



Australian InsurTech firms scale internationally despite limited capital



Ms Simone Dossetor



Mr Nigel Fellowes-Freeman

InsurTech start-ups in Australia do not have the same access to funding as other markets. However, there are plenty of opportunities for them to expand internationally and serve the needs of the insurance industry. *Asia Insurance Review* spoke to **Insurtech Australia's Ms Simone Dossetor** and **Kanopi Cover's Mr Nigel Fellowes-Freeman** about challenges on the ground.

By Nadhir Mokhtar

Global funding for InsurTechs has been shrinking but InsurTechs operating in Australia did not have as many investors and funding available in the first place. Nevertheless, InsurTechs remained steadfast in their pursuit of improving the insurance industry and working with incumbents to adopt emerging technologies.

Insurtech Australia said it has seen a steady growth of InsurTechs joining the association each year. It has approximately 90 members and 45 corporate partners – suggesting that the InsurTech ecosystem is maturing. However, funding has always been an issue for the start-ups.

“Raising funding has never been easy for Australian InsurTechs. The sector is not well understood by local

VCs. InsurTechs need to focus early on earning revenue. Our last members’ survey indicated that over 80% of our members have revenue and 30% are profitable. More of our InsurTechs are funded by family and friends rather than by VCs,” said Insurtech Australia CEO Simone Dossetor speaking to *Asia Insurance Review*.

There is a lack of awareness among local investors of the work that InsurTechs do. Local venture capitalists also lack the expertise required to understand, invest and help fund the development of InsurTech solutions and technology.

“Australia is a reasonably nascent market for InsurTech and it isn’t as well understood as some other markets ... There isn’t a huge amount of deep domain expertise from VC

providers, specifically in Australia,” said Kanopi Cover founder and CEO Nigel Fellowes-Freeman speaking to *Asia Insurance Review*.

Scaling overseas

Limited access to funding did not deter Australian InsurTechs from seeking business in international markets in Asia, the US and Europe. It is a common strategy they are taking to expand beyond a small client base in Australia.

Ms Dossetor said, “Early consideration for international expansion is important for Australian InsurTechs given the size of the local market, with 90% wanting us to support to scale internationally; Asia is the most popular followed closely by the US, the UK and New

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Zealand. The challenges of distance and time zone means that Australian InsurTechs look global fairly early with 50% of our members generating international revenue.”

She said the stage at which InsurTechs operate influences their focus and shared the steps they take in the market:

- Early on, funding issues dominate as they seek access to external capital or seek to take advantage of government grants
- As they grow then their focus is on marketing growth and international expansion
- Once they are established then talent becomes a challenge as they compete globally for tech expertise

Kanopi Cover also told *Asia Insurance Review* that it will expand internationally in due course. It currently operates in Australia. “We will look to expand into other markets and that will be done with the right partners at the right time,” said Mr Fellowes-Freeman.

Working with incumbents

A frequent concern expressed by InsurTechs operating in Australia is the mismatch in pace between them and the incumbent insurers they seek to serve and partner with.

“Our InsurTech members are keen to see the pace of innovation and digital adoption within the insurance industry accelerate. As InsurTechs are often seeking to collaborate with incumbent insurers there can be a significant gap between the pace that InsurTechs can move in terms of launching products and adopting new technologies and data sources and that at which the insurers can respond given siloed business, legacy systems and competing priorities,” said Ms Dossetor.

“It’s a heavily regulated market. There’s hesitancy from large incumbents to work with smaller businesses and rightly so in some instances, but it does make it harder to get going,” said Mr Fellowes-Freeman.

He said there are only a few major players in the Australian market. Not many of them have the capacity to partner and grow internationally.

Regulatory support

InsurTech firms are also receiving

support to navigate a complex regulatory environment in Australia. Associations like Insurtech Australia play a role to facilitate discussions between regulators and InsurTechs to help develop the industry.

“I think the regulatory bodies are really looking to try and engage us. I think that’s something that they were struggling with a little bit in the past, but I think there’s been a big step forward to that. The Insurtech Australia association is doing a really good job in facilitating between the regulatory authorities and InsurTechs and bringing everybody around the table to discuss where the issues are, how to create some mock environments to launch new businesses and start-ups,” said Mr Fellowes-Freeman.

Insurtech Australia has been active in supporting Australian regulators who are looking to encourage innovation in the insurance sector. However, there needs to be more clarity by the regulators over a few complex rules that impact taxes they have to pay and funding and support they can receive.

“Whilst the early-stage innovation company and the R&D tax incentive rules provide positive support for start-ups, we would like to see a reduction in the complexity in these rules which can be hard for new founders to navigate,” said Ms Dossetor.

“VC rules around early-stage venture capital partnerships (ESVCLP) and eligibility rules for not investing in insurance acting as a disincentive for investment in InsurTech, with it not being clear who is covered by the fintech exemptions. In Australia, the law has not kept pace with the evolving definition of financial technology and where it converges with mainstream financial services businesses. Under current legal interpretation, restrictions are placed on investments made by ESVCLPs and VCLPs into fintech companies.

“There is also a complexity of taxes for InsurTechs. Sales taxes, rules and rates differ state by state, as well as emergency services and fire services levies acting as a disincentive for consumers in New South Wales and Tasmania,” she said.

InsurTech Trends

She said some of the most exciting

technologies currently being adopted more widely are related to the use of sensors, AI and data-driven digital business processes and models. InsurTechs in Australia are also having success with embedding insurance and technology as part of the sale process but within a transparent framework.

“New data sources emerging from sensors, digital imagery and other sources that customers are willing to share will become critical risk mitigation and risk management tools. These are no longer just nice to have; insurers that are unable to access and integrate these sources will come to realise they are anti-selected and at a competitive disadvantage.

“AI has been used in many ways to augment insurance processes and training and improve the consistency of customer interactions. However, with the launch of ChatGPT, a number of InsurTechs are now combining this technology with their own AI and tech solutions with huge expectations on the potential acceleration of innovation for core underwriting and claims functions,” she said.

Kanopi Cover has begun implementing generative AI for its products and to help its staff work more effectively.

“We’ve already built some integrations with OpenAI, set up some modules around on product disclosure statements and get referenced information out of them. We’re starting to use it across our stack for some data aggregation as well as claims workflows. As a business, we’re starting to use it on the customer facing front and internally, making each individual team member a lot more effective.

“You can train the models very effectively in understanding what questions generally get asked and be answering in a tone of voice and in the way that current customer service agents do it. The OpenAI models are very good at reinforced learning when you provide a dataset. I think the important thing, and this is where regulation comes in, is making sure that the models refer to the customer team when there’s no factual answer and references rather than providing an incorrect answer. There’s still work to be done there,” said Mr Fellowes-Freeman. ■