Top Trends in Insurtechs for 2025

Kimberly Harris-Ferrante, Distinguished VP Analyst

15 March 2021
Top Trends in Insurtechs for 2025

Published 15 March 2021 - ID G00736127 - 17 min read
By Analysts Kimberly Harris-Ferrante

Initiatives: Financial Services Digital Business Strategy and Innovation

Insurtechs — both challenger insurers and emerging solution providers — will continue to gain traction and reshape the insurance industry through 2025. This research will analyze the top three trends for 2025, providing insurance CIOs advice on actions they should take now to prepare for this future.

Overview

Opportunities

- Much of the capital to fuel insurtechs is coming from outside the industry — from new entities that have a vision for insurance different from those of the traditional incumbents. This will spark more innovation as new ideas are infused into the traditional industry.

- The accelerated growth of challenger insurers will expose consumers to new products and customer experiences, forcing incumbent insurers to amplify and adjust their customer experience (CX) to offer stronger digital and real-time capabilities and new products and services.

- Over time, insurtechs will likely lose their disruptive appeal as they scale and operate more in traditional markets. This may be an opportunity for incumbents to acquire technology, talent, or products and services that they are lacking.

Recommendations

Insurance CIOs focused on financial services digital business strategy and innovation:

- Create diversity in your organization by supplementing traditional insurance talent with individuals from other industries. This talent can challenge the status quo and provide input on new processes, products and business models for the future.

- Build a team to examine existing CX approaches, comparing them with industry best practices and those from challenger insurers. Document gaps in user experience, including processing time, user interface, sales and service process workflow, complexity of navigation, and content robustness.

- Improve the digital culture by engaging with digital leaders to identify best practices from inside and outside the industry. This will help to build more risk acceptance, drive employee change, and engage with distributors around new digital models and opportunities.
What You Need to Know

The topic of insurtechs has become one of the top interests among P&C and life insurers in the past few years. Gartner expects this interest to continue through 2025, as more insurtechs emerge, greater investments are made in their development, and the impacts of insurtechs on the industry at large become more clear.

Gartner defines “insurtechs” as a coinage or abbreviation for insurance technology providers that:

- Are in their early stages of operation.
- Drive specific innovation across the insurance value chain by leveraging new technologies, user interfaces, business processes or business models.
- Leverage different forms of funding, including venture capital. They can be insurance companies, which create products and services and do the underwriting, which are also called “challenger insurers.” They can also be managing general agents (MGAs) or solution providers.

The topic of insurtechs has been around for almost 10 years (see Innovation Insight for Technology Startups in the Insurance Industry). It is not an emerging topic — many companies in this market segment are reaching maturity, and some are disappearing due to a merger and acquisition (M&A) or insolvency. However, each year, more new entrants come into the market, often with stronger value propositions, funding and vision.

As a result, this market is very important today. Insurtechs are shaping the future of the P&C and life insurance industry in the long term, and funding continues to grow — for example:

- Global insurtech market revenue was valued at $5.48 billion in 2019 and is expected to reach $10 billion to $14 billion by 2025, growing at a compound annual growth rate (CAGR) of 10.8% between 2019 and 2025. This is according to Research and Markets’ “Global Insurtech Market — Growth, Trends, and Forecast (2020-2025).”
- Funding for insurtechs in 2020 reached an all-time high, according to Willis Towers Watson’s estimate. It estimates that 2020 funding reached $7.1 billion, with 377 deals inked and a 12% increase in funding over 2019.
- There was a dip in investment during the pandemic. However, projections for 2H20 remain high, and the industry is rebounding.
Insurance CIOs must analyze the long-term impacts of insurtechs on their market, taking into consideration enterprises that are eyeing insurance and bringing in new companies and capital, such as Silicon Valley companies, digital dragons, venture capitalists and other industries.

To help CIOs determine the future of insurtechs, Gartner has assessed the impacts that insurtechs have made on the insurance industry, to date, and how those trends will play out in the long term. Each trend was assessed based on the impact on the industry at large and the response needed by incumbent insurers. For this research, we evaluated both end-user providers (or challenger insurers) and technology and solution providers. Many trends were assessed to determine the most important ones that will have a long-standing influence on the industry and incumbent insurers.

Three distinct trends will have the most significant impact on incumbents for 2025 and need immediate attention by insurance CIOs (see Figure 1).

