

A Positive Partnership

Central European Insurers and Insurtechs:
challenges, opportunities and trends

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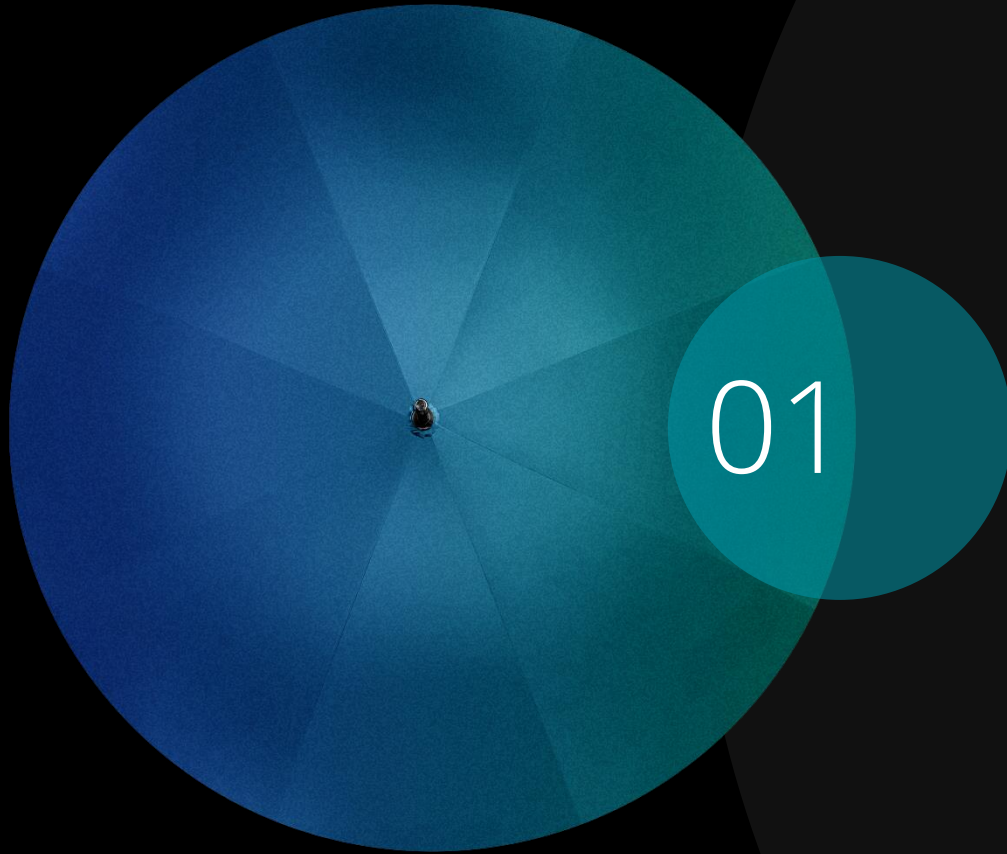
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Executive summary

Executive summary

The study is intended to **analyse Central European insurers' demand for innovative solutions** that could be developed by insurtech companies. In the underlying survey we asked insurance and insurtech companies about their past cooperation, key takeaways of such projects and mutual expectations regarding projects they would like to pursue in future.

Looking closely at respondents' answers with respect to engagements that took place in the past, we have **tried to understand:**

- what are the key focus areas and goals of such projects,
- what main factors can make such cooperation successful,
- how both parties assess the outcome of such engagements and measure their success,
- what are potential challenges encountered in the process, and
- how both parties assessed such cooperation.

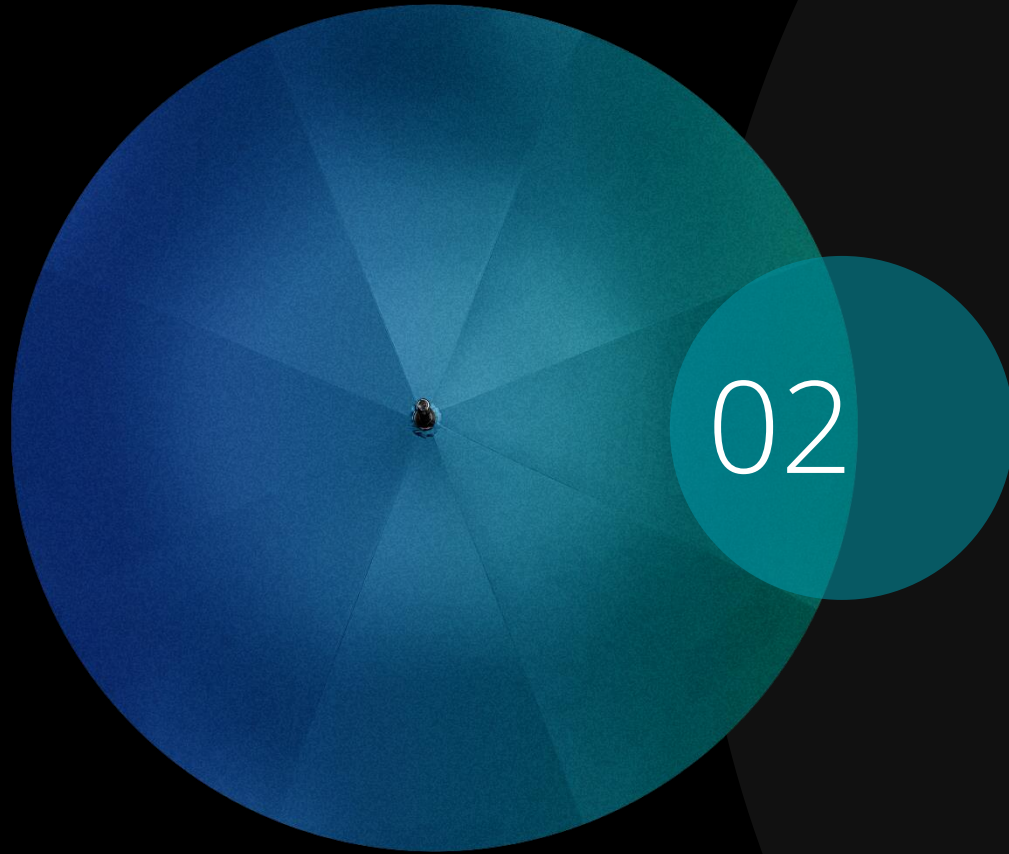
Based on this historical experience and respondents' expectations regarding both current and upcoming projects, in the current report we also hypothesize about key challenges and opportunities that may occur in future, in the course of innovative insurance projects, trends observed on this market, the parties' willingness to strengthen the cooperation and build the future of insurance innovations in Central Europe.

An important aspect of our analysis involved comparing the development directions preferred by insurance companies and innovations they intend to implement with the current and projected offer of insurtech companies.



Key survey takeaways

- 01** Most of insurers perceive the growth of insurtech companies as a **motivation for insurers to improve the existing technological solutions** and do not consider it to be a material competitive threat.
- 02** Central European insurers **focus on basic innovations**. The insurtechs adjust their offer to meet insurers' basic needs.
- 03** Both insurers and insurtechs are **satisfied** with the **current and past cooperation** on innovation projects.
- 04** **Insurers do not limit the project success concept to finance**. They want to gain more than simply turnover increase or cost reduction.
- 05** Equity, revenue and VC are **main sources of funding** while research & governmental programs seem to be lagging behind.
- 06** There is a **limited window** of opportunity for an insurtech company to establish a well-functioning and recognizable brand on its way to success.
- 07** Insurers focusing on **non-life business** are more likely to carry out innovation projects in cooperation with insurtech companies than other insurers.
- 08** Insurers and insurtechs encounter different problems during the joint innovation projects, there are however obstacles frequently chosen by both parties. The biggest challenges in cooperation with insurers and insurtechs pointed out by both parties include budgets and high confidentiality of data.
- 09** There is significant difference of opinions between insurers and insurtechs related to time needed to implement innovative solution in insurance company. Insurtechs expect their solution to be implemented much faster than it is observed by insurers.
- 10** In terms of opportunities to win profitable projects within the nearest five years, **Western European markets are considered most promising by insurtechs**.



Introduction

Introduction

We are witnessing rapid changes in the business environment. In recent years, technological development has accelerated considerably, forcing many companies, including insurers, to reassess their priorities. The currently introduced technological solutions are just first signs of the transformation awaiting all insurance market players in the nearest future.

According to Deloitte report **“2023 insurance outlook. Global insurance industry at crossroads to shaping long-term success”**, insurers should move from infrastructure investment to value realization:



Insurtech companies, which focus their business operations on implementation of technologically advanced solutions for the insurance market, are key promoters of such changes. Hence, it is crucial for solutions offered by these companies to meet actual needs and demands of insurers.

In 2022, Polish Actuarial and Insurance Solutions Team, in cooperation with other Deloitte teams from Central Europe, conducted a survey entitled “Technological development on the CE insurance market. Cooperation of insurers and insurtech companies: challenges, opportunities and trends”. The survey consisted of two separate questionnaires, addressed separately to **insurers** and to enterprises introducing technologically advanced solutions on the insurance market (referred to as **insurtech companies** or **insurtechs**), which originate from Central Europe.

For the purpose of this survey, **insurtech** is defined as a company offering technological solutions that may be used in the insurance industry, although it may serve clients from various sectors.

For the same purpose, an **innovation project carried out in cooperation with insurtech companies** is defined as all activities contributing to the introduction of innovative technology solutions carried out in an enterprise with external support, both in the form of a chargeable project and free-of-charge pilot/ proof of concept.

► The main goals of our research



To identify and understand insurance companies' needs regarding new technologies

The growing interest of insurance companies in new technologies is undisputed. Rather than asking: "Is technological development on the insurance market actually needed?" most insurers are trying to understand what specific solution would best fit their business development needs and customers' expectations. And, unfortunately for providers of technological solutions which would like to start a cooperation with insurers, a simple and general answer very often does not exist. Technological needs as well as scope of innovation will vary significantly among insurance companies.

Even within one company, identification of a specific solution that would help to solve current business challenges may not be an easy task. Lack of resources, short-term tasks and responsibilities very often limit the potential for extensive strategical planning and analysis.

Without a proper market overview, key stakeholders may even not be aware that technological solutions reducing their daily burdens may be at their grasp.

It is extremely dangerous, as their market position may quickly deteriorate, should a competitor implement an innovative solution first, taking advantage of the available technology benefits.

It is therefore crucial for insurers to properly identify and meet the need of innovation.

The study has helped us to indicate current and future development areas identified by insurers on the CE insurance market. It may serve as an inspiration for all insurance companies looking for future development opportunities.





To check the offer of insurtech companies and compare it to insurers' needs

The recent development on the insurance market has created a new opportunity for technological companies that offer innovative solutions potentially useful for insurers. Cooperation between insurers and insurtechs is often beneficial for both sides. However, in order to succeed, the insurtechs' offer should match insurers' development needs (identified or not). Insurtech companies may suggest a specific solution or a development direction not considered before by insurers, but all potential solutions should answer a specific business need. Discovering key insurers' pain points may create a competitive edge and build a future success of an insurtech.

In the study we have checked whether products and services provided by insurtech companies are well-suited to current and future trends on the CE insurance market. Insurtechs could use the identified gaps to improve their offer and to contribute to further development of the market.



To check the readiness of insurance companies to start cooperation with insurtech companies and the frequency of such initiatives

This question has many interesting aspects as the relation between insurtech companies and incumbent insurers is multidimensional. On the one hand, some insurance companies perceive insurtechs as competitors who boldly enter business domains run in a very traditional fashion. On the other hand, some believe that the rise of the insurtech industry may open up new opportunities for the established insurance companies.

The supporters of the second thesis believe that insurtechs can either motivate insurers to embrace new technologies, develop new products and approaches on their own, or establish mutually profitable partnerships with insurtech companies, leveraging the knowledge and solutions already developed by the latter. This, however, is not a universal recipe for success. Unfortunately, the history of cooperation

with insurtech companies is full of examples of failed initiatives. In such cases, insurtechs very often complain about insurers' rigid structures, prolonged decision-making processes, and reluctance to take any risks. Insurers counter these accusations and claim that insurtechs do not understand the complexity of insurance business and the related regulatory burden.

We wanted to understand whether this long-lasting deadlock occurs on the Central European market, too, or whether insurtechs and insurance companies in the region have managed to resolve it and move forward for mutual benefit.



To analyse insurtech trends in Central European countries and compare their individual development levels

Technological growth may be driven by a number of factors, such as the macroeconomic standing of the insurer's country of residence, maturity and specificities of the local insurance market, access to talents and community's readiness for innovation.

We wanted to analyse differences among regions/countries in Central Europe in terms of technological maturity (expressed both as a number of carried out innovation projects and the scope of such projects). Moreover, we wanted to analyse whether any common trends regarding insurtech development can be observed, for example regarding specialization (e.g. whether companies from one region tend to invest more in pricing projects whereas those from another region mostly carry out project related to fraud detection).



To analyse and compare tools used by insurtech companies and insurers

Identification of current needs and future trends related to new technologies used on the insurance market is just the first step in the transformation process. To implement new solutions, new tools (not limited to software but wider ones, including IT architecture) and specialist knowledge are needed.

Further organisation-wide consequences include new requirements regarding talents and modes of cooperation between insurers and insurtechs.

We compared tools and solutions most frequently used by insurance and insurtech companies.

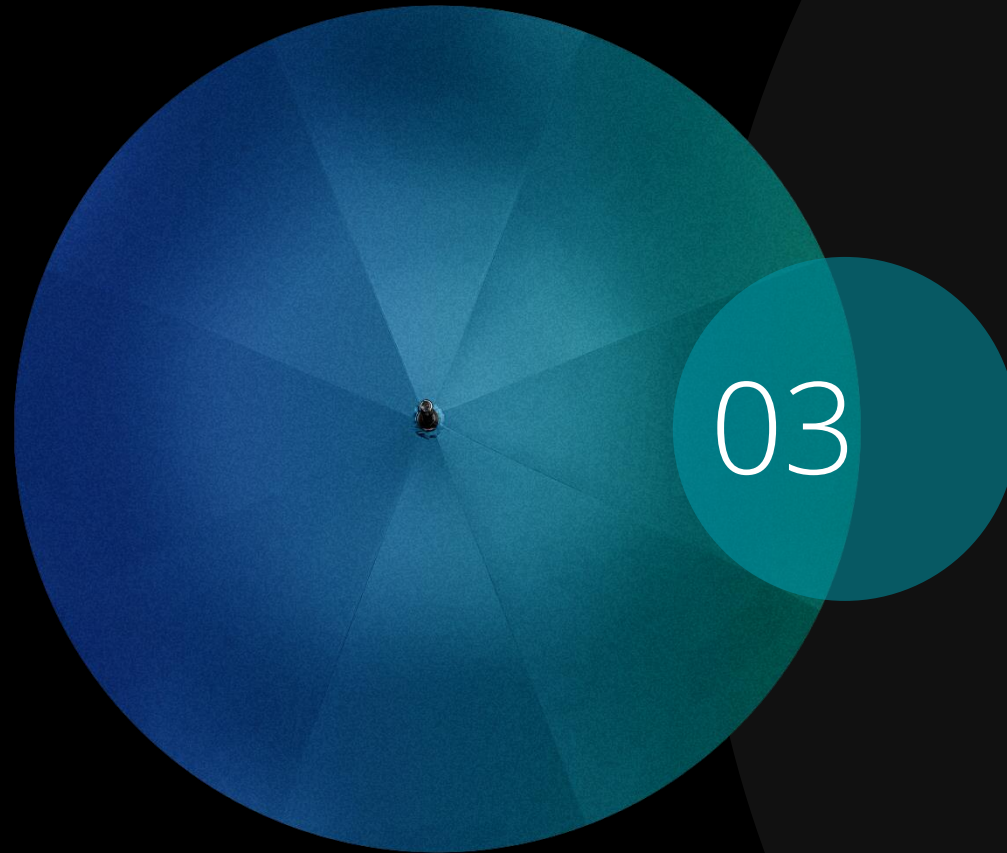


To find out whether the rise of the insurtech business is perceived by Central European insurers as a threat or opportunity

Opinions regarding the role of insurtech companies and their influence on insurance market differ considerably. Technology enthusiasts claim that insurtechs' agility and innovative drive pose a deadly threat to traditional insurers. They believe that the "insurance company of a digital era" will evolve from an insurtech business. Other support the view that insurtechs are ephemeral and thus cannot compete with the legacy and history of big insurance companies, which have so far survived many challenges and transformations. Another group believes in a more balanced scenario of coexistence, with insurance companies and insurtechs support one another to develop and refine their key strengths for their mutual benefit and satisfaction of their clients.

We have collected opinions provided by local insurance and insurtech entrepreneurs to understand the Central European perspective in this debate.





03

Methodology

Methodology

The research was conducted in 2022 in the form of two on-line surveys addressed separately to insurtech companies and to insurers from Central Europe.

Each questionnaire was divided into 3 parts:

-  Past experience and projects
-  Key aspects of cooperation with insurtechs/ insurers
-  Information about the company

The survey was anonymous and open to all insurance and insurtech companies operating in Central Europe. Answers provided by other companies were excluded from the analysis. The following countries were included: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Czech Republic, Estonia, Lithuania, Latvia, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Hungary, as well as Ukraine.

As regards insurance groups present in the region, all subsidiaries were free to answer the questionnaire independently in order to account for potential regional and business differences. Potential participants were informed about the survey via social media channels such as LinkedIn or directly by Deloitte's consultants.

Respondents (individuals representing the respective companies) were selected in a manner ensuring that sufficient knowledge of all innovation processes and projects carried out in each company to provide fair representation of the entire business as opposed to a specific department. As far as insurtech companies were concerned, responses were provided mostly by their founders or sales/marketing directors. In case of insurance companies, the respondents represented the senior staff, including management board members, directors and managers. Most questions had "I don't know" option available for respondents lacking sufficient knowledge in a specific area.

The collected data were grouped and analyzed by region: Baltics & Poland, Czech Republic & Slovakia, Hungary & Adriatics, Bulgaria & Romania & Ukraine. Baltics included Estonia, Lithuania and Latvia; Adriatics covered Albania, Bosnia and Herzegovina, Croatia, Montenegro, Macedonia, Serbia and Slovenia.

The purpose of the regional approach was to allow collecting sufficient data to analyse and compare, and to highlight trends observed in adjacent countries as a result of cultural similarities and similar GDP levels. Although the survey was to include both insurers and insurtech companies to ensure fair representation of the CE market, we were unable to obtain responses from the market as a whole. Had the respondents been different, the final conclusion could change.





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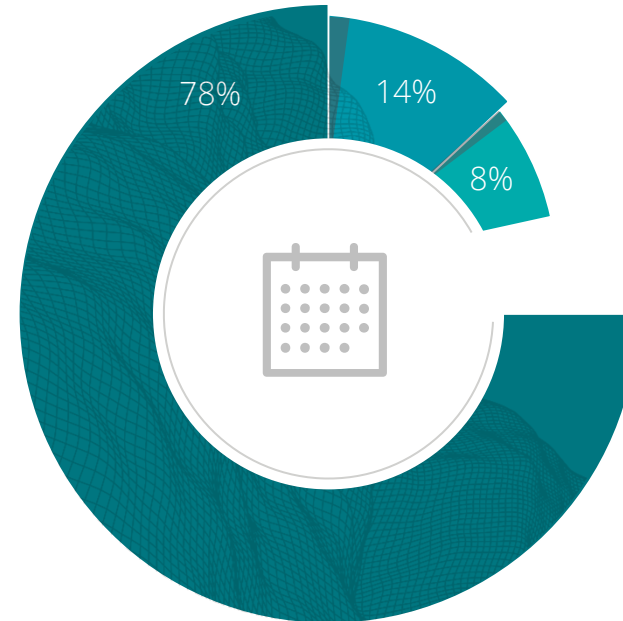
Participants: overview



Considering the age and size of the surveyed insurance companies, the most of them are large companies with several years of experience on the insurance market.

