Insurtech Funding Roundup, Q3 2020

Digital Insurers Drive Another Strong Quarter Of Funding

by Jeffery Williams

November 4, 2020

Why Read This Report

Insurtechs bring innovation across the insurance value chain. Incumbents can't stand still as these nimble, digitally conscious startups disrupt insurance marketplaces or use capabilities that drive business efficiency. Forrester regularly reviews startup funding through its partnership with Venture Scanner to show you which insurtech startups are getting attention, where the money is going, and what to do next. Incumbents should use this series of reports to continuously monitor insurtech, understand where capital is flowing, and evaluate potential investment opportunities.

Key Takeaways

Funding Increased By 31% In Q3 2020
Insurtech funding continued to improve in Q3 2020, increasing 31% to $1.7 billion from $1.3 billion in Q2 2020 as investors and insurers continued to fund insurtech startups that digitize the customer journey and the insurance value chain.

Digital Insurers Obtained Nearly All Funding
Digital insurers received nearly 90% of all funding, with the bulk of funding going to health insurance startups. These companies simplify the insurance customer journey at a time when COVID-19 has elevated the convergence of health and digital solutions.

China Showed Strong Funding
Regionally, most insurtech funding goes to startups located in the US, a theme that continued in Q3 2020. However, China, the world's second largest insurance market, saw strong funding activity this quarter, which is noteworthy since activity in the region was muted during the first half of 2020.

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by Jeffery Williams
with David Hoffman, Oliwia Berdak, Piers Conway, and Kara Hartig
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Insurtech Funding Continued To Be Strong In Q3 2020

COVID-19 dampened trends early on in 2020, but resilient global equity markets helped drive interest in insurance innovation. Insurtech funding contracted about 40% in Q1 as COVID-19 set in but increased 36% in Q2 as investors and insurers adjusted to a changing normal. Funding continued to accelerate in Q3, increasing 31% to $1.7 billion from $1.3 billion in Q2 as investors and insurers primarily found value in late-stage digital insurance startups.[1]

It's Not The Start That Matters; It's The Finish

Although 2020 started off slow, it is on track to be the third highest year for insurtech funding since tracking began in 2010.[2] And this quarter had the second largest amount of funding in any third quarter since 2010 and represents the fifth largest quarter for funding overall (see Figure 1). We found that:

› **Investors focused heavily on mature startups.** Investments in late-stage companies fueled the bulk of insurtech funding as ~70% of investment in Q3 went to them. Early-stage startups constituted about 18% of funding, with the balance going to seed-stage startups. Historically, most insurtech funding has gone to early-stage investments. But as the magnitude of recovery in the global economy remains uncertain, investors continued the second quarter's trend of investing in late-stage startups with mature products and offerings.

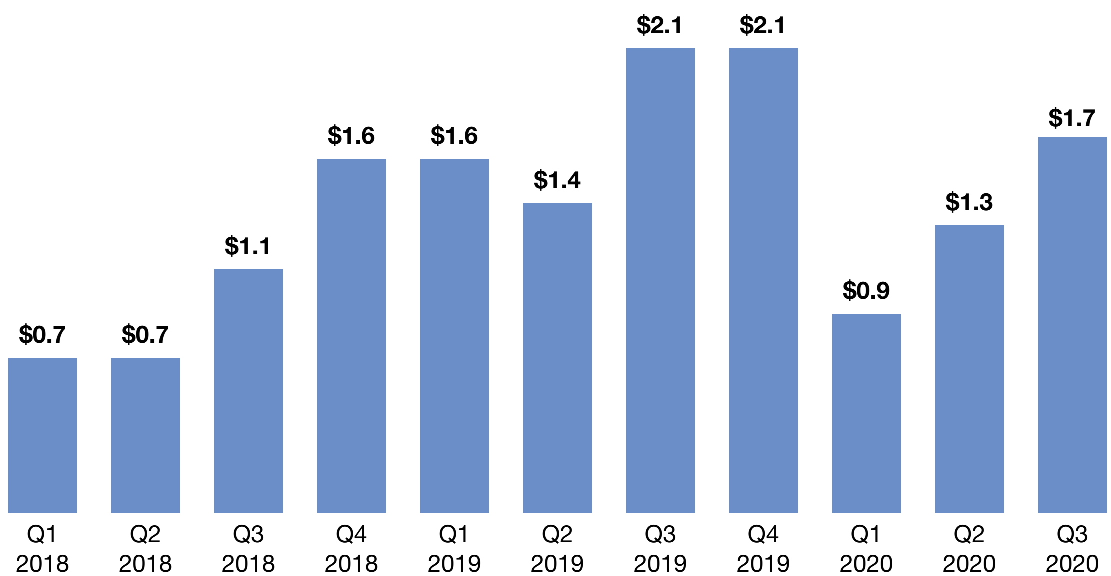
› **Digital insurers remained the drivers of funding.** Consistent with previous quarters, digital insurers like Bright Health (employer-offered insurance provider) were the primary recipients of insurtech capital during Q3, with about 90% of funding going to these startups.[3] Investor interests in these types of companies remained strong, particularly given the success of many recent fintech and insurtech IPOs.[4] Enablers of operational improvements like Eden Health (virtual primary care platform) and insurance comparison websites/marketplaces like PolicyBazaar (property, life, and health insurance) received roughly 10% of this quarter's funding.