**Figure 1. Top Trends in Insurtechs for 2025**

<table>
<thead>
<tr>
<th>New Entrants Break the Old Model</th>
<th>Digitally Enabled CX Is a Success Factor</th>
<th>Threats Stabilize Over Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New views on products, processes and business models</td>
<td>• Speed, integration and customer alignment</td>
<td>• Building scale leads to failure</td>
</tr>
<tr>
<td>• Diverse approaches</td>
<td>• Product innovation</td>
<td>• Acquisition potential</td>
</tr>
<tr>
<td>• Faster business model innovation</td>
<td>• Digital-first approaches</td>
<td></td>
</tr>
</tbody>
</table>

Many other factors should be assessed as well, such as labor and human resources (see **Predicts 2021: The Insurance ‘New Normal’ Requires New Approaches to Talent**). Insurers that fail to prepare for these three megaimpacts will risk failure in the digital market of 2025, as they will be unable to keep up with consumer demands, competition or market pressures. Insurance CIOs must prepare for this future now by being more aggressive than ever to fill the gaps with CX, speed up their transformation journeys and take a new stance on products.
Trend 1: Investments From Outside the Industry Will Infuse New Ideas Into a Traditional Industry

Analysis by Kimberly Harris-Ferrante

Description
The insurtech phenomena will infuse the traditional insurance industry with new capital that will help accelerate transformation. And it will bring in new ideas from individuals and companies that want to change or fix the old, traditional industry. As investments continue from outside — including entrepreneurs, digital giants and dragons, and other innovators from other industries — the result will be greater diversity in thinking about insurance products, processes and business models.

Why Trending
Insurtech investments continue to be high and rising, but where is this investment coming from? There is investment from inside, such as from incumbent insurers. However, a lot of the investment, including the people who are starting these insurtechs, are from outside, many wanting to fix the problems innate to the industry or build new value propositions that incumbent insurers cannot do. This means bringing in new ways of thinking across the entire value chain.

This is already felt, to some degree, within the industry. For example, an IBM study found that 57% of the global insurance executives surveyed say that insurtechs are already driving innovation across the insurance industry. And 81% of outperforming insurance businesses surveyed have either invested in or are already working with insurtech businesses. This is just the beginning, however. These new entrants often break the rules of how things are traditionally done, which is both exciting and scary for existing companies.

New concepts are being introduced continually from these emerging players. Insurtech solution providers offer a variety of new solutions targeted at answering new and many digital business processes that plague the traditional industry. Often, they solve these problems with emerging technologies (such as AI) or through new types of technical options (such as cloud-enabled or no-code or low-code solutions), which will accelerate digital maturity among their users. Challenger insurers will also offer new value propositions to the market in the form of usage-based or niche products (in some cases). In addition, challenger insurers will offer completely digital experiences (from sales to service or claims handling) to automate and enable new consumer value, such as no-touch claims processing.

Implications
While digital investments are on the rise in insurance, they are insufficient to respond to this trend. The 2021 Gartner CIO Survey found:
- Fifty-eight percent of insurance respondents reported that the pandemic has sparked a small or significant increase in funding of digital innovation. This will continue through 2025 as the pandemic recedes and as the impact of insurtechs is felt more by the industry.
- Sixty-four percent of insurance CIOs reported that they are expecting a more strategic than tactical focus on IT investments in 2021.
But is this enough? No. Faster, more radical innovation is welcome in this old and traditional industry. Many times, large insurers, while thinking they are being innovative, are evolving only slightly. They are often optimizing processes, rather than undertaking large-scale business innovation. New thinking is needed to understand the needs of the Generations X and Y customer base and radically change products, as well as internal processes, such as underwriting and claims.

These insurtechs have fewer barriers, such as culture change or organizational limitations, making them faster to seize new market demands or go to market. Incumbents without agility or IT flexibility will find it difficult to respond to these companies, making them look further outdated or nimble to investors, the market, partners and distributors. This will be detrimental.

This effort is likely to be led by people outside of insurance or new to the industry who bring in new points of view. Companies will need to take more risks and put aside a risk-averse culture to try out new products, revenue streams, partnerships and technologies.

Incumbents will need to fuse new talent into their organizations. This can be done by acquiring insurtechs — for example, Bold Penguin’s acquisition by American Family Insurance. Or this can be done through hiring new skill sets from outside the insurance industry — for example, MetLife hired its new CIO from Foot Locker.

Diversity is the key to confronting this problem — broadening the HR strategy to increasingly bring in new skills that will accelerate digital and align with emerging digital market demands that are nontraditional to the insurance industry. Insurers should also work more strongly with their venture capital and insurtech partners, as well as actively engage with incubators that are growing this talent. Being on the front line for both talent and technology innovation will be a characteristic of the winners for the long term in the digital insurance market.

**Actions**

- Seek to build diversity in your organization by supplementing traditional insurance talent with individuals from other industries. This talent can challenge the status quo and provide input on new processes, products and business models for the future.
- Review your digital roadmap with an outside-in perspective, taking into consideration trends in adjacent industries that could shape CX, product needs or market dimensions.
- Conduct regular reviews of insurtechs to identify those that are more radically challenging the industry. These provide competitive intelligence for strategy review and development.

