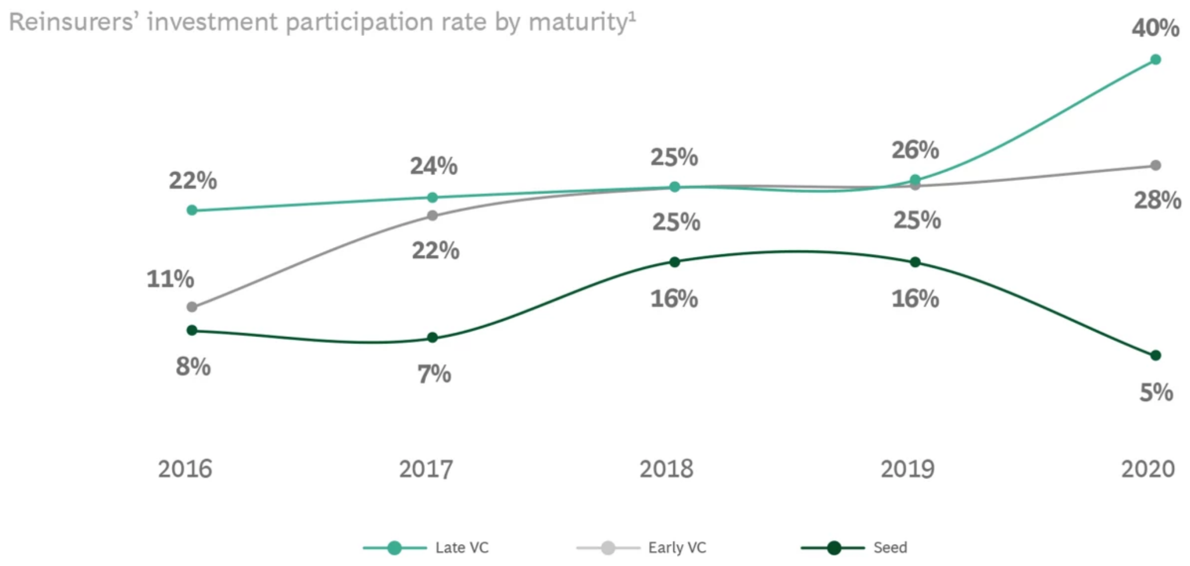
Exhibit 4 - Reinsurers Played It Safe, with a Late-Stage VC Participation Rate of About 40%



Source: BCG FinTech Control Tower.

[1]Calculated as the ratio of number of rounds with at least one participating insurer and the total number of rounds for any given year and maturity category, excluding unattributed rounds.

Core examples of late-stage equity financing deals with reinsurers' participation in 2020 were the $350 million Series E+ round in Hippo led by Mitsui Sumitomo Insurance Company, a subsidiary of MS&AD Insurance Group Holdings, and the $150 million Series E+ round in Waterdrop led by Swiss Re.

A FLURRY OF M&A DEALS, AND SEVEN NOTABLE IPOS

Insurtechs are acquisition targets for a variety of companies, including incumbent insurers, fintechs, and even other insurtechs—and in 2020 we saw sustained M&A activity. A few key deals:

- Singapore-based PolicyPal, a blockchain-powered price comparison app, was acquired by AMTD Digital, which aims to develop and expand its insurance offering in Southeast Asia.
- Germany-based ControlExpert, a motor claim management platform, was acquired by Allianz to improve claims handling through artificial intelligence and automation.

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- UK-based Brolly, a personal insurance concierge, was acquired by DirectLine Group to accelerate its digital transformation efforts.

At the same time, insurtechs are themselves acquiring a variety of companies, including incumbent insurers, other insurtechs, or adjacent firms. The acquisitions are being made for diverse purposes, from adding new capabilities to neutralizing competition to expanding their geographic footprints. Some examples:

- Hippo Insurance acquired its carrier partner, Spinnaker Insurance, and its 50 licenses to expand its geographical reach and acquire underwriting capacity.
- Commercial insurance exchange Bold Penguin [5] acquired RiskGenius, an insurance document intelligence platform, to reduce the time required to quote and bind commercial policies.
- London-based Zego, a pay-as-you-go digital insurer, acquired Drivit, a telematics company, to collect real-time data on driver behavior and to enhance insurance underwriting and pricing.

On the IPO front, it's worth flagging seven core players that listed on the public markets in 2020, attracting $3.2 billion cumulatively: Huize ($55 million in February 2020), SelectQuote ($570 million in May), Accolade ($220 million in July), Lemonade ($319 million in July), GoHealth ($914 million in July), Duck Creek Technologies ($405 million in August), and Root Insurance ($742 million in October).

Meanwhile, a variety of insurtechs opted to go public via a special acquisition purpose company, following the trend of adjacent industries such as fintech. Examples are US-based digital health insurer Clover, acquired by Health Social Capital Hedosophia Holdings Corp. III for $800 million, and Metromile, a pay-per-mile auto digital insurer acquired by INSU Acquisition Corp. II for $294 million.

