Startups in Insurance and Fintech: Redefining the Indian Insurance Market

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Abstract

The hallmark of current economic scenario is the launch of startups in practically all spheres of business enterprises. Startups in Insurance and Fintech companies have also entered the mainstream insurance business in India. In this article, a study is undertaken to understand the recent startups and fintech companies that are operating in the Indian insurance sector, their business models and how these will impact the existing insurance business/market in India.

In section1 of the article, we examine:(a) the insurance startups and fintech enterprises in the marketing of insurance products; (b) how these entities have established themselves as major players; and (c) the public interest and attention they are receiving. In section 2, we analyse the functioning of these startups and fintech as insurers and the other activities related to insurance they are engaged in. Innovations and regulations are at times counter-intuitive. Section 3 examines the conflict between innovation and regulation in Indian insurance sector. All these factors, no doubt would also signal a challenge for the traditional players in insurance business, though it is still early to write them off.

Keywords: Startups, Insurance and Fintech

Introduction

"Winter is coming". The most famous phrase from the mega medieval fantasy television series Games of Throne, or GOT as it is popularly known, sums up the climax and plot of the series. It warns about the unknown but imminent threat that the established kingdoms in the fantasy series face. In the insurance industry, a somewhat similar, if not exactly the same, scenario is lurking on the horizon. If I dare to draw an analogy from GOT for the Indian insurance industry, "Startups and Fintech are Coming" would be its title. Though, it would not exactly mean that these companies are a potential threat to the established traditional insurers or systems, yet, it will definitely mean challenging the existing scenario and redefining the rules of Indian insurance industry in the near future.

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Startups and Fintech in Insurance

Startups are companies or enterprises, which are in the initial stages of operation, in search of repeatable or scalable business models. They generally focus on marketing of products or services that are not currently offered or available in the market. And, even if they are being offered, the existing offerings may be highlighted as'inferior'. Fintech on the other hand, in layman's terms, would mean application of technology in financial service sector. The two sectors - insurance and Fintech startups - are neither mutually exclusive nor completely overlapping. To explain the point, let me cite an example; Policybazaar, a popular insurance web aggregation company is a fintech as well as an insurance startup, while Paisa bazaar is a fintech company but not an insurance startup.

With the exponential growth in information, communication and computing technologies and extensive digitization of practically all aspects of life, there has been substantial increase in startups in all areas of business enterprises. One of the sectors, which has seen a massive application of technology, is the financial sector leading the pack, and of course, insurance follows close on its heels. This explains the rise in the large number of fintech companies foraying in insurance as well as a large number of startups entering the insurance business arena.

Startups is a world-wide phenomenon and India with its huge pool of information technology professionals, and, the requisite infrastructure is not lagging behind. There are hundreds (may be even thousands) of startups in insurance, but for the purpose of this article a web search was made on the internet. Finally, the link available at tracxn.com is used for short- listing some of the insurance startups in India.

According to the website tracxn.com, globally there were around 2,290 startups operating in the insurance sector. It also mentions that there were 142 insurance startups in India in February 2019. The 10 most exciting ones according to the website are Policybazaar, Digit Insurance, Acko, Coverfox, Turtlemint, OneAssist, RenewBuy, PolicyBoss, Easypolicy and Agile Financial Technologies. In fact, Policybazaar features among the global top 10 most exciting insurance startups.[1] "Annexure 1" summarizes the list of the top 10 most promising insurance startups in India. In this article we will try to limit our analysis and observations on these 10 startups.

Apart from the startups, several companies have forayed into the financial services sector as fintech companies. The fintech companies have mainly started operating in some other financial services like payments gateway, mobile wallet, etc., and may have entered insurance services also. For the purpose of this article, a fintech company would be an enterprise providing financial services or even e-commerce services but not only exclusively insurance. These may include payment gateways, like Airtel Payment Banks, BHIM, BillDesk, PhonePe, Zeta; mobile wallets, like Paytm, FreeCharge, MobiKwik; travel aggregator, like Yatra and Make My Trip; ecommerce companies and its sister concerns like Amazon (Amazon Pay) and Flipkart (PhonePe). It is also observed that some fintech companies like Airtel Payment Bank, Amazon, Paytm, Quikr, have corporate agency tie-up for insurance distribution..

Business Model of Startups and Fintech in Insurance

If we look closely into the business model of the startups and fintech in insurance, we find that most of them operate as distributors of existing traditional insurers; however, a couple of them are registered insurers. Some startups operate in the area of Information Technology (IT) support service by providing insurance software while other shave quite unique and unconventional business models. Policybazaar and Easy policy function as web aggregators while Coverfox, Turtlemint, Renew Buy and Policy Boss as brokers. Digit Insurance and Acko are IRDAI registered general insurers. On the other hand, Agile Financial Technologies develops software for the insurance sector, while One Assist offers assistance and protection service, which is the best in concept, and it can be defined as a bundling of warranty and insurance like services.

In all sphere of economic activity today we find more companies are starting with technology and eventually entering into traditional businesses rather than starting with traditional businesses and making use of technology. In the Indian insurance industry scenario also we find that two of the latest insurers, Acko General Insurance Limited and Go Digit General Insurance Limited are not like the traditional insurers, which started off with the traditional model of "Agency" or "Bancassurance" and then gradually branched off into digital distribution. Their model is quite different. We will try to understand how a new insurer starts with technology as a startup and tries to carve out its space in a predominantly agency-driven regulated insurance market.

Another important phenomenon that has come to light is that of product or services being offered by insurance startups or fintech companies. Some products or services of many of these companies may fall in the grey area of "legal vacuum". Some of the innovative services offered by them may be innovative but may not be fully compliant with the present acts or regulations governing insurance. However, there may not be regulations which specifically debar such products or services from being marketed also. Such products or services may be categorized as those pertaining to the domain of "legal vacuum".