**Further Reading**

*Enable Digital Platforms to Unleash the Potential of Digital Ecosystems*

*Insurance CIOs — Use This Framework to Determine How Best to Engage With ‘Digital Dragons’*
Trend 2: The Gap Will Widen Between the CX Offered by Challenger Insurers and That Offered by Incumbents

Analysis by Kimberly Harris-Ferrante

Description

Challenger insurers often offer customers a radically new experience that often consists of strong direct-to-consumer capabilities, real-time sales and customer service, and personalized products and services. They are often digital-led with modern CX strategies and digital channels, coming from best practices in other industries and not based on industry traditions. They may offer no-touch processing, chatbots and other AI-based technologies, are more customer-centric, and have individualized pricing models or personalized products (such as usage-based or dynamic pricing). For more information, see Best Practices From Challenger Startup Insurance Companies: What You Can Learn From Insurtechs.

Why Trending

In a survey conducted at the 2019 Gartner U.S. and European Symposium conferences, 61% of respondents indicated that their top concern regarding insurtechs was changing consumer expectations. Industry trends are pushing customers more and more to digital channels. As more consumers engage with challenger insurers or digital MGAs, their expectations about insurance will drastically change, raising the bar for incumbent insurers.

In addition, digital use among consumers rose in 2020 due to the pandemic. The 2021 Gartner CIO Survey found that 87% of insurance CIOs reported an increase in the use of digital channels to reach customers during that time. Many CIOs expect more changes in 2021, including greater use of self-service, more new product and service innovation, and changes in customer engagement.

This is just the beginning, however. To keep up with rapidly shifting customer needs, CIOs must be more aggressive in building digital-enabled, omnichannel and customer-aligned CX. This includes real-time and sophisticated digital experiences (unlike traditional companies), as well as new product lines that match customer needs, such as on-demand, short-term, personalized and usage-based products. There are many examples across the globe of these companies challenging old insurance CX, such as:

- Lemonade has streamlined the claims experience, using a combination of AI and chatbots and processing renters’ claims in seconds.
- Ethos issues life insurance policies in minutes.
- Hippo claims that you can get a home quote in 60 seconds.
- Telematics-based auto insurance companies like Metromile and Root offer usage-based insurance, more personalized to individuals’ driving risk than mass insurance policies in a totally digital-native platform.
- Fabric offers value-added services aimed at its unique target market.
Overall, Gartner research has found that incumbent insurers do not fear that insurtechs will challenge market position or revenue, but that they will create customer expectations that traditional insurers cannot live up to. Associated changes in consumer behavior are accelerating digital channel use and new product needs (such as pay-as-you-drive policies to reduce auto insurance costs).

Implications
This is critical, given that Gartner has found that most incumbent insurers have insufficient CX strategies in place. For years, they have talked about being customer-centric, but failed to invest in this area to build out fully integrated omnichannel platforms or offer the interactions required to meet all customer segment needs. Action is needed now — and fast.

While most challenger insurers offer niche products, they still pose an imminent threat to the industry, as consumers engage with them or see these models, which make traditional insurers look outdated. There is a high risk if incumbents do not evolve their customer approaches. They may face reduced Net Promoter Scores, higher churn and reduced sales, as consumers are increasingly attracted to more digitally sophisticated companies. Incumbent insurers must improve CX immediately.

Actions
- Build a team to examine existing CX approaches, comparing it with industry best practices and those from challenger insurers. Document gaps in user experience, including processing time, user interface, sales and service process workflow, complexity of navigation, and content robustness.
- Complete the Gartner CX Maturity Model to identify your existing maturity, and map out needs for the next five years (see The Gartner CX Management Maturity Model for CX Leaders).

Further Reading
Insurers Must Implement Dynamic Customer Engagement to Solve the Customer Experience Dilemma

Toolkit: The Gartner Customer Experience Management Maturity Model

3 Steps to Craft an Impactful Customer Experience Strategy
Trend 3: Threats Will Stabilize Over Time as Challenger Insurers Strive for Scale

Analysis by Kimberly Harris-Ferrante

Description

Insurtechs and challenger insurers are as disruptive as new startups. Eventually, they will become less disruptive, as they are forced to act more like an insurer, including adopting traditional processes and using traditional tech to scale. They were created to be very different (often working to not be a traditional insurance company). But to achieve scale and growth, they will have to adopt more-traditional practices to comply with regulations, support large-scale and complex transaction processing, and respond to mass-market needs.

Why Trending

The things that make insurtechs and challenger insurers “cool” will dissolve over time, as they are possibly acquired by an incumbent, or try to expand into new regions and products, and as they scale their businesses. For example, moving from niche products to more mass-market products will mean moving into more-regulated markets, which will drive up operational costs and limit innovation.