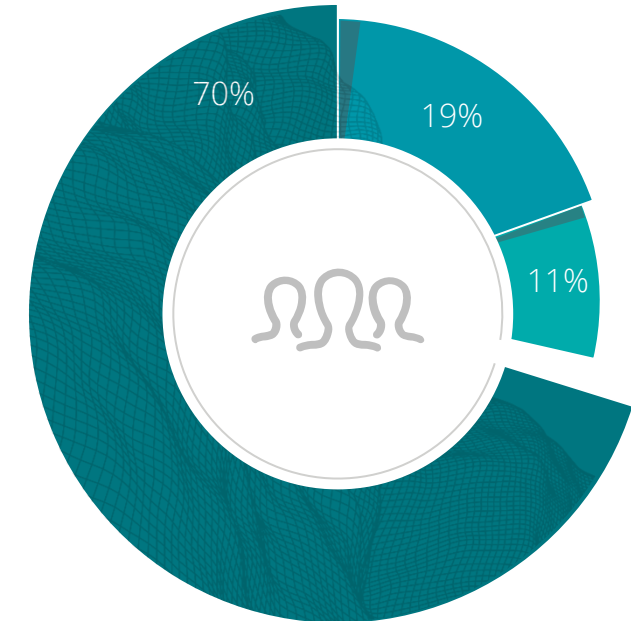
An analysis prepared by OECD indicates that the average employment in insurance companies in certain Central European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia) is 243, so the participants of our survey are believed to represent the average-sized or bigger-than-average insurance companies operating on the CE market.

How **long** has your **company** been present in the market?



- More than 15 years
- 3-10 years
- 10-15 years
- Up to 3 years

How **many people** are employed at the company?



- More than 250 (large enterprise)
- 51-250 (medium enterprise)
- Up to 50 (small enterprise)

Insurtech companies

We have collected **31 answers** from insurtech companies.

Their business approach is more flexible than that of insurers. Quite often they carry out their core business in more than one country. No information about their country of incorporation is available.



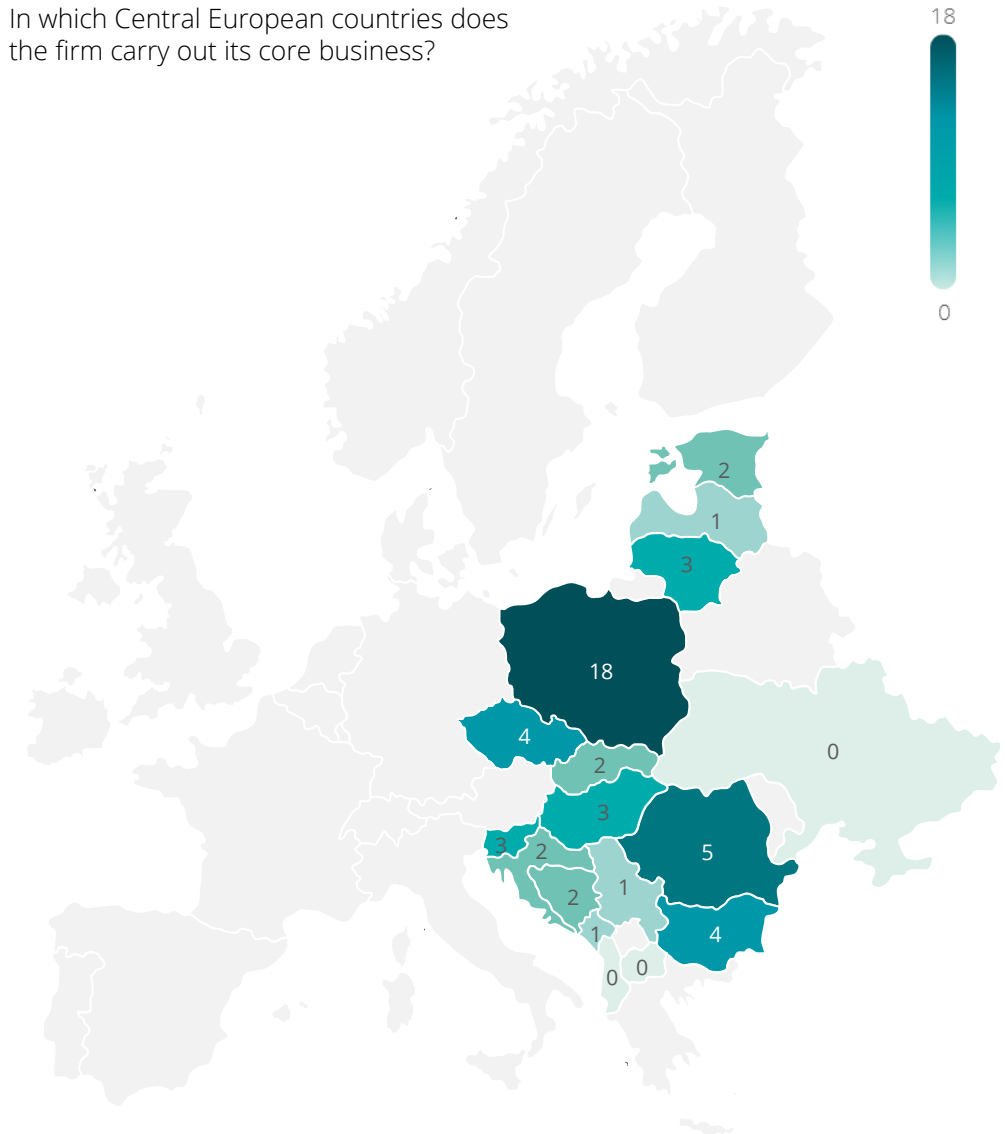
REGION	NUMBER OF RESPONSES - INSURTECH COMPANIES*
Baltics & Poland	24
Czech Republic & Slovakia	6
Hungary & Adriatics & Ukraine	12
Bulgaria & Romania	9
Total	51



We asked the insurtechs about their core business offer. They could choose one or more **products/ services** from the following list:

- Platforms/ tools for insurers' day-to-day activities: sales platform/tools, policy handling platform/tool,
- Solutions for improvement of insurers' product offer: healthtech solutions, solutions supporting generation of innovative insurance products, innovative insurance pricing solutions,
- Tools for data analysis: innovative data analytics solutions, loss amendment
- Automation tools and solutions: document processing and OCR, solutions supporting automation of internal processes
- Security improvement products: cybersecurity solutions, insurance fraud detection
- Innovative solutions supporting customer service and customer experience.

In which Central European countries does the firm carry out its core business?





The products and/or services offered by the insurtechs participating in the survey vary significantly depending on the region of their activity.

In the Hungary & Adriatics region, most of the surveyed companies offer **data analytics** solutions, **insurance fraud detection** or **document processing and OCR**

In the Czech Republic and Slovakia, the full range of insurtech products is available with no visible area of specialization

In Bulgaria and Romania **data analytics** and **insurance pricing** solutions are the most popular

In Poland and Baltic countries, the insurtech companies offer mostly **insurance pricing** solutions, those supporting **generation of insurance products** and **customer services**. **Automation of internal business processes** is also popular

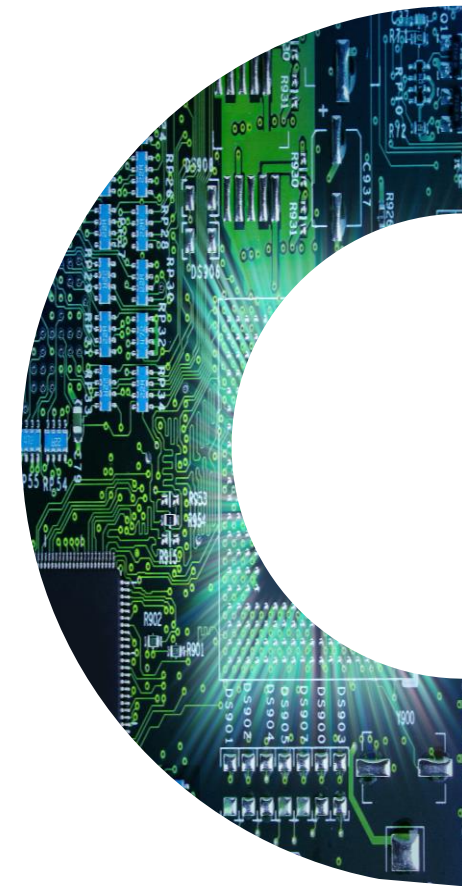
Certain dependencies and correlations among the solutions offered can be observed.



Almost **86%** of insurtech companies offering insurance fraud detection tools

offer also innovative solutions supporting customer service and/or customer experience, probably because:

- **Certain insurance** fraud technologies may use content analysis of images, which can be applied in underwriting or claim handling procedures;
- **Fraud detection** is closely related to analysis of customer behaviour; similar solutions, patterns and technologies can therefore be used to both improve customer experience and detect fraud.





A similar correlation was observed between loss amendment (used to improve the claim handling process) and generation of innovative insurance products.

83% of insurtechs offering loss amendment solutions could at the same time offer support in the development of insurance products, where loss amendment is incorporated in the underwriting process.

Finally, **83%** of insurtech companies offering automation of internal processes at the same time

offer innovative solutions supporting customer service and/or customer experience. This is obvious, because:

- Internal procedures and customer service processes often can be supported by the same tools, e.g. those allowing document processing, OCR or data extraction;

- Automation of internal processes accelerates operations performed in insurance companies and can improve customer experience.

In order to stay competitive and win projects,

77% of insurtech companies flexibly adjust their fixed product offer and/ or extend it in line with needs presented by a specific client.

Only **6%** of insurtechs do not adjust their offer, either because they specialize

in a single area or because it would cost too much to include needs of individual clients. Such a strategy, however, does not necessarily rule out any chances to succeed, especially if dealing with a specialised product that responds to a specific need. The surveyed companies that do not adjust their offer have been in business for a few

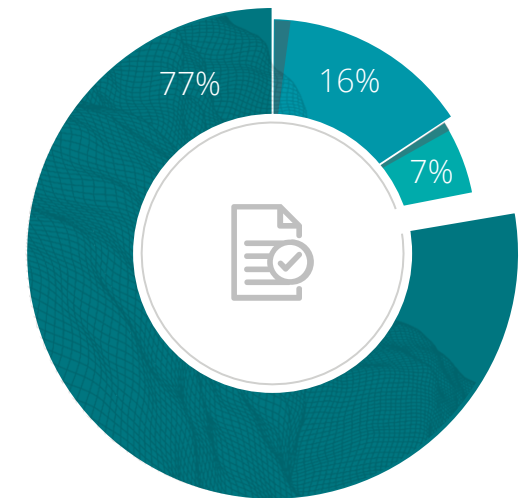
years and implemented at least two projects in cooperation with insurers during past three years. Please note that these companies offer a wide **range of innovative solutions**, so their standard offer might have already responded to most insurers' needs.

Sixteen percent of insurtech companies develop a new solution only when asked for it by an insurer.

Such projects performed for the last three years have usually involved process automation, digitalization of insurance sales and launch of innovative products.



Do you adjust your offer to the **needs signalled** by insurers?

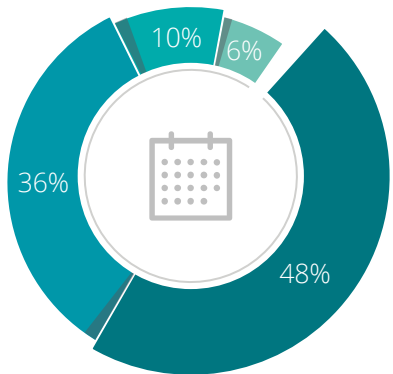


- Yes, we have a fixed product offer but we flexibly adjust and/or extend it in line with needs presented by a specific client
- Yes, we offer only products/services requested in the past by a specific insurer
- No, we only provide products /services included in our current offer



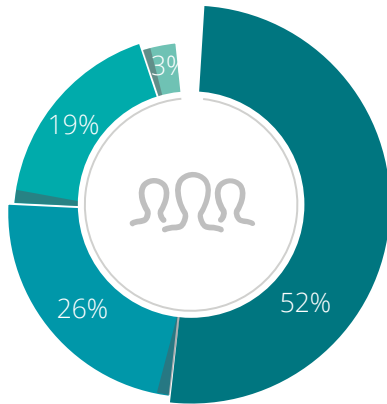
Insurtechs that took part in the survey are relatively young and small, which in our opinion follows the model of a startup, which promotes and develops new technologies and solutions.

How **long** has your **company** been present in the market?



- 1-4 years
- 4-10 years
- Up to 1 years
- More than 15 years
- 10-15 years

How **many people** are employed at the company?



- Less than 10 (micro business)
- 10-50 (small enterprise)
- 51-250 (medium enterprise)
- Over 250 (large enterprise)



The key funding sources used by the insurtech companies include **equity, domestic or foreign venture capital** and **revenue from completed/ongoing projects**.

Surprisingly, no survey participants obtained funds for development from governmental programs or research grants, which may indicate either:

- That the insurtech business has not become a focus area for Central European governments yet;
- That governmental programmes and research grants are largely unavailable for the insurtech companies, maybe because their innovations are not 'scientific' enough;
- That governmental programmes and research grants are less attractive for the insurtech companies than other sources of funding, maybe due to bureaucratic constraints and challenges.

“ EXPERT COMMENT

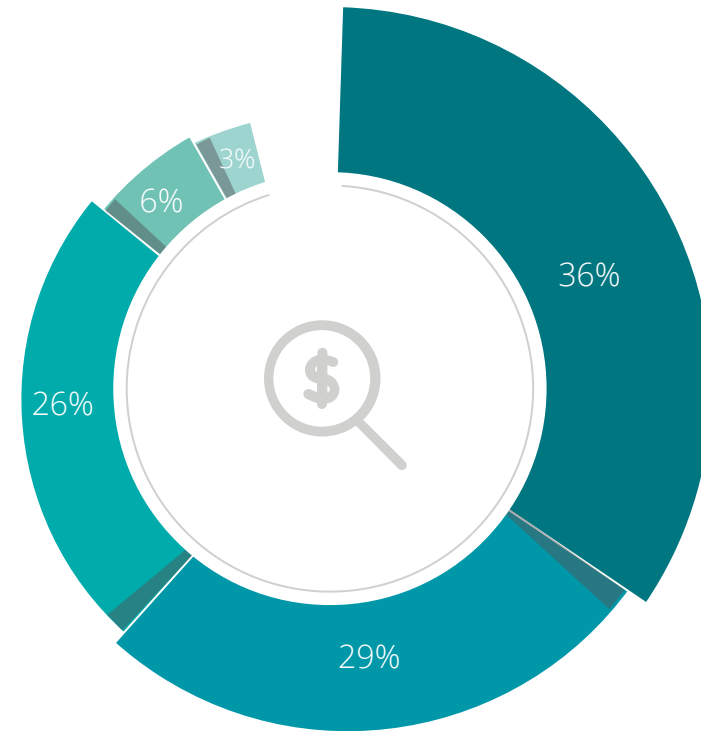
Jan Kastory, investor at [astorya.vc](#)

Importantly, VC funds that finance insurtechs, especially in our region, often represent as much as 50 to 80% of public funds (such as European Investment Fund, Polish PFR or similar local structures). VC funds manage the money in the same manner as professional asset managers, not as clerks, which provides substantial operating benefits, while the actual origination of these funds remains the same: these are public funds, often with a variety of restrictions. In such cases, the funds are used chiefly for very fast construction of technologies and tools. The R&D grant providers, though, restrict their use for technology commercialisation. The approach simply does not match market needs, which results in a loss of time and money, so important for insurtechs.

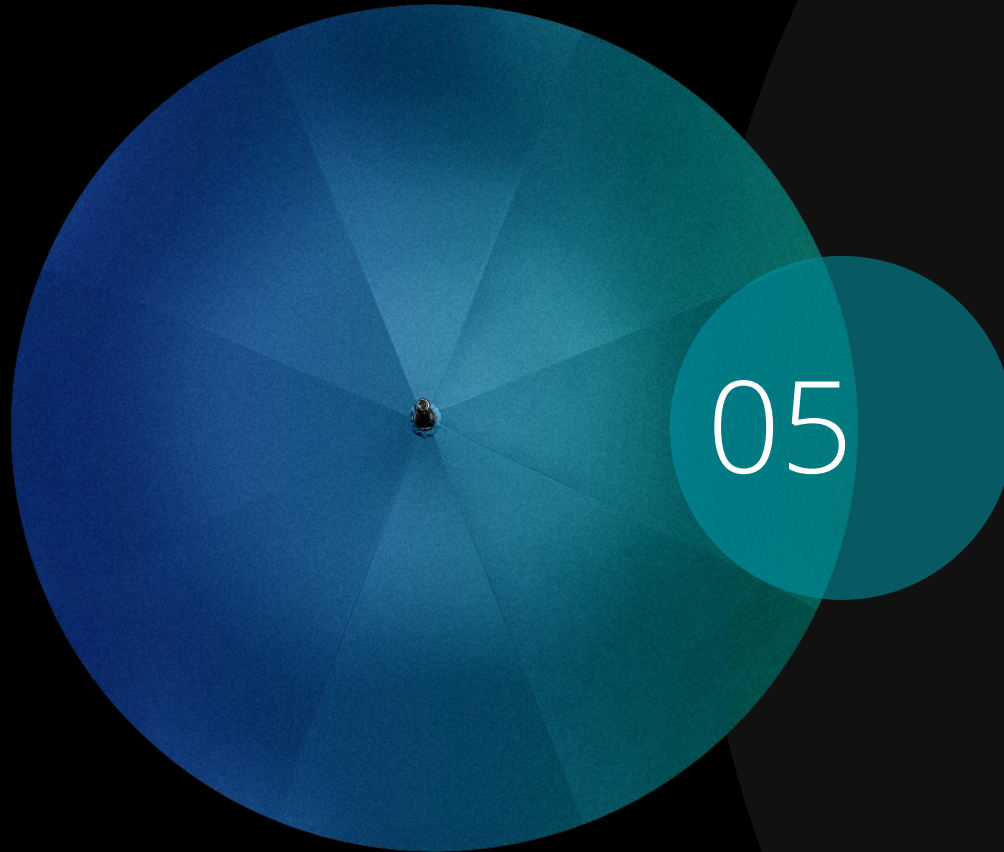


A relatively **high share of revenue** from completed/ongoing projects in the CE Insurtech financing mix is another interesting occurrence and evidence of the importance of insurers as movers and shakers of the insurtech business in Central Europe.

