

INSURANCE 2025 PREDICTIONS

Insurers and InsurTechs together can create a better scenario



InsurTechs are gaining traction in marketing, distribution and claims, however for start-ups pioneering adoption of technology, profitability remains elusive. **HSBC Global Insurance's Mr Swapan Khanna** says the two need to develop a symbiotic relationship.

More than \$50bn has been invested in InsurTech start-ups over the past decade. These start-ups are launching new ventures at an accelerated pace, driven by the convergence of technologies including cloud, mobile, digital payment, IoT and Gen AI.

This level of investment stems from the substantial opportunity to digitalise the insurance industry and the drive of ambitious entrepreneurs to create value in this \$6tn industry. According to McKinsey, there are 3,000 InsurTech start-ups globally, and whilst the first cohort sought to disrupt the industry, the second wave has shifted their approach toward collaboration, and a focus on B2B solutions catering to incumbents.

There are several reasons for this shift:

- The sobering realisation that insurance is challenging to disrupt given high barriers of entry, including regulatory and balance sheet requirements.
- The D2C model pursued by the first cohort comes with high acquisition costs and the renewed focus on path to profitability by VC investors has made this a less attractive option.
- The interest rate hike cycle and the recent fundraising winter have broadly shut the doors to funding for several unprofitable start-ups, InsurTechs included.

Way ahead

In 2024 the InsurTech 1.0 disruption hypothesis has materialised only partially. InsurTechs are gaining good traction in marketing, distribution, and claims but profitability remains mostly elusive, and full stack InsurTechs are only a handful globally. Nonetheless, these start-ups

have been innovation torchbearers for an industry that has historically been slow to adopt emerging technologies and have provided a wake-up call for incumbents.

Several incumbents have raised their innovation game and are actively pushing to embed emerging technologies to transform their business and create value for their customers, in some cases in partnership with InsurTechs.

In 2025, these partnerships with InsurTechs can unlock the following benefits for incumbents:

- Access to unique technological capabilities and expertise, hard to develop in-house.
- Faster speed to market, enabling insurers to deliver customer benefits much quicker.
- Larger cost benefits relative to the costs of internal research and development.

Collaboration

Generally, partnerships provide a good balance in terms of speed to deliver business benefits, the capital needed to implement them, and the level of integration required to build them when compared to other innovation options such as M&A, venture capital and in-house development.

These collaborations will enable start-ups to secure scale and

distribution while incumbents gain innovation and tech know-how. Building win-win partnerships requires strong alignment between insurers and InsurTechs and the right organisational conditions for the alliance to flourish.

In 2025, insurers will need to increase their appetite for experimentation and adoption of new emerging technologies. This would ensure greater clarity about how proposed solutions could solve problems and deliver expected customer outcomes. It would also reduce the friction that comes with onboarding and procurement requirements, which could be burdensome for start-ups with limited resources and capital.

On the other hand, moving ahead InsurTechs will have to be commercially focused and cultivate a deeper understanding of business challenges insurers face. It's not unusual to see InsurTech founders with technology chasing problems.

Overall, in 2025 we expect partnerships between insurers and InsurTechs to provide a viable pathway for these organisations to leverage their respective strengths and know-how to drive digitalisation and rapid adoption of technology by the insurance industry. 

Mr Swapan Khanna is the head of strategy with HSBC Global Insurance.