1. Startups and Fintech in Insurance as Distributors

The entry barrier as distributor of insurance in India is far less than as an insurer. The minimum capital requirement to start operation as an insurer in India is Rs. 100 crore. On the other hand, the minimum capital requirement as a distributor varies, depending on the model selected. It is Rs. 75 lakh as a broker, Rs. 50 lakh as a corporate agent if the entity is exclusively doing insurance distribution, and Rs. 25 lakh as a web aggregator.[2] Thus, distribution is the most logical segment of the insurance value-chain targeted by startups to make an entry into the Indian insurance sector. It suits the startups as initially they start off with a very low capital and distribution of insurance offers them a scalable model.

A. Web-Aggregators (WAs)

Of all the options available as a distributor of insurance, the most natural and obvious model for a startup or a fintech company is web aggregation. The functions of web aggregator include (i) displaying of insurance product information,(ii) offering comparisons on its website, (iii) leading generation and transmission, (iv) online sale, (v) sale of insurance products through tele-marketing and distance marketing and (vi)some outsourcing activities of insurers as well. Though many startups also enter as insurance brokers, the capital requirement as a WA is one-third of that as a broker and facilitate a small startup to try their hand at insurance. After notification of IRDAI (Web Aggregators) Regulations, 2013, and its subsequent modified form as IRDAI (Insurance Web Aggregators) Regulations, 2017, the industry was provided a regulatory framework whereby web aggregation companies could operate in India. As on February 28, 2019, there were 27 web aggregators (WAs) registered with IRDAI with valid Certificate of Registration (CoR).[2]

From "Annexure 2", we can observe that insurance sold through WAs has grown at a very high rate. It is around 200% in the number of individual policies of life and health insurance sold; while the total growth in premium amount is 48% for life insurance and 235% in health insurance. It is also observed that within 3 to 4 years' of operation,WAs have achieved around 0.21% of total life insurance in individual new policy sales and about 1.10% of the health insurance in individual new policy sales as well as in the gross direct premium collected.

No accurate data related to performance of individual web aggregators could be accessed from available sources in the public domain, and, hence, an objective analysis could not be done to ascertain the largest WA in terms of sale or premium collected. In order to learn more about the performance of the distributors, attempts were to collect the information from their websites as well other sources on the internet.

From "Annexure 3", it can be observed that Policybazaar claims to be the single largest distributor of insurance in India, besides banks, including both online and offline channels. Their website has recorded over 10 crore "hits" (visitors) per year seeking information about insurance and they were able to sell around 48 lakh policies annually. The company has grown 100% year-on-year basis ever since its inception in 2008. The estimated revenue of Policybazaar, as per the internet website 'Owler', is around INR. 422 crs (or $ 61.6 million), approximately (July conversion rate at1$= Rs 68.53). With a total funding of approximately Rs. 2,536 cr ($ 370 million), Policybazaar is one of the most successful insurance startups.

Although, the space of web aggregation is dominated by Policybazaar, however, Easypolicy is also another successful insurance startup in this domain. According to its website 'inc42', the yearly revenue of Easypolicy was around Rs 120 cr and with funding of around $7.53 million by Unilazer and with the acquired 70% of the stake in the total funding, it comes to about Rs. 70 cr. The company website claims to have 5 lakh visitors and sells around 1 lakh policies per year.

Thus, the success-story of these two startups points toward a new direction in the distribution of insurance business. Though the retail insurance market is still dominated by individual agents and banks as corporate agents, yet companies, like Policybazaar, have shown that online distribution is the way forward. The Indian insurance market is seeing a sea change as to how insurance is now being bought. The web aggregators are now the primary sources of information on purchase of insurance, while insurance companies are using them as major source for lead generation and sales.

B. Brokers

"Broking" is another form of distribution, which startup shave targeted in a big way as brokers - the broking model. Out of the10 most exciting insurance tech-startups, Coverfox, Turtlemint, RenewBuy and PolicyBoss are the brands owned and operated by insurance brokers. Basically, an insurance broker acts on behalf of prospects (customers) to offer them insurance solutions, which can be bought from an insurer. The broker represents the customer unlike an agent, who represents the insurer.

As we have already discussed, distribution is the most logical entry-point for a startup and web aggregation, which is related to web hosting, price comparison and lead generation remains the prime target. However, the broking model also offers certain advantages over web aggregation as it allows a broker to distribute insurance online as well as offline sale through personal solicitation. This mode of sale has in fact prompted many traditional insurance brokers to operate on the off-line segment, thus diversifying into the on-line segment as well. However, many startups are targeting the broking model for making an entry into insurance market. Coverfox (2013), RenewBuy (2014) and Turtlemint (2013) are such startups in insurance broking, while PolicyBoss is the online platform of Landmark Insurance Brokers Pvt. Ltd (2003).

From "Annexure 4", it can also be observed that the broking startups are clocking revenue in the range of Rs.17 to 31 crs ($2.5 M to $ 4.5M), with the exception of Policyboss, which has also offline presence and has garnered revenue of around Rs. 205 crs ($ 30 million). The number of policies sold by these startups ranges between 15,000 and 5,00,000. The most notable feature of their business model seems to be the use of the field-force and expanding it to more centres rather than solely relying on online sales. RenewBuy plans to utilize the investment it receives in increasing its presence and cover in 1000 new cities and partner with around 2 lakh Point of Sales offices.[3] On the other hand, Landmark, the parent company of Policyboss, has raised capital plans to increase its workforce by more than 4 times and expand to 60 cities.[4]

C. Corporate Agents

As seen from the shortlisted 10 insurance startups, none of them follows the Corporate Agency (CA) model. The plausible reason could be that, unlike the web aggregator and broker models, CAs do not allow tie-ups with more than three insurers (Life/Non-Life). This limitation does not facilitate rate comparison across insurers, thus hindering web as a platform for insurance sale. Hence, we observe that CA is not the desired model preferred by the insurance startups.