Going through a free-of-charge proof-of-concept phase before each implementation project may pose a substantial **challenge for most insurtechs**, especially those lacking necessary agility, in which the decision-making process regarding the chargeable project stages takes time. Many insurtechs may experience problems with the parallel running of several proof-of-concept initiatives before an established revenue stream allows sufficient funding of such activities.



- Equity
- Revenue from completed/ongoing projects
- Domestic or foreign venture capital
- Business angel
- Strategic investor
- Funds obtained from governmental programmes
- Accelerator
- Bank loan



Cooperation between insurers and insurtech companies

Cooperation between insurers and insurtech companies



Current and past experience

Insurers' perspective

We asked the insurers about their current and previous cooperation with insurtech companies.

As regards cooperation with insurtechs, the insurers seem to be very careful:



of respondents have not cooperated with an insurtech companies for last three years, and only



have cooperated with them on more than five projects.

Obviously, the bigger or more experienced company, the more projects in cooperation with insurtech companies it implemented in the past.

This may be an indication that more experienced or bigger companies have larger budgets assigned to technological

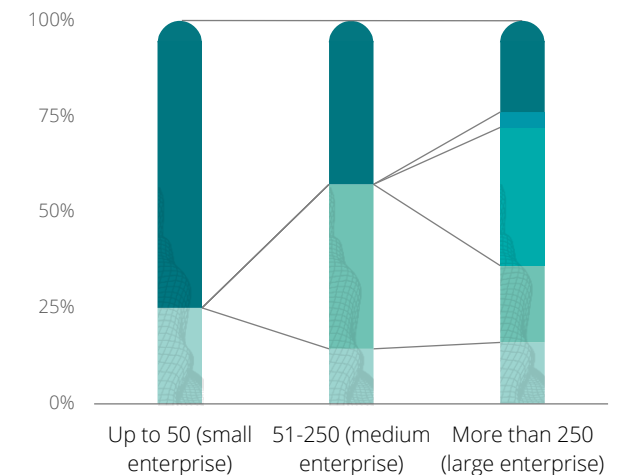
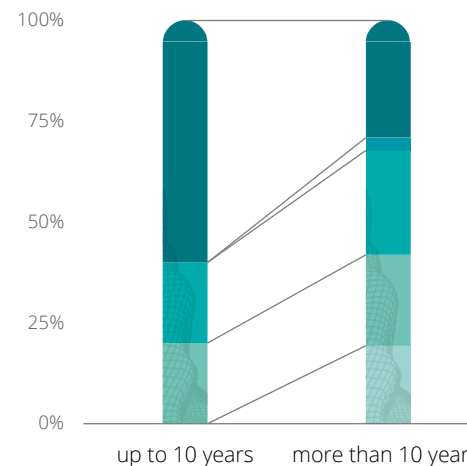
projects and/or well defined processes that allow efficient allocation of resources to new projects and further development. In some cases, they may want to be seen as trendsetters on their respective markets, so they boldly launch a number of collaborative projects, knowing that some of them may not lead to fully functional solutions.

Certain younger or smaller companies may still be too busy with day-to-day activities to have a sufficient budget or resources for such investments.

In case of small or medium insurers, this hypothesis is supported by projects performed over last three years that have included mostly process automation, sales digitalization and implementation of cloud-based solutions, which indicates that these companies have invested mostly in the improvement of existing processes and operations as opposite to innovative solutions helpful in achieving technological competitive advantage.

Besides, smaller companies with limited budgets take more measured risks. Being more risk-averse, they tend to initiate projects that may be less visionary, but focused on smaller improvements and less prone to failure.

How many projects in cooperation with Insurtech companies has your company carried out during last three years?



- So far we have not performed any project in cooperation with an Insurtech company
- More than 5 projects
- 4-5 projects
- 2-3 projects
- 1 project



Comparison of the past experience of various CE countries indicates that Bulgarian, Romanian and Ukrainian insurers are the most involved in innovative projects carried out in cooperation with insurtech companies.

It is an interesting observation, as these insurance markets are less mature than the biggest ones in the CE region.

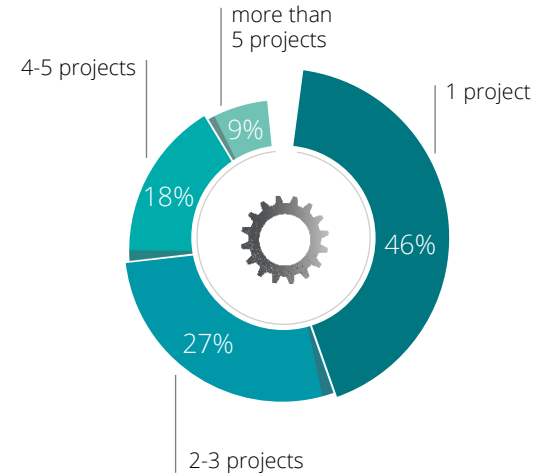
In most cases these are companies with over 15 years of business experience. However, the projects they have performed during last three years have included mostly process automation and digitalization of insurance sales, i.e. focused on the improvement of the existing operations as opposite to investment in most innovative technologies or improving the product offer (e.g. introducing innovative products or adjusting the pricing) to achieve a competitive advantage.

It may imply that our Bulgarian, Romanian and Ukrainian respondents have invested mostly in innovations necessary to effectively operate in rapidly changing conditions.

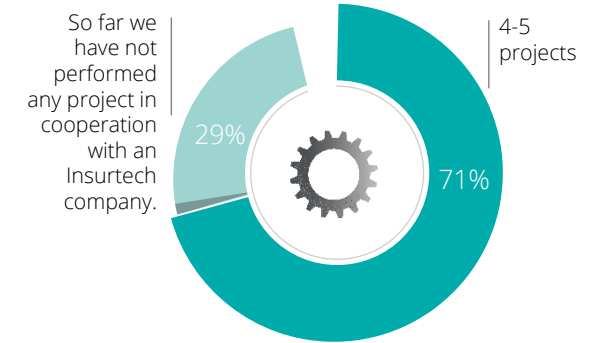
If this conclusion is true, it may mean the investments have been meant to catch up with biggest CE insurance markets, especially that innovation budgets in these companies are still relatively small in comparison to the other entities operating on the CE market.



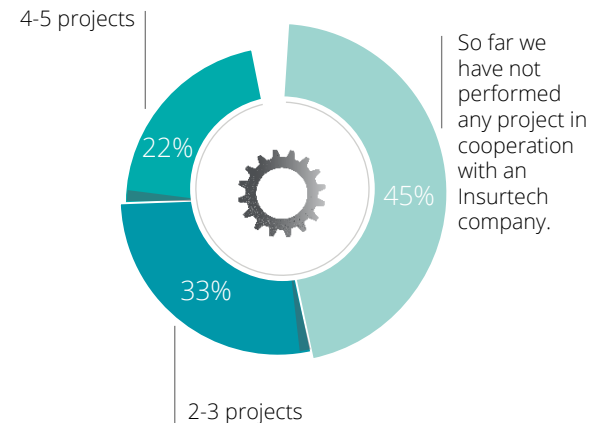
BULGARIA & ROMANIA & UKRAINE



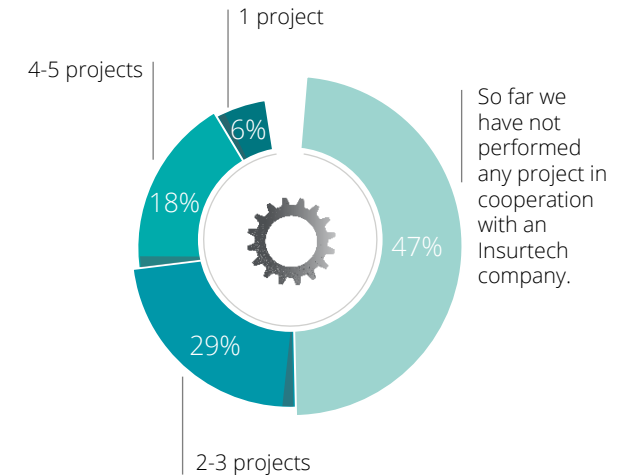
HUNGARY & ADRIATICS



CZECH REPUBLIC & SLOVAKIA



BALTICS & POLAND





Enormous opportunities open up in relation to **new projects**, though.

Albeit **30%** of respondents have not carried out a project in cooperation with an insurtech company yet, they indicate a need to cooperate with such partners. Such cooperation has not been launched so far mostly due to:



lack of resources necessary to carry out such projects (**45%** of responses) and



lack of sufficient funds (**36%**).

As far as **Poland and Baltic countries are concerned, lack of sufficient funds is the key obstacle**. Insurtechs could use this information to increase their activity in this region, e.g. by changing the form of cooperation with insurers. Establishing an acceptable financing scheme may encourage some insurance companies to initiate first joint projects.



EXPERT COMMENT

Jan Kastory, investor at astorya.vc

Some enterprises have not commenced any cooperation with insurtechs also because there are not many of them on the CE market. In France, insurers interested in innovative technology services can choose from offers of over 200 insurtech companies. In Central Europe, there are about 80 insurtechs, with about 25 operating in Poland. At the same time, most insurtechs originating from Western Europe do not perceive the CE region as sufficiently attractive. Most of them, having developed their domestic business, will look for markets of at least comparable size. This is a highly negative occurrence, as, unless CE insurers proactively challenge the status, the technology gap they face may grow.

For example, such schemes could include simple and low-cost proof-of-concept phase to demonstrate the applicability of a solution and then be followed by phased implementation that would allow an insurer to distribute the related costs over a longer period at the same time being able to upfront benefit from the solution. An alternative approach may involve changing the form of settlement from a fixed price independent of project's success to a profit sharing agreement.

The insurers from **Czech Republic, Slovakia, Bulgaria, Romania and Ukraine pointed out shortage of funds and resources necessary to carry out such projects** as main barriers. Both insurtechs (which could change the form of cooperation to overcome the risk of insufficient budgets) and the management of insurance firms may find the information useful (the staffing constraints related to the number and skillset of employees are slowing down technological development). Judging from responses received from the discussed countries, acceleration

of innovation initiatives will be impossible without changes to the current staffing policy. In order to succeed in the ongoing technological revolution, market players need to change the status quo. Without this, even substantial funds earmarked for cooperation with companies specializing in technological innovations will not guarantee success.

The respondents from **Hungary & Adriatic region believe that the current insurtech offer available on the market is not suited to their current needs or priorities**. For insurtechs interested in expansion on new markets, information regarding the planned development of regional market players accompanied with lack of suitable offers addressing their needs may open up opportunities to launch new, profitable projects on the one hand, on the other indicating an urgent need to widely promote their activities. According to the collected responses, certain insurtech offers available on the CE market could fit the needs indicated by insurers operating in Hungary and Adriatics.



Only **8% of insurers** feel no need to cooperate with insurtech companies, because:

- at present, they can see no possibility to further develop technology innovations (**67%** of answers) or
- they have internal teams that develop and implement innovative solutions, so no external support is needed (**33%**).

The above answers were provided by small or medium life insurers from Poland and Czech Republic. Importantly, they have never cooperated with insurtech companies, so their approach could change after such experience, especially that according to our research, **most insurers who have already initiated cooperation with insurtechs are satisfied with it.**

Insurtech perspective

We asked insurtechs similar questions regarding their experience of cooperation with insurance companies. Our respondents have considerable market experience, but remain at an early stage of development. Only 10% of companies have not performed any project in cooperation with insurers so far, and almost one-third of respondents have completed more than five projects.

The same as with insurers, the bigger company, the more projects it performs. The correlation, however, might be of a different nature than in case of insurers. While it is believed that bigger insurer can afford a greater number of projects due to sufficient budgets and other resources, in case of insurtechs the cause-and-effect relationship may be opposite: insurtech companies do not have much time to grow to a suitable size. Less successful enterprises quickly go out of business. Thus, the word 'experience' becomes a synonym of the word 'success'.

No strict correlation is observed with regard to the age of the insurtech companies.

On average, those with one to four years of market experience have performed more projects than older players that have stayed in business for four to ten years.

It may mean that the window of opportunity for insurtech companies to establish well-functioning and recognizable brand and to succeed is limited, and once it passes, they may find it difficult to further develop their solutions and quickly vanish from the market.

Changes in types of projects pursued by insurtechs at different stages of their development may provide another explanation. Newly established ones may focus on dynamic presentation of the developed solutions, so they carry out large numbers of smaller projects for several insurers at the same time. After a while, as they become capable of contracting large, long-term projects, the nature of their work will alter.

Both hypotheses suggest that long-term focus on smaller projects may not be a successful strategy for insurtech companies.



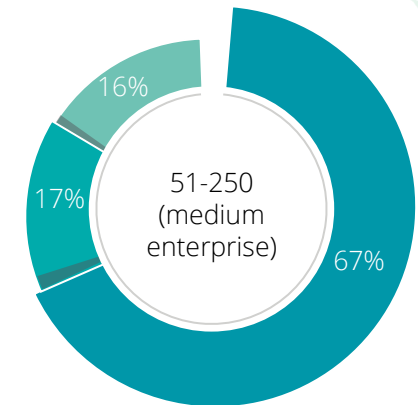
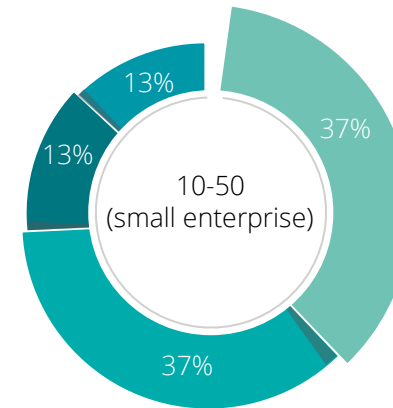
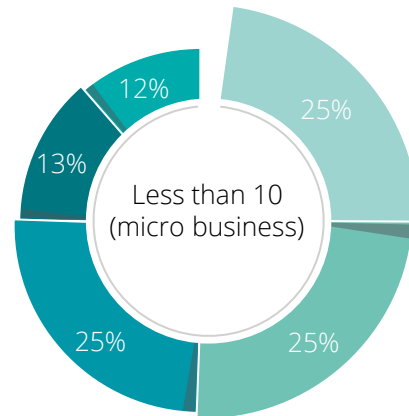
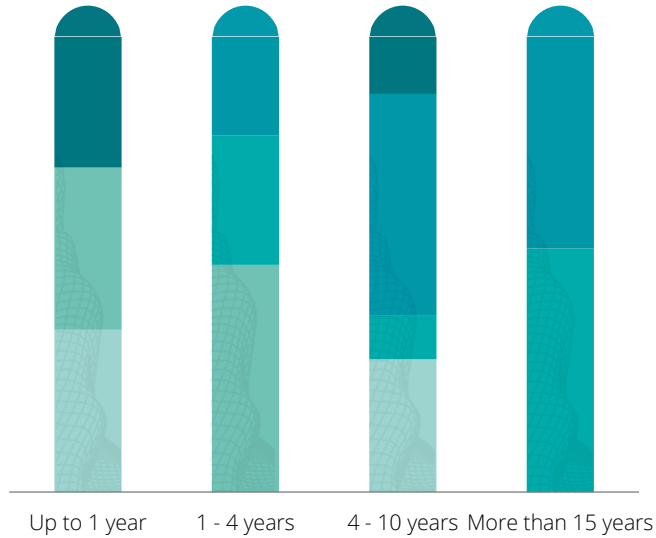
EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

This results from the startup funding specific, including insurtechs. During pre-seed and seed rounds, funding decisions are based on founder's experience and on whether the idea in question may produce a solution of a business problem important for a given industry. At the same time, with regard to series A, which usually occurs some 18-36 months of the commencement of operation, a specified business traction is required. If too small, it may raise doubts of investors. The insurance sector is very slow, with sales cycles taking even 18 months. And this is when many insurtechs go out of business. Of course, there are departures from the model. Some fintechs and insurtechs that have achieved enormous business success survived prolonged periods of stagnation followed by rapid growth. In this business, it is not a solution itself that counts, but the market momentum and efficient cashflow management in, let us remember, still unprofitable entities.



How many projects in cooperation with insurers has your company carried out during **last three years**?



- So far we have not carried out any project in cooperation with insurers
- More than 5 projects
- 4-5 projects
- 2-3 projects
- 1 project

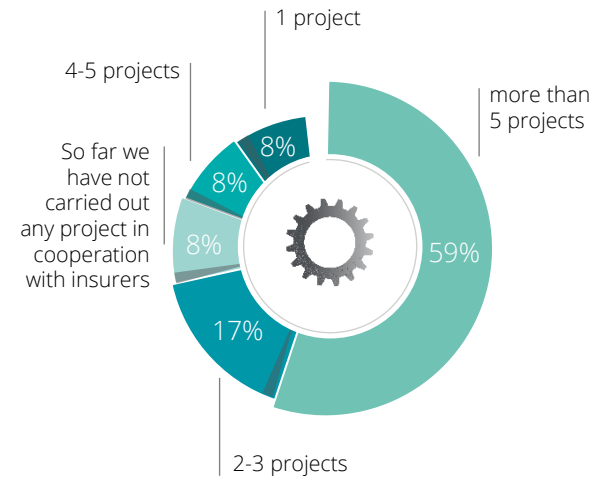


When analysed by geography, **the most active insurtech companies** (in term of number of projects) **are those operating in the Czech Republic and Slovakia** (all insurtech companies from this region have carried out two or more projects in cooperation with insurers during last three years) **and Hungary and Adriatic countries** (only 16% of them have carried out one project or no projects at all).

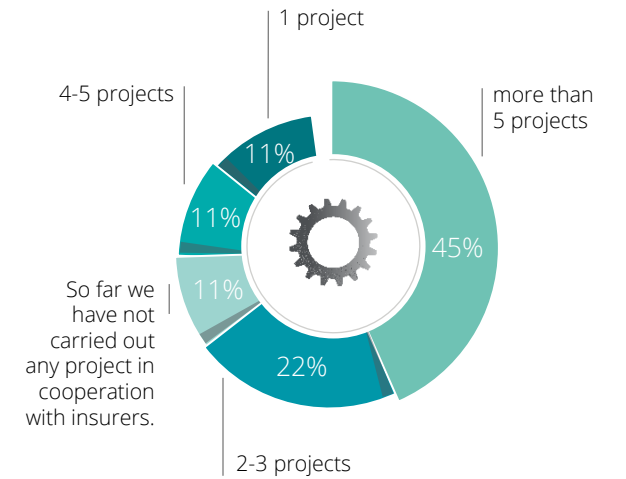
Insurtechs from Poland (which is the best represented country in terms of the number of insurtech companies carrying out their core business) are firms in each stage of development: 11% have been in the business for maximum one year; 50% have one to four years of experience, while 33% have been present on the market for four to ten years, and 6% for over 15 years. Strong representation of different

development stages may indicate that the Polish insurtech market is more mature than the other ones in CE. A detailed analysis of the scope of projects carried out in Poland and Baltics, as presented further herein, reveals that (unlike in other regions) process automation is not as popular as implementation of more advanced solutions, which is another argument in favour of maturity.