› **Health insurance was the most popular category.** In Q2, venture capital investors channeled funding to auto-insurance-focused insurtechs. In contrast, Q3 saw digital health insurers such as Bright Health and Waterdrop (illness crowdfunding insurance) draw interest from investors. These companies simplify the health insurance customer journey at a time when a global pandemic has elevated the convergence of health and digital solutions. During the quarter, health insurtechs received roughly 51% of funding; enterprise/commercial insurers like Next Insurance (a digital small-business insurance agency) received ~16% of funding; and life, home, and P&C insurance startups such as Kin Insurance (digital homeowners insurance provider) received about 11% of funding.[5]

› **Investment in the US remained strong and activity picked up in China.** The US accounted for 51% of insurtech transactions and 68% of the funding during the period (see Figure 2). China, which has been notably absent for several quarters, accounted for 14% of overall funding, second only to the US. China, an emerging economy, is the world's second largest insurance market. With insurance penetration lower than the world average, the market there has the potential for strong premium growth. As a market developing in the digital age, it offers the potential for rapid digitization across both customer journeys and insurance value chains. We expect to see an increase in funding in China and other emerging countries even in a global economy with an uncertain path to recovery.[6]

FIGURE 1 Insurtech Funding, Q1 2018 To Q3 2020

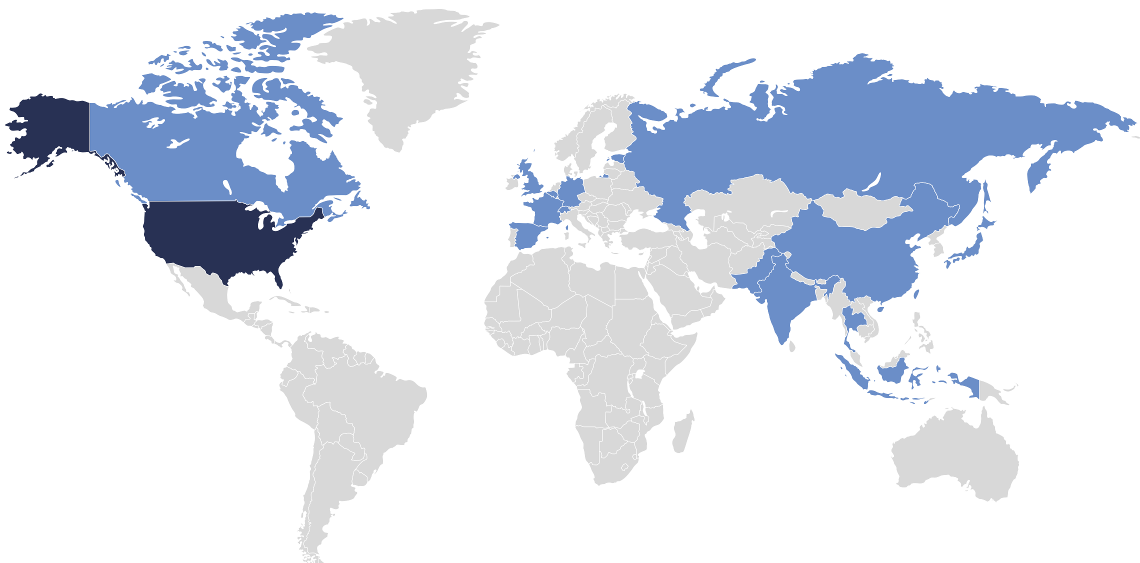
Insurtech funding has continued to benefit from COVID-19's effect on the digital mindset