However, it is observed that the established fintech companies, which are mainly into other financial services, like Airtel Payment Bank, Paytm, and Amazon-pay, are registered as corporate agents for distribution/sale of insurance products. The main objective of these fintech companies is to utilize their existing customer base also for cross-selling insurance. It is also observed that, apart from fintech companies, e-commerce platform (Amazon, Flipkart), travel aggregator (Makemytrip and Yatra) are also following the corporate agency model for cross-selling insurance to their existing/new customers.

The advantage these fintech companies enjoy vis-a-vis traditional corporate agents is the large customer base for cross-selling of insurance products. Another advantage is the ease of need-based selling available to them compared to traditional CAs. For example, a travel aggregator website is better placed to sell travel and overseas health insurance, while an e-commerce platform is better placed to offer theft insurance. Fintech companies like Paytm and PhonePe, dealing with transactions, offer ease of purchase of insurance as the buyers can use their single platform for various financial transactions like making payment and selling mutual funds, insurance policies.

The revenue garnered by the fintech companies by selling insurance or the number of policies sold or premium garnered could not be ascertained from the data available in public domain. However, taking a conservative view of the vast reach of some of the major fintech companies, like Amazon Pay, Paytm and PhonePe (of Flipkart), it is quite possible to guess-estimate that they could capture a huge market segment of the online insurance sale. According to the website 'Insurance Business America', 30% of the customers worldwide would be buying insurance from tech-firms like Google and Amazon.[5]

The fintech companies, especially the larger ones, like the Amazon Pay, Google Pay, PhonePe and Paytm, have a greater advantage as they have access to transactional data of a large number of customers. This puts them at an advantage to understand and tailor-make insurance offerings according to the unique/exclusive needs of their customers. The unique advantage enjoyed by these fintech companies will dramatically affect the distributors like traditional corporate agents and tied agents.

2. Startups as Insurers: What's the Difference?

As we have seen that there were 142 insurance startups in India in February 2019 and that the 10 most exciting ones included Go Digit Insurance and Acko. These two entities are registered insurance companies in India. However, these companies, for all practical purposes, are not the "traditional" types of insurance companies. They have already carved out a niche in the Indian insurance market with their unique business models.

One of the common approaches to understand whether a startup is successful or has potential to succeed is to see whether it is a "disruptive innovator" or not. Well, this may not always be the best or number one method, yet it is a very common one. We will try to see if the two startup insurers - "ACKO" and "Go Digit Insurance" - have the potential to disrupt the Indian insurance market, or, if not to disrupt, then at least create ripples in the Indian insurance market.

Taking a cue from the idea of disruptive innovation, we try to devise a framework to analyse the business models of the two startup insurance companies. The summary of 'Theory of Disruptive Innovation' is given in "Annexure 5", and, the framework as well as a detailed analysis are given in "Annexure 6". Taking the current year of operation (which is the 3rd year) of the startups, we have summarized the new business brought in by general insurance companies and the market share in the 3rd year of their operations ("Annexure 7").

Summary of Analysis

- From "Annexure 6", it cannot be ascertained conclusively if the offering of the startup insurers are very different from the existing insurers. Infact, the startups have launched products which are similar to those that are offered by the existing or traditional insurers. Thus, based on the framework of analysis of "disruptive innovation", the startup insurers cannot be seen to be offering products to the excluded segment of the market, and, thus, they do not fulfil the basic criteria of a disruptive innovator.
- From "Annexure 6", it is also observed that for the risk cover offered by the startups, which are similar to that of an existing insurer (for example First-party motor insurance), it could not be established whether the premiums of the startups are substantially lower than those of the existing insurers.
- It is also observed from the IRDAI's statistical data, dated 31.12.2019 – available at the website of IRDAI - that the startups have grown substantially over the past three years and have been able to capture a reasonably good share of a fragmented general insurance market. Go Digit is growing at 210.25%, capturing a market share of 1.24% and is ranked at the 20th position among the 32 (general + health insurers combined). Acko General Insurance Limited is growing at 214.15%, capturing a market share of 0.21% and is ranked at 28th position among 32 players. The market share is determined by taking all the general insurance companies, including health but excluding specialized insurers.
- Again from "Annexure 7", we can observe that the two startups have captured a reasonably good market share in their 3rd year of operation, compared with others in general insurance business. If we consider the eleven general insurers who have entered the market during the last decade and compare their business progression in the 3rd year of operation, we find that, apart from HDFC ERGO, which was able to secure 3.67% of the market in their 3rd year of operations, GoDigit stood at the 2nd position among the eleven and has obtained 1.24% of the market share. Likewise, ACKO stood at the 7th position and has attained 0.21% of the market.

Thus, from the above analyses we can conclude that the startup insurers cannot be labelled as "disruptive innovators". The growth of a new player is quite natural because of their low base.

However, securing a significant market share in a market dominated by the four giant PSUs, and, already fielding a large number of players, many of which are promoted by well-established banks, indicates that the two startups are bound to offer a stiff competition to the existing players. These two startups have already started creating ripples, if not already a wave, in the general insurance market that is more fragmented now than a decade ago. Carving out comfortable niches within such a short span of time and in such a competitive market is quite commendable.

Funding Received by Startups - Indication of Potential:

Another popular method to find out the potential of a business enterprise is to assess how much capital its potential investors are willing to invest or have invested in it. According the website 'Owler.com':

- Acko has raised $143.0 million in 4 rounds. The latest round was in November 2019. Some of the Acko's investors include Ascent Capital, Baring Private Equity Partners India and Ventureast.
- Go Digit has raised $45.0million in 2 rounds. The latest round was in July 2018. Digit's investors include Fairfax Holdings.

