

# PARTNERING WITH INSURETECHS COULD BE THE ANSWER IN THE POST-COVID INSURANCE INDUSTRY

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25 YEARS

Despite being built around the ability to respond to unforeseen circumstances, manage risk and expedite recovery, insurance is among the industries worst affected by the Covid-19 pandemic. Analysis by Statista in March 2020<sup>1</sup> projected that the pandemic would have a “severe impact” on revenue of the insurance industry – the same severity rating as was afforded to Travel and Tourism. In fact, Lloyd’s of London has estimated that the industry could lose a record £167bn globally this year due to claims related to the coronavirus pandemic<sup>2</sup>; a figure which exceeds the costs of 9/11 and all the devastating Caribbean hurricanes of 2017 combined.

Insurers with significant exposure to travel, event cancellation and business interruption lines of business have found themselves facing unprecedented levels of claims and are now seeking to ensure both their balance sheets and reputations can withstand this crisis. In some cases, insurers are settling claims far and above normal levels and taking a significant financial hit. In other cases, insurers are becoming the villains of the crisis, as they decline payment to policyholders unaware that their basic coverage will not respond without the required pandemic extensions. All insurers, even those more shielded from the most impacted lines of business, will experience the side effects of Covid-19 as market volatility puts a strain on their investments.

Along with disruption and uncertainty, the outbreak of Covid-19 also brings opportunity to those insurance firms willing and able to seize it. A heightened awareness of risk among the general population has seen demand increase for certain types of policy such as health and life insurance<sup>2</sup>. And times of widespread market uncertainty often see an increase in private equity and trade investment in the insurance sector. Against the backdrop of significant losses, one way in which insurance organizations can get themselves in a position to exploit these opportunities is through partnerships with insuretechs.



1. <https://www.statista.com/statistics/1106302/coronavirus-impact-index-by-industry-2020/>

2. <https://www.independent.co.uk/news/business/news/coronavirus-insurance-costs-lloyds-of-london-covid-19-a9513901.html>

## DRIVING COSTS DOWN AND EFFICIENCY UP

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The last five years has seen a dramatic rise in the number of insurtechs offering solutions to lower operating costs for major insurance organizations. Countless firms provide digitally enabled, low-cost services to simplify and reduce the costs of back-end activities such as policy administration. Highly acclaimed insurtechs like *Kasko* and *Cytora* offer insurers the opportunity to automate the end-to-end underwriting and policy administration process through plug and play, easy-to-integrate platforms. Others such as *Digital Fineprint* and *Phinsys*, have been acknowledged by Oxbow Partners<sup>3</sup> and Lloyds of London for their ability to help insurers reduce costs and optimize

specific areas of the insurance lifecycle, such as underwriting or financial reporting and close processes, respectively.

In the wake of the Covid-19 pandemic, insurers, reinsurers, and brokers able to streamline and drive efficiency within their most cumbersome processes will be best placed to minimize their outlay and recover their balance sheets. It is likely that many of the big names across the industry will look to partner with insurtechs to achieve this in a faster and more cost-effective way than through traditional process improvements mechanisms.

## IT'S NOT ALL DOOM AND GLOOM – THERE'S AN OPPORTUNITY TO BE SEIZED

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The pandemic has brought insurance to the forefront of people's minds and groups that have never bought insurance before are taking stock. Risk awareness has heightened and there is an opportunity for insurers, particularly in life and health, to attract a new demographic. Only the fastest moving will win – this is a short to medium term play, as people react to the crisis around them, so insurers need the ability to launch products quickly and offer seamless purchasing experiences. Many of these “new” customers will be from the younger generation, so quality digital experiences are key. Some insurtech players present a threat to incumbents, given the speed with which they can release new products, so the larger insurers must invest quickly to realize this opportunity.

To compete, the major insurers must make a choice – to develop this capability to rapidly reach new customers internally or to work with partners already well-placed to meet the new demand. Digital insurance platform providers like *Kasko* and

*Protosure* have had success in enabling insurers and brokers to bring new insurance products to market quickly via APIs and eliminating the regulatory and technological burdens which often lead to delays.

Other insurers who already offer the types of product experiencing a surge in demand could still benefit from partnerships to help them reach the growing numbers of potential customers. Several Tier 1 insurers, such as Munich Re and Hiscox, have partnered with mobile technology platform *GetSafe*, to target the millennial market. In 2019 the firm sold over 100,000 policies to customers with a median age of 26<sup>3</sup>, the majority of whom were purchasing insurance for the first time. Such demonstrable success in reaching a new generation of insurance buyers has seen the tech platform gain real traction, as insurers are keen to adopt this type of engagement model to tap into this new, insurance conscious market.

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3. <https://oxbowpartners.com/impact-25-2020/>

# QUALITY, DIGITAL EXPERIENCES WILL BECOME AN EVEN GREATER DIFFERENTIATOR

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With the requirement for cost reduction in a post-Covid world, insurers may look to make savings by reducing the need for large sales teams and call centers. Innovative digital solutions can provide high quality customer service for existing customers and serve the increased demand from the younger, more tech savvy consumers we discussed. AI-based chatbots offer a cost-effective way to provide a personalized purchasing experience and sleek customer interface, without the need for human interaction. Some leading examples of this type of technology include *Spixii*, a chatbot technology vendor with compelling behavioral analytics to support long term optimization of customer relationships, and *Enterprise Bot* which has been championed by Oxbow Partners as one of the top 25 emerging technologies of 2020 for its multilingual capability. Similarly, *Avolanta* offers a highly regarded customer engagement platform with a predictive approach and conversational approach to customer service.

The claims resolution experience, vital to customer retention, is another area insurtechs are attacking. *Claim Space's* SAAS platform brings together all parties involved in the settlement of a claim to collaborate to achieve faster claims resolutions - a critical factor for both insurer and policy holder in these difficult times.

Regardless of whether they support customer onboarding, queries or claims resolution, or all of the above, any insurtech able to offer a low-cost solution which produces positive interactions with customers and leads to increased satisfaction and retention is likely to see increased demand for partnership from major market players.



# CONCLUSION

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While pressure on health services is starting to ease and lockdowns around the world becoming more relaxed, the economic ramifications of Covid-19 will be felt for a long time to come. The insurance industry will inevitably be one of those hardest hit, as businesses struggle to recover from plummeting demand and what is likely to be a long recession.

Cost reduction will be critical to survive the growing claims burdens. Insurtech players can offer significant value over larger, traditional technology vendors with a faster return on investment and more adaptable solutions for quick integration and immediate cost savings.

While lowering the cost base should be the highest priority as we emerge from this crisis, it is not all doom and gloom for insurers. Picking up on the fresh demand from new demographics offers genuine growth potential and can help offset the losses from increased claims.

However, investment in this space is no less important – insurers must be able to react quickly to growing demand so integrations with insurtech vendors that can provide quick access to customers and a seamless sales process for new customers will be hugely differentiating.

Whether it be through cutting costs or pulling in new customers, the speed at which insurers must react will be the differentiating factor in coming through this crisis as unscathed as possible. Insurtech can support the large insurers to move faster but firms must be clear on their strategy and priorities. The sheer breadth of insurtech vendors out there can be daunting but with a clear view on what needs to be achieved in the short term, and a well-constructed vendor selection policy, insurers have a great opportunity to invest smartly in the growing insurtech ecosystem and put themselves in a position of strength for the post-Covid world.

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