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How will insurtech be impacted by COVID-19?

According to data from Willis Towers Watson, in 2019, total new worldwide funding commitments to the insurtech sector were $6.37 billion and predictions for 2020 suggested a similar level of interest for this year. The outbreak of the COVID-19 pandemic, however, has crippled capital markets, with the Dow Jones Industrial Average and the FTSE recently seeing their biggest one-day declines since 1987. The impact on the insurance and reinsurance industry is still to be determined, but health and travel insurance claims and event cancellations are expected to spike and life insurers will also be affected. COVID-19 will also have serious consequences in the insurtech world. We explore some of these below and consider options for insurtechs.

Challenges for insurtechs

Insurtechs are reliant on insurance companies both as a source of investment and, more importantly, as consumers for their products and services. Whereas at the start of 2020 insurance companies were looking to grow, innovate and lower performance ratios, the same companies, reeling from the impact of COVID-19, have shifted their focus to cash conservation, tackling staff shortages, stability and the question of pandemic coverage. In a time of consolidation and conservation, insurance companies are less likely to consider signing new contracts and are likely to reconsider the risk spread of their own investment portfolios. Insurtechs are left particularly exposed to this shift as many are start-ups, heavily reliant on external funding and a long way off from revenue generation. As the certainty of profitable scale-up diminishes, it is likely that investments from insurers, and indeed from banks, venture capitalists and other investors, will diminish too.

Insurtechs have traditionally relied on their physical presence in the marketplace, actively meeting with insurers, to promote their brands. The lockdown measures have brought this to an abrupt halt. In turbulent times, companies tend to rely on long-standing relationships and any capacity that may have been spent sourcing innovative offerings is likely to be diverted to crisis management, at least in the immediate term. Inter-insurtech collaboration to offer a more holistic solution could be a useful tool to combat this; by pooling resources and speaking with one voice, insurtechs are more likely to be visible in the marketplace.

Historically, there has always been a lag between market recovery and investment recovery; the investment short-falls that insurtechs face are likely to be longer than the duration of the pandemic itself. In addition, the current government relief schemes in place to support businesses let the majority of start-ups fall through the cracks. On 2 April, Insurtech UK signed an open letter to the Chancellor, alongside Coadec, Innovate Finance, TechUK, UK Tech Cluster, Tech Nation and Tech London Advocates, urging the government to provide additional support for start-ups. Insurtechs in financial difficulty, with significantly weakened negotiating positions, may be forced to offer their services at a reduced price, or indeed sell out cheaply, to the market's bigger players.

Opportunities for insurtechs

It is not all doom and gloom for insurtechs though; there may also be incredible opportunities. The past month has seen a complete shift to remote working in nearly all professions, including employees in the insurance industry. Lloyd's of London has been forced to depart from its fountain pen and stamp approach to underwriting. Underwriters and brokers were already able to process part or all of a trade electronically through platforms such as PPL, but they had previously been reluctant to depart from their traditional methods, arguing that the best way to underwrite large-scale specialist risk remained face to face. Sue Jakobek, managing director of PPL, said that, as of 30 March 2020, since the underwriting room closed, the number of users on the system had risen by 15% and 150 people a day were going online to learn how to use it. The forced departure from traditional methods will serve as a stress test as to whether remote underwriting using electronic exchanges can meet the demands of a complex transaction. If successful, brokers in particular face a big challenge in remaining relevant to the transaction. Similar stress tests are occurring across the insurance industry for all elements of the value chain. If insurtechs can survive the immediate-term funding challenges, the shift to digital ways of working puts them in a prime position to profit both in the shorter-term and going forward into the remodelled insurance landscape.