It was also reported that in November 2019 Acko raised over $100 million, including $16 million in fresh funding from the growth-capital provider Ascent Capital.[6] A news report of January 22, 2020, has stated that Go Digit Insurance has raised $80 million in an equity- funding round led by private equity funds: Faering Capital, TVS Capital and A91 Partners. It was also reported in the same article that Go Digit was valued at around $800 million.[7]

Thus, judging by the funding being received by these startup insurers, we can very convincingly conclude that they have great potential to grow and capture a greater market share. However, it is to be seen how their funding would compare with capital infusion in to existing players in times to come.

Startups Offering Non-Core Services in Insurance Domain

Based on the list of the 10 shortlisted startups, we find that the services offered by startups, like One Assist and Agile Financial Technologies, can be classified as "Non-core or other services" in the insurance domain. We can try to understand whether their services are similar or different from the standard insurance sector and also try to gauge the challenges they pose or opportunities they present to the insurance industry as a whole.

As per the website of One Assist, it basically provides "Financial Protection- Card/Identity Fraud Protection", "Gadgets and Electronics - Accidental and Liquid Damage Protection Plans, Theft Protection Plans, Extended Warranty Plans" and "Home Appliances, Extended Warranty Plans, Accidental Damage, Breakdown, Burglary Protection Plans".On scrutiny of the information available about its products on the website, it may be assumed that some of its products offer protection against certain contingencies and have an element of insurance. Whether the company is registered with IRDAI or not could not be ascertained. However, a prospective customer can assume that the multiple solutions offered by the company are quite innovative and useful. It satisfies certain basic needs which a lot of prospective customers may be looking out for. Insurance startups like One Assist have the potential to challenge the existing players in the insurance domain with their customer-oriented innovative offerings.

Agile Financial Technologies, on the other hand, is a classical Information Technology company, focussing in partnering with the leading players in the BFSI (Banking, Financial Services and Insurance) sector and acquiring and merging strategic software products with technology-based companies in the insurance and lending business. Their basic business model is providing IT solutions for the insurance sector and facilitating the outsourcing of their client's business processes and back office, thus enabling their clients - banks and insurance - to focus on their core business.[8]

3. Challenges from startups in Insurance Domain – "Legal Vacuum"

The main challenges posed today by the information technology revolution and the tech-startups to the Indian insurance industry, are their potential operations and innovative products in the so-called "legal vacuum" area. "Legal vacuum" in terms of insurance is agrey area, where an offering which is of the do main of insurance can be contested to be the contrary. The internet is quite a versatile info-technology and any and every type of real or fake transactions can be transmitted with/without being detected. It has become a boon or bane as a fertile ground for companies operating in "legal vacuum".

Most of us are using e-commerce platforms for our various daily transactions. We are using Apps for buying merchandise, booking travel tickets, entertainment tickets, and effecting financial transactions. Most of the time, while doing a transaction we might have come across certain options like "free cancelation", "travel assistance", "baggage loss", etc. "Free cancellation" allows the buyer to cancel the tickets booked in advance for travel or for a movie show, and get refund/s provided s/he pays a certain extra amount. For example, a person buys a travel ticket for Rs. 10,000; He will be promised the refund of Rs. 10,000/- on cancellation of the ticket provided he pays upfront say Rs. 500/- during purchase of the ticket through the intermediary. The question then arises as to what this 'offer or promise' is. Can it be called 'insurance against cancellation'?

If "Free cancellation", which covers a contingency and compensates against a risk (cancellation of trip/ticket) against a consideration amount (cancellation charge), can be classified as insurance services then it can only be sold in India by an Indian registered insurance company. Obviously the question to be answered is "IF?" and who determines that "IF". Many a times, such types of offerings are made by unregistered entities or startups, operating in a legal vacuum. At other times such offers or promises are bundled and come attached with pre-checked option of other online products or services. For example when one buys a travel ticket the option of "free cancellation" may come bundled with a pre-check option. Only an alert customer who has gone diligently through the full offer can make an informed choice of accepting or rejecting such offers. Fintech companies and start-ups are experimenting with such offerings through internet and Apps.

Startups in insurance seems to be attempting to solve the last-mile problem in the insurance industry. Their focus is on the customer and how technology can offer solutions which the conventional models may not be able to offer. Further, the use of technology to reduce the cost is the primary focus of these startups. It may be argued that if the primary focus of regulation is to protect and benefit the customer, then, why cannot the startups be allowed to sell various innovative risk mitigating solutions that too at perceivably attractive prices? Well, insurance itself is a complex product in terms of pricing and viability of the companies selling it. No fly-by-night operators can be allowed to slip in and sell insurance products disguised as insurance merely because it is innovative or cheaper. The role of the regulator, among other things, is to ensure orderly growth of the insurance sector and hence it frames regulations, ensures their implementation and requires that the entities dealing with insurance register with it. Those entities offering insurance or insurance-like products need to abide by the Insurance Acts and regulations issued by the Regulators from time to time.

In order to address the conflict between innovation (primarily fuelled by technology and startups) and regulation, the IRDAI has come up with a very innovative regulation called the IRDAI (Regulatory Sandbox) Regulations, 2019. The objectives of the regulations are:

1. To strike a balance between the orderly developments of the insurance sector on the one hand and protection of interests of policyholders on the other, while at the same time facilitating innovation.
2. To facilitate the creation of a regulatory sandbox environment and to relax such provisions of any existing regulations framed by the Authority with limited scope and specified duration, if such a relaxation is a felt need.

India now has a robust system and a legal framework whereby startups in insurance can innovate and operate. This will lead to partially addressing the issue of entities operating in the "Legal vacuum".

