

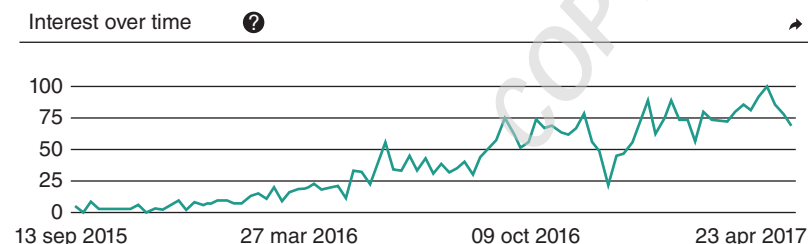
# InsurTech Definition as Its Own Manifesto

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6 WHAT IS INSURTECH? InsurTech is the new cool word within the vocabulary of the financial services, replacing the term FinTech, which established itself in the last years of 2000 when companies like Square, Transferwise, and Stripe accelerated the payments revolution launched by PayPal in the US and Alipay in China. However, I believe that InsurTech does not have yet a clear, agreed, and established definition.

An InsurTech definition should cover different concepts well beyond the idea of combining insurance and technology to include the native customer-centric approach, as well as the potential that technology has to enable incumbents' value chain or to disrupt incumbents' consolidated business models. This definition should be open and inclusive so as to host new and innovative technologies that are relevant both now and in the future. So *all* technologies at the forefront of insurance innovation, such as artificial intelligence, chatbots that enable H2C (Human to Customers) in distribution, as well as advanced analytics that are looking for the right use cases in the data-driven business of



**Figure 1: InsurTech interest over time based on Google research**

Source: Data from Google Trends (September 2015 – June 2017)

insurance, need to fit and find their own space in the definition and concept of InsurTech, which has increased significantly, as shown in Figure 1.

## Three Enigmas: Who? What? How?

Incumbents, startups, Venture Capital (VC) funds, and many other stakeholders are all players within the InsurTech field with their own agenda, perspective, and view of the InsurTech phenomenon. The fact that no shared definition was out there increased the temptation for stakeholders to come up with their own, based on *their* understanding of InsurTech. It often resulted in partial definitions, or definitions not yet shared and adopted by the insurance innovation community. This generated “noise” and hasn’t helped to provide a clear understanding of the InsurTech phenomenon. A simple approach to get to a definition of InsurTech will be to find the answer to three simple enigmas: Who? What? and How?

The first question to address is: “Who is the subject, the engine of transformation within the insurance and insurance technology landscape? Is InsurTech identifying a specific type of startup, or a whole ecosystem of multiple companies operating in the domain of insurance technology?”

InsurTech, in its current common use of experts, practitioners, and bloggers, is identifying an ecosystem of many different companies that operate in the insurance technology domain. Those companies are early adopters of new technologies, digital by default and, most importantly, focused. InsurTechs are early adopters of innovative technologies such as big data, machine learning, cloud, and the Internet of Things, compared to the insurance incumbents, slowly evaluating and adopting. The early adopters are advantaged on this path by the fact that they are “digital by default”, enabling innovation without the legacy of IT systems or overcomplicated procedures and operations.

Focus is another strong quality of the InsurTech, whose success is dependent on their concentrating on a specific line of business, area of the value chain, or client segment. There is no InsurTech so far that focuses on more than one line of business and customer segment at the same time. Successful InsurTech companies like Lemonade, Trov, and Oscar focused only on a specific line of business, i.e. Home, Property, and Health, respectively. The fact that they are looking for niches in the insurance business makes them more credible when they promise to challenge or help incumbents who are constrained by their size or other organizational factors.

Once we have in mind the concept of an InsurTech ecosystem it will be easy to define an “InsurTech company” as the company or startup that plays on this field. But they are not the only players in this domain; established, innovative players are fully entitled to be included. Arguably, the first InsurTechs were in fact the direct insurance companies that posed the initial threats to incumbents in the retail motor sector, such as Admiral in the UK and Geico in the US; the price comparison websites popular in the UK; or the IT and ERP system providers focused on insurance, like Guidewire and Tia Technology.

The second questions to address are: “What are those startups doing within the context of the InsurTech ecosystem? What is their primary goal?”