Note: Numbers are US$ billions.
Source: Venture Scanner, accessed on October 1, 2020

FIGURE 2 Insurtech Funding By Country, Q3 2020

Most insurtech funding stemmed from investment activities in the US



Note: Darker-shaded countries indicate higher insurtech funding levels.
Source: Venture Scanner, accessed on October 1, 2020

Is Insurtech Disruptive Or Transformative? It's A Matter Of Perspective

Insurtechs are disruptive because digital insurers and agencies use mobility and emerging technology to digitize insurance marketing, selling, distribution, and servicing. But they're also transformative. As enablers of operational improvement, they give carriers a means to automate workflows and business processes or quickly build digital solutions and capabilities. During Q3, we found that (see Figure 3 and see Figure 4):

- **Interest in disruption is thriving.** Disruptors raised about 93% of funds during the period.[7] This trend won't reverse any time soon. Why? Insurtech disruptors offer investors and insurers a means to focus on drivers of change in the complex, slow-to-evolve insurance industry. And these change agents span a variety of lines of business and services. For example, commercial insurance startups like Layr Insurance, which raised $5 million during the period, aim to simplify the small-business insurance journey. Similarly, personal auto insurers like Buckle Insurance (ride-share insurance provider), which raised $31 million, offer solutions that appeal to the gig economy. Tech giants also are evaluating opportunities as illustrated by Amazon's investment in and partnership with Acko General Insurance to offer insurance in India. With more than 1,600 startups in existence, there is great interest in digitizing insurance.

- **The enablers of operational improvement were factors too.** Enablers that streamline business processes like Claimsforce (P&C claims technology vendor), Jupiter Intelligence (climate risk-evaluation vendor), and Verikai (data and analytics vendor) raised about $120 million. Although they don't get the funding that disruptors receive, enablers help insurers efficiently operate their businesses and improve their profitability. Today's challenging operating environment demands these much-needed benefits.

- **Digital insurance platforms garnered interest.** Insurance platforms provide carriers with end-to-end digital capabilities to quickly build digital-first solutions. During Q3, insurance platform provider Breathe Life raised about $8.7 million (series A) from several investors and insurers, including National Bank of Canada. National Bank of Canada's investment in Breathe Life highlights investor interest in not only funding but also working closely with insurtechs to speed the development of digital distribution capabilities across multiple insurance lines. In 2018, the bank's subsidiary, National Bank Insurance, partnered with Breathe Life to develop a direct online insurance distribution solution that the insurer used to quickly develop its digital life insurance capabilities.[8]

- **Acquisitions remain scarce in the early days of insurtech.** PayTm's QorQI, a firm that uses AI and big data to improve healthcare productivity, acquired Raheja QBE, a multiline digital insurer (see Figure 5).[9] Relative to the $39 billion fintech marketplace, the $7 billion insurtech market still has room for growth. In addition, insurance is a slow-moving industry, so it should come as no surprise that acquisitions will be limited. Some disruptors may be acquired, particularly those capital issues early in their lifecycles. But expect prominent startups like Hippo Insurance to remain independent. Nevertheless, insurtech is in its early stages in a challenging environment. We expect limited M&A activity in the quarters ahead.

FIGURE 3 Insurtech Firms With The Most Funding, Q3 2020

Company	Description	Amount (millions US$)	Investors
Bright Health	A digital insurer that provides individuals with personalized health insurance plans	$500	Bessemer Venture Partners, Blackstone Group, Greenspring Associates, New Enterprise Associates, T. Rowe Price, Tiger Global Management
Next Insurance	A digital insurer providing small businesses with fast coverage in areas like workers comp and commercial auto	$250	CapitalG, FinTLV Ventures, Munich Re Ventures
Waterdrop	A Chinese digital insurance platform aiming to help those with high medical fees, offering mutual insurance, commercial insurance, and crowdfunding	$230	IDG Capital, Swiss RE, Tencent Holdings, Wisdom Choice Global Fund
Hippo Insurance	A digital insurance provider of homeowners insurance	$150	Bond, Comcast Ventures, Dragoneer Investment Group, Felicis Ventures, Fifth Wall, FinTLV Ventures, Horizons Ventures, ICONIQ Capital, Innovius Capital, Lennar, Pipeline Capital, Propel Venture Partners, Ribbit Capital, RPM Ventures, Standard Industries, Zeev Ventures
Acko General Insurance	India-based mobile app providing auto insurance	$60	Amazon, Intact Ventures, Munich Re Ventures, RPS Ventures
PasarPolis	India-based B2B insurance platform provider for automated travel and ride insurance	$54	Alpha JWC Ventures, Go-Ventures, Intudo Ventures, LeapFrog Investments, SBI Investment, Xiaomi

FIGURE 3 Insurtech Firms With The Most Funding, Q3 2020 (Cont.)