ALL REGIONS REGISTERED RECORD-BREAKING FUNDING INFLOWS

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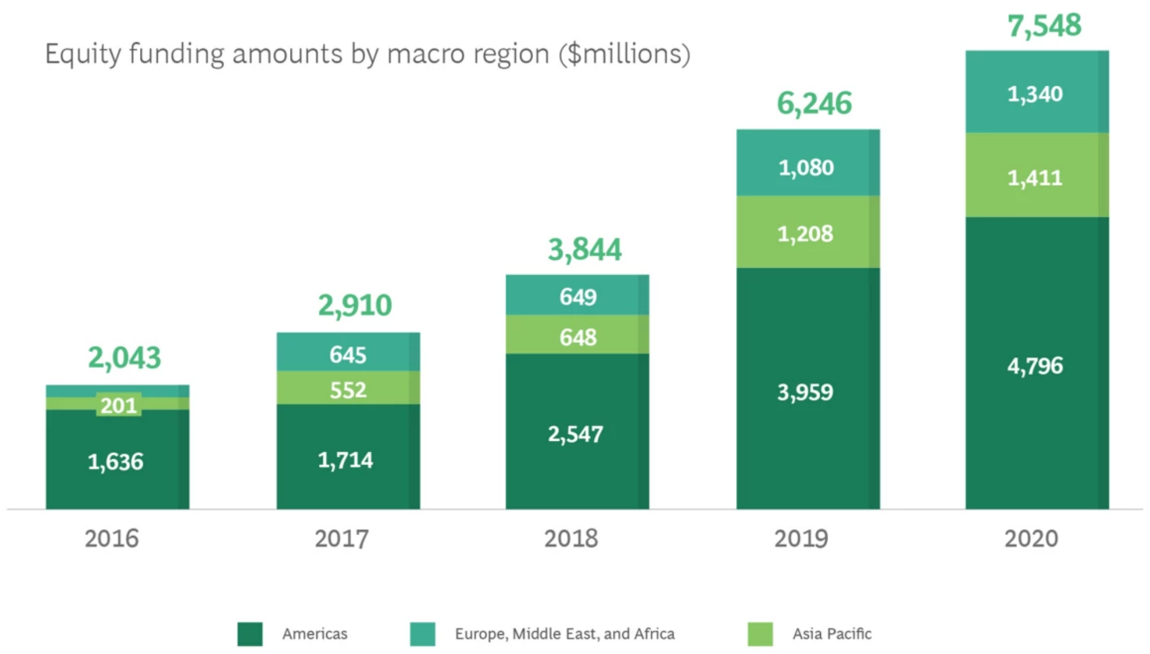
Americas-based insurtechs have attracted 70% of the global funding deployed over the past two decades; this peaked at $4.7 billion in 2020, driven by US-based P&C and health insurance digital carriers that reached late-stage maturity. (See Exhibit 5.) Representative examples are Bright Health ($500 million Series E+), Oscar Health ($230 million Series E+), and Hippo ($350 million Series E+).

Exhibit 5 - Record Insurtech Financing in All Regions



Source: BCG FinTech Control Tower.

Latin American countries started seeing rising investor activity as well. Core players are gradually emerging in the region, such as Brazil-based Pier, a digital P&C insurer, which raised a $14.5 million Series A round in November 2020, and Chile-based Betterfly, a wellness benefits platform, which raised a $17.5 million Series A round in December 2020.

The EMEA region registered record-breaking funding inflows totalling $1.3 billion, up 30% compared to 2019. The highest-funded countries were the UK at $850 million—of which $500 million is attributable to Ki Insurance and $98 million to pet insurance company Bought By Many—and France at $200 million, of which $60 million was raised by Luko, a smart home managing general agent (MGA), and $55 million by Alan, a digital health insurer.

APAC-based insurtechs attracted $1.4 billion—up 15% year-over-year from the previous year—driven by companies headquartered in China ($800 million) and India ($450 million). Representative examples are Medbanks, a medical database-services company offering oncology-related services, which brought in $305 million in Series E+ funding, and Policybazaar, a price-comparison portal that raised $130 million in Series E+ funding.

Oceania and Southeast Asia are still relatively nascent ecosystems, but they count several high-growth players, such as Sydney-based Cover Genius, an insurance-as-a-service MGA, and Singapore-based Singlife, a digital life insurer.

Insurtechs adopt different expansion strategies depending on their operating model and where they were founded, targeting markets where demographics spell large opportunities for insurance digitization. A key example in 2020 is US-based Lemonade, which expanded to the Netherlands in April and to France in December.

COVID-19 SHOOK UP THE INDUSTRY, ALTERING RISK POOLS FOR ALL LINES OF BUSINESS

The pandemic has affected insurtech on many different fronts, impacting demand, claims, and loss patterns in varying ways across product lines and operating models. Claims patterns and risk exposures have suddenly shifted across business lines, with risk rising in some and falling in others, as worldwide lockdowns caused people to change their lifestyles—and in turn, forced businesses to adapt their operating models accordingly. Risk carriers such as digital insurers and MGAs are the most exposed, as they carry risk on their balance sheet. (See Exhibit 6.)