In the shorter-term, the bigger companies do not have the time to completely remodel their outdated legacy systems. At best, the bigger players have middleware, a tech layer that lets outside apps plug in via APIs. The incumbent insurers will look to the more digitally advanced insurtechs to develop or supply the necessary plug ins to keep them functioning, either by harnessing the technology of existing insurtech investments or by seeking out new products. In many cases, the lockdown is preventing insurers from supplying their traditional products or preventing them from supplying those products in the necessary timeframe. The traditional insurers tend to rely on outdated core systems based on mainframes siloed around products or stages of policy life. Often it would take traditional insurers months to price and assess the risk of a new product.

Insurtechs, with their remote loss assessment capabilities, have the ability to deliver a new product in considerably less time: in response to the COVID-19 pandemic, Slice Labs Inc., a Canadian-based insurtech, has launched 'Slice at Home', offering virtual hack-a-thons to help insurers solve problems or develop new products in 24 hours.

Looking to Asia, where the pandemic hit first, essential changes have been made allowing the digitisation of the industry. To limit the need for face-to-face interactions when selling insurance, Hong Kong's Insurance Authority has introduced temporary measures allowing insurers to sell various life and general insurance products remotely without requiring a wet signature or a detailed suitability analysis (the trade-off being longer 'cooling off' periods for customers). Asian insurtechs have recognised these signals of change and the industry is ripe with innovations. Shanghai-based CareVoice, for example, is working with insurers such as Generali to provide healthcare-related services to policyholders. It responded to COVID-19 by creating products that give users a guide to finding doctors to get tested.

The insurance industry's reaction to the crisis has been understandable but has left it open to criticism. Nearly half of the UK's major insurers have stopped selling travel insurance, products have been withdrawn and terms and conditions of existing policies have been changed to exclude cover for the pandemic. Now is the perfect time for insurtechs to differentiate themselves from the incumbents. Already, the most proactive insurtechs are offering schemes to foster good sentiment among their customers: in the health and life insurance sphere, Alan, a French insurtech, has launched a free service until the end of May offering day-to-day advice for citizens, identifying whether they're particularly at risk from the virus, providing access to remote GP services and offering access to the app Headspace in recognition of the mental health challenges that customers face; in the world of motor and home insurance, UK-based Veygo is offering 75% off its policies to key workers struggling to get into work due to the danger that public transport poses; and Zego, which covers drivers and riders in the gig economy, is offering 14 days free insurance to anyone self-isolating. By gauging customer sentiment and focusing on customer needs, insurtechs have the opportunity to develop a reputation that will attract both the disenchanted customers of the incumbent insurers and the emerging market of first-time customers to insurance who fear a second wave of the virus.

What should insurtechs do?

The first thought for any business during this pandemic is survival. Insurtechs who find themselves facing financial difficulty should review their existing debt documentation at the earliest possible opportunity to identify whether they are, or are likely to be in the near future, in breach of any covenants. For UK based insurtechs, they should also be

aware of the proposed relaxations to insolvency laws that the government have introduced in light of the pandemic, including the retrospective temporary suspension of laws surrounding wrongful trading, allowing company directors to trade without the threat of personal liability, and a temporary moratorium for businesses undergoing a rescue or restructuring process, during which period the business cannot be placed into administration by creditors and will be able to continue buying important supplies. For further information and support in these unprecedented times see the Freshfields coronavirus alert hub.

If insurtechs can survive the effects COVID-19 is having on the global economy then in the longer-term, whilst the bigger players try to catch up in digitising their systems, insurtechs are poised, with their nimbleness, technical infrastructure and direct sales approach, to take advantage of the emerging insurance landscape. In the case of Lloyd's, for example, if this stress test proves successful, the market of underwriting bespoke risk could be thrown open to innovation. Insurtechs should also foster the goodwill of their existing customers and look at ways to target the disillusioned customers of the incumbent insurers and the emerging market of first-time customers.

Although in the immediate term the insurtechs with the weakest balance sheets may be exposed, if they can actively seek opportunities and weather the storm long enough for insurers to recognise the need to adapt, the most reactive insurtechs look well-placed to capitalise on both the short-term opportunities that the outbreak has given rise to and the digitisation it is catalysing.

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