Company	Description	Amount (millions US$)	Investors
PolicyBazaar	India-based online insurance aggregator, offering customers a marketplace to compare policies	$50	SoftBank Vision Fund
Extend	A solutions provider for product insurance	$40	N/A
Kin Insurance	A home insurance technology provider that offers affordable coverage to homeowners in disaster-prone areas	$35	Allegis NL Capital, Alpha Edison, August Capital, Avanta Ventures, Commerce Ventures, Flourish Ventures, Hudson Structured Capital Management, QED Investors, UChicago Startup Investment Program
Buckle	US-based company that provides ride-share insurance for Lyft drivers	$31	Eos Venture Partners, HSCM Bermuda

Source: Venture Scanner, accessed on October 1, 2020

FIGURE 4 Investments From Financial Institutions In Insurtech, Q3 2020

	Digital insurer	Digital agencies	Data and analytics	Digital insurance platforms
Aflac Corporate Ventures	Covr Financial			
American Family Ventures		Branch Financial		
Desjardins Venture Capital				Breathe Life
Liberty Mutual Insurance			Jupiter Intelligence	
Lloyd's Lab		Layr		
MassMutual Ventures			Ledger Investing	
MS&AD Insurance Group Holdings			Jupiter Intelligence	
Munich Re Ventures	Acko General Insurance, High Definition Vehicle Insurance, Next Insurance			
National Bank of Canada				Breathe Life
National Bank of Canada/ NAventures				Breathe Life
Phoenix Insurance			Bambi Dynamic	
Swiss RE	Waterdrop			
Travelers Insurance		Zensurance		

Source: Venture Scanner, accessed on October 1, 2020

FIGURE 5 Insurtech Acquisitions, Q3 2020

Category	Company	Acquirer
Multiline insurance provider	Raheja QBE	QorQl

Source: Venture Scanner, accessed on October 1, 2020

What It Means

Insurtechs Provide A Means For Digitalizing Customer Journeys

As the year progressed, investors and insurers increased their investments in insurtech in the new economic normal.[10] Investors see the upside potential in digitizing the customer journey. Insurers see the benefits in using insurtech to streamline their operations across the value chain. COVID-19, despite its disruption, has accelerated the pace of digital change. Customers have shifted to digital-first interactions, changing their engagement with insurers and brokers at least in the near term. Insurers should continue to monitor the insurtech marketplace to evaluate threats and opportunities. Looking ahead, expect:

1. **Insurtechs to continue to expand into new products and markets.** Although conditions have improved since the start of 2020, the global economy remains fragile. Demand for many insurance products continues to wane along with discretionary spending. With fewer customers in the marketplace, retention is a priority. Incumbents have the advantage of broad product suites and the ability to cross-sell products. But insurtechs are not sitting still. They understand the value of broad product scope. For example, Lemonade Insurance recently announced plans for geographic expansion. Metromile formed a partnership that offers innovative products and new paths to market.[11] Expect insurtechs to accelerate product and market growth strategies as we head into 2021.

2. **Insurers to continue to invest in insurtech.** Insurers recognize the value of innovation. In Q2, insurers invested in digital insurance agencies and AI solutions that allow them to give their customers the touchpoints and features they expect. In Q3, insurers invested in digital insurers, data and analytics, and insurance digital platform providers. Although investments in 2020 have been varied, one thing is clear — insurers are not sitting on the sidelines. Expect incumbent insurers to continue to invest in startups that advance digital transformation.

3. **Investors to favor mature startups.** The IPO market is strong, which is in part a result of the strong, albeit volatile, equity markets.[12] But it is also a realization that insurance customers, in the midst of a pandemic, need digital-first experiences. And late-stage insurtechs with their relatively

mature products, businesses processes, and pipeline can accelerate digital deployment. Following Lemonade's IPO success, other prominent insurtechs have announced plans to go public, such as Root Insurance and Hippo Insurance. Expect to see more such announcements in 2021.[13]

Endnotes

1 Forrester reported Q2 2020 insurtech funding of $1.2 billion in a previous report but adjusted that figure to $1.3 billion in this report to reflect Venture Scanner data revisions and Forrester analysis. See the Forrester report "Insurtech Funding RoundUp, Q2 2020."