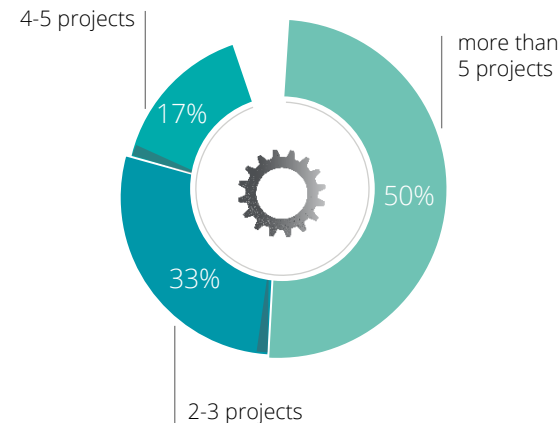
HUNGARY & ADRIATICS



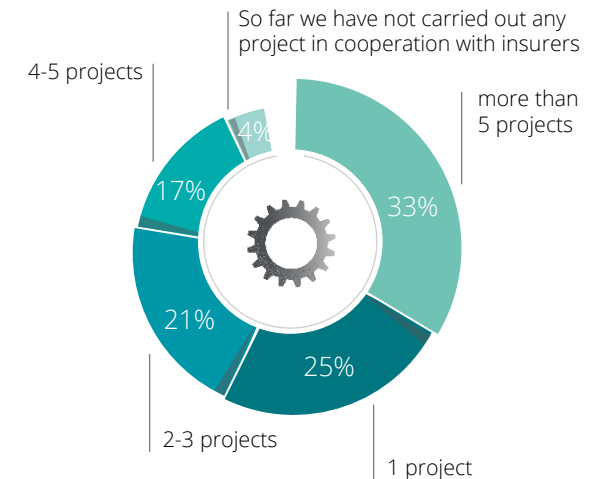
BULGARIA & ROMANIA & UKRAINE



CZECH REPUBLIC & SLOVAKIA



BALTICS & POLAND





The structure of the questionnaire has disallowed a comparison of projects carried out in each region, since the respondents could indicate several countries of operation and the survey included selected companies only. Nevertheless, an analysis of the Czech Republic & Slovakia region, where:



of insurers participating in the survey have not carried out any project in cooperation with insurtech companies so far; and



all insurtech companies participating in the survey have carried out at least two projects in cooperation with insurers during last three years;

allows a conclusion that insurtech companies perform several projects with the same insurer, which is supported by the high level of satisfaction with the cooperation with insurers expressed by insurtechs as presented further in this report.

Answers provided by insurers may differ so much from those provided by insurtechs also because the latter are more willing to cooperate with insurers both from the region they operate in and from other regions.



Project lifecycle

Among others, the survey was intended to identify and understand insurers' demand for new technologies and to learn how they introduced them in practice, in particular with regard to cooperation with insurtechs.

We analysed the lifecycle of such projects, beginning from priorities and motivation regarding disruptive ones, all the way through the measurement of satisfaction after their completion.





Project initiation

We asked both insurtechs and insurers who initiated innovation projects to find the answers to the following questions:

Which party usually initiates the cooperation between insurers and insurtech companies?

Is there any correlation between the initiating party and the success of the implementation/satisfaction with the implementation?

We wanted to check whether, as insurers know better what they need, projects based on this assumption are more effective

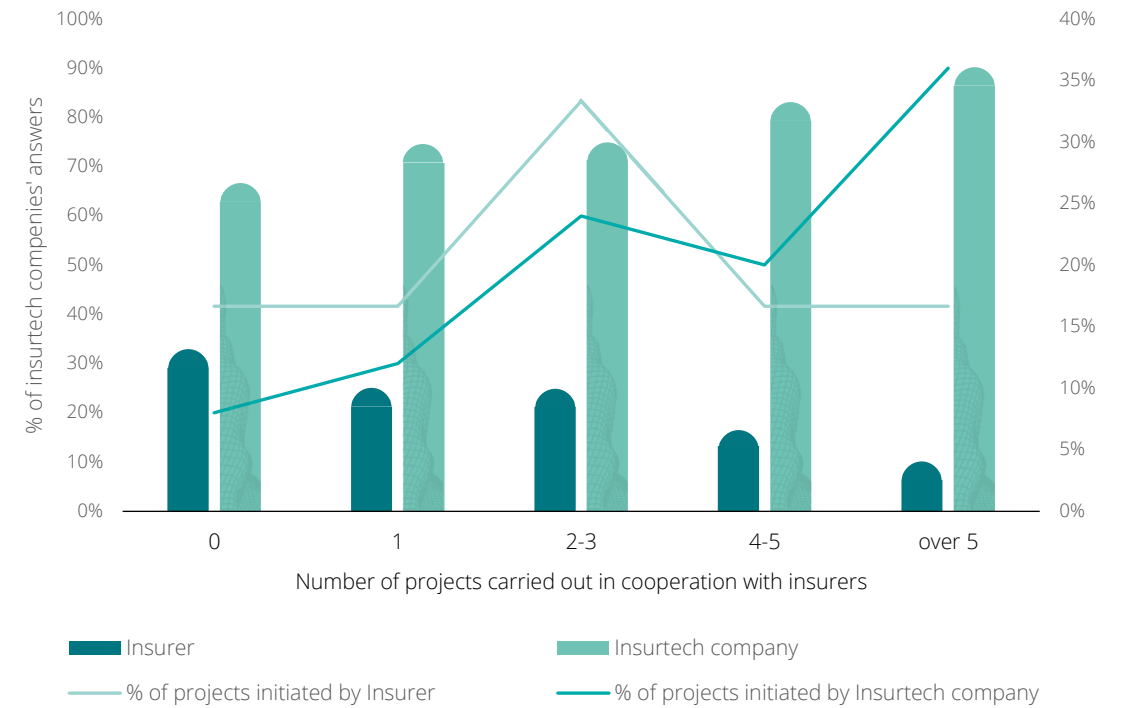
and likely to succeed, or whether insurtechs, having better understanding of most innovative solutions, are able to suggest the implementation of bold and most disruptive ones, not included into insurers' agendas yet.

Interestingly, judging by the answers, each group of our respondents has a different opinion in this respect.

Most of insurtech companies which took part in the survey (81%) initiate the cooperation with insurers. Although it doesn't always end up in the launch of a project, this strategy seems to be more successful in terms of the average number of completed projects.

The average number of projects carried out in cooperation with insurance companies is higher in the case of proactive insurtechs.

Who usually initiates projects?





Interestingly, most of insurtechs (**83%**) who do not actively approach insurers directly but wait for their initiative cooperate or consider commencing cooperation with companies outside the insurance market.

Two alternative explanations are possible:

01

The companies are already providing their services on non-insurance markets. As a result, they do not need to look for clients in the insurance sector, although they know the technology they have developed may be useful for them.

02

Products promoted by insurtechs are dedicated for insurance clients, but they are not interested (for example because insurtechs are passively waiting for them to get in touch, or because they have misjudged their products), which makes insurtechs look for clients elsewhere.

Importantly, the respondents have assessed their historical cooperation with insurers as satisfactory (83%) or neutral (17%), so their current passive attitude does not result from negative experience.

According to insurers, the case is quite different: they maintain to have initiated nearly every other innovative project. Interestingly, projects originating from insurtechs have received less favourable assessment than the ones originating from insurers, most frequently because they were overly ambitious and ill-adjusted to the conditions of the insurance market, which was usually not the case with regard to projects initiated by insurers, who seem to commence cooperation with insurtechs only when a solution proposed by the latter is clearly seen as suitable to meet their needs.

Insurers seem to be much less willing to take risk and invest in new technologies or business ideas unless there is a clear use case related to their field of operation.

Thus, it may be concluded that projects initiated by insurers according to their specific needs are much more effective (for example due to better allocation of resources or prioritization).





Project duration

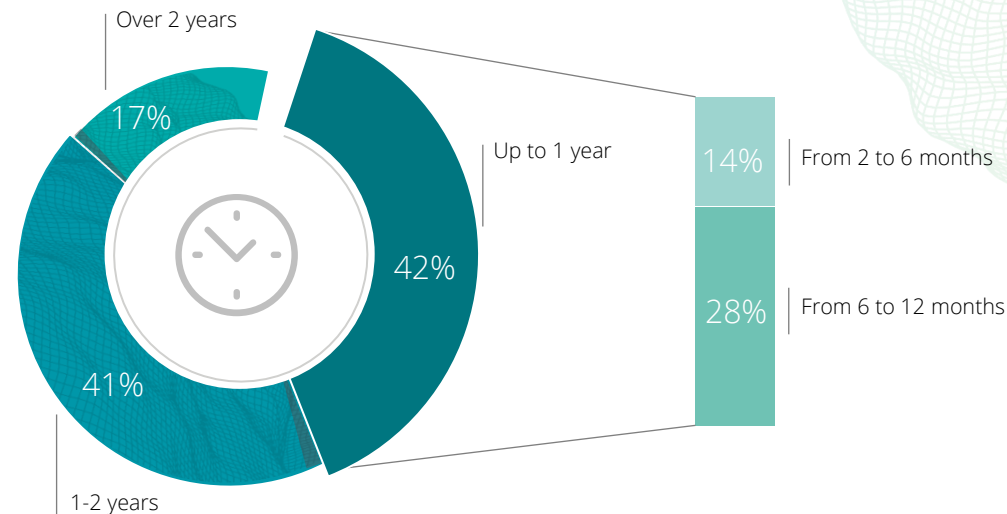
We checked the average duration of an innovative project performed by insurance companies in cooperation with insurtechs. We have observed similar differences in opinions and assessments.

Insurers' experience suggests that less than half of the projects (42%) ended within a year and 17% took more than two years.

Projects related to customer experience were usually the shortest ones (most of them were completed within a year). Those related to tariffication and price restructuring usually took longer than a year and were the most expensive ones. We have not identified such correlations of project scope and duration in other areas, which might suggest that the duration of other projects is more volatile and can vary significantly depending on the scope of work, companies' capabilities and encountered challenges.

The longest-lasting projects performed by insurtechs participating in the survey include policy handling platforms / tools and loss amendment. Interestingly, pricing projects (indicated by insurers as the longest-lasting ones) should not last longer than a year according to insurtechs; 76% answers indicated they should be completed within 6 months.

What is **the average duration of an innovation project** in insurance company?





The comparison of the abovementioned assessment with the average time necessary to implement insurtech solutions in an insurance company according to insurtechs' responses is startling. According to the received answers, **52% of insurtechs' solutions could be implemented in 2 to 6 months.** The shortest projects (at least 80% of these projects should end up within 6 months or earlier) are related to:



Insurance sale platform / tools



Document processing and OCR



Innovative solutions supporting customer services/experience



Automation of internal business processes



EXPERT COMMENT

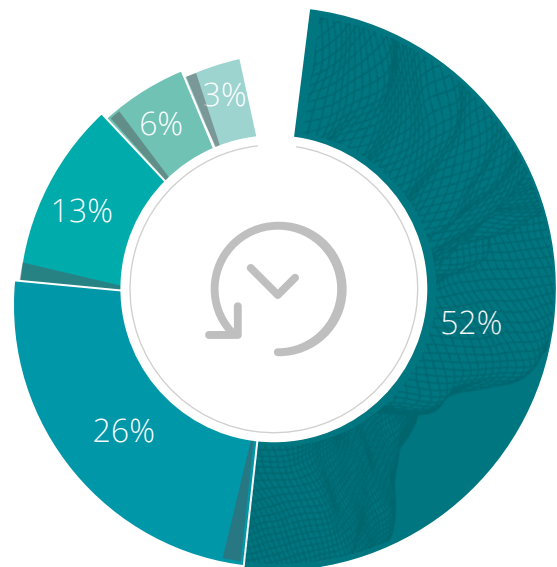
Jan Kastory, investor at [astorya.vc](#)

Probably this is one of the most pessimistic survey conclusions, although it fully conforms to market observations. If we extend the period of twelve to twenty-four months necessary for full implementation of an innovative solution as indicated by insurers by 18 months (the period usually passing from the commencement of negotiations between an insurer and an insurtech to the commencement of the implementation), we will find out that an average implementation project carried out on the CE market takes from 30 to 42 months. No insurtech has so much time.





What is **the average time necessary to implement your solution** in an insurance company?



- From 2 to 6 months
- From 2 weeks to 2 months
- From 6 to 12 months
- Up to 2 weeks
- 1-2 years
- Over 2 years

This significant difference of opinions between insurers and insurtechs requires further investigation.

It may indicate that assumptions made by insurtechs with regard to time necessary to complete their solutions are biased, or that they underestimate the time not taking into account actual working conditions of insurance companies, such as availability of resources, regulatory constraints or challenges related to IT systems, or that they are overly optimistic.

Additionally, both sides may differ in perceiving the project completion time. For an insurtech this may be the point when the technical implementation is finalised and its involvement ends. However, for an insurer, the process might be much longer, and include for example post-implementation stabilisation process or extensions and adjustments.



Challenges and opportunities

If an insurer faces significant challenges in the course of an innovative project carried out in cooperation with an insurtech, it may be highly reluctant to undertake similar projects with the same partner in future. In the worst case, the experience may discourage the insurer from further cooperation with any insurtech.

The cooperation may be adversely affected by a number of factors, such as communication barriers, insufficiently tested technology, external obstacles preventing the implementation of the solution in its entirety or decreasing its effectiveness, and many other.

It is crucial to understand what problems can arise during such projects and to deal with them before it is too late.

In order to let us better understand the reasons for possible challenges, our questionnaires touched upon the most

crucial and problematic aspects in the form of multiple-choice questions.



The respondents from insurance companies could indicate the **biggest cooperation challenges** they encounter on a closed list of **suggested answers**:

- Legal regulations
- High confidentiality of data that limits possibilities to implement certain solutions
- Necessity to adjust offered solutions to the existing data infrastructure
- Necessity to adjust offered Insurtech solutions to legal and organizational constraints applicable to insurance companies
- Communication barriers: Insurtech specialists in charge of solution implementation lack sufficient knowledge of terms and regulations related to the insurance business

- Communication barriers: designated employees of insurance companies have insufficient knowledge of technologies used by Insurtech companies
- Cultural differences
- Problems with commercialization of solutions
- Expectations of Insurtech companies regarding participation in the implementation process
- Too high financial expectations of Insurtech companies
- Too high financial expectations of Insurtech companies
- Insufficiently proven technologies
- Ambitious ideas not adjusted to insurance market conditions

The following challenges have turned out to be the **most important** for insurers:



Legal regulations (indicated by **57%** of insurers)



Necessity to adjust offered solutions to the existing data infrastructure (**57%**)



Necessity to adjust offered Insurtech solutions to legal and organizational constraints applicable to insurance companies (**49%**)



High confidentiality of data that limits possibilities to implement certain solutions (43%)



Too high financial expectations of Insurtech companies (41%)



Insufficiently proven technologies (**38%**)



The answers indicate that external obstacles, such as legal regulations or organisational and technological constraints, which prevent effective implementation of new technologies, still persist and pose problems for a very big group of insurance companies. It means that the insurtechs' offer is not perfectly adjusted to the reality of highly regulated insurance market and should be modified to fit insurers' needs. Some technological solutions may be based on ambitious assumptions but fail on practical grounds. This mismatch suggests that technological prowess itself is not sufficient for success in insurtech business.

Each idea of a solution must be tested in cooperation with insurance experts; more focus on the practical knowledge of the insurance market is necessary.

Insurtechs can acquire the relevant knowledge hiring insurance experts, forming partnerships with parties active on the market or in their investors' channels.

Further, the responses indicate that the insurance sector is not quite ready for any technological revolution. Although considerable progress was made during the Covid pandemic, when external constraints and market shock forced the insurers and regulators to release some burdens, more efforts are needed for the technological revolution to gain momentum in the insurance business.

Importantly, insurers' trust in solutions offered by insurtechs remains limited, especially in the context of the quoted prices, perceived by insurers as high. They would be probably much more interested in technology investments if the offered prices were lower.



A **similar question** was addressed to insurtech companies, which could indicate one or **more challenges on the following list:**

- Legal regulations applicable to the market
- High confidentiality of data that limits possibilities to implement certain solutions

- Necessity to adjust offered solutions to the existing data infrastructure
- Necessity to adjust offered solutions to legal and organisational constraints applicable to insurance companies
- Communication barriers: Insurtech specialists in charge of solution implementation lack sufficient knowledge of terms and regulations related to the insurance business
- Communication barriers: designated employees of insurance companies have insufficient knowledge of technologies used by Insurtech companies
- Cultural differences
- Problems with commercialisation of solutions
- Insurers want to carry out projects by themselves
- Insurers lack appropriate tools
- Budgets assigned by insurers to innovation projects are too small

Insurtechs' answers indicate that **the biggest challenges preventing efficient cooperation with insurers include:**



Too small budgets assigned by insurers to innovation projects (61% of insurtech companies)



Insurers want to carry out projects by themselves **(45%)**



Communication barriers: employees appointed by insurance companies have insufficient knowledge of technologies used by insurtechs **(35%)**



High confidentiality of data that limits possibilities to implement certain solutions (35%)



From insurtechs' perspective, the biggest challenges include financial aspects; they believe that insurers do not want to invest large amounts of money in new solutions and that they lose some project opportunities as insurers want to carry out such projects on their own (which may be related to low budgets assigned to innovation projects). Interestingly, insurtechs do not notice any external implementation challenges applicable to the insurance market, which supports the opinion they are not aware of such problems and do not know the specifics of the sector.

Despite differences in responses, both insurers and insurtechs face frequent problems with budgets and with data confidentiality, which limits possibilities to implement certain solutions.

The second most popular challenge indicated by insurtech companies is insurers' willingness to carry out such projects on their own.

“ EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

All these issues count for a lot; one more is missing, probably the most important from the insurtech perspective: extremely long sales cycles, taking 18 to 24 months. Implementation itself, which could be completed within three months, may take even a year due to corporate specifics. Facing such long sales cycles, it is hard to demonstrate a traction that would justify a series funding. And this is why many interesting ideas get lost.

I am surprised that insurers have indicated regulations as a key challenge. Insurtech founders quite often originate from the industry, have implemented technologies, and established relationships with regulators. This should be treated as a process-related challenge, not an obstacle.





This opinion does not match the insurers' perception.



Only **24% of insurers would refrain from cooperation with an insurtech company if they had possessed sufficient internal resources** (qualifications, time, tools, etc.) **to carry out innovative projects.**

Thus, even if employees of insurance companies prefer carrying out such projects using internal resources only, their management is not prevented from cooperation with insurtechs in this respect.

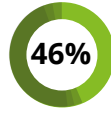


Only **14%** of respondents indicated this as a reason to **abandon joint projects.**

Insurers interested in cooperation with insurtechs even if being able to carry out projects using internal resources only see the market knowledge and different perspective offered by the third party as a big advantage and added value.



Moreover, **86%** of insurers believe that cooperation with insurtechs can advance improvement and/or **automation of their processes.**



Nearly half (**46%**) of respondents consider a wider offer of products/services and reduction of implementation costs as **advantages of cooperation** with insurtech companies.



Moreover, **76%** of insurers perceive the growth of insurtech companies as a **motivation for insurers to improve the existing technological solutions**



and only **11%** consider it to be a material competitive threat.

“ EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

In Central Europe there are no large insurtech players who hold insurance licences and therefore can truly compete with “traditional insurers” for premium volume. Vast majority of insurtech companies in the region cannot operate outside of the traditional insurance ecosystem. In this context, it is only natural that insurers perceive insurtechs chiefly as technology development partners.