Conclusion

The digitization of the human way of life, from social interactions through social media to commercial and financial transactions through e-commerce platform is throwing up gigantic challenges and manifold opportunities to the traditional way of doing business. Even the insurance market in India, which is a regulated market, is not left untouched by this paradigm shift. New entrants into the Indian insurance arena today are coming with new and unique business models, mainly centred and built on information technology. These companies are entering as startups or fintech companies either targeting part or the complete value chain of insurance business.

In this article we have seen how some of the startups, in the insurance distribution/marketing set-up, have made their strong presence felt and are carving out spacious niches for themselves in a cluttered market. Some of them, like Policybazaar and Coverfox, have clearly established themselves as major players while some like Amazon-Pay and PhonePe may be potential game changers in the insurance distribution space in the near future. With the speed with which insurance scenarios are constantly changing, it is anyone's guess when we may see a completely redefined insurance market in terms of insurance distribution/marketing acceleration.

So, now it is not "winter is coming"; it is "winter has come". The challenges thrown up by the startups and fintech enterprises are real and it is high time for the existing players to start addressing the issues. With the IRDAI (Regulatory Sandbox) Regulations, 2019, we have a formal regulatory framework which supports startups and innovations. Though this Regulation allows even an existing conventional insurer a level playing field– meaning equal opportunities– yet the acumen and agility of small and fresh players can tilt the balance in favour of startups. I do not foresee a gloom on the horizon for the existing players but definitely a major make-over transformation is their need of the hour. Many a times the successful run of the past makes the existing players complacent and prevents radical transformation. But no one can foretell which potential unicorn may dislodge a once mighty dinosaur. It is not only true for non-life but also for life.

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Annexure 1
List of Top 10 Exciting Insurance Tech Startupsin India

SL	Name	Founded in /Place	Main Investors	Total Funding	Brief Description Work
1	Policybazaar (Web Aggregator)	2008 / Gurgaon	Temasek, Tiger Global Management, Soft Bank Investment Advisers and 18 Other Investors	US$372 M	Online Insurance Aggregator
2	Digit Insurance (General Insurer)	2016 / Bangalore	Fairfax Financial Holdings	US$100 M	IRDA Licensed General Insurer
3	Acko (General Insurer)	2017 / Mumbai	Amazon, Ashish Dhawan, Catamaran Ventures and 14 Other Investors	US$43M	IRDA Licensed General Insurer
4	Coverfox (Broker)	2011 / Mumbai	IFC, Transamerica Ventures, SAIF Partners and 23 Other Investors	US$42M	Brokerage Platform for Insurance in Retail Space
5	Turtlemint (Broker)	2015 / Mumbai	Sequoia Capital, Blume Ventures, Nexus Venture Partners	US$34M	Broker of Insurance Products
6	One Assist (Protection services)	2011 / Mumbai	Sequoia Capital, Assurant, Arun Sarin and 3 Other Investors	US$32M	Platform for Assistance and Protection Services
7	RenewBuy (Broker)	2014 / Gurgaon	Amicus Capital, Shailendra Ghorpade, Mount Nathan Advisors and 6 Other Investors	US$15M	IRDA Licensed Brokerage Platform for Motor Insurance
8	PolicyBoss (Broker)	2012 / Mumbai	TPG, Susheel Tejuja, APAAR KASLIWAL	US$10M	Online Platform for Users to Compare and Buy Various Insurance Policies
9	Easypolicy (Web Aggregator)	2011 / Noida	Unilazer Ventures, Gaurav Burman, Anil Jain and 2 Other Investors	US$6M	Online Platform that Allows Users to Enter Details of \ insurance Require-ments and get Instant Quotes
10	Agile Financial Technologies (IT Tech)	2008 / Mumbai	Chiratae Ventures	US$6M	Develops Software Products an Offers Solutions to Banking, Insurance and Financial Services Sectors

(Source: www.tracxn.com at https://tracxn.com/explore/Insurance-Tech-Startups-in-India/)

Annexure 2

New Business (Individual Policies)
through Web-Aggregators in Life Insurance and Health Insurance

Para-meters	Life Insurance						Health Insurance					
	No. of Policies			Premium (Crs)			No. of Policies			Premium (Crs)		
Year	**2015-16**	**2016-17**	**2018-19**	**2015-16**	**2016-17**	**2018-19**	**2015-16**	**2016-17**	**2018-19**	**2015-16**	**2016-17**	**2018-19**
Absolute	19	18633	59742	0.03	46.36	68.48	23838	50409	151603	2363	5048	16892
Share to Total	0.00	0.07	0.21	0.00	0.06	0.07	0.21	0.40	1.08	0.23	0.40	1.10
Growth Over Last Year	--	97968 %	221%	--	154433 %	48 %	--	111	201	--	114	235

Source: IRDAI Handbook on Indian Insurance Statistics: 2017-18 (Similar data for general insurance is not available)

Annexure 3

Business, Funding (Investment) and Other Data on Shortlisted Web-Aggregation Startups

Parameters / Web Aggregators	Policybazaar	Easypolicy	Sources
Revenue	$ 61.6 M	$ 5 M	Internet website Owler at https://www.owler.com/
Total Funding	$ 367.2 M	$ 2.2 M (2016)	
Employees	3849	176	
No. of Followers in Twitter	10,998	1,611	
No. of Followers in Facebook	1,54,712	25,747	
Customer Compared Policies	10 Crore per year	5 lakh	Respective Company's Websites of Policybazaar and Easy policy
Policies Sold	48 lakh per year	1 lakh	
Other Achievements	1. Single largest insurance distributor after banks, including online and offline channels 2. 100% year-on-year growth since 2008 3. Every second term life insurance policy sold 4. In a decade it has distributed 25% of India's life cover policies	Rated as No 1. for quality of service by userson website like Mouth Shut	
Investor Interest	It raised $ 238 million (Rs. 1600 Cr) by Soft Bank led investors in Series F funding. *AN3(I)*	Unilazer - a private equity and venture capital set up by Ronnie Screwvala - invested additional$ 6.7 to $ 7.43 M in 2018-19 hiking up its stake by to 70% *AN3(ii)*	Article in Economic Times and Inc42

