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Investment Banking – FinTech Viewpoint

InsurTech: Not Your Grandfather's Business Anymore

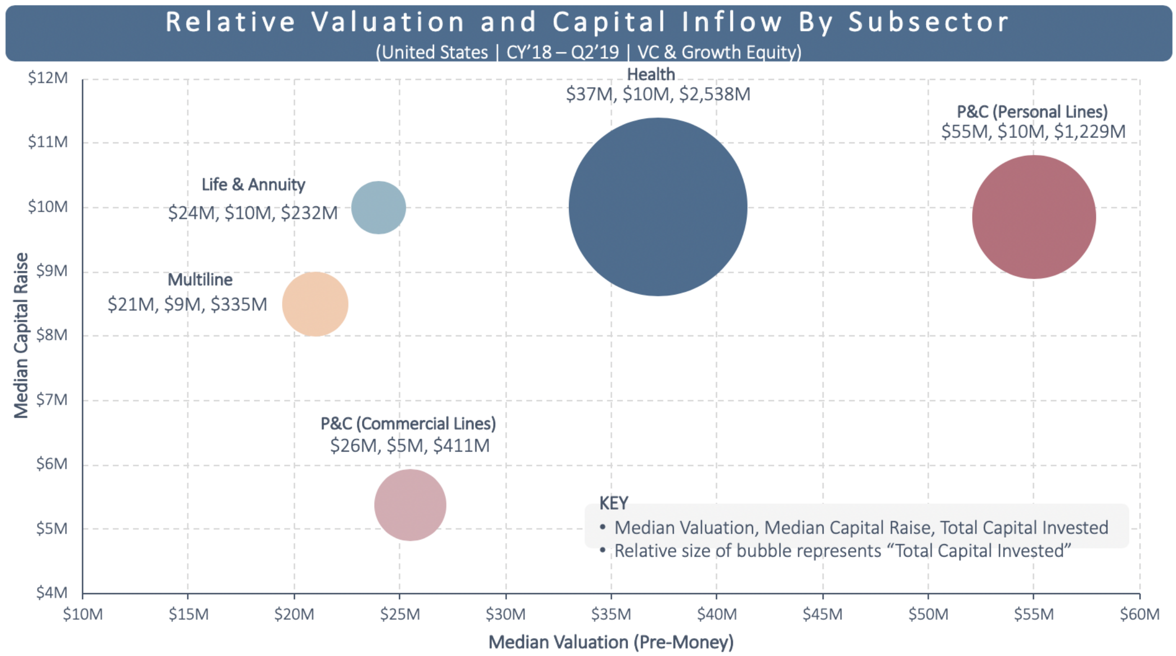
Acquisitions, Funding and Valuation Insights

While many FinTech sub-sectors, like Payments and Lending, are showing signs of maturity, including a gradual slowdown in new startup incubation, flat (and in some cases declining) funding and tepid M&A activity, InsurTech is bucking the trend. Year-to-date activity reveals record funding, growing median valuations, and frenetic M&A deal-making. Based on our research, domain knowledge, and discussions with InsurTechs and investors, here are six major insights we have discovered.

1. **InsurTech remains in a multi-year growth phase having attracted record amounts of capital since 2014**
    - Funding in 2019 could hit a projected $5B, having grown at a CAGR of 60% since 2014. There have been two clear inflection points in InsurTech funding in the last six years. From 2014 to 2015, funding experienced a 4x increase from $0.74B to $2.8B (partly driven by large Chinese deals). The next big step up was in 2017 when it jumped 76% from $2.5B in 2016 to $4.3B in 2017 (led by large funding rounds for **BIMA**, **Bright Health**, **Clover**, **Devoted Health**, **Ping An** and **PolicyBazar**.) In 2019, we remain on that secular growth path with full-year spending estimated to cross $5B, a record.
    - Unlike other FinTech verticals that show signs of slowing down, InsurTech remains on a growth path. One measure of the stage of growth is the level of Series A funding in a FinTech vertical over time. InsurTech Series A activity is still strong (comprising more than 50% of VC deal activity) while the number of new startups raising capital in most other sectors has leveled off or declining.
2. **Good news for InsurTech CEOs and their investors. The size of funding rounds and valuations have risen over 2018-1H'2019.**

- Median equity capital raised is growing over each funding round, with valuations increasing the most between Series B and C. The median Series A funding round is $11M which almost doubles to $21M for Series B, and a further 2.4x jump to $51M at Series C. This indicates confidence among investors to fund insurance startups at higher amounts as they validate business models and demonstrate growth. Median equity values mask some significant deals: $505M by **Cambridge Mobile Telematics, Clover Health's** $500M Series E and **Lemonade's** $300M Series D.