Measurement of success

Sometimes it is difficult to measure the success of innovation projects, especially when insurers and insurtech companies have different concepts of success. It was, however, crucial for us to identify the key success factors and reasons underlying negative assessment of certain projects by one or both parties. With this knowledge, we can better understand lessons learned from such projects by their participants, their motivation, and actual goals, which may inform further development initiatives.

Is the concept of success limited to financial gains, or does it include other factors as well?



In the **questionnaire addressed to insurers**, we presented several factors as the basis for them to assess the **project success**:

- Proportion of revenue from sales of new products to expenditure related to implementation of a new solution

- Gross margin on sales of new products
- Net Present Value (NPV)
- Return on Investment (ROI)
- Change in total net income
- Product maintenance cost
- Market share growth measured as increase in premium written
- Reduced operating expenses
- New solutions to be implemented once a product has been launched
- Potential to develop other existing business segments
- Time necessary to include / implement newly defined or modified requirements / business goals
- Effect on employee productivity
- Employee satisfaction
- Client satisfaction and turnover rate
- Time to market
- Extent to which the solution is used

- in production (e.g. measured as a time in which the implemented solution was used)
- Implementation of a solution in production environment

From insurers' perspective, **project success may be measured by client satisfaction and turnover rate** (indicated by 59% of insurers) and by **new solutions to be implemented once a product has been launched** (54%). As far as financial ratios are concerned, **reduced operating expenses** was the most popular one, indicated by 49% of respondents.

In our opinion, **the fact that insurers do not limit the project success concept to finance is extremely important**, as it demonstrates that they want to gain more than simply turnover increase or cost

reduction, and see additional equally **important aspects of success**, for example a competitive edge, brand recognition related to innovation or improved efficiency of routine operations.

EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

Insurers being increasingly convinced that insurtechs may support them in improving client service quality and the insurance market image is a very good sign.

Nevertheless, this is a reason to grow pessimistic as well: insurtechs should generate financial benefits and return on investments made by insurers. Insurers who understand this are clearly more interested in fast implementation of new solutions. Perceiving insurtechs mostly as providers of PR-related benefits and neglecting the purely commercial aspect may significantly impede the market development in our region.



In the rapidly changing environment, the narrow approach to innovation limited to potential financial gains may prove outdated, as resigning from technological innovations may cost a company much more than investing in them.

This conclusion may also refer to the scope of recently performed projects and may not be true for every market. In recent years, many CE insurers have invested in automation and digitalisation initiatives, which do not directly affect corporate finance. In the Baltic states and in Poland, many digitalisation projects have been already completed, and the focus is shifting elsewhere: to new solutions to be implemented once a product has been launched (indicated by **60%** respondents from that region), Net Present Value (**53%**) and potential to develop other existing business segments (**47%**), which seem to outgrow client satisfaction in terms of importance. This may suggest looking for new market opportunities and confirm that relatively low market penetration in general and stagnation in the life insurance segment are key challenges on the local level.

Goals of innovation projects as perceived by insurtechs are significantly different from those indicated by insurers. For insurtechs, innovation projects are not investments in corporate growth but core business and the main income source. Therefore, their concept of project success materially differs from that of their clients.

In light of the above, **we included the following measurement factors in the questionnaire** for insurtech companies:

- Net Present Value (NVP)
- Return on Investment (ROI)
- Time and other resources spent on proof of concept
- Time and other resources spent on project implementation
- Clients' opinion and further recommendations

For **58%** of insurtech respondents, both 'Return on Investment' and 'Time and other resources spent on project implementation' have been key success factors,

which indicates that financial aspects of their projects are extremely important as they ensure business continuity and further development. As insurtechs consider time and resources spent on project implementation highly important, it may suggest their being aware of potential implementation pitfalls of long-term projects, inefficient decision-making and poor productivity, which indicates that efficiency is a key project success factor.

Interestingly, 63% of insurtechs with headcount lower than ten people (micro enterprises) have considered time and other resources spent on project implementation as a key success factor (as opposite to financial ratios), which may indicate that companies in early development stages must first of all gain competitive advantage offering attractive prices and efficient services to insurance companies. Therefore, rapid growth and market traction is their key priority, especially if they can use external funding. Revenue increase and profit generation will become important later on, as they gain a stable market position and win more sizeable contracts.

Importantly, according to the survey results, insurtechs are aware that insurers tend to measure the project success in different terms than they do, which could help them winning new projects with already known clients. Further, they are aware that for insurers, **customer satisfaction and turnover rate are their key measures** (indicated by 48% of insurtechs), which agrees with responses provided by insurers. Other factors indicated by insurtechs but not so important for insurers include return on investment and solution's time-to-market. Although the last factor might involve subjective judgment of insurtechs, it does not seem to be that significant from the insurers' viewpoint.



Satisfaction from the cooperation between insurers and insurtechs

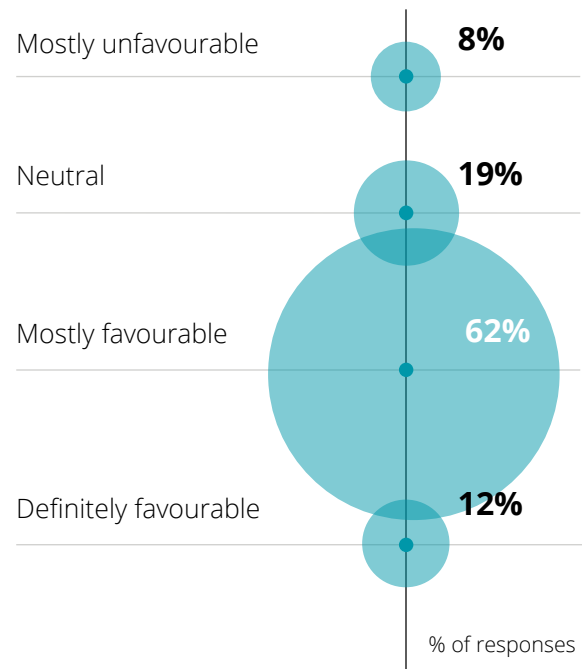
Knowing the project success evaluation approach adopted by insurers and insurtechs, we could check their level of satisfaction from cooperation.

Most of insurers (74%) are satisfied with their cooperation with insurtechs.

Only 8% of insurers assessed the cooperation unfavourably. Interestingly, even those unsatisfied have carried out four or five projects on average over last three years and see the need to continue the cooperation with insurtechs on pending projects or commence new ones.

Apparently, the need to use new technologies and obtain external support when implementing them is so strong that even bad experience does not prevent insurers from cooperation with insurtechs.

What is **your opinion on your firm's cooperation** with Insurtech companies?



The observed high level of satisfaction indicates either that insurtechs provide good quality of services, or that insurers need external support when implementing such projects. In order to better understand their motivation, we asked insurers about advantages of implementing projects in cooperation with insurtechs.



Each respondent could **indicate at least one answer** on the following list:

- Broadening the product/service offer,
- Reduced innovation implementing costs,
- Extra revenue,
- Winning new clients,
- Improved/automated processes,
- Product specialization,
- Reduced corporate constraints.

EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

This is a highly positive conclusion. But why don't insurers look for opportunities of cooperating with insurtechs more frequently?

Apparently, insurers still too often treat shared projects just as marketing or PR. I hope that the abundance of positive experience will convince them to look at such projects from the business perspective as well, as they may result in an actual growth of both revenue and scale of operation. And I hope insurers will notice that their insurtech partners attract both most dynamic and innovative young talents and experienced managers who spent years working in the largest insurance companies. These may turn not only into valuable potential business partners, but also mentors or teachers.



According to **87%** of insurers, process automation and improvement is the main advantage of cooperation with insurtechs.

This percentage is even higher in a specific CE regions.



% of insurers who agreed that process improvement/ automation was the advantage of cooperation with insurtechs

CE REGION	
Baltics & Poland	93%
Bulgaria & Romania & Ukraine	88%
Czech Republic & Slovakia	71%
Hungary & Adriatics	100%
Overall	87%

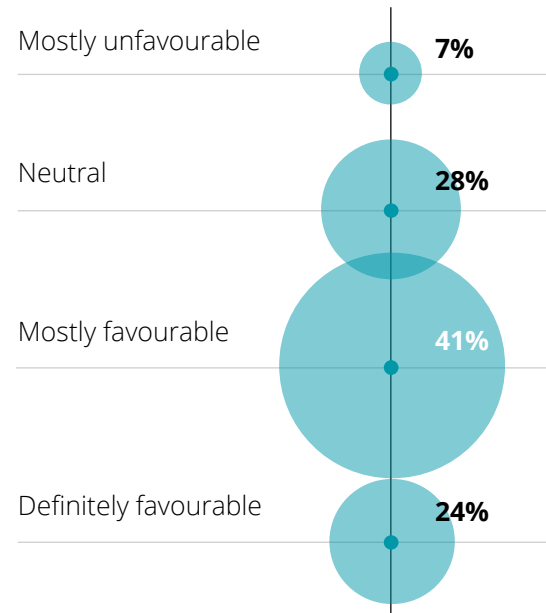
Another significant advantage of the cooperation mentioned by insurers operating in Bulgaria, Romania and Ukraine is the reduction of innovation implementation costs. They know that a greenfield innovation project pursued without specialist support would be much less effective, but more time and cost-consuming. Respondents from the Czech Republic and Slovakia also indicated cost reduction and extra revenue as frequent advantages of the cooperation.

The results indicate that insurers in most CE countries focus on the improvement of ongoing processes and reduction of technological transformation costs, while the extension or adjustment of their offer, or winning new clients are less important (at least in Poland & Baltics). The focus may change in future once most processes have been optimized, and insurers are able to invest in more disruptive solutions.

Like insurers, insurtechs are mostly satisfied with the current cooperation.

65% favourably assess their current cooperation with insurers, while **28%** are neutral and just **7%** unsatisfied.

What is **your opinion on your firm's cooperation** with insurers?



The unsatisfied ones operate in the Czech Republic, Croatia and Hungary. Currently they do not carry out any projects in cooperation with insurers, but they feel the need to do so in future.


All insurtechs who have assessed the recent cooperation as unsatisfactory claim that budgets assigned by insurers to innovation projects are too small. This could explain why half of them consider possibilities of entering into cooperation with non-insurance entities. Insufficiency of budgets allocated by insurers is the most frequently indicated cooperation challenge.

Importantly, though, the general level of satisfaction with cooperation between insurance companies and insurtechs is very high in both groups of respondents.

Scope of projects

According to the collected responses, insurers in Central Europe are pragmatic and invest mostly in automation of internal processes, focusing on optimisation of routine operations as opposed to investing in technological innovations. To verify this opinion, we asked both insurers and insurtechs about the scope of their innovation projects carried out over last three years.

- Introduction of cloud-based solutions
- Fraud identification
- Loss adjustment efficiency improvement
- Launch of innovative products
- Blockchain
- Internet of Things
- Data architecture / cloud

 They **could indicate one or more answers** on the following list:

- Risk assessment
- Tariffs
- Customer experience
- CRM
- Process automation
- Using artificial intelligence to personalise insurance products / upselling
- Digitalisation of insurance sales
- Cybersecurity

Based on the answers received from insurers, we have identified areas of development where joint projects were carried out with insurtechs. As expected, the three-year portfolio of projects comprises **process automation** (at least one project conducted by 68% of insurers) and **digitalisation of insurance sales** (60% of insurers). More advanced technological solutions, such as blockchain or cybersecurity, have not been introduced by CE insurers yet.

The scope of past projects differs, however, depending on the type of insurance business.

TYPE OF BUSINESS	SCOPE OF THE MOST POPULAR PROJECTS DURING LAST THREE YEAR
Life insurance	process automation
Non-Life insurance	tarrifs, customer experience, process automation, digitalisation of insurance sales
Life and Non-Life insurance	customer experience, process automation
Overall	process automation, digitalisation of insurance sales

The development differences observed in various insurance areas may be explained by several factors, the most important being the nature of business carried out by each insurer. For example, pricing methodology used in life insurance differs considerably from that applicable to non-life policies, where analysis and adjustment possibilities are much wider due to better access to data, policy duration, product commoditisation and market competition. Thus, non-life

insurers need more complex tools. In addition, for many years now, strong pricing competition in motor insurance (one of the main non-life business lines) has been mobilising companies to build increasingly advanced pricing models to attract new clients and keep the existing ones. In life insurance, the product lifecycle is much longer; therefore, life insurers focus on retaining the existing customers instead of acquiring new ones.



The differences in the focus of life and non-life insurers may be explained by other factors, such as the complexity of business operations. As mentioned before, the report reveals that digitalisation used to be a key optimisation driver. Non-life insurance procedures are more complex than those used in life insurance: the policies are concluded for shorter periods, frequency of claims is higher, and claim handling undergoes scrutiny of both clients and regulators. Fixed deadlines imposed by the law force non-life insurers to invest in solutions that speed up the processing and make documentation analysis more efficient. Therefore, solutions supporting document processing, automated payment of minor claims and fraud detection are in high demand. Life insurers, who do not undergo such pressure, seem to just begin their technological revolution.

Apart from indicating projects from the list, **32%** of insurers indicated products or tools that allow solving business issues offered by insurtechs, which they consider most necessary.

“ EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

This trend is observed in the whole of Europe. First insurtechs focused on distribution of property insurance, which was the relatively easiest area with standardised products. At present on the Western European market there has been a growing number of health, life, SME or gig economy insurance products, parametric insurance products related to weather, natural disasters, cyber or crypto attacks.



Most of these products or tools **regarded the following areas** (already covered by insurtechs):

- ▶ Process automation
- ▶ Pricing
- ▶ Digitalisation
- ▶ Fraud detection

The most popular project types by region:

- **Baltics & Poland:** digitalisation of insurance sales, loss adjustment efficiency improvement, data architecture/cloud and tariffs
- **Bulgaria & Romania & Ukraine:** process automation and digitalisation of insurance sales
- **Czech Republic & Slovakia:** process automation
- **Hungary & Adriatics:** process automation





“ EXPERT COMMENT

Jan Kastory, investor at [astorya.vc](#)

Insurers who have innovation team with large budgets can take a chance and implement complex, truly revolutionary innovations. Usually, though, innovation teams have no budgets and need to find an internal sponsor for any planned implementation project. Potential sponsors (business functions) do not have free funds that can be spent on innovation, especially if on the one hand, a vision and long-term projects are involved, and on the other, any upcoming opportunities should be taken. Spends are determined solely by short-term departmental KPI's. Consequently, implemented innovations are usually relatively simple. Big players are typically interested in bottom line-related innovations.

Moreover, most CE businesses have foreign owners, and their freedom to invest often depends on the position of the local management in the capital group structure. Budgets that can be approved on a local level are typically small.

A broader look at the European insurance market reveals that the biggest players are not the ones to introduce the most disruptive and innovative solutions. For small and medium businesses innovation may mean a disruptive business change, which materially affects their top line. More frequently, though, disruptive innovations are implemented by new market entrants who have a vision to win the market and are financed by VC or PE funds.

Process automation being absent from responses provided by insurers from Poland and the Baltics may support the view that this market is more technologically advanced than other CE regions.

Insurtechs, asked a similar question regarding the scope of projects carried out over last three years, have indicated **launch of innovative products** (at least one project carried out by 64% of respondents), **process automation** (57%) and **pricing** (54%). Blockchain and cybersecurity were less popular, the same as among insurers.

The launch of innovative products, the most popular type of projects among insurtechs, is considered important only by 16% of insurers. This discrepancy is interesting and difficult to explain. Maybe the two groups of respondents have different ideas of an “innovative product”, which for insurers may mean an improved insurance product, i.e., a type of insurance of insurance cover they sell to policyholders, while insurtechs may understand it as a tool or innovative service they offer to insurers.

Despite potential differences in understanding, our analysis of responses has proven that as far as new technologies are concerned, insurance companies from Central Europe focus on automation of ongoing processes and digitalisation, i.e. basic innovations. Apparently, more advanced technologies, like blockchain, must wait their turn.

Insurtech Insights, the world's largest insurance technology community, noted that the automation of processes resulting in better access to data is the first step in the process of technological revolution.

“

Their report “What's ahead for insurtech?” states:

These technologies that provide access to better data will help enable more accurate pricing, a wider distribution via embedded insurance, an improved claims experience, and more,

and confirms that Central European insurers are just at the beginning of their innovation journey.

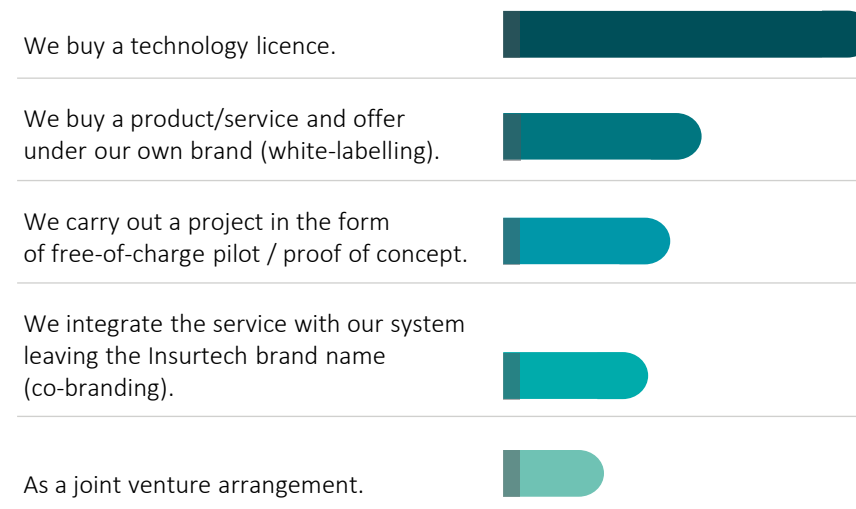
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Forms of cooperation

Insurance companies operating in CE cooperate with insurtechs in several ways. The most popular ones include **buying a technology licence** (41% of surveyed insurers) and **buying a product/service and offering it under insurer's own brand**, i.e. white-labelling (22% of surveyed insurers). Projects carried out in the form of **free-of-charge pilot/proof of concept** (16% of answers) are also quite popular.



