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ITC DIA Europe 2023: Five insights on the future of insurtech

As insurtechs seek to grow and scale in turbulent times, some are outperforming others. But success with partnerships and advanced technologies, including generative AI, could shuffle the leaderboard.

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For the first time, the two largest insurtech conferences in Europe—InsureTech Connect (ITC) and Digital Insurance Agenda (DIA)—came together in 2023 to host ITC DIA Europe. About 2,000 insurance carriers, distributors, investors, and insurtechs gathered in Barcelona in June for the two-day event. Through our interactions with insurtech CEOs, incumbent insurance executives, and leading investors, we gleaned five insights on the future of insurtech.

European insurtech performance is bifurcating. Despite four years of macroeconomic and geopolitical volatility and uncertainty, it's time for European insurtechs to scale, yet we see substantial bifurcation in the market. Some companies have experienced unprecedented success and disruptive growth despite the challenging environment. Others have faced challenges in designing and implementing sustainable business models. Nearly 10 percent of insurtech ventures founded between 2015 and 2019 have gone out of business, according to McKinsey analysis of PitchBook data.

Embedded insurance is laying the groundwork for future growth. Embedding insurance policies at the point of sale into other consumer products remains a dominant industry theme, signaling a fundamental, sustained shift in the way insurance products are offered and purchased. As part of this shift, more noninsurers (for example, car manufacturers, technology and telecom companies, utilities, and grocery retailers) are entering into partnerships with insurers in hopes of capturing their share of a market that is projected to generate $900 billion in annual gross written premiums by 2040, according to McKinsey analysis. Nevertheless, many insurers are still struggling to find the right value proposition for noninsurance customers, and few clear winners have scaled.

Insurtechs are shifting their focus to intermediated distribution. Five years ago, "insurtech" meant direct online distribution. Recently, especially in Europe, insurtechs have been shifting their focus to intermediated channels to capture share among the majority of consumers who still prefer to purchase insurance policies from an agent or broker. Indeed, the traditional direct-insurance model remains challenged by factors such as complex product offerings that require explanation, customers' preference for personalized advice, and the difficulty of building relationships solely through digital interactions. The direct-insurance model has been stagnant in North America and Europe since 2018 and has yet to reach 15 percent market share globally, according to data from McKinsey Global Insurance Pools.

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New and emerging risks are filling the underinsurance gap. McKinsey analysis of the European market finds a considerable insurance protection gap, especially in nonmotor insurance lines—where the gap accounts for approximately €300 million in missed premiums. The share of uninsured individuals and companies tends to be highest in product areas that cover new and emerging risks, including cybersecurity and climate change. The race is on for insurtechs developing new products—using data analytics, AI-driven underwriting, and flexible policy structures—to address new risks and close the underinsurance gap by providing comprehensive coverage that aligns with the evolving needs of individuals and businesses.

Insurtechs are harnessing the power of generative AI (gen AI). Gen AI[1] offers transformative opportunities for insurers through use cases such as automating underwriting processes, detecting fraudulent claims, and predicting customer behavior. At the conference, start-ups and incumbents showcased various applications of gen AI, including personalized risk assessment, claims management, and customer engagement. Unencumbered by legacy technology, insurtechs can use their agility and flexibility to rapidly iterate on gen AI use cases that could unlock new opportunities.

The insurance industry continues to face numerous challenges, including expensive distribution, an expanding landscape of unknown risks, slow adoption of technology, and tightened access to risk capital. Despite the volatile market of the past 18 months, insurtechs are in a favorable position to tackle those challenges and scale their businesses, potentially in partnership with incumbents.

[1] Generative AI describes algorithms (such as ChatGPT) that can be used to create new content, including audio, code, images, text, simulations, and videos. For more, see “What is generative AI?,” McKinsey, January 19, 2023.

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