2 Insurtech: insurance technology.

3 Forrester categorizes insurtech funding as 1) digital insurers; 2) comparison sites/marketplaces; and 3) enablers of operational improvements.

4 Fintech: financial technology.

Source: Luisa Beltran, "NCino Stock Rockets 150% After Fintech's IPO," Barron's, July 14, 2020 (https://www.barrons.com/articles/ncino-stock-rockets-150-after-fintechs-ipo-51594751287).

Source: Paul R. La Monica, “Lemonade, the online insurer, surges in Wall Street debut,” CNN Business, July 2, 2020 (https://www.cnn.com/2020/07/02/investing/lemonade-ipo/index.html).

[5] P&C: property and casualty.

Venture Scanner groups insurtechs into 14 categories: 1) auto insurance; 2) consumer insurance management platforms; 3) employee benefits platforms; 4) enterprise/commercial insurance; 5) health/travel insurance; 6) insurance comparison/marketplace; 7) insurance data/intelligence; 8) insurance education/resources; 9) insurance infrastructure/back end; 10) insurance user acquisition; 11) life, home, and P&C insurance; 12) peer-to-peer insurance; 13) product insurance; and 14) reinsurance.

[6] Fifteen countries received funding in Q3 2020. For more details, please schedule an inquiry with a Forrester analyst. Source: Daniel Staib, Caroline De Souza Rodrigues Cabral, Daniel Kubli, and Jürgen Dornigg, “sigma 4/2020: World insurance: riding out the 2020 pandemic storm,” Swiss Re Institute, July 9, 2020 (https://www.swissre.com/institute/research/sigma-research/sigma-2020-04.html).

[7] Forrester defines disruptors as digital insurers and comparison websites/marketplaces. Enablers are the enablers of operational improvement.

[8] Source: “National Bank partners with insurtech Breathe Life,” Investment Executive, December 14, 2018 (https://www.investmentexecutive.com/news/products/national-bank-partners-with-insurtech-breathe-life/).

[9] Source: “Paytm Invests in AI Based Healthcare Startup ‘QorQi,’” News18.com, April 7, 2017 (https://www.news18.com/news/tech/paytm-invests-in-ai-based-healthcare-startup-qorqi-1369437.html).

[10] US unemployment rate (seasonally adjusted) has declined from a 2020 high point in April 14.7% to 7.9% in September 2020. Source: “Unemployment rate,” Bureau of Labor Statistics (https://data.bls.gov/timeseries/LNS14000000).

[11] Source: “France is Next For Lemonade’s European Expansion,” Business Wire press release, September 15, 2020 (https://www.businesswire.com/news/home/20200915005266/en/France-is-Next-For-Lemonade%E2%80%99s-European-Expansion).

Source: Ari Levy, “Ford partners with Metromile for pay-per-mile insurance on new cars,” CNBC, September 3, 2020 (https://www.cnbc.com/2020/09/03/ford-metromile-partner-for-pay-per-mile-insurance-on-new-cars.html).

[12] Source: Sarah O’Brien, “Lots of IPOs are hitting the market this week. Why you should invest with caution,” CNBC, September 15, 2020 (https://www.cnbc.com/2020/09/15/lots-of-ipos-are-hitting-the-market-this-week-heres-why-you-should-.html).

[13] Source: Jessica Bursztynsky, “Lemonade reaches $3 billion market cap after shares soar more than 138% on its IPO day,” CNBC, July 2, 2020 (https://www.cnbc.com/2020/07/02/lemonade-lmnd-ipo-shares-more-than-double-in-public-debut.html).

Source: “On the go: Mobile-based auto insurer Root files for an estimated $800 million IPO,” Nasdaq, October 5, 2020 (https://www.nasdaq.com/articles/on-the-go%3A-mobile-based-auto-insurer-root-files-for-an-estimated-%24800-million-ipo-2020-10).

Source: Katie Roof and Katherine Chiglinsky, “Home Insurance Insurtech Hippo Raises $150M as It Readies for IPO in 2021,” Insurance Journal, July 21, 2020 (https://www.insurancejournal.com/news/national/2020/07/21/576352.htm).

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