The form of **projects carried out in cooperation** with Insurtech companies:



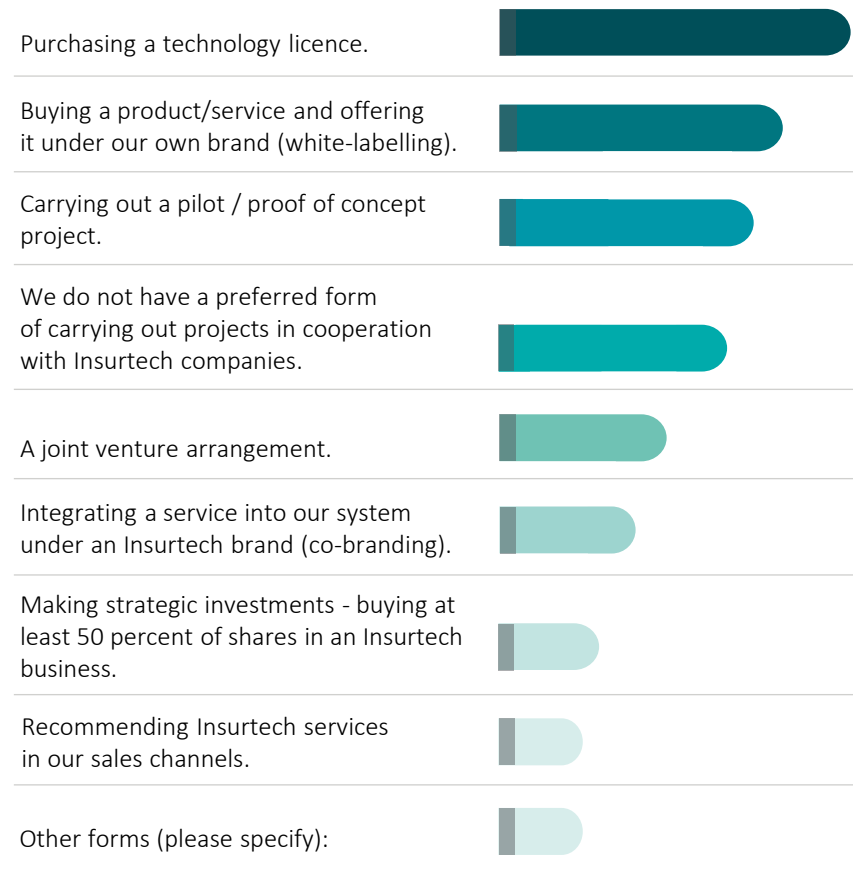
Thinking about future, insurers would like to increase the number of white-labelling projects and reduce the number of those involving the purchase of licences for products offered by insurtechs.

Pilots and proofs of concept are still among the most preferred forms of cooperation, which may suggest that insurers are careful when choosing new solutions.

Since this type of cooperation is cheaper than full implementation and allows testing the solution free of charge, low budgets may provide an additional argument supporting the choice.



What form of cooperation with Insurtech companies would you **prefer in future?**



Selling a technology licence and co-branding is the most popular form of cooperation among insurtechs.

Co-branding means that insurers integrate insurtech services with their systems under a respective insurtech brand. Only 10% of insurtech companies carry out projects in the form of a free-of-charge pilot or proof of concept. No difference between preferred and current forms of cooperation might indicate that insurtechs manage to push conclude contracts with insurers on their own terms or that they do not like to resing from the form of cooperation they already know.

The relatively small share of PoC performed by insurtechs in the context of limited budgets and low confidence in new solutions on the insurers side seem surprising. Insurtechs that participated in the survey are young companies in the stage of growth. Therefore, we could expect them to carry out more free-of-charge projects in order to enter the CE insurance market and grow

their market share. The high satisfaction rate expressed by insurers with regard to the performed projects and their need for continued development seem to open up opportunities for more profitable, large-scale projects once the PoC stage is over. Therefore, insurtechs should not be afraid of investing in PoC provided they are properly structured, scheduled and managed.



Tools

We asked both insurers and insurtechs about tools used during the innovation projects. The tools were grouped in four categories. Each respondent could indicate any number of tools used. The categories included:

- 01 Cloud platforms,
- 02 Programming/query languages,
- 03 Reporting tools and
- 04 Data analytics platforms.

Microsoft Azure and Amazon Web Services (AWS) are the most popular cloud platforms among insurers. Insurtech companies prefer AWS and Google Cloud.

Although both insurtechs and insurers use similar cloud solutions, the latter cautiously approach this type of technology, probably due to legal restrictions on their use **related to sensitive data processed** in the financial sector.



CLOUD PLATFORMS

Most popular among insurers	% of insurers	Most popular among insurtechs	% of insurtechs
Microsoft Azure	24%	Amazon Web Services (AWS)	39%
Amazon Web Services (AWS)	22%	Google Cloud	29%



As for **programming languages, SQL**, well-known and often used by insurers, **is accompanied by open source Python**, which is also popular among by insurtechs, which additionally use JavaScript.



PROGRAMMING / QUERY LANGUAGES

Most popular among insurers	% of insurers	Most popular among insurtechs	% of insurtechs
Python	22%	Python	48%
SQL	22%	SQL	42%
		JavaScript	39%

Excel and PowerBI offered by Microsoft are the reporting tools most frequently used by insurers. Insurtechs, however, attempt to change the status introducing more **advanced web applications** (RShiny/ JavaScript based).

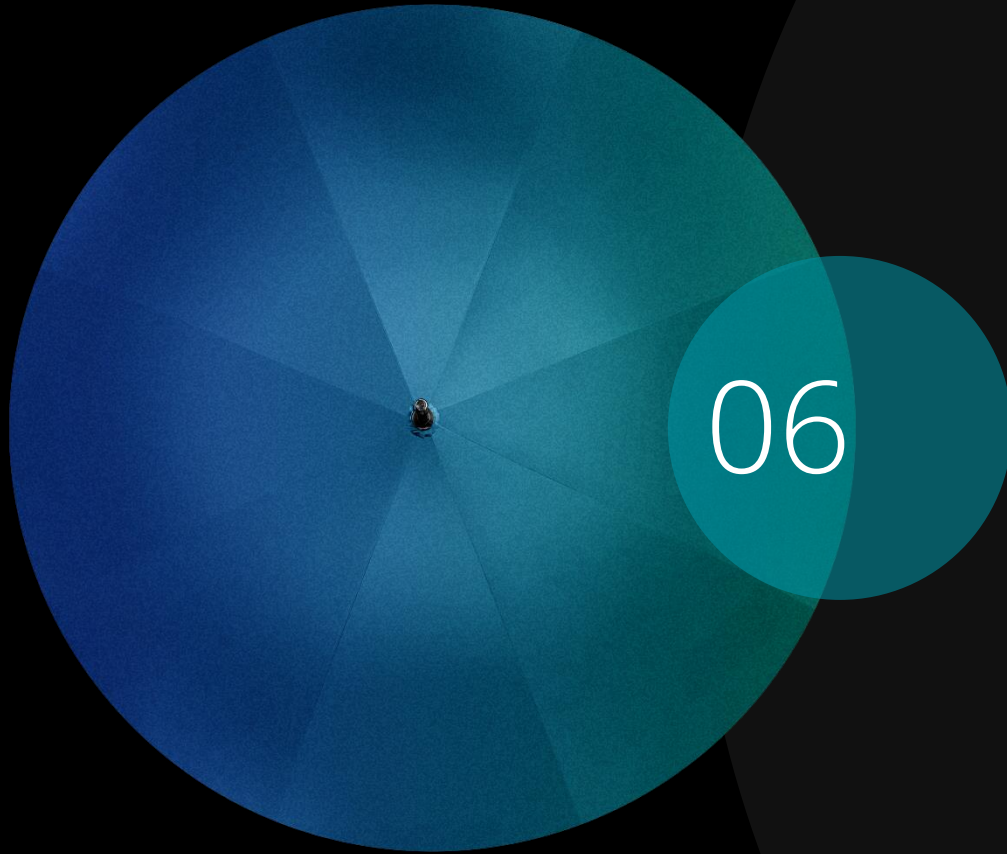


REPORTING TOOLS

Most popular among insurers	% of insurers	Most popular among insurtechs	% of insurtechs
PowerBI	30%	Web applications: RShiny/ JavaScript based	42%
Microsoft Excel	24%	Microsoft Excel	26%

68% of insurtechs participating in the survey offer their own tools/platforms, which usually involve automation and digitalization of customer needs assessment, claims

assessment and risk modeling. Only **19%** of insurers participating in the survey used the tools developed by insurtechs in the course of their projects.



06

Prices vs budgets

Prices vs budgets

As already mentioned above, limited project budgets are among the biggest barriers in cooperation between insurers and insurtechs.

Having discussed subjective opinions of our respondents, we are going to compare insurance business information with average prices offered by insurtechs.

To collect necessary data, we specified possible manners of selling insurtech solutions and services.



The respondents could indicate one or more **forms of cooperation** on the following list:

- Carrying out proof of concept; and/or
- Product/Solution implementation; and/ or
- Selling license (granted for a limited or unlimited period); and/ or
- Post-implementation support; and/ or
- Entering the market in exchange of provision.

Product implementation has been the most popular (indicated by 74% of insurtechs), followed by licences granted for a limited period (68% of companies). Only 13% of insurtechs offer indefinite-period licences,

3% offer post-implementation support and another 3%, entering the market in exchange of a commission. Usually an insurtech offers several forms of cooperation at the same time, e.g. product implementation and licensing.

We asked insurtechs about the average cost of their solution offered as part of each cooperation form. **Usually the cost of PoC does not exceed EUR 25,000.** Prices of PoC offered by 28% of insurtechs do not exceed EUR 5,000. Only 11% of valid answers indicated cost above EUR 25,000 and the offers came solely from companies staying in business for at least four years.

In most cases, **the average cost of product implementation does not exceed EUR 25,000, either,** the amount seemingly affordable for insurers. 3% of insurtechs indicated product implementation costs in excess of EUR 250,000. All other responses (33%) fell in the range from range EUR 25,001 to EUR 100,000.

A correlation between the company age and the solution implementation price can be observed. The older the company, the higher the average price. 67% of insurtechs operating on the market for one to four years quote the average price up to EUR 25,000, whereas only 40% of those with four to ten year business history indicated the same price range.

Licences granted for a limited period are usually more expensive. Almost half of insurtechs (47%) who offer such licences indicated the average cost of one-year licence of up to **EUR 25,000**. However, another **30%** of respondents indicated the range from **EUR 100,000** to **EUR 250,000**. In this case, however, no correlation between the firm maturity and the average price has been observed.

FORM OF COOPERATION	OVERALL AVERAGE COST
Proof of Concept	Up to EUR 25.000
Product implementation	Up to EUR 25.000
	Up to EUR 25.000 in 47% cases
License for 1 year	EUR 100.000 – 250.000 in 30% cases

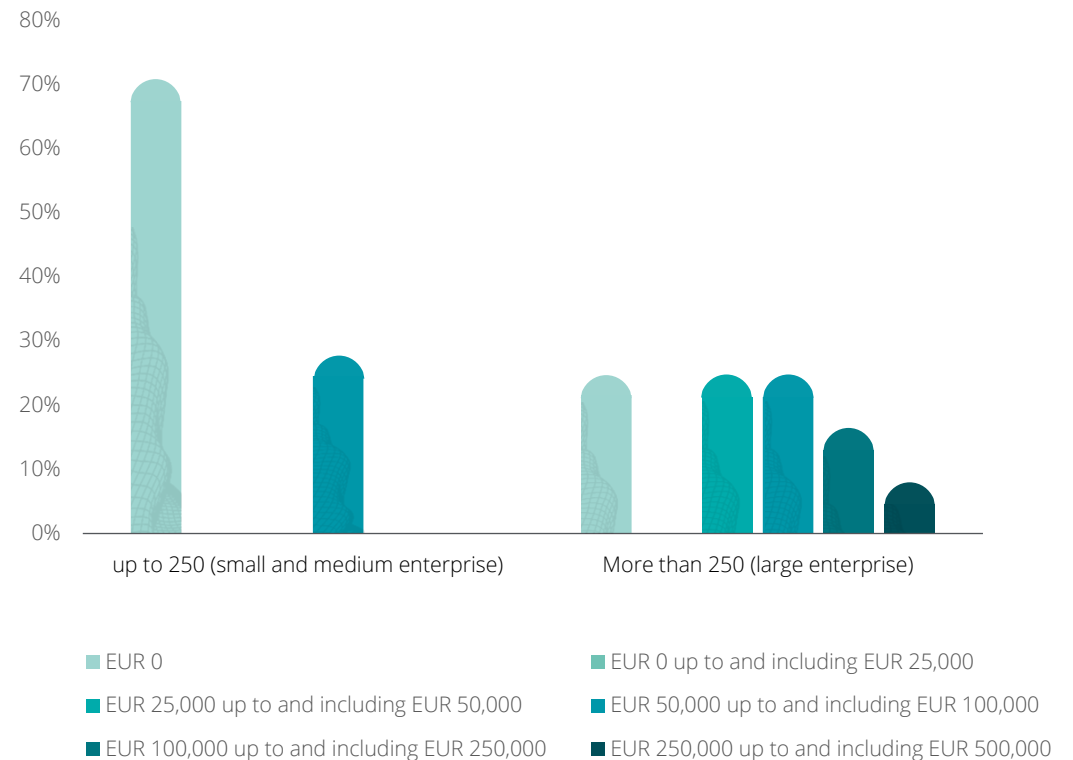
To check whether the cost of an innovative solution (i.e. the total cost, including all components of the total) is too high for insurers to afford, we asked them how much they had spent on cooperation with insurtechs in 2021. Since **the information is highly sensitive, only 51% of companies shared it with us**. This allowed us, however, to detect certain correlations and draw conclusions.

Importantly, **71% of small and medium insurers spent nothing on cooperation in insurtechs in 2021**. The spends of the remaining 29% ranged from EUR 50,000 to EUR 100,000. The high percentage of those with no budget for innovative projects supports the opinion that insurers do not want to bear costs of cooperation and invest in unproven technologies. Further, it supports the opinion that small and medium insurers cooperate with insurtechs only if they need new technologies to thrive, and fully appreciate their potential, as presented at the beginning of this report.

Amounts spent by large insurers on innovative projects carried in cooperation with insurtechs vary considerably.

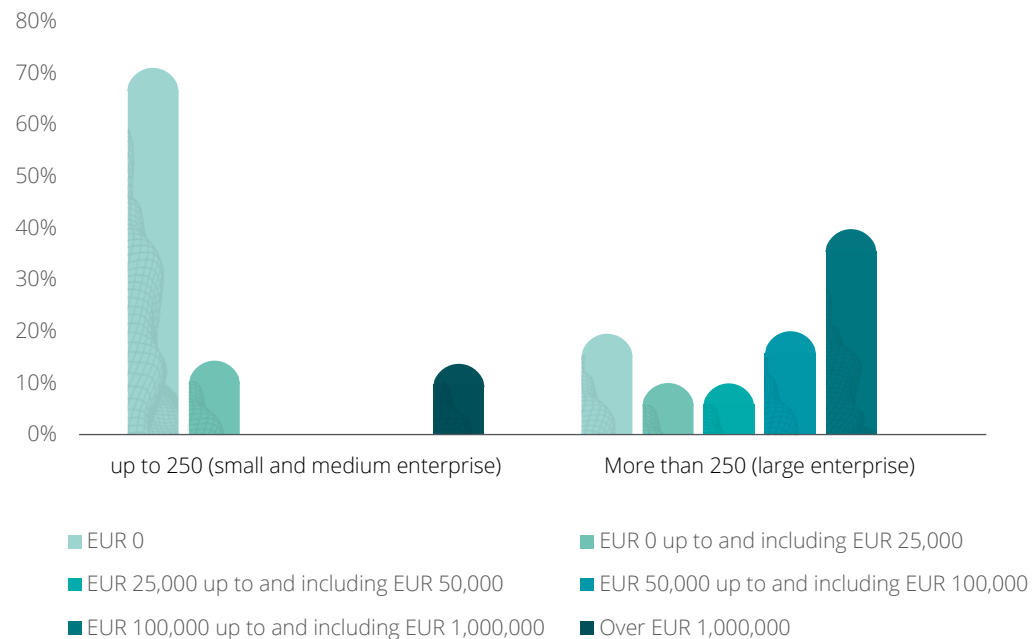
About 25% of companies spent EUR 25,000 to EUR 50,000, and other 25% with total spends between EUR 50,000 and EUR 100,000. Another group of 25% of respondents of this size spent more than EUR 100,000, which demonstrates that large companies are in different stage of technological development than the smaller ones. Some have just started the transformation, while others have reached advanced stages already. The limited number of answers disallowed more detailed analyses, e.g. per region.

How much did you **spend for cooperation** with Insurtech companies in **2021**?



The number of answers regarding the planned cooperation budget for 2022 was still smaller (and included 64% of responses from small and medium companies and 38% of responses from large ones). Nevertheless, **a visible increase in the planned budgets is observed**, which means that insurers need new technologies.

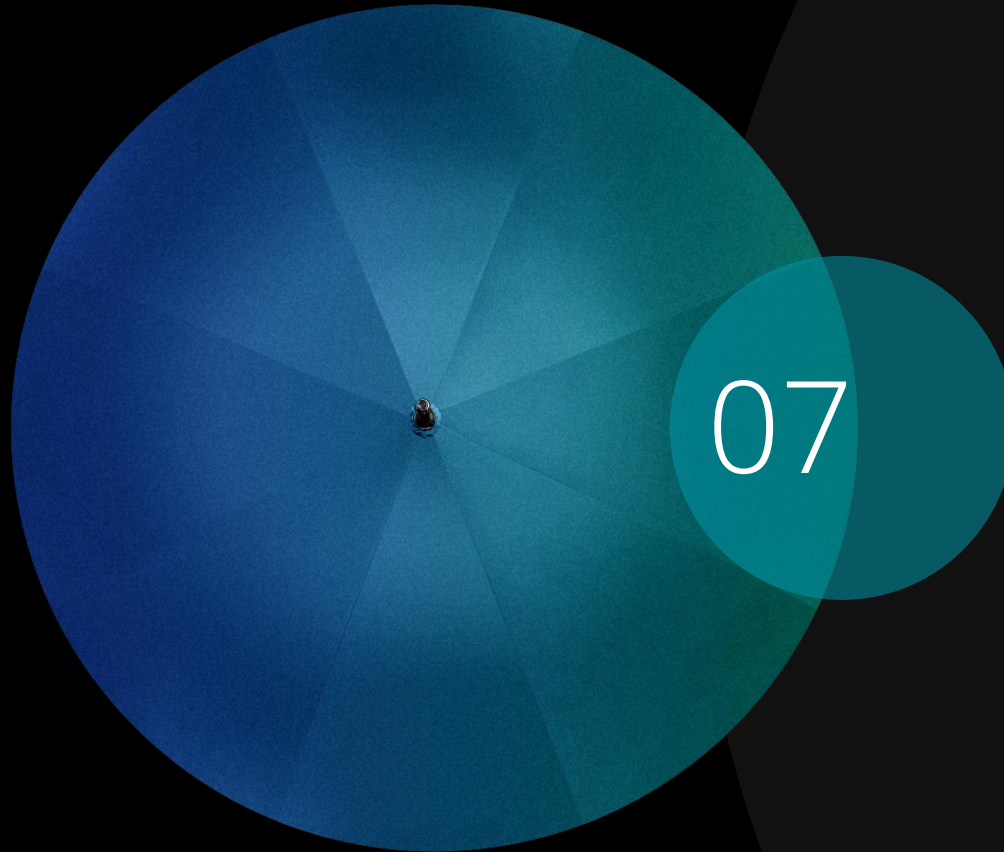
How much are you going to **spend for cooperation** with Insurtech companies in **2022**?



Most of such projects are funded from internal budgets of insurance companies (indicated by 76% of insurers). 19% indicated support obtained from their capital groups. This funding source is mentioned more frequently by life insurers. If we assume that it includes obligatory projects carried out by capital groups, this supports the view that life insurers are more reluctant to initiate cooperation with insurtechs.

A closer look at the average cost of solutions offered by insurtechs reveals that the higher and not always affordable costs include licences. PoC and product implementation do not generate costs in excess of a standard insurer's budget (if there is any budget assigned to technological development projects).

Please note, though, that we have compared the average cost of just one form of cooperation to total annual project budgets. Insurtechs frequently offer a variety of cooperation forms (such as product implementation and a licence) and insurers may carry out several innovation projects at the same time. Therefore, their budgets are sufficient to support just a few average-priced project a year.



