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PErspective in INSURANCE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE INSURANCE INDUSTRY

The financial technology – or fintech – sector has seen a massive spike in investor interest in recent years. According to *TechCrunch*, global investments hit $3 billion last year, and activity is only intensifying.

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The proliferation of fintech incubators and accelerators, combined with efforts among local governments worldwide to brand their city a fintech hub, is helping the sector attract increasing investment. While mobile payments and peer-to-peer lending are the most often-cited examples of the technology platforms disrupting the world of finance, there is growing interest in the potential of tech startups to revolutionize the insurance industry.

With fax and email remaining the sector's primary methods of communication, *TechCrunch* describes the insurance industry as "begging for disruption." The heavily regulated industry is not known for technological innovation, but a slew of new companies are looking to change that. Startups providing policy comparison engines, tech-enabled health coverage and insurance tools for on-demand workers are promising to bring the industry into the mobile era. Mainstream technology companies, such as Google, are also catalyzing industry innovation. In early August, *Re/code* reported that Google launched an auto insurance comparison tool to allow customers to search and compare policy options, as well as make and read customer reviews. With consumer demographics changing the way insurance companies sell their products, the pressure is on to find increasingly user-friendly, intuitive technology solutions to keep up with evolving customer expectations.

Investor interest in the insurance technology space is growing in tandem with the evolution of the sector, according to VC activity-focused data and analytics firm CB Insights. The firm reports that, since 2010, insurance tech companies have raised $2.12 billion, with $1.39 billion being raised since early 2014. 2015 has already shaped up to be the biggest year on record for insurance tech investment, thanks in part to HR platform Zenefits' $500 million fundraise in May.

So far, the majority of companies raising funds over the past five years have been in the field of health insurance, spurred by the Affordable Care Act. Health tech companies such as Oscar, Gravie and Stride Health have all seen significant fundraising rounds since the start of 2014. Beyond the health sector, the auto insurance, insured storage and crop insurance segments have also seen successful fundraises in recent years, reports CB Insights.

Overall, deal-making in the insurance tech sector is expected to rise as a result of the growth in PE and VC interest, although the sector may need to mature a little before consolidation truly accelerates, reports *eFinancial News*. As larger incumbent insurers look to make strategic acquisitions in the coming years to help bolster their digital offerings, VC and PE firms that have made investments in promising fintech companies are looking at a variety of attractive exit options, from sales to IPOs, in the years to come.

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