AN3 (i) Article in Economic Times accessed on 12.07.2019 at https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/indias-policybazaar-raises-over-200-mln-in-softbank-led-round/articleshow/64734167.cms

AN3 (ii) Article in Inc42 accessed at 12.07.2019 at https://inc42.com/buzz/unilazer-ventures-increases-stake-in-easypolicy-to-70-invests-7-43-mn/

Annexure 4

Business and Funding Data of Shortlisted Insurance Broking Startups

Parameters/ Brokers	Coverfox	RenewBuy	Turtlemint	PolicyBoss	Source
Estimated Revenue	$ 2.5 M	$ 4.5 M	< $ 1 M	$ 30 M	Internet website 'Owler' at https://www.owler.com/
Total Funding	$ 36 M	$ 29 M	$ 31 M	$ 9.6 M	
Employees	750	104	230	1600	
No. of Followers on Twitter	1,840	59	460	78	
No. of Followers on Facebook	84,953	5,881	51,495	22,384	
Quotes Compared	80 lakh+	Not available	10+ lakh		As claimed in the respective websites of the companies other than ** data
Policies Sold	5 lakh+	5 lakh policy holders**	0.15+ lakh	3 lakh customers	
Other Achievements	1. Claim assistance rendered to 10 lakh+ customers 2. Business Today: "Coolest startup of 2017", Top 50 Fintech companies of 2017 as per Fintech Asia.	Network of 13,500 field force**	Rs. 15+ Cr claims processed.	1. 16 years of experience in insurance broking. 2. Physically present in 24 cities	
Investor Interest	In Series C funding, it raised $ 22 Mled by International Finance Corporationin 2018. AN4(I) It was in talk with potential investors from China, US and UK to raise $50 M in Series D in March 2019 AN4(ii)	It raised $ 19 M in Series B funding from Lok Capital and IIFL Wealth in July 2019AN4(iii)	It raised $25 M in funding from investors led by Sequio Capital in Jan 2019AN4(iv)	Rs. 65 to 70 crore was invested by US-based private equity major TPG Growth in 2016AN4(v)	

***Article in Moneycontrol, accessed on 12.07.2019 at https://www.moneycontrol.com/news/business/startup/for-renewbuy-an-insurance-startup-riding-on-technology-good-old-agent-is-still-the-key-2979221.html*

AN4(I) Article in Live mint accessed on 12.07.2019 at https://www.livemint.com/Companies/ Dt3TNIoOJxq7YQMprjFUlK/Coverfox-gets-22-million-funding-from-Transamerica-others.html

AN4(ii) Article in ET accessed on 12.07.2019 at https://tech.economictimes.indiatimes.com/news/internet/coverfox-hits-the-market-to-raise-50m-in-new-financing-round/68309768

AN4(iii) – Article in Yourstory accessed on 12.07.2019 at https://yourstory.com/2019/07/funding-startup-insurance-renewbuy-lok-capital-iifl and inc42 at https://inc42.com/buzz/insurtech-startup-renewbuy-raises-19-mn-funding-for-expansion-growth/

AN4(iv) – Article in BusinessLine accessed on 12.07.2019 at https://www.thehindubusinessline.com/ companies/ turtlemint-closes-25-million-funding-round-led-by-sequoia-india/article26011187.ece and Yourstory at https://yourstory.com/2019/01/mumbai-based-turtlemint-raises-25m-funding-led-sequoia-capital

AN4(v) - ET at https://economictimes.indiatimes.com/news/us-based-private-equity-major -tpg-growth-buys-26-in-landmark-insurance/articleshow/50618566.cms

Annexure 5

Summary of Theory of Disruptive Innovation (DI)

The term ‘disruptive innovation’ was first analysed by the American scholar Clayton M. Christensen and his collaborators in an article titled “Disruptive Technologies: Catching the Wave”. However, the term coined initially was disruptive technology and not disruptive innovation. Subsequently, in the article “Innovators Dilemma”, written along with Michael E Raynor, Christensen, substituted the term disruptive technology with disruptive innovation. The change made in the terminology emphasised that it is the business model that the technology enables which is responsible for the disruption.1

Put in simple words, the theory states that Disruptive Innovation describes a process by which a product or service initially takes root in simple applications at the bottom of a market –typically by being less expensive and more accessible – and then relentlessly moves upmarket, eventually displacing established competitors.2

In an article titled, “What is disruptive innovation” by Clayton M Christensen, Michael E Raynor and Rory MacDonald, appearing in the 2015 issue of Harvard Business Review (HBR), the authors explain disruptive innovation, and, how the theory’s core concept has been misunderstood and how its basic tenets are misapplied. Their article thus seeks to provide clarity on what is disruptive innovation, its scope, its application and how disruptive innovation cannot be applied to any and all situations in which an industry is shaken up and a successful player stumbles.

Innovation can be broadly classified as sustaining and disruptive. When an existing large business innovates and improves the existing product or services for its existing and demanding customers such innovations are termed as sustaining innovations. As already discussed, innovation brought about by new entrants mainly targeted at the unserved, underserved or new market by less expensive and more accessible offering and then gradually moved up, by offering acceptable quality to the existing customers and displacing the established business. This can be termed as disruptive innovation. It is to be understood that the main aim and objective of any innovation, either sustaining or disruptive, is to offer better products and services to the customer. Organizations innovate to acquire, establish, maintain or increase their foothold in their business.

Based on the article, “What is disruptive innovation”, and derived from it, the basic framework of the theory is summarized below:

- “Disruption” describes a process whereby a new company with fewer resources is able to successfully challenge an incumbent business.
- Incumbents or existing businesses or market leaders focus on their most demanding and usually profitable customers, often exceeding the needs of this segment and ignoring the needs of the others.
- An entrant begins by successfully targeting those overlooked segments, gaining a foothold by delivering more-suitable functionality – generally at lower prices to start with.