Cooperation with consulting firms

Cooperation with consulting firms

Earlier in the report we have indicated certain operational challenges related to cooperation between insurers and insurtechs. We have noticed that many insurtechs would prefer focusing on the development of their solutions, technological improvements and winning new clients on foreign markets instead of pure implementation.

For such companies, teaming up with a partner, such as a consulting firm, could be an interesting option, since it could not only reduce the burden of daily routine related to the implementation projects, but also provide the necessary insurance-related experience, knowledge of the market and its regulations.

Offering complementary services (such as legal or technological) and using an international network of contacts, they could open up new markets and business opportunities.



We wanted to **find answers** to the following **questions**:

- What role could consulting firms play in the technological transformation process carried out in insurance companies?
- May consulting companies' experience of working with both insurers and insurtechs become a key success factor in their cooperation ?
- How could partnerships established by consulting firms and insurtechs look like?

Insurtechs often commence cooperation or establish partnerships with consulting firms when launching their products on the insurance market.



The partners' cooperation can take several forms:



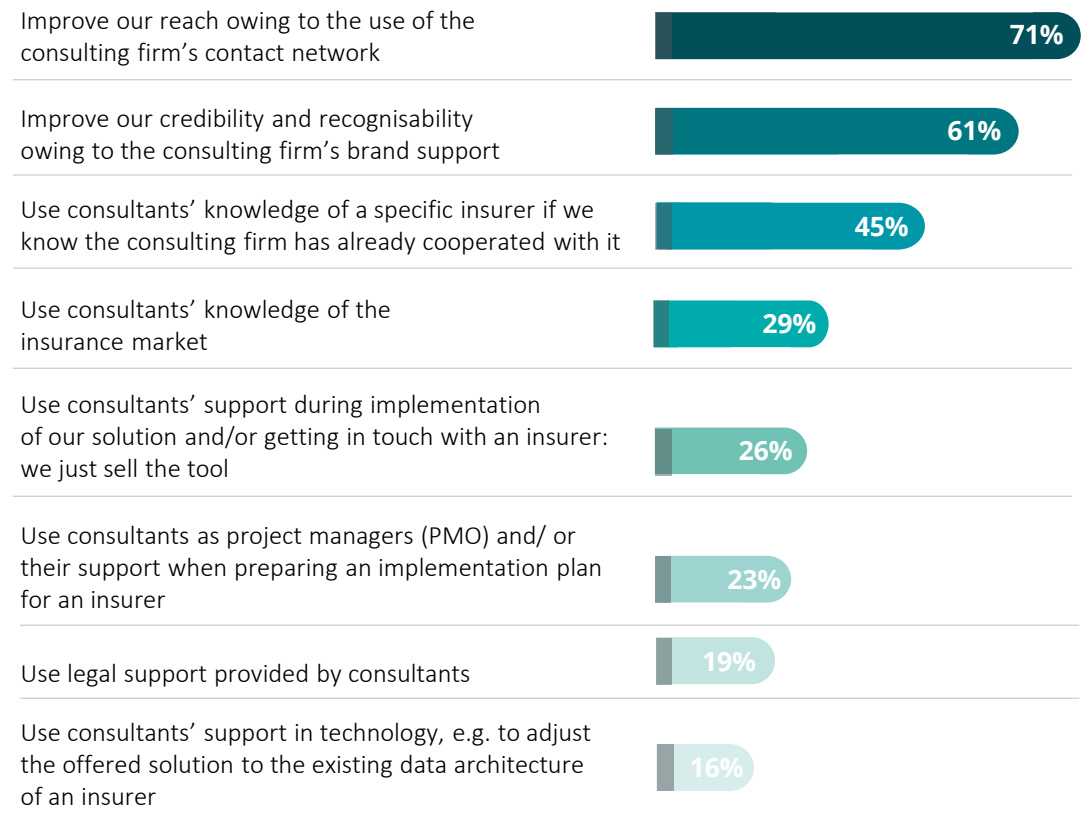
71% of surveyed insurtechs see advantages of such cooperation. The most common one, indicated by 71% of respondents, is an **improvement of their reach owing to the use of the consulting firm's contact network**.

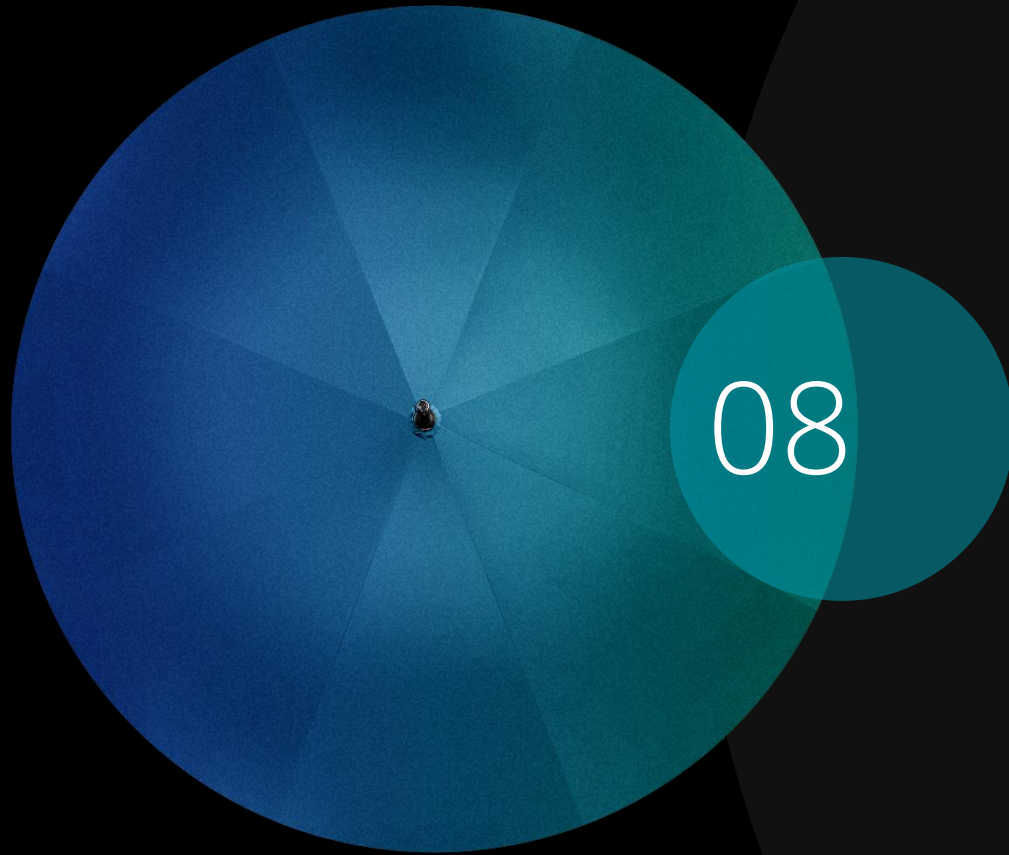
Another one, indicated by 61% of insurtechs, is an **improvement of their credibility and recognisability owing to the consulting firm's brand support**. Almost half of insurtechs would use the knowledge of a specific insurer if they know a consulting firm has already cooperated with it (45%). A much smaller percentage expect consultants' support regarding technology (16%) or legal aspects (19%).

The conclusion is that access to the network of contacts and enhancing insurtech's credibility are perceived as the key

advantages of such cooperation, as opposed to using the specialist knowledge offered by consultants, even in such areas as legal support, where insurtechs are probably much less experienced than consulting firms. No need for technical support can be explained by the belief that insurtechs know their own technologies better than third parties; no need for support regarding non-technical topics is more difficult to explain and may result from insurtechs' tendency to underrate challenges faced by insurers in relation to new technologies. The view is supported by analysis of challenges: those most frequently indicated by insurers include legal and organisational constraints and high confidentiality of data, which restrains implementability of certain solutions. The awareness of these challenges may encourage insurtechs to extend cooperation with third parties beyond its marketing aspects.

How can insurtech company **benefit from cooperation** with a consulting firm when **launching products** on the insurance market?





Future development trends

Future development trends

The presented analysis of current trends observed on the insurance market may be of crucial importance for companies who lag behind competitors in terms of innovation. We have tried to review future development trends regarding CE insurance market.



Insurers' perspective

We asked insurers about their plans regarding future technological development. They were expected to indicate the scale of innovation regarding their products/ services/ tools in each of the following areas planned for the nearest five years, selecting the score from 1 to 5, where 1 means the least and 5 - the biggest extent.

- Risk assessment / pricing
- Personalising insurance products / upselling / insurance sales / launching innovative products
- Customer experience / CRM
- Automation of internal business processes
- Improving loss adjustment / fraud identification efficiency

- Cybersecurity
- Introduction of cloud-based solutions
- Blockchain
- Internet of Things
- Data architecture / cloud

Based on received answers, we identified four areas where CE insurers are most likely to invest during the next five years.

The median assessment for these areas was 4. They include:

- 01 Risk assessment and pricing
- 02 Personalising insurance products/upselling/launching innovative products

- 03 Customer experience and CRM
- 04 Automation of internal business processes

The areas of development vary significantly from country to country, which can be explained by the different level of development in each region and local specificities of the insurance market. For example, the most popular directions of development indicated in Poland include risk assessment and pricing, mostly as a result of an ongoing price war in motor insurance and rapid advancement of several players in this segment. The other players want to stay abreast with the leaders, which would explain why risk assessment and pricing are indicated as the main areas of future development in this country.





Importantly, further automation of internal business processes is expected in future, even though the transformation has continued for several years. This highlights the importance of optimised process setup and work automation allowing a company to reach another innovation level.



CE REGION	AREAS OF FUTURE DEVELOPMENT
Baltics & Poland	<ul style="list-style-type: none"> • Risk assessment and pricing • Personalising insurance products/upselling/launching innovative products
Bulgaria & Romania & Ukraine	<ul style="list-style-type: none"> • Customer experience and CRM • Improving loss adjustment and fraud identification efficiency
Czech Republic & Slovakia	<ul style="list-style-type: none"> • Personalising insurance products/upselling/launching innovative Automation of internal business processes
Hungary & Adriatics	<ul style="list-style-type: none"> • Risk assessment and pricing • Customer experience and CRM • Automation of internal business processes • Data architecture and cloud
Overall	<ul style="list-style-type: none"> • Risk assessment and pricing • Personalising insurance products/upselling/launching innovative products • Customer experience and CRM • Automation of internal business processes

There is also a significant difference if we compare the plan of development for different types of insurers.



TYPE OF INSURER	AREAS OF FUTURE DEVELOPMENT
Life insurers	<ul style="list-style-type: none"> • Personalising insurance products/upselling/launching innovative • Automation of internal business processes
Non-Life insurance	<ul style="list-style-type: none"> • Risk assessment and pricing • Improving loss adjustment and fraud identification efficiency
Life and Non-Life insurers	<ul style="list-style-type: none"> • Personalising insurance products/upselling/launching innovative Customer experience and CRM • Automation of internal business processes

Insurtech companies' perspective

Knowing the areas of future development for each region and type of insurance business, insurtechs could adjust their offer to the expectations of their clients.

The most desirable areas of development during the nearest five years as perceived by insurtechs include:

- 01 Automation of internal business processes
- 02 Personalising insurance products/ upselling/ launching innovative products
- 03 Risk assessment and pricing

Looking at the trends observed in each CE region where insurtechs carry out their core business, we have identified the following **potential areas of future development:**



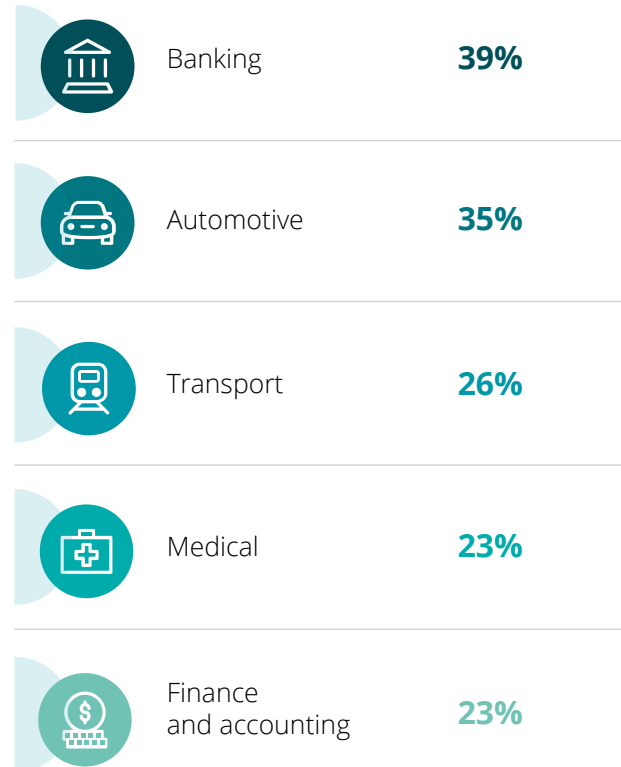
CE REGION	AREAS OF FUTURE DEVELOPMENT
Baltics & Poland	<ul style="list-style-type: none"> Risk assessment and pricing Personalising insurance products/upselling/launching innovative
Bulgaria & Romania & Ukraine	<ul style="list-style-type: none"> Risk assessment and pricing Automation of internal business processes
Czech Republic & Slovakia	<ul style="list-style-type: none"> Customer experience and CRM Data architecture and cloud Automation of internal business processes
Hungary & Adriatics	<ul style="list-style-type: none"> Customer experience and CRM Automation of internal business processes

When we compare the future offer of insurtechs with insurers' development plans on individual markets, in general, they seem aligned, although in certain countries, such as Bulgaria, Romania and Ukraine, the offer may not be a perfect match for insurers' expectations, while in other, like Poland and Baltic states, it actually is. This may indicate a **really good understanding of the market** and closes cooperation.



Additionally, **74%** of surveyed insurtechs cooperate or consider entering into cooperation with entities operating outside the insurance market, mostly in banking and automotive sectors.

The **main sectors** apart from the insurance industry where insurtech **companies cooperate** or plan to cooperate with

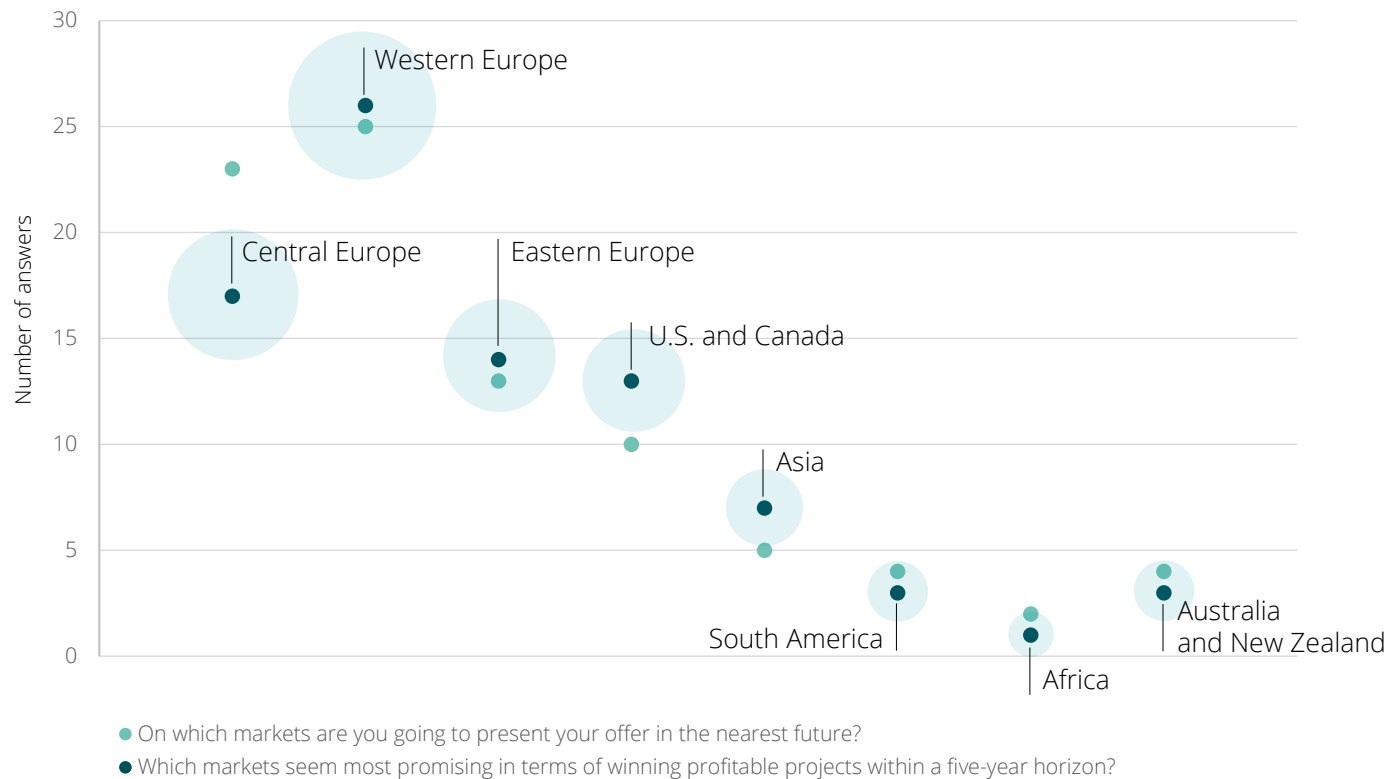


In terms of opportunities to win profitable projects within the nearest five years, Western European markets are considered most promising by insurtechs

(indicated by 81% of respondents). They see a similar potential in Central Europe (55%) and in Eastern Europe (45%), while 42% of respondents keep an eye on more advanced markets, such as the U.S. and Canada, and this is where they would like to present their offers in the nearest future. Even though the CE market seems not as profitable as the Western European one, insurtechs do not give it up.