- Valuations always attract the most interest, both among entrepreneurs and investors. The bump up in median pre-money valuations is the highest for early-stage rounds (a 3x rise between Series A/B) with a 2.2x increase in the median valuation for post Series C rounds. The median pre-money valuation for later rounds of financing (all rounds beyond Series C) is a whopping $440M, with significant deals like **Collective Health's** $205M financing in Jun 2019 at a pre-money valuation of $335M and **Oscar Health's** $165M funding at a pre-money valuation of $3.2B.



	P&C (Personal Lines)	P&C (Commercial Lines)	Life & Annuity	Health	Multiline
Company Count	35	35	9	34	20
Deal Count	44	41	13	41	25

Note: **Life & Annuity** (Health IQ's Series D, E valuation figures excluded from analysis)
Source – RBLT analysis, Pitchbook, FactSet, CrunchBase, CB Insights, other industry sources

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3. Median pre-money valuations vary widely by subsector indicating big differences in investor appetite

- The median valuation for InsurTech in P&C (Personal Lines – primarily Auto, Home) is valued at $55M followed by Health, which is valued at $37M. P&C Commercial Lines, Multiline and Life insurance company valuations are much farther behind and fall within a narrow range ($26M, $24M, $21M respectively).

- There are several reasons why Personal Lines and Health are valued more than other subsectors. Being the earliest InsurTechs to be incubated, they are now at a later stage of growth (and hence higher valuations) than other business lines. One successful strategy among personal insurance startups has been using alternative data and sophisticated analytics to identify low-risk customers and entice them away from traditional insurers. Investors accord such businesses with a pool of low risk customers high valuations. Another reason why this category is highly valued is because of firms like **Cambridge Mobile Telematics** and **Root Insurance**, that use IoT devices to assess and price risk much better than traditional carriers.

4. **Like other FinTech verticals, B2C InsurTechs attract more funding than B2B (except Life insurance) while the trend is somewhat reverse in M&A**

   - Two consumer-facing sectors, Health (53%) and Personal Lines (26%) have attracted 80% of funding. Life, Commercial, and Multiline InsurTechs are still in nascent stages, attracting only 5-8% each of total InsurTech capital. One possible explanation why B2C models are attracting greater interest than B2B is that B2C firms (e.g. **Hippo, Root Insurance)** are able to scale up faster (albeit incurring significant Customer Acquisition Costs) than Commercial B2B lines (e.g. **Coverwallet**, **Slice**) that take longer to grow and mature. B2C firms have also been attracting more investor funds as they rebundle multiple financial services into a single offering. See our Viewpoint on the topic https://bit.ly/2MDuybF.
   - However, the trend is somewhat reverse in M&A. While consumer-facing InsurTechs attract more funding than enterprise-facing startups, B2B startups like **Solera** and **Multiplan** have attracted more interest than B2C when it comes to acquisitions. One reason is that B2B InsurTechs have had more reasonable valuations than B2C. Another factor is that acquirers are attracted to the sticky customer base of B2B firms.

5. **Strategic investors are playing a more significant role in InsurTech financing than in other FinTech verticals**

   - Strategic investors participated in over 50% of InsurTech financings in Q2 2019 (versus 35% in different verticals). Major investors have been MassMutual, MunichRe, and Transamerica Ventures. As InsurTech companies began to attract attention much later than other verticals like Lending and Payments, the insurance companies learned quickly from their banking brethren (the corporate venture arms of Goldman, JP Morgan, Citi etc.) that courting startups was a powerful way to discover new product and business-line ideas and protect their core business from obsolescence.
   - SoftBank has been the most aggressive InsurTech investor in 2019 with three significant cash injections: **Lemonade** ($300M), **Collective Health** ($205M), and India's **Policy Bazaar** ($152M). It stands out as an InsurTech investor due to the number of investments it has made, the global scale of its portfolio, and the sheer amount of money it invests.

6. **M&A acquirers are growing in number and variety including PEs, Strategics, Tech firms, and even Telcos**

   - InsurTech CEOs have a wide variety of 300+ potential acquirers to pitch their firms to including PEs, corporate VCs, carriers, and telcos. Since insurance touches many adjacent sectors (healthcare, wealth management, medical devices), several investors in these related areas are keen to acquire promising InsurTechs. One prominent deal was Carlyle Group's acquisition of **Sedgwick** in 2018 for $6.7B.
   - Carriers have become aggressive buyers of InsurTechs, with Allianz, AXA, and MunichRe being the most active. Unlike other FinTech verticals like Retail Banking where incumbents have created their own innovation arms and tried to replicate what smart startups are doing, the carrier's playbook has been to invest in InsurTechs to learn new ideas and drive innovation inhouse. Two

recent deals have been Allianz X's (investment arm of Allianz) acquisition of **Finanzen.de**, an insurance online comparison platform, and Willis Towers Watson's acquisition of **TRANZACT** for $1.4B.

We welcome you to engage with us, share ideas, and battle wits about the fascinating developments in InsurTech. We look forward to hearing from you, especially to discuss your strategic advice, M&A, or funding needs.

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