German InsurTech is revolutionizing insurance channels

Aki Ono

25 August 2023

lakyara vol.375

Nomura Research Institute, Ltd.

Executive Summary

German InsurTech is garnering growing interest. Historically conservative in terms of innovation, the German insurance industry now appears to be getting serious about revamping its distribution channels, utilizing InsurTech to collaborate better with agencies, brokers and other partners.

Aki Ono

Expert Consultant

Financial Market & Digital Business Research Department

NOTE

1) InsurTech aims to improve insurers' operating efficiency and profitability and make their services more convenient by leveraging technologies such as AI and IoT.

2) InsurLab Germany, *Ten Years of InsurTech in Germany* (January 24, 2023)

3) CNBC, *JPMorgan and Barclays back $4.5 billion insurance tech giant Wefox* (May 17, 2023)

4) German financial regulator BaFin treats InsurTech companies the same as insurers for regulatory purposes.

5) As of 2021, captive agencies account for 46% of auto insurance sales, 43% of P&C insurance sales and 38.5% of life insurance sales. (Source: GDV, *Digitalisation and new distribution models* (March 9, 2023))

InsurTech's growth in Germany

German InsurTech[1] is on a torrid growth trajectory. Over the four years through 2022, German InsurTech startups raised a cumulative €1.86bn[2], more than their French and UK counterparts. Berlin-based Wefox is Europe's biggest InsurTech startup with an implied valuation of $4.5bn based on its latest funding round[3]. Germany has some 120 InsurTech startups. The UK has twice as many, more than any other European country. The difference in InsurTech populations between the two countries reflects that InsurTech is regulated more stringently in Germany[4].

Challenges facing the German insurance industry

Germany's main insurance distribution channels are captive agencies[5] and independent brokers. The former account for over 40% of aggregate premium revenues; the latter for roughly 30%. Both percentages have remained essentially unchanged over the past five years. German consumers reportedly do not usually switch from one insurer or agency to another. Their inertia has disincentivized German insurers from innovating.

In recent years, however, German insurers have started to proactively collaborate with InsurTech startups in response to a changing insurance industry environment. One factor driving such collaboration is doubts about the sustainability of insurers' existing channels. The EU's 2016 Insurance Distribution Directive (IDD) requires intermediaries involved in insurance sales to make detailed disclosures about their compensation and insurance products with investment attributes. The IDD also imposed a 15-hour-per-year continuing education requirement. The resultant increase in workload has led to attrition among insurance agencies. Meanwhile, societal aging is posing management succession challenges for agencies and brokerages.

©2023 Nomura Research Institute, Ltd. All Rights Reserved.

Another factor behind German insurers' recent InsurTech collaborations is growth in IT costs. German insurers typically foot the bill for IT systems used by agencies. They collectively spend €4.5bn annually on IT. Meanwhile, their IT system maintenance costs are being driven up by growing cybersecurity risks.

Faced with such challenges, German insurers are partnering with companies in other industries to revamp their high-touch sales channels and strengthen direct-sales channels. Their InsurTech collaborations are one facet of such initiatives. Some German insurers have even teamed up with each other to establish InsurTech joint ventures.

Growth in B2B InsurTech

Many German InsurTech startups founded in the 2010s had B2C business models that posed a competitive threat to incumbent insurers. In recent years, by contrast, a growing number of B2B InsurTech startups are identifying pain points in major incumbent insurers' business models and working together with the incumbents on their sales channels or internal processes. Some 70% of German InsurTech companies are involved in improving channel efficiency, reflecting a recognition that maintaining existing channels' IT systems is inefficient. Such inefficiency is endemic to the Japanese insurance industry also.

Wefox as a third-party distribution platform

Wefox, founded in 2014, has both B2B and B2C businesses. It has recently been prioritizing its B2B platform businesses[6)], most notably a third-party distribution platform that connects insurers, agencies and brokers with consumers. Its B2C operations include a digital insurance business. In 2022, the Wefox Group's gross revenues were €587mn[7)] but gross premiums written through Wefox platforms totaled around €2bn.

Wefox's core strengths are IT and system design. Of its roughly 1,100 employees, 70% are engineers. Wefox keeps its service costs low by concentrating its IT staff in Barcelona and offering a wide range of standardized features.