The most **promising market** for product development

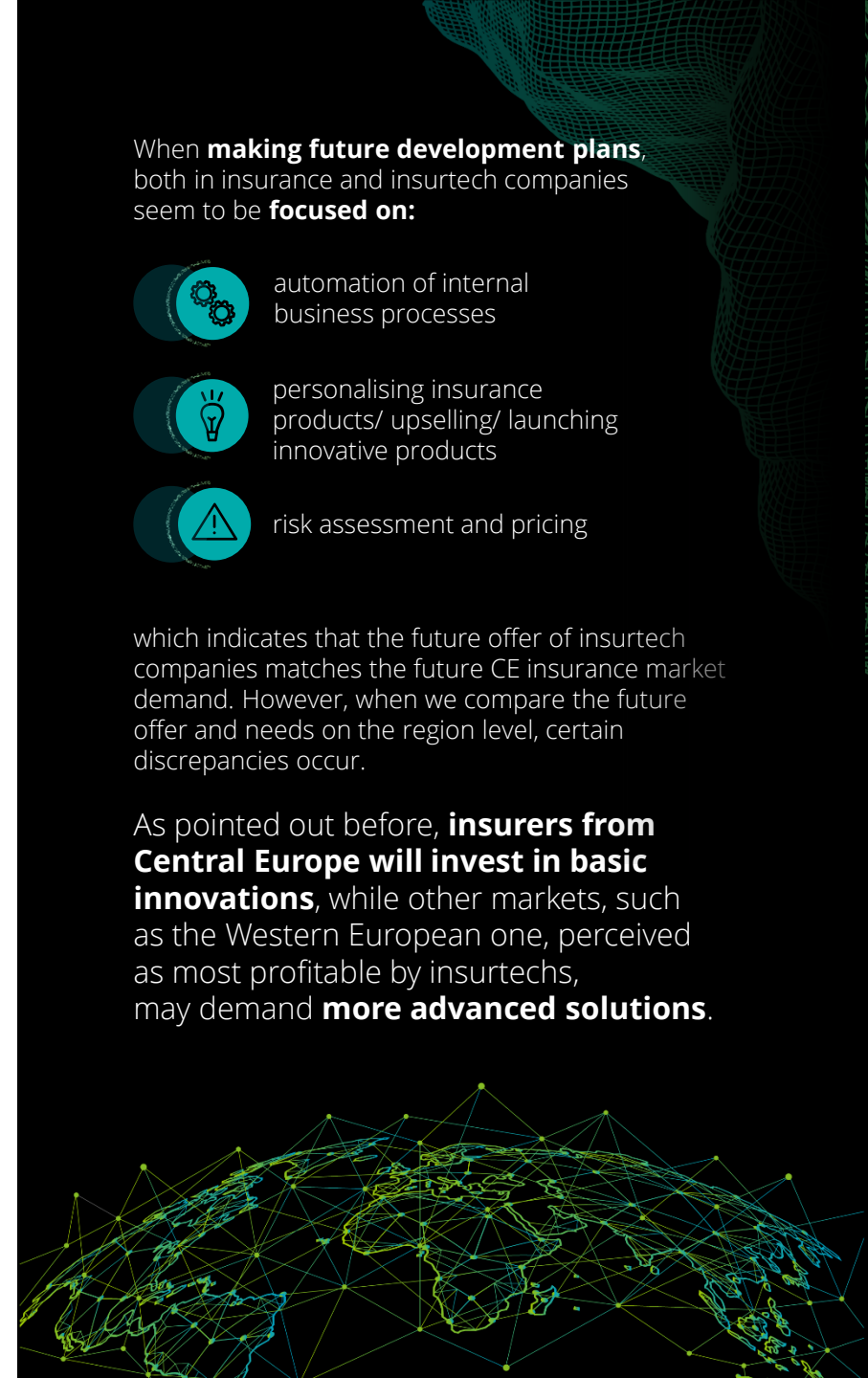


When **making future development plans**, both in insurance and insurtech companies seem to be **focused on**:

-  automation of internal business processes
-  personalising insurance products/ upselling/ launching innovative products
-  risk assessment and pricing

which indicates that the future offer of insurtech companies matches the future CE insurance market demand. However, when we compare the future offer and needs on the region level, certain discrepancies occur.

As pointed out before, **insurers from Central Europe will invest in basic innovations**, while other markets, such as the Western European one, perceived as most profitable by insurtechs, may demand **more advanced solutions**.





“ EXPERT COMMENT

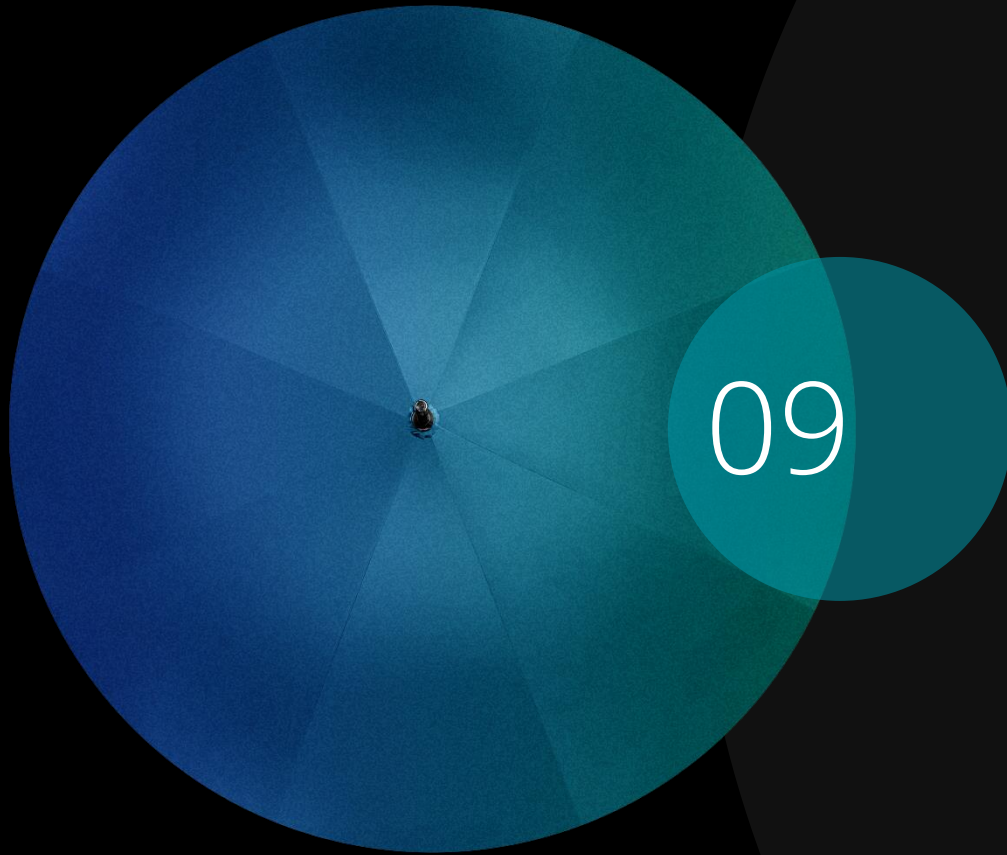
Jan Kastory, investor at [astorya.vc](#)

When we take a look at the CE market, we will find out that, paradoxically, Polish insurtechs are probably the worst off. Those operating in less populated countries with smaller insurance markets (e.g. in Estonia, Finland, or Romania) develop growth plans for foreign markets. The Polish market being of an average size makes insurtechs think they are meant to work with the local insurers only. Unfortunately, relatively low budgets and long-lasting implementation kill many startups. Therefore, many insurtechs, when planning expansion, turn to foreign markets, such as the UK, Germany or France. The problem grows since most decisions to invest in innovation are made in head offices, not on the local level.

If we consider projects pursued by insurers and insurtechs, we need to remember that lately, the trend has been positive, as the gap between the French, German and British markets and the other European ones (including Polish) has been shrinking. In 2022 we observed increased activity in Estonia, Finland, Bulgaria and Poland. The ones operating in these countries are mostly young businesses boldly building their market traction; soon they may upscale their business and reach Western Europe.

In order to build an insurtech sector in CE, though, we need to activate local insurers, both in terms of cooperation with insurtechs and capital investments in the sector. On the major markets, all small and medium-sized insurers invest in innovations or startups. In CE, we need to wait for this to happen.





09

Summary

Summary

The survey has revealed that cooperation between insurers and insurtechs is gaining momentum on the Central European market.

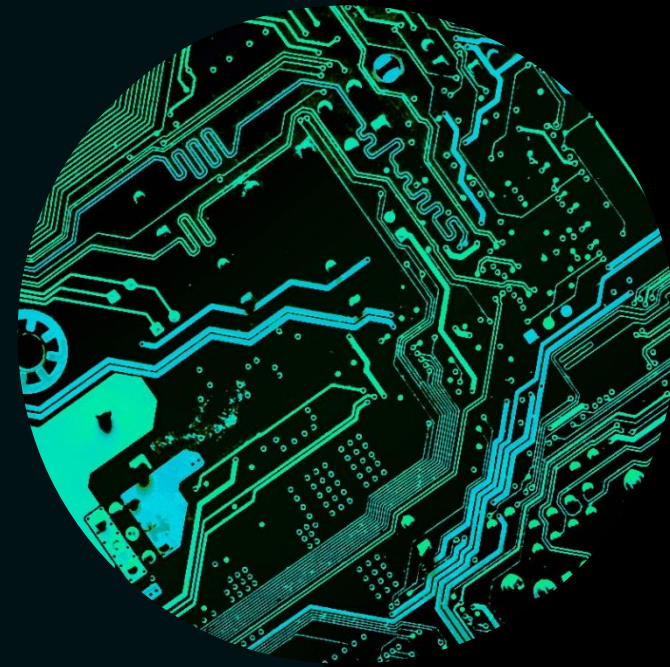
Despite risks and uncertainty pointed out by insurers, the need for innovation and specialist support is strong enough to make most market participants interested in such cooperation, although certain problems and challenges remain unsolved.

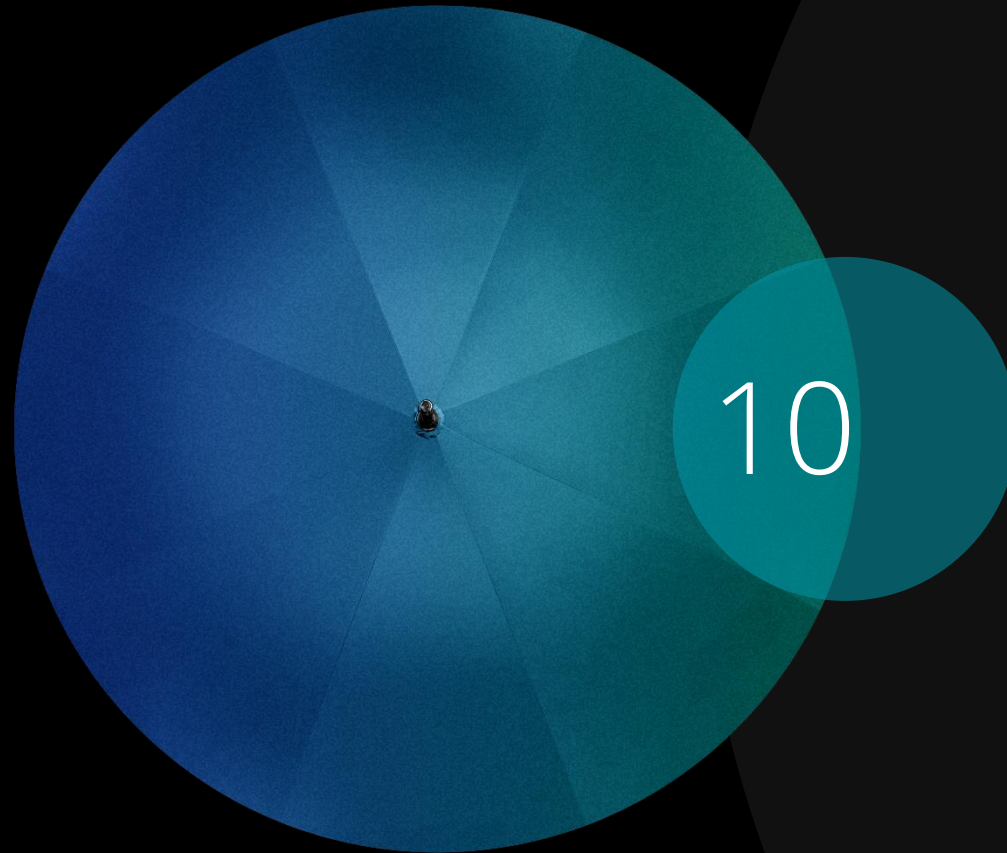
The most common ones include budgeting and data confidentiality. Nevertheless, both sides indicate their positive experience gained in the course of implementing shared projects.

Currently, CE insurers are focusing on automation of internal processes and digitalisation, taking first steps in their technological journey. Once their processes have been optimised, they will be able to move forward with more advanced solutions.

Insurtechs have adjusted their offer to market needs, and currently specialise in basic innovations.

As the window of opportunity for insurtech company to establish a well-functioning and recognisable brand and to succeed is limited, the strategy of prioritising the needs of their core clients seems reasonable.





Actuarial and Insurance Solution Team

Actuarial and Insurance Solution Team

We are the largest consulting company in the world, recognised by the market and analysts as a leader in supporting insurance clients with the most demanding business and technological challenges.

Our team of actuarial **experts works in Central European cities:** Warsaw, Prague, Budapest, Bucharest, Ljubljana, Sofia, Belgrade and Bratislava. Additionally, owing to the Deloitte network, we can access a panel of international experts. Additionally, we have insurance technology capabilities in several near-shore locations and access to global off-shore centres.



The Actuarial and Insurance Solution Consulting Team provides comprehensive services that include:



Modelling and valuation for business, regulatory, audit or transactional purposes;



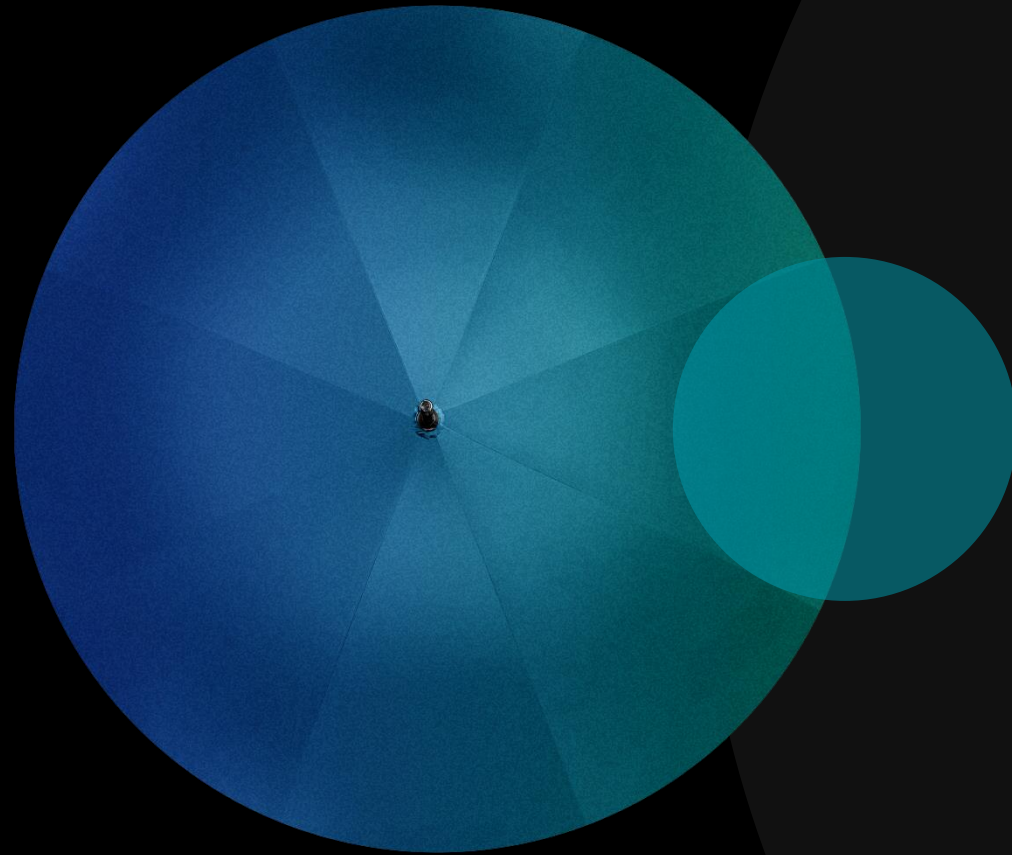
Comprehensive support for the implementation of various regulatory requirements, e.g. IFRS 17, Solvency II and local regulations;



Process optimisation, e.g. increasing the efficiency and transparency of models, automatic production of actuarial results, implementation of policy and claims systems, process automation;



Data analysis: insurance pricing, including optimisation, conversion analysis, cancellation analysis, "smart" reporting, fraud detection, visualisation.



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In addition to insurance / actuarial engagements, he also has experience in the areas of data analysis and machine learning. Adam holds a PhD in mathematics (specializing in financial mathematics and actuarial science). In his current role at Deloitte he is actively promoting and overseeing a few partnerships established between Insurtech Companies active on Polish market with Deloitte Poland.



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Agnieszka Kłak is a Manager in Actuarial and Insurance Solutions team at Deloitte's Warsaw office, specializing in non-life and life insurance. Agnieszka has 8 years of actuarial and risk management experience. Working at Deloitte, Agnieszka is participating in projects including mostly implementation of IFRS 17 standard. Agnieszka had also opportunity to participate in non-life pricing projects (motor, property and travel insurance tariffs calculation) and recently also deals with the topic of the use of advanced analytics methods in insurance.



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Comments



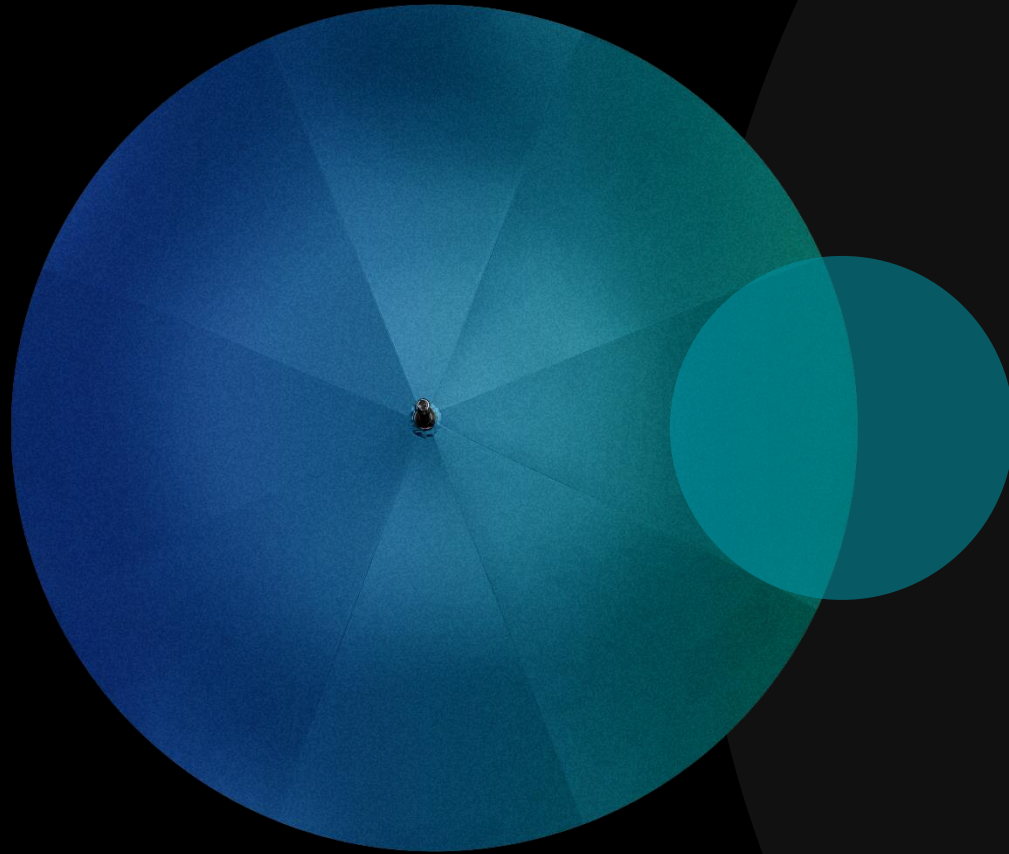
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