  • Incumbents tending to earn high profit from the more demanding segment/s tend not to respond vigorously.
- The entrant then moves upmarket delivering better performance that the mainstream customers want, while preserving the advantage that drove their early success.
- When the so-far loyal customers start adopting the new entrant’s offerings in large volumes, real disruption has started.
- Some other important aspects about disruptive innovation are :
- Disruptive innovation appears in low-end or new-market footholds. Low end market is one to which existing player or leader pays less attention and consists of less-demanding customers, and a new-market foothold is created by the disruptor where none had existed.
- Disruptive innovations do not catch up with mainstream customers until quality catches up with them. Initially disruptive innovator’s offering are considered inferior by most of existing player’s customers and they are not willing to switch over to new offerings - only because ‘it is cheaper’. The mainstream customers wait till the quality is satisfactory enough before switching to the disruptor’s offering.
- The business model of the disruptor is often different from that of the existing players.
- Not all disruptive innovations succeeds.
- Disruption can be a process.

This theory also helps us to distinguish the sustaining innovations from disruptive innovations. The differences between the two are summarized and tabulated below:

Sustaining Innovation

Disruptive Innovation

1. It is brought about by existing / incumbent market player/s

    1. It is introduced by a new entrant

2. It deals with improvements in the offering or new offerings for the market.

    2. It deals with offerings for excluded or new market/s.

3. The improvements can be incremental advances or major breakthrough, but all with the intention to sell more products to many customers for a profit.

    3. The innovation can be simple or major but intended to focus on low end / new market.

4. It maintains quality in the offering, but may be charging higher price.

    4. It trades off quality and provides the offering at a cheaper price.

Contrary to the popular perception and as per the proponent of the theory of disruptive innovation, Clayton M Christensen, UBER is not a disruptive innovator because :

a) it started its offer targeting the mainstream market of existing taxi users in the US,

b) its offering was not inferior in quality to the existing taxi market.

Thus, UBER is not categorized as a disruptive innovator even though it clearly transformed the Taxi market and its innovation.

On the other hand, Netflix can be categorized as a disruptive innovator. Its initial offering did not appeal to the existing movie renting customers who rented new releases mainly through the company Blockbuster. Netflix's offering appealed to customer segment like those who did not bother about :

a) new releases,

b) longer delivery time (implying low quality service for excluded market), and

c) cheaper price due to online interface.

1. Wikipedia - https://en.wikipedia.org/wiki/Disruptive_innovation
2. https://www.christenseninstitute.org/disruptive-innovations/

Annexure 6

Framework for identifying disruptive innovators

<table>
<tr><th>Step</th><th>Specifying Criteria</th><th>Obtaining Inference /Result</th></tr>
<tr><td>Short-listing of potential disruptive innovator/s</td><td>We have shortlisted only two here based on the list of most valuable startups.
List of website tracxn.com as discussed in Part “1” of the article.</td><td>Acko GI Ltd. registered on 18.09.2017 and Go Digit GI Ltd. registered on 20.09.2017.</td></tr>
<tr><td>Ascertaining whether these insurers are targeting the lower end or excluded market with cheap offerings or their offerings are cheaper compared to the existing insurers’ offerings</td><td>a) Say offering cover for risk which are not targeted by main-stream insurers or
b) offerings cover similar to main-stream insurer where premium is cheaper than the existing insurer</td><td>A) Offering cover for risk not targeted by main-stream insurers would require extensive search and comparison and is outside the scope of this paper.
B) For insurance cover offered similar to existing insurers and most popular among retail segment, i.e. Motor insurance
i) Quotes were obtained from the common web aggregator, policybazar.com for lowest Insured Declared Value (IDV) and for no claim bonus of 50%. The premium per lakh IDV was used to compare the quotes. The existing insurers are shown as “EI” and startup insurersas “SUI”
(https://ci.policybazaar.com/quotes?enquiryId=MTg4MjA5OTY4&leadid=MzQ3Mjk1Nw%3D%3D&frame=true&flag=true&ref=p)
<table>
<tr><th>SL</th><th>Insurer</th><th>IDV</th><th>Premium</th><th>Premium per lac IDV</th></tr>
<tr><td>1</td><td>EI-1</td><td>1,58,490</td><td>4060</td><td>2562</td></tr>
<tr><td>2</td><td>EI-2</td><td>1,38,660</td><td>3833</td><td>2764</td></tr>
<tr><td>3</td><td>EI-3</td><td>1,35,832</td><td>4420</td><td>3254</td></tr>
<tr><td>4</td><td>SUI</td><td>1,17,008</td><td>4150</td><td>3547</td></tr>
<tr><td>5</td><td>EI-4</td><td>1,03,123</td><td>3858</td><td>3741</td></tr>
<tr><td>6</td><td>EI-5</td><td>99,360</td><td>3922</td><td>3947</td></tr>
<tr><td>7</td><td>EI-6</td><td>1,03,713</td><td>4136</td><td>3988</td></tr>
<tr><td>8</td><td>EI-7</td><td>1,12,950</td><td>4517</td><td>3999</td></tr>
<tr><td>9</td><td>EI-8</td><td>73,791</td><td>3742</td><td>5071</td></tr>
</table>
(Disclaimer: The above analysis is only for academic purpose and hence the existing insurers are shown as “EI” and startup insurers as “SUI”. The actual quotes may vary from time to time.)
ii) Quotes were also obtained from another web aggregator (Cover fox) for lowest IDV and NCB 50%. The premium per lakh IDV was used to compare the quotes.
iii) (https://www.coverfox.com/motor/car-insurance/results/46933441-18e1-4fc6-8022-8bff1c153f2d/?addons=0&ll=0&pa=0&lyzd=1&ct=comprehensive)</td></tr>
</table>