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Exhibit 6 - The Impact of COVID-19 Is Likely to Differ Across Insurtech Clusters and Value Chain Segments

	Digital insurers and MGAs	Digital intermediaries	Tech insurance platforms
Personal P&C insurance	↕ • Drop in demand • Improved loss ratio	↓ • Drop in demand	↑ • Increased demand
Commercial P&C insurance	↓ • Drop in demand • Higher loss ratio	↓ • Drop in demand	↑ • Increased demand
Health insurance	↑ • Increased demand • Stable loss ratio	↑ • Increased demand	↑ • Increased demand
Life insurance	↑ • Increased demand • Stable loss ratio	↑ • Increased demand	↑ • Increased demand

Source: BCG FinTech Control Tower.

Note: Directional impact only, based on primary research interviews with industry participants. The magnitude of the impact may differ across geographies and specific products.

Insurtechs offering personal insurance products such as home P&C and motor P&C registered a drop in demand amid the shift to remote working and national lockdowns, which was especially pronounced in the first half of 2020. Conversely, the demand for pet insurance increased, as people started either buying or adopting pets to relieve stress and anxiety during lockdowns.

> "During the period of the first lockdown, we saw a 194% increase in sales between March and June compared to the same period last year, as owners around the UK rushed to find a pet," said Steven Mendel, chief executive officer and cofounder of the pet insurance platform Bought By Many. "The pet boom shows no sign of stopping, and in early December, we saw a 66% year-over-year increase in the number of pets being signed up for insurance."

Commercial P&C insurtech saw a drop in demand for its core products, such as workers' compensation, which reflects lower staffing levels worldwide, and lower demand for commercial property insurance, as businesses consolidated their operations in fewer buildings. The business interruption and liability clusters registered an increased number of claims and, in turn, loss levels amid the higher number of lawsuits and impeding litigations. [6]

Conversely, the health and life sectors were able to capitalize on some of the changes caused by COVID-19. Demand has increased amid a boost in consumer awareness. Since the pandemic began, consumers globally have prioritized insurance as a "must have"—especially products distributed via digital channels. For instance, China-based multiline digital insurer ZhongAn registered a 115% year-over-year increase in premium income in the first half of 2020 to a total of more than 3 billion yuan ($468.8 million), according to the company.

> "The expectation of continued extremely low interest rates and outbreak of the coronavirus pandemic are posing major challenges for traditional life insurance carriers," said Peter Ohnemus, president and chief executive officer at Dacadoo, a digital health engagement and health-risk quantification platform. "A structural action to radically reshape the current risk assessment, pricing, cost management and underwriting models is needed."

Globally, insurtechs launched a variety of initiatives aimed at combatting the effect of COVID-19. For instance, Cover Genius teamed up with Skyscanner, a price comparison portal, to launch a parametric travel insurance product covering medical, trip cancellation, and airline insolvency caused by COVID-19.

Similarly, India-based Digit, a multiline insurer, launched a new product covering pre- and post-hospitalisation expenses, road ambulance charges, and a second medical opinion caused by eight viral diseases, including COVID-19 and dengue.

2020 was an interesting year for insurtech. The record-breaking amount of equity funding invested in the space, as well as the large number of M&A deals, IPOs, and strategic reinsurer contributions, show that technology plays a key role in the evolution of the industry. It is now time for incumbent insurers to accelerate their digital transformations

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and acknowledge the strategic role that insurtechs can play in helping them rapidly adapt to, and survive in, a post-COVID-19 world.

To learn more about the global insurtech ecosystem, including regional deep dives and detailed profiles of emerging players, please reach out to the BCG FCT insurtech team.

BCG FinTech Control Tower is a research-focused unit developed jointly by Boston Consulting Group (BCG) and Expand Research. The FCT identifies initiatives, technologies, and companies that matter most in today's fintech ecosystem and assesses their impact. Our internal platform can ingest data from multiple sources and apply a proprietary taxonomy combined with a rigorous framework, resulting in a highly accurate and globally complete fintech data set. We engage directly with financial institutions, regulators, industry stakeholders, and innovators, putting ourselves at the forefront of the latest research and fintech trends. For more information, contact us at FCT@bcg.com or bcgfintechcontroltower@expandresearch.com.

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1 Losses due to COVID-19 as of December 2020. According to Switzerland-based Swiss Re, Hurricane Katrina triggered global losses worth around $82 billion.
2 The BCG FinTech Control Tower segments insurtech into four product lines: property & casualty (P&C), health, life, and multiline insurance.
3 Refers to Series C, D, E+ and growth equity stages.
4 Refers to Series A and B.
5 Bold Penguin was acquired by US-based reinsurer American Family in January 2021.
6 This holds for traditional insurers as well. For example, AXA lost a lawsuit brought by a Paris restaurant owner and agreed to cover restaurant losses from COVID-19 lockdown. (Source: Bloomberg, June 30th, 2020.)

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