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How insurtechs can accelerate the next wave of growth

Insurtechs are under pressure to scale quickly. Here's how they can do it.

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Tech-driven innovation is fundamentally reshaping the insurance industry. Emerging capabilities including telematics, artificial intelligence, machine learning, and automation have transformed nearly every aspect of the insurance value chain and continue to create new and improved omnichannel experiences for customers.[1]

Insurtechs are the driving force of this evolution,[2] and investors are taking note. Venture capital (VC) investment has grown faster than the more mature private-equity or public-markets funding. In 2021 alone, the total amount of VC invested in insurtechs surpassed $11 billion, double the amount invested in 2020.[3] In addition, private-equity investors are increasingly looking to invest sooner, further increasing the amount of capital flowing into the market.

This has created significant pressure on insurtechs to scale—and to do so quickly. While some insurtechs may choose to merge with incumbents,[4] others will focus on scaling independently. The path to accelerating growth differs depending on the type of insurtech player. In this post, we focus on two common types: emerging carriers and distributors, and ecosystem players.

Emerging carriers and distributors

Emerging carriers and distributors are B2C startups, often digital-native brands, looking to disrupt how insurance is bought and priced. To scale successfully, they need to establish a path to profitability, prepare a clear investor story, and refresh their strategy to extend the growth trajectory and challenge incumbents.

Drive profitability

Once insurtechs have raised capital and acquired customers, the biggest hurdle is driving a path to profitability. In our experience, insurtechs at this stage often find it difficult to scale their initial unit economics. However, once insurtechs have built differentiated technologies and processes in their core markets, many are successfully tapping into new revenue generation opportunities in pursuit of profitable growth. For example, a life insurance insurtech chose to commercialize its technology platform and pivot from an agency to a B2B platform provider. The company entered a $1 billion to $2 billion annual premiums market, with a pricing strategy that enabled margins upwards of 30 percent. At a time when investors are much less inclined to make pure growth bets (compared to the past few years), insurtechs that demonstrate solid economics and a realistic path to profitability will stand out from the crowd.

Enhance the investor story

Traditionally, insurtechs have struggled to perform well in public markets. Insurtech share prices are down roughly 75 percent from January 2021.[5] Investors are often unsure whether to assess these emerging insurtechs as insurers or tech companies, and the time needed to achieve profitability can cause concern. When share prices and initial growth expectations come under pressure, there is a clear need to refresh the investor story[6]—and back it up with a solid fact base. For insurtechs based in Europe, where there is less IPO activity than in North America, leading with a clear and compelling investor story becomes even more important. This involves developing an initial hypothesis, gathering data-driven evidence from financials and operations, and coaching management to clearly articulate the story to investors. When done successfully, this process can not only build investor and shareholder confidence but also help an insurtech gain clarity and alignment on the strategic path forward.

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[1] For more, see “Tech-driven insurers: How to thrive in 2030,” McKinsey, August 17, 2021; Ramnath Balasubramanian, Ari Libarikian, and Doug McElhaney, “Insurance 2030—The impact of AI on the future of insurance,” McKinsey, March 12, 2021; Krish Krishnakanthan, Doug McElhaney, Nick Milinkovich, and Adi Pradhan, “How top tech trends will transform insurance,” McKinsey, September 30, 2021; “Moving to a user-first, omnichannel approach,” McKinsey, January 7, 2021.

[2] For more, see Tanguy Catlin, Simon Kaesler, Alex Kimura, and Pradip Patiath, “Global perspectives on insurtechs,” September 30, 2021.

[3] Preqin (where disclosed).

[4] *Insurance insights that matter*, “Insurtechs are increasingly ripe for insurer investments and partnerships,” blog entry by Shitij Gupta, Varun John Jacob, and Shalija Raheja, McKinsey, July 16, 2021.

[5] Based on McKinsey analysis of insurtech share prices (compared to IPO share price if later than 2021).

[6] *Insurance insights that matter*, “A better investor story for insurers,” blog entry by Alex D’Amico, Grier Tumas Dienstag, Jay Gelb, and Zane Williams, McKinsey, September 20, 2021.

Refresh the strategy

After achieving scale in their core markets, insurtechs will naturally set their sights on new and attractive segments and geographies that can unlock next-horizon growth opportunities. This is the time for a full strategy refresh—an exercise that requires analytical rigor and external perspectives. The goal is to create a road map for an ambitious growth trajectory and to identify a clear set of enablers and strategic M&A opportunities to achieve these growth targets. In our experience, the most successful insurtechs have clearly defined the playing field where they can win and doubled down on specific customer subsegments (such as millennials or brokers). Once the strategy comes into focus, insurtechs can then bring the model to new geographies and drive growth on a global scale.

Ecosystem players

Ecosystem players are B2B utilities that enable a better insurance ecosystem (for example, by improving claims processing). To drive accelerated growth, they need to refine their go-to-market (GTM) approach, increase the efficiency of their engineering and professional services functions, and explore opportunities in adjacent markets. As large insurance groups have started to build their own utilities, the imperative to scale quickly has become more urgent than ever in a winner-takes-all market.

Refine the GTM engine

A thoughtful GTM strategy can unlock significant opportunities for ecosystem players, especially in a crowded marketplace where insurtechs are competing for the attention of carriers. For example, a claims insurtech raised a substantial amount of capital and was under pressure to accelerate growth. After developing additional use cases for its product and quantifying the value at stake, the company designed a new sales and account strategy, reset its pricing strategy, and refined its product road map. The result was a comprehensive GTM approach that would help the insurtech grow market share and profitability, as well as a road map to capture a $45 billion market for its flagship product.

Build efficient engineering and services functions

An efficient engineering and professional-services function is integral to achieving scale and maintaining a positive customer reputation. As ecosystem players grow, many find that the increasing number of customer projects can become a source of delays and rising costs, especially if there is a significant services component to the product. This was the case for a global provider of insurance and investment software. By benchmarking the size and cost of its in-house professional services organization against its peers, the insurtech identified a 25 percent savings opportunity on the delivery cost base and laid out an implementation road map with more than 20 levers that can assist in realizing the savings within three years.

Expand into adjacent markets

With so many ecosystem providers vying for a position in the insurtech space, it is critical for players to focus beyond their core and drive growth in adjacencies—both organically and through strategic M&A opportunities. A leading claims insurtech started by interviewing customers to understand their current pain points and any opportunities to improve, then defined an addressable market for adjacencies and prioritized the most attractive subsegments. In the process, the company not only uncovered a potential competitive threat to its core position but also expanded its reach through an add-on acquisition to enable future growth. In the face of growing headwinds and capital constraints, aggregating technology assets through M&A and leveraging a professional GTM engine can help B2B utilities gain a significant advantage.

The next few years will determine the insurtech winners—both among emerging carriers and distributors and the next generation of ecosystem providers—in an increasingly polarized competitive landscape. Those with a clear path to scale will be poised to become industry leaders and accelerate profitable growth.

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