Funding in InsurTech: Is there a Persistent Opportunity?

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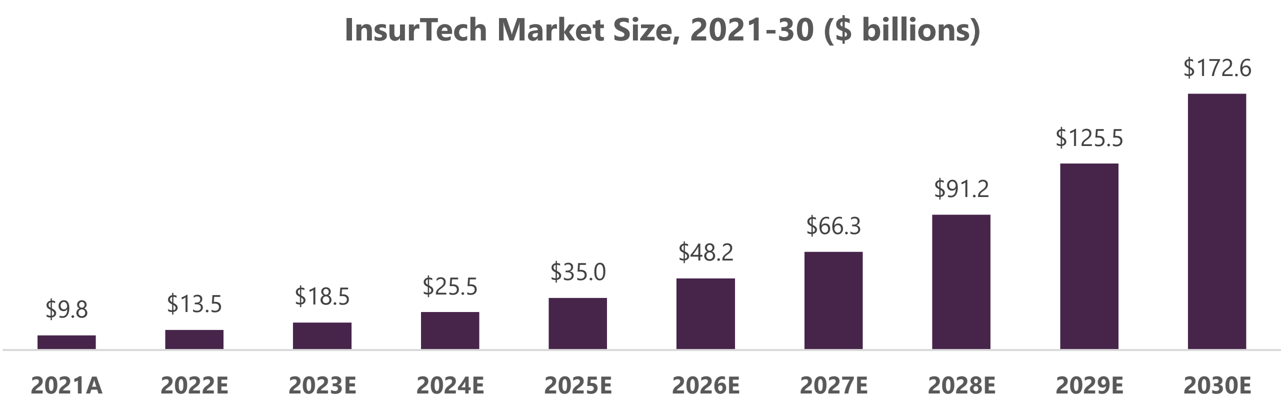
Sensitivity: Public

Introduction – Insurtech

Insurtech sector is poised to bring disruption in terms of product offerings, by introducing ultra-customizations and innovative options. Using modern technologies like AI/Machine learning, Automation, Big Data, Blockchain, and the Internet of Things, InsurTech firms are focused on bringing radical change in areas such as claims management, underwriting, contract execution, risk mitigation, etc.

The rise of InsurTech resulted from the FinTech revolution, where financial institutions leveraged technology to revolutionize their operations, driven by increasing customer demand for seamless accessibility. Insurance, being one of the significant financial offerings thought to be complex, could not escape or resist this change. Startups were the pioneers of this movement, dedicating time to carefully examine each process and finding innovative ways to disrupt them. Though, traditional insurers were initially reluctant, they eventually started to become part of it by forming partnerships with these startups.

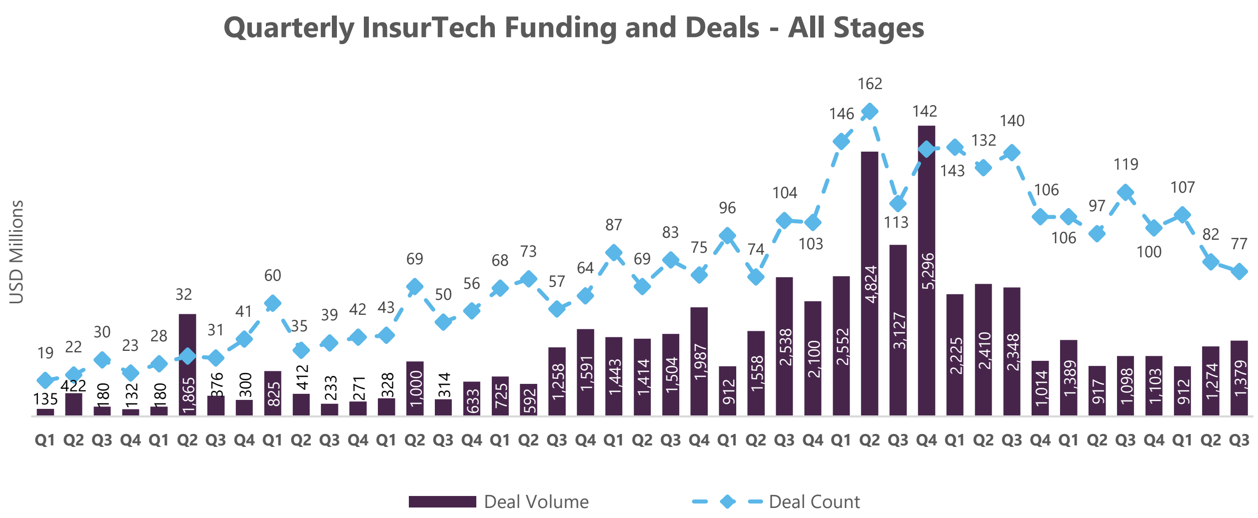
Total Addressable Insurtech Market



Source: Precedence Research Report

The global insurtech market size accounted for $9.8 billion in 2021 and is expected to surpass $172 billion by 2030, as per a report by Precedence Research. The market is poised to grow at a compound annual growth rate (CAGR) of 37.54% from 2022 to 2030.