Also, they will need technologies such as packaged commercial off-the-shelf (COTS) software to obtain scale as they enter new global markets or products — for example:

- Homegrown systems will likely have difficulty supporting business growth in the long term.
- Over time, they will obtain more data and need to build more rigor in analytics, data science and actuarial science, and likely will need to seek insurance talent to assist in this growth.
- They are likely to enter more-mainstream markets that are generally more regulated and more complex — for example, Lemonade is entering the home insurance market. This move will require more-strenuous compliance with regulations and drive more-conservative business practices versus those that are more risky in less-regulated niche markets.
- They are likely to seek new revenue sources outside of insurance, such as technology sales. For example, both Metromile and Zoom Insurance now sell their technology platforms to other insurers.
- As insurtechs grow, they will need to hire more people — likely shifting focus to industry veterans and those with industry experience in areas like underwriting, compliance, products or claims.

The things that made insurtechs unique in the insurance market will dissipate over time, as they look to expand. This will make them look and operate more like a traditional insurance company or force them to remain a niche provider.

Implications

Not all insurtechs will survive the growth process. In 2017, Gartner projected that most insurtechs would fail (see Why Most Insurtechs Will Fail and How Insurance CIOs Can Take Advantage of That). While this hasn’t necessarily happened across the industry, many have not weathered the storm. Although most people hear the stories of the winners, such as Lemonade (which went public with a successful IPO), many insurtechs have disappeared from the radar. Some sources cite up to 20% that have become inactive or closed down. 7
Here are some examples:

- GoBear in Asia/Pacific has closed.
- Kinsu and Coverly for small businesses have stopped issuing new policies.

More companies may fail — or be acquired, as predicted by Predicts 2021: The Insurance ‘New Normal’ Requires New Approaches to Talent. Many insurtechs will be unable to support growth or sustain their business models over time, creating financial and operational hardships. The few successful ones will continue to grow, expanding their footprints and business models over time and others will remain niche.

While few insurtechs will reach scale, those that do will be well-positioned in the digital marketplace. Competitors will likely acquire these companies, too, making them a bigger threat as they incorporate digital talent, products and technologies into their existing companies. Their skills will scatter across the industry, sharing their insights and innovations to others.

Actions

- Update digital strategies to respond to insurtech trends by reviewing digital roadmaps, highlighting areas where digital is lacking around straight-through processing (STP) and CX. Build out a timeline to fill those gaps immediately.
- Improve the digital culture by engaging with digital leaders to identify best practices from inside and outside the industry. This will help to build more risk acceptance, drive employee change, and engage with distributors around new digital models and opportunities.
- Accelerate digital timelines by identifying risks where transformation is too slow to respond to industry and competitive changes. Readjust timing to respond faster to areas where insurtechs are disrupting the industry.

Further Reading

How Insurance CIOs Can Hack Culture and Lead Organizational Change

Case Study: Insurance API-Driven Digital Ecosystem Transformation (Wakam)

Defining ‘Digital Insurance’ — Still a Buzzword, but Evolving Through Technological and Market Advancements

Evidence


2. Friend or Foe? Insurtechs and the Global Insurance Industry, IBM.
3 The 2021 Gartner CIO Survey was conducted online from 14 July 2020 through 14 August 2020 among Gartner Executive Programs members and other CIOs. Qualified respondents were each the most senior IT leader (CIO) for their overall organization or a part of their organization (for example, a business unit or region). The total sample was 1,877, with representation from all geographies and industry sectors (public and private), including 82 from the insurance industry. The survey was developed collaboratively by a team of Gartner analysts, and was reviewed, tested and administered by Gartner's Research Data and Analytics team. Disclaimer: Results do not represent “global” findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.


5 MetLife Hires Foot Locker’s Pawan Verma as Next CIO, CIO Dive.

6 2019 Gartner Symposium Survey — This study was conducted from October through November 2019, with a sample of 38 insurance attendees at the Gartner Orlando and Barcelona Symposium conferences.

7 Dearly Departed InsurTechs: Expect Their Numbers to Rise, Carrier Management.

**Recommended by the Author**

Best Practices From Challenger Startup Insurance Companies: What You Can Learn From Insurtechs

Infographic: How Financial Services Companies Invest in Startups

How to Evaluate the Viability and Level of Disruption of Financial Services Startups
Follow digital business transformation best practices to deliver financial results.

The IT Roadmap for Digital Business Transformation

About Gartner

Gartner, Inc. is the world’s leading research and advisory company and a member of the S&P 500. We equip business leaders with indispensable insights, advice and tools to achieve their mission-critical priorities today and build the successful organizations of tomorrow. Our unmatched combination of expert-led, practitioner-sourced and data-driven research steers clients toward the right decisions on the issues that matter most. We are a trusted advisor and an objective resource for more than 14,000 enterprises in more than 100 countries — across all major functions, in every industry and enterprise size.

To learn more about how we help decision makers fuel the future of business, visit gartner.com.