JUL 21
Sherry Fairchok

Insurtechs slash budgets and headcount as economic uncertainty escalates

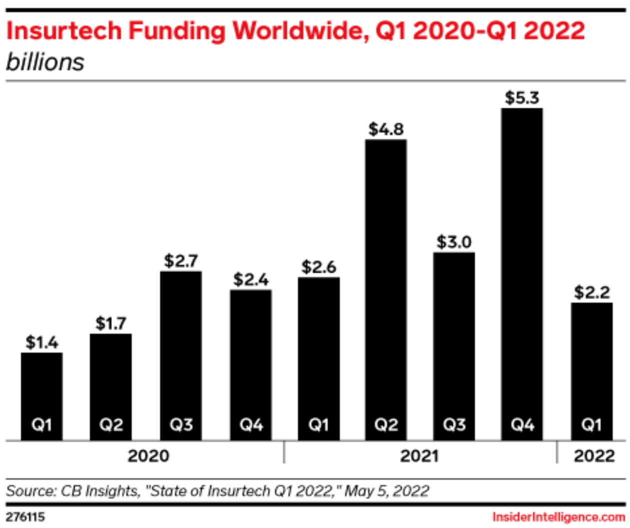
Article

The news: The insurtechs **Next** and **Thimble** recently announced layoffs of part of their workforces, stating that the need to focus on profitability drove their decisions, per the

Insurance Journal. Next CEO and co-founder Gary Goldstein also cited worsening economic conditions as a contributing factor for his firm's reduction in force.

The bigger picture: In Q1 2022, insurtech funding fell 58% quarter over quarter to $2.2 billion, the worst level since Q2 2020. This challenging environment is pushing insurtechs to scale back their headcount, reversing the rapid growth strategy that has driven venture capital investors within the sector.

- Since the beginning of the year, **Policygenius**, **Root**, **Coterie**, and **Bestow**, just to name a few, have all cut back on staffing.
- As Goldstein wrote in his blog post announcing the changes at Next, "The way we are going to play to win in 2022 and beyond is very different from 2021."



What's next? Although all insurers face rising claims costs amid supply chain shortages and rising inflation, insurtechs have it tougher than the longer-established providers that they once hoped to disrupt. Our report "The Era of Uncertainty: Insurance—How Insurers Can Turn Gathering Headwinds Into Opportunities" delves into why legacy insurers are better-positioned to weather the storm—particularly if they continue pushing an innovation agenda that can help them close the tech gap with their harder-hit insurtech competitors.

Short-term trends: Both cohorts will be mindful of their budgets and the mantra: "Do more with less."

- Our forecasts show **digital advertising by insurers growing at a slower pace** of 15.0% in 2022—compared with a 24.4% growth last year—to reach $12.0 billion.
- Insurers will seek **a higher return on their marketing and advertising investments** through greater efficiency, prioritizing segmentation and targeting precision to reach the right clients at the right time, when they are likely to purchase insurance.
- Insurtechs pushed to **demonstrate a clear path to profitability** will **continue their cost-cutting moves**—including further layoffs—and will double down on profitable customer segments and geographies.
- Another popular insurtech strategy will be **pivoting from a B2C to a B2B or a B2B2C model.** This is already happening in the banking sector, where neobanks like **Starling** have prioritized promoting their banking as a service solutions.
- For incumbents, **the insurtech threat will become a buying opportunity** as valuations drop and some firms run out of cash.

Long-term changes: Insurers will look at lower-cost distribution models—and insurtechs will redirect some of their budget back to marketing in an effort to boost their mind share with consumers.

- **Sales through direct channels will accelerate** at the expense of costlier exclusive agent channels, and insurers will look for opportunities to **embed insurance offerings in third-party platforms**.
- Those insurtechs that slashed their marketing budgets during hard times and survived will once again revive their spending, **seeking to build a strong and trusted brand.**

Go deeper: *For more details about how these trends are playing out across the industry, and our recommendations on how to weather them, click here.*