InsurTech over the years



Source: Gallagher Re Global Insurtech Report

Key Observations

- The year 2021 witnessed the most significant surge in InsurTech funding, attributed to the impact of COVID-19, which led to a boost in the digitalization of sales for customized insurance products, as well as the creation of numerous new unicorns and IPOs in the industry
- However, there was a subsequent drop in funding in 2022, and the InsurTech industry also faced layoffs due to changing macroeconomic factors. Further, recently in 2023, the industry witnessed a 50% decline in funding amounts due to decreased mega-deals in VC financing.
- The global insurtech sector saw a remarkable resurgence in the Q3 2024, with funding reaching $1.38 billion, which is an 8.3% increase from the previous quarter and also the highest level since Q1 2023
- This quarter's activity was driven by revival of mega-deals, focus on core operations and a strong focus on AI-centered investments
- However, Property & Casualty (P&C) insurtech still saw a 15.4% decline with funding dropping to $722.16 million. Life and health insurtech on the other hand had a 56.4% QoQ increase, rising to $657 million.
- Geographically, investment was led by the US with US$1.8 billion till Q3 2024, closely followed by Europe at US$1.1 billion.
  - Funding in emerging markets like Latin America and Africa continues to lag with US$37.1 million and US$32.4 million only, respectively.
  - Narrowing insurance gap provides a ray of light and experts see growth potential here
- The average deal value in Q3 2024 was $44.8m[1], whereas the average deal value in Q3 2023 was $14.7m

Key Trends

- **Resurgance of Mega Deals:** Large scale investments or deals exceeding $100 million comprised 55.5% of global insurtech funding. This is the highest percentage for mega deals since Q3 2022. Some of the major transactions during the quarter included: Altana AI ($200 million), Alan ($193.17 million), Zing Health ($140 million), Akur8 ($120 million), and Devoted Health ($112 million).
- **Focus on AI and Core Business Operations:** AI centrered investments and core business functions are the areas where the funding in insurtech is shifting to. 63.4% of insurtech deals were made in AI-centered companies in Q3 2024. Similarly, 54.5% of the deals focused on companies that target core operational improvements.
- **Funding from B2B SaaS Providers:** A significant share of insurtech funding comprising of 43% of total investments till Q3 2024 was captured by business-to-business software-as-a-service (B2B SaaS) providers. This includes solutions for underwriting, claims management, risk assessment, and administrative efficiency. Most of these companies' offerings are either based on or are venturing into artificial intelligence (AI)
- **Changes in Deal Structure:** Early-stage and late-stage deals have seen a decline in Q3 2024. However, for early-stage companies, the average deal size has increased significantly to $10.3 million, suggesting that though early-stage deals are few in number, they are securing larger investments. Late-stage funding is experiencing steep drops of nearly 90% compared to 2021. This shows that investors are very cautious when it comes to high-valuation, mature companies
- **Reinsurance:** Reinsurance industry is showing keen interest and is becoming more active in funding rounds. Simultaneously, VCs and financial investors are retreating from the space. Mid stage funding rounds comprise around 52.8% of the reinsurance companies' tech investments

[1] *The funding figure is skewed by a $1bn funding round raised by Sedgwick If we remove this outlier, 3Q funding would be ~$1.38bn, that would make the average deal size of $26m, which is still higher*

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What makes InsurTech an attractive bet

Insurtech is still an underfunded industry but represents a huge opportunity. The industry is heavily regulated making it hard for new entrants and startups to work with a sustainable business model. However, even when other sections of Fintech such as payments, wealthtech and capital markets was declining, insurtech remained steady. Most of the companies in this sector serves businesses, rather than consumers directly. This catches the investor eye quickly. The technology angle in these firms has helped improve pricing, claims and underwriting efficiency. The industry expects that the disruption caused by InsurTech firms in the insurance industry would lead to transformation in processes as well as in the customer experience in the near future. Further, traditional insurers have also started to realize the potential and significance of these firms. In order to meet their customers' ever-increasing needs, they are actively engaging in strategic partnerships with these firms, investing in early stages, and also participating in M&A activity.

The increasing funding interest in InsurTech has led to an abundant supply of capital for these firms, helping them discover more innovative products and find new ways of generating revenue. But it has also resulted in pressure to scale up their businesses and become profitable faster, which can sometimes lead to unintended outcomes for both individual firms and the industry.

Sources: Forbes, Gallagher Re, Precedence Report, MapFre, Fintech Global

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Conclusion

In conclusion, InsurTech, though only a decade old, has experienced unparalleled growth due to global technological advancements and increasing consumer demand for digital services. With InsurTechs reaching more mature funding stages and even achieving IPOs, combined with growing approval from incumbent insurers and heightened M&A activity, the sector has become a significant opportunity for investors. The potential to bring efficiency and cost savings to traditional insurance processes makes InsurTech a promising field with a bright future ahead, revolutionizing the industry and unlocking new possibilities for both providers and policyholders in the era of digital transformation. InsurTech is not going to be the poster boy of fintech in 2025, but it will appeal to the investors and 2025 is expected to be another good year for this sector.

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