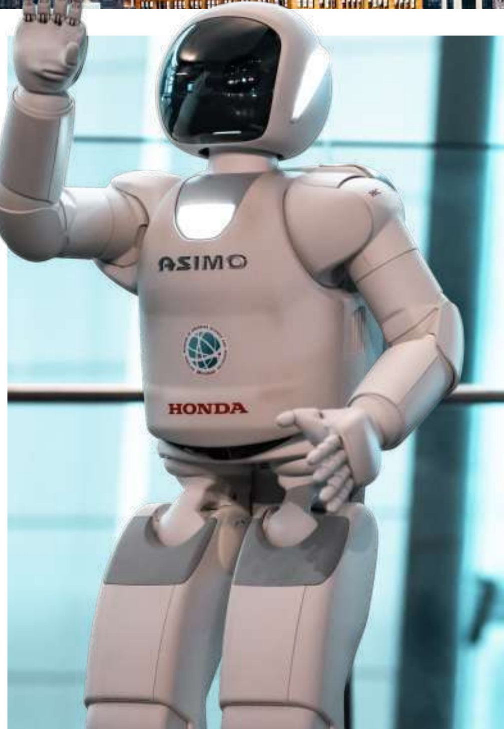
Insurance Factory

Insurance Trendreport

2021



The way to create your innovative insurance.

Dear Insurance Community!

Why did you like this special COVID-19 year 2020? Did you create something new? Did you develop yourself? Did you get a great job or did you find a family? I know, these are unusual questions after such a „crazy year", but I can show you in our Insurance Trendreport, WHY. The insurance industry is a big winner of the Covid-situation. We have a crisis, on one hand its a health crisis with millions of deaths and on the other hand it`s an economic crisis, with high ùnemployment, weak economic performance and no stability for a future perspective.

However this crisis shows for the insurance industry, how important safety in our life is and how we can secure our valuables like houses or cars. We sold these products during the Lockdown, but in an other way. We used the technology not only to sell insurance products but also to manage claims.

Otherwise this crisis shows us, how we have to work „remote" day by day and how we can develop our team spirit in the virtual world. Times are changing. New technologies are coming up, new (service) business models will be developed, also new organisation forms and M&A actions. Our industry is growing and developing in times of crisis as well.

In the Insurance Trendreport 2021 we publish amazing ideas from great visionary persons. Not only from outside, but also from InsurTechs and we can see the developing from inside as well. New positions like an Innovation Manager were created, new collaboration with Hubs and Startups developed, Insurance Manager learnt the Design Thinking and Scrum approach or Business Model Innovation.

We show you ideas, tools, methods, technologies and solutions, that you can develop yourself, your team and futhermore your company to achieve your next step.

To show your customer more touchpoints, to create more emotional marketing campaign or to develop your team with digital skills.

Your next focus should be

- to develop your Customer Experience with emotional focus
- to create great Services supported with technologies
- to use your flexible Organisation to work more effective and creative

You know, the digital transformation is not a project with starting and ending points, this is a journey with your colleagues, customers and partners to develop your own ecosystem.

I wish you some inspired reading time with our Insurance Trendreport 2021!

Erika Krizsan

Managing Director
Insurance Factory
Innovation Store

How to enable better, faster and smarter customer service experiences with Conversational AI.

In an unprecedented short time scope, artificial intelligence (AI) is transforming the insurance industry to create **the ultimate customer goal** - convenience - with extreme efficiency and scalability. Before AI technology, getting a personalized insurance plan, requesting immediate assistance and resolving claims within seconds sounded impossible. And while AI has been implemented successfully in many other industries as well, there is no doubt that AI will play a crucial role in the digitization of the insurance sector as well.

> *Approximately, 98% of insurance executives believe that cognitive computing will play a disruptive role in the insurance industry in the upcoming years. (Deloitte)*

While there is great potential in the power of AI, there are also reasons to be cautious about the right AI technology as the quality of solution providers varies greatly. The following pages are dedicated to shedding light on the **challenges** and **opportunities** of Conversational AI in the insurance industry and **best practices**.

Challenges of the insurance industry.

While insurances are traditionally risk-averse, they now have to **adapt to changing customer expectations**. With the emergence of new platforms, consumer habits and the ways they are interacting with companies is changing. **Customers now expect round-the-clock service** on all channels delivered with speed, reliability and accuracy.

Recent studies show that customer experience management does not show the desired success if companies do not provide excellent customer service and solve customers' problems quickly. Other potential setbacks are lack of data quality and privacy issues. Therefore, it is important to integrate AI products with a proven track record in insurance and **meet the quality standards**.

Opportunities of Conversational AI.

Thanks to AI and chatbots, insurers can scale their customer service. **Scalability is a key differentiator** in digital transformation, enabling established insurers to keep up with new competitors. The majority of incoming requests are first-level and can be easily automated via AI-based chatbot. These questions otherwise not only cause high costs but leave customers waiting for hours or days for a reply. Here, AI chatbots can reduce costs by routing customers to the correct website and conducting intelligent conversations with millions of customers at the same time.

While the customers preferred channels vary, the AI platform from e-bot7 for example ensures a **consistent customer service across any channel, device or platform**. This drastically reduces waiting times for customers and increases customer satisfaction. This way, insurers can scale their customer service volume and offer a better customer experience 24/7, while reducing costs.

> *“Chatbot Lizzy from e-bot7 is now one of our best service agents because 35% of the customers who chat with Lizzy make the deal. And not only that: thanks to Lizzy, our customer satisfaction has also increased significantly!"*
>
> Miriam Dieser, Head of Content at HDI Insurances

Best practices for insurers.

How HDI automated lead generation with a chatbot.

As one of Germany's leading insurers, HDI was