The third-party distribution platform is used by 3,000 companies, mostly captive insurance agencies and brokers. It offers a suite of basic modules such as a CRM system, mobile live chat and videoconferencing, the latter two of which serve

6) TechCrunch, *Wefox secures new funding at $4.5 billion valuation as it aims for profitability* (May 17, 2023)

7) Wefox Insurance AG, *2022 Annual Report*

©2023 Nomura Research Institute, Ltd. All Rights Reserved.

as points of contact with customers. It also utilizes AI and machine learning to boost sales reps' productivity by providing real-time predictions of customers' insurance needs. Wefox says its platform enables insurers' sales staff to increase their contacts with customers from two to 10 per day by freeing them from administrative tasks. Consumers can get auto, health, liability and other insurance quotes from Wefox by phone, mobile app or web app and easily purchase policies online.

Wefox is also developing an API to facilitate channel collaborations between insurers and non-insurers. To highlight its commitment to data protection and information transparency, Wefox has earned the distinction of being the first InsurTech provider awarded the Digital Trust Label by the Swiss Digital Initiative[8]. It clearly has a strategy of pursuing first-mover advantage.

8) The Digital Trust Label, developed by the Swiss Digital Initiative, certifies digital services/apps' trustworthiness. The certification process is based on international standards such as ISO 22301 and GDPR. (Source: *WEF 2022: Swiss Digital Initiative takes the Digital Trust Label to the international level* (May 23, 2022))

While charging ahead in its distribution platform business, Wefox, in true InsurTech fashion, has no qualms about reversing course when warranted. For example, it is downsizing its data analytics business, which develops algorithms that recommend products/channels and route contacts to sales reps based on customer demographics. Wefox decided the business is not sufficiently cost-efficient.

In addition to Wefox, other players seeking to revolutionize both retail and institutional insurance sales channels have started to emerge in Germany[9]. These developments also bear monitoring.

9) One example is Thinksurance.

Wefox's main businesses

	B2B			B2C	
Business	Third-party distribution platform	Embedded insurance platform (Koble)	Data analytics	Direct insurance (One nsurance)	Risk solutions (Wefox Prevent)
Target customers	Captive agencies General agencies Brokers Price comparison sites Insurers	Insurers Brokers Non-financial companies	Major insurers Major brokers	Consumers	Consumers
Services	CRM system Mobile app Live chat Videoconferencing Admin portal Billing	Product sales via API (Digitalization of insurance products, linking of products with partners)	AI lead generation Lead generation based on (1) age, gender, address (2) churn rate, LTV (3) risk profile, product info, etc.	100% online insurance (auto, homeowner's, health, etc.)	Uses mobile phone and smart home data; warns drivers of hazardous road conditions, weather, etc.
Other	Used by over 3,000 companies, mostly agencies and brokers	Plans to offer embedded solutions for non-financial companies	Led by 20-strong data science team; being downsized from cost-efficiency standpoint	Acquired One Insurance in 2017. Users can buy policies in 3 minutes. Accounts for ~30% of group revenue.	Launched in 2022. Pledged not to use collected data for pricing.
Trajectory	→	↗	↘	→	↗

Source: NRI, based on interviews

©2023 Nomura Research Institute, Ltd. All Rights Reserved.

about NRI

Founded in 1965, Nomura Research Institute (NRI) is a leading global provider of system solutions and consulting services with annual sales above $5.1 billion. NRI offers clients holistic support of all aspects of operations from back- to front-office, with NRI's research expertise and innovative solutions as well as understanding of operational challenges faced by financial services firms. The clients include broker-dealers, asset managers, banks and insurance providers. NRI has its offices globally including New York, London, Tokyo, Hong Kong and Singapore, and over 16,500 employees.
For more information, visit https://www.nri.com/en

The entire content of this report is subject to copyright with all rights reserved.
The report is provided solely for informational purposes for our UK and USA readers and is not to be construed as providing advice, recommendations, endorsements, representations or warranties of any kind whatsoever.
Whilst every effort has been taken to ensure the accuracy of the information, NRI shall have no liability for any loss or damage arising directly or indirectly from the use of the information contained in this report.
Reproduction in whole or in part use for any public purpose is permitted only with the prior written approval of Nomura Research Institute, Ltd.

Inquiries to : Financial Market & Digital Business Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

https://www.nri.com/en/knowledge/publication/fis/lakyara/

©2023 Nomura Research Institute, Ltd. All Rights Reserved.