

ADVERTISEMENT

Deals & Exits

2019 has proven to be the golden hour for insurance innovation

The past few years have fostered an uptick in insurance startups looking to solve industry pain points and ease of access. More than \$16.8 billion in investment has been pumped into the industry since 2012.

By **Rebecca Szkutak** - 4 hours ago

A⁻ A⁺ 100%



The first insurance products were issued between 4,000 to 3,000 B.C. to Babylonian merchants, and the industry hasn't changed since. While that's not entirely true, up until a few years ago, it wasn't far off.

Whether someone is looking for coverage for their wedding, small business or furry friend, the system remains that you buy a policy and then the majority of the relationship takes place when something goes wrong.

The insurance industry remains overwhelmingly opaque, regulated and antiquated. But disruptors as well as legacy insurance companies are looking to change how insurance services operate through collaboration and innovation.

Insurance companies want to be involved because they know they are vulnerable to the same fate banks had when confronted by fintech startups, said Eugenio Gonzalez, an investor at Plug and Play Ventures.



Gonzalez

Gonzalez added that because insurance has so much regulation, startups can benefit from this collaboration, as well. “Insurance companies don’t want to be like the big banks,” Gonzalez said. “Within insurtech, you obviously need regulation to launch a product. You need a much more heavy balance sheet.”

Plug and Play Ventures has been an active insurtech investor. The Palo Alto firm has already made 11 announced deals in the space so far in 2019. “There is a lot of regulation. It’s traditionally a space where venture capital has stayed away from,” Gonzalez said. “We think it’s an extremely interesting area.”

The past few years have fostered an uptick in insurtech startups, some looking to solve service-oriented pain points, and others looking to modernize the way insurance provides policies.

Since the beginning of 2012, more than \$16.8 billion has been pumped into the industry, according to data from CB Insights and Willis Towers Watson.

Market explosion

The market exploded in 2018. Over the past year, almost a third of that \$16.8 billion entered the market as \$5.9 billion was injected into startups.

“About 15 to 20 years ago, you had these non-bank competitors to compete with regulated institutions like banks, and that really wasn’t happening in

insurance for many years,” said Andy Lerner, a managing partner at IA Capital Group.



Lerner

New York-based IA Capital focuses on fintech and insurtech. The firm has invested in such insurtech companies as New York-based SURE, which provides coverage for ridesharing and mobility on a digital platform.

SURE raised a \$12.5 million Series B round earlier this year lead by W. R. Berkley Corporation with participation from ff Venture Capital, Nationwide Ventures and Menlo Ventures.

Property and Casualty (P&C) insurance companies like SURE have seen significant activity this year. By the end of the third quarter, the sector closed on 158 deals year-to-date.

Root Insurance, a Columbus, Ohio, on-demand car insurance provider, raised a \$350 million Series E in Q3. The round was led by Coatue Management and DST Global and included Redpoint Ventures and Ribbit Capital.

Lemonade, a New York-based home and renters insurance platform, raised \$300 million in a Series D round in April. SoftBank led the round and was joined by investors Allianz X, GV, and Thrive Capital, among others.

Plug and Play Ventures invested in WorldCover, a U.S.-based global insurance provider of crop insurance to farmers. The company raised a \$6 million Series

A round earlier this year. MS&AD Ventures led the round and Y Combinator also participated.

Life and Health (L&F) insurance has also seen strides this year through 81 deals.

San Francisco's Clover Health closed a \$500 million Series E round in January that was led by Greenoaks Capital Management and which also included Sequoia Capital, Spark Capital and First Round Capital.

Lerner said that L&H still has many avenues that are ripe for disruption in areas such as life insurance, annuities and retirement products.

"There just aren't enough entrepreneurs focused on that area," Lerner said. "Millennials in his or her 20s and 30s has exposure to auto insurance, they probably have renter's insurance or home insurance but they really haven't, on a personal level, bought a retirement product."

The opportunities in the service industry sector also continue to grow. IA Capital has made multiple investments in that space including a 2016 investment into Chicago-based Screenshot, which provides software to consumers to ease the hassle of submitting a claim, \$20 million Series C.

Screenshot most recently raised a \$29 million Series E round in May led by Tola Capital that also included F-Prime Capital, Nationwide Ventures and a re-up from IA Capital.

"There are some technologies where it just makes more sense for one or two companies to develop it," Lerner said, regarding services like Screenshot.


Plug and Play Ventures participated in the \$4.5 million funding round of New York-based Broker Buddha in Q3, which looks to automate insurance brokers' operations. The round was led by Vertex Ventures.

The early stages

While mega-funding rounds like Lemonade and Root dominate the industry news, they represent a minority of the overall activity. The majority of industry activity happens in the early stages.

Angel, pre-seed and seed rounds accounted for 41 percent of all deals within insurtech since 2012. Series A rounds have the next highest share at 23 percent.

“In the seed financing side, there are a lot of programs that are either run by corporates or aimed at small seed financings to a number of companies,” Matt Wong, a senior insurance analyst at CB Insights said. “We are seeing a lot of insurance tech deals categorized as a seed funding.”

 insurance. Matt Wong is a senior insurance analyst at CB Insights.

Wong

Insurance corporations are active participants in this market. IA Capital and Plug and Play Ventures both collaborate with corporations and invest alongside them.

“We work closely with them in order for us to figure out what are the key areas of interest, the pain points, and show them the latest solutions and products that are out there,” Gonzalez said of Plug and Play Venture’s 300 corporate partners.

IA Capital counts 13 insurance companies in its LP base, which helps them make more strategic investments and provide introductions that may be beneficial to startups, Lerner said.

Wong has noticed this, as well.

“The insurers are certainly looking to get more involved in creating the ecosystem around these large verticals within insurtech,” Wong said. “We are seeing some of that definitely at play.”

International market opportunities

Looking into 2020, Wong said that he wouldn't be surprised if the market began to consolidate sometime over the next few years. Gonzalez and Lerner see that as a possibility as well.

Even with consolidation already starting in some areas, Hippo Insurance gobbled up home maintenance platform Sheltr in November, there are multiple areas of the market that haven't been fully explored and geographies that are just getting started.

Gonzalez said that Plug and Play Ventures has made multiple investments in Latin America and finds Brazil is a particularly attractive market.

Wong added that the markets in China and Southeast Asia are becoming increasingly interesting opportunities.

Lebanon made its first investment in the market in over two years in Q2 and Tunisia and New Zealand both housed their first deals in the space in Q3.

“There have been deals in almost every region in the world,” Wong said. “More emerging markets like Latin America and Southeast Asia continue to grow.”

Share this:



ADVERTISEMENT

Copyright PEI Media
Not for publication, email or dissemination