<table>
<tr><th>Step</th><th>Specifying Criteria</th><th>Obtaining Inference /Result</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>SL</th><th>Insurer</th><th>IDV</th><th>Premium</th><th>Premium per lac IDV</th></tr>
<tr><td>1</td><td>EI1</td><td>1,70,536</td><td>4683</td><td>2746</td></tr>
<tr><td>2</td><td>EI2</td><td>1,43,025</td><td>3978</td><td>2781</td></tr>
<tr><td>3</td><td>EI3</td><td>1,37,813</td><td>3951</td><td>2867</td></tr>
<tr><td>4</td><td>EI4</td><td>1,40,418</td><td>4212</td><td>3000</td></tr>
<tr><td>5</td><td>EI5</td><td>1,42,051</td><td>4850</td><td>3414</td></tr>
<tr><td>6</td><td>EI6</td><td>1,03,713</td><td>4136</td><td>3988</td></tr>
<tr><td>7</td><td>EI7</td><td>88,050</td><td>3842</td><td>4363</td></tr>
</table>
The quote from the website of one of the startup insurers was Rs. 4594 for Rs. 1.36 lakh IDV, implying Rs. 3378/- per lakh IDV, while for another it was Rs. 4150/- for Rs. 1.17 IDV implying Rs. 3547/- per lakh IDV.
Thus, it cannot be concluded that the startup insurers are offering existing cover at a lesser price (premium) than the existing insurance companies.
</td></tr>
<tr><td>Market-Share of the startup / new insurers.</td><td>Determining whether the new insurers have captured enough market or have moved up the ladder offering main-stream products to cause disruption.</td><td>From business figures of general insurers as on 30.12.2019, available at the IRDAI website, it is observed that in the first 3 quarters of 2019:
(a) Go Digit General Insurance Ltd has garnered Rs. 1642.27 cr, showing a growth of 210.25% and a market share 1.24%.
(b) Acko General Insurance Ltd has mobilized Rs. 279.22 cr with a growth rate of 214.15% and market share of 0.21%.</td></tr>
</table>

Annexure 7

New Business of General Insurers in Third Year of Registration (Operations) and Their Market Share

Insurers	Date of Registra-tion	Year of Opera-tion	3rd year of Operation of Respective Insurers	GDPI in 3rd year of operation (3 Qr for 2019-20 and full year for other FYs)	Market Share in 3rd year of Operation
Edelweiss General Insurance CoLtd.	18.12.2017	2017-18	2019-20#	91.44	0.07
Go Digit General Insurance Co Ltd.	20.09.2017	2017-18	2019-20#	1642.27	1.24
Acko General Insurance Co Ltd.	18.09.2017	2017-18	2019-20#	279.22	0.21
DHFL General Insurance Co Ltd.	22.05.2017	2017-18	2019-20#	132.95	0.1
Aditya Birla Health Insurance Co Ltd.	11.07.2016	2016-17	2018-19	496.80	0.31
Kotak Mahindra General Insurance Co Ltd.	18.11.2015	2015-16	2017-18	185.39	0.13
Cigna TTK Health Insurance Co Ltd.	13.11.2013	2013-14	2015-16	143.82	0.15
Liberty Videocon General Insurance CoLtd.	22.05.2012	2012-13	2014-15	283.85	0.34
Magma HDI General Insurance Co.Ltd.	22.05.2012	2012-13	2014-15	473.59	0.57
Religare Health Insurance Co.Ltd.	26.04.2012	2012-13	2014-15	275.80	0.33
HDFC ERGO General Insurance Co. Ltd.	09.07.2010	2010-11	2012-13	2453.2	3.67
Max BUPA Health Insurance Co. Ltd.	15.02.2010	2009-10	2011-12	99.08	0.18
SBI General Insurance CoLtd.	15.12.2009	2009-10	2011-12	250.14	0.45
Raheja QBE General Insurance CoLtd.	11.12.2008	2008-09	2010-11	4.90	0.01
Bharti AXA General Insurance Co Ltd.	27.06.2008	2008-09	2010-11	553.90	1.22
Shriram General Insurance Co Ltd.	08.05.2008	2008-09	2010-11	780.89	1.72
Universal Sompo General Insurance Co Ltd.	16.11.2007	2007-08	2009-10	189.28	0.51
Future Generali India Insurance Co Ltd.	04.09.2007	2007-08	2009-10	376.61	1.02
Apollo Munich Health Insurance Co Ltd.	03.08.2007	2007-08	2009-10	114.66	0.31
Star Health & Allied Insurance Co Ltd.	16.03.2006	2006-07	2008-09	509.86	1.59
Cholamandalam MS General Insurance Co Ltd.	15.07.2002	2002-03	2004-05	169.25	0.92
ICICI Lombard General Insurance Co Ltd	03.08.2001	2001-02	2003-04	486.73	2.94
Bajaj Allianz General Insurance CoLtd.	02.05.2001	2001-02	2003-04	476.53	2.88
TATA AIG General Insurance Co Ltd.	22.01.2001	2000-01	2002-03	233.93	1.57
IFFCO Tokio General Insurance Co Ltd.	04.12.2000	2000-01	2002-03	213.33	1.43
Reliance General Insurance CoLtd.	23.10.2000	2000-01	2002-03	185.68	1.25
Royal Sundaram General InsuranceCo Ltd.	23.10.2000	2000-01	2002-03	184.44	1.24

GDPI (Gross Direct Premium Income) of the general insurers are in Rs. Crore and extracted from Handbook of Statistics of IRDAI for the respective years.

 # Data for FY 2019-20 is for the 9-month period: from 01.04.2019 to 31.12.2019, based on monthly business figures published by the IRDAI.

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