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The future's uncertain for prominent insurtechs that rely heavily on AI to calculate risk and pricing

Article

The news: Prominent insurtech firms—including **Lemonade**, **Root Insurance**, and **Hippo—are grappling with challenges in reaching profitability due to underwriting and pricing**

missteps. Substantial losses this year have raised questions about their viability.

How we got here: These insurtechs have encountered significant challenges in their quest to revolutionize the insurance industry.

- They've struggled to collect the data necessary for accurate AI calculations, resulting in financial losses and share price declines.
- Their ambitious goals of disrupting the industry have run up against regulatory constraints, such as limitations on data usage and pricing strategies.
- Many aggressively underwrote difficult risks, leading to significant valuation drops.

Lemonade's burning through its cash: US-based, digitally native Lemonade offers renters' insurance, homeowners' insurance, car insurance, pet insurance and term life insurance, as well as contents and liability policies in Germany, and the Netherlands and renters insurance in France.

- As of the end of Q2 2023, Lemonade reported a loss of $67.2 million, exceeding Wall Street expectations by $7 million.
- The company's loss of 97 cents per share also beat Wall Street estimates by six cents.
- Lemonade's **cash burn rate of over $40 million per quarter** is unsustainable, despite an estimated unencumbered cash position of $573 million.
- To protect itself against such losses, Lemonade engages in reinsurance. However, rising reinsurance costs have further squeezed Lemonade's profit margins.

Hippo's big losses prompt concern: A property insurance company based in Palo Alto, California, Hippo offers homeowners' insurance for the homes and possessions of the insurance holder, as well as liability from accidents happening in the insured property.

- Following a trajectory close to Lemonade's, Hippo has demonstrated inconsistent performance in meeting expectations over the past year.
- In Q2, Hippo Holdings Inc. reported a substantial loss of $4.61 per share, which significantly exceeded the anticipated loss of $2.31 per share.
- The company's Q2 revenue reached $47.7 million, surpassing estimates by 1.49%.

- Despite a growth in revenue, the company faced a net loss in Q2 amounting to $107.8 million, in contrast to a loss of $73.5 million in the previous year's Q2.

Root's losses align with the insurtech trend: Root Insurance is an online car insurance company licensed in 50 states and the District of Columbia that operates in 34 of those states.

- Root also reported a loss of $2.55 per share alongside revenue amounting to $74.80 million.
- These results were better than estimates of a $3.00 loss per share and lower revenue at $66.17 million.
- Root exceeded expectations by 15.00%, despite experiencing a 6.97% decline in revenue compared to the same quarter in the previous year.

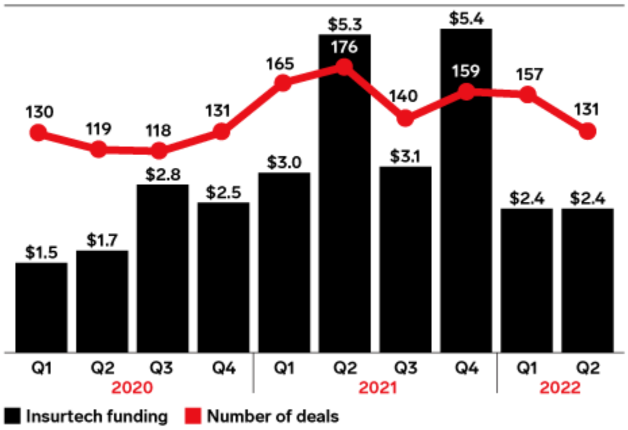
Key Takeaways: These insurtechs' performance demonstrates that AI alone cannot save businesses—the quality of the data behind it matters. As Lemonade's CEO Daniel Schreiber indicated, these companies started without the historical data their competitors have curated over the years.

- To survive, they need to collect data that better informs their risk calculations—and quickly.
- However, the clock is ticking. Investor concerns about their profitability and pressure to manage their limited capital more effectively may lead these firms to further consolidation or partnerships.

We'll watch their Q3 earnings closely when they're announced on November 1 and 2.

Insurtech Funding Worldwide, Q1 2020-Q2 2022

billions and number of deals



Source: CB Insights, "State of Fintech Q2 2022," July 19, 2022

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