InsurTechs disrupt the traditional business model of incumbents developing innovative customer value propositions able to attract and engage clients, for example, they can enable full digital distribution of insurance products. Most often, InsurTechs enable the value chain of incumbent insurers offering innovative technologies and solutions to improve operational efficiency; for example, they can automate relevant processes across the value chain. However, our answer will remain partial if we don't add the primary goal of InsurTechs: to generate value either for customers, insurance incumbents, or both. Of course generating value is a “*sine qua non*” for any new industry that wants to ensure its own survival and sustainability to prosper over the long term. InsurTechs can focus either on generating value for clients by addressing their needs across the customer journey that

incumbents often fail to spot, or they can generate value for incumbents by addressing the pain points in their business and operative model that incumbents cannot improve efficiently.

The third and final question is “How are InsurTechs innovating the insurance business?” This question is crucial to understand what InsurTechs are doing that makes them different from incumbents.

There are at least three approaches that characterize the InsurTechs's way of working:

- 1. Leverage the most advanced technologies.** The most innovative technologies are the core of any InsurTech's solution. InsurTechs are early adopters of innovative technologies and apply them to the insurance business, develop PoV, productize their solution, and offer it to insurance incumbents often creating the needs and the demand for a specific technology that the insurance business didn't perceive before. InsurTechs have a deep understanding of the technology they offer and it is not surprising that they find earlier than incumbents the best use cases and applications. It is equally unsurprising that technologies such as auto telematics, drones, or blockchain were brought to the market by InsurTechs rather than insurance incumbents.
- 2. Focus on improving the experience to foster a user-centric approach.** InsurTech entrepreneurs' focus on improving the experience could be improving the purchasing journey of a customer, supporting underwriters during risk valuation, or helping loss adjusters in the loss assessment. Regardless, the InsurTech obsession is (and *must* be) improving the experience following a user-centric approach. InsurTechs improve customer centricity by developing new customer value propositions and products that simplify the clients' user experience in a sector that traditionally lags behind other industries in clarity and usability. The innovative push of InsurTechs in this field is fundamental to keep pace with clients that benchmark their purchasing experience

with digital channels such as Amazon, rather than with the traditional insurance agency experience. This obsession with user-centricity, however, also extends to “internal” users. In fact, InsurTechs that focus on the enablement of the incumbents’ value chain develop their solution for employees with the same attention to usability and simplicity as the InsurTechs that improve incumbents’ front-ends. The solutions that simplify and improve the underwriting process, the lead allocation mechanisms, and the claims management have an impact on the bottom line as relevant as the one that the InsurTechs focusing on customer experience have on the top line.

- 3. Have an agile culture and approach and leverage advanced analytics to take business decisions.** InsurTech startups are very often developed by technology-driven entrepreneurs who are young and digital natives. They drive small and focused teams of motivated professionals that are more used to the tech startups’ mindset rather than the mindset of consolidated financial institutions. They are not afraid to quickly develop, test, and bring innovations to the market following a lean and agile approach; they embed advanced analytics in their management practices and operations to generate insights and take business decisions on a day-to-day basis. They are also prepared for the idea of failing and learn from their failures as in the best tradition of Silicon Valley’s startups.

## The InsurTech Definition as its own Manifesto

The answers to my three enigmas are the essential elements to give a precise and comprehensive definition of InsurTech, which

can be agreed upon by practitioners and will prove to be solid over time. Let’s combine the elements and define InsurTech as follows:

InsurTech is the ecosystem of focused, innovation-based companies (often startups) that generate value for clients and/or insurance incumbents by disrupting or solving problems across the insurance value chain through the engagement of technology by following a lean and user-centric approach.

This InsurTech definition should now be its own manifesto: it needs to be clear, simple, and comprehensive enough to show the direction of this evolving and promising domain to all entrepreneurs and insurance professionals wanting to engage with the InsurTech’s ecosystem. This definition helps to cut through the noise and define those innovations and innovative business models that compose the InsurTech ecosystem. In fact, the concept of InsurTech wouldn’t be possible without the goal of generating value for the clients or for the insurance incumbents; it wouldn’t be possible without engaging technology or doing it without following a user-centric approach. I hope that defining a clearer “playing field” will shape the vision of the next generation of tech and insurance talents and attract them to participate in the transformation of the insurance industry, and the experience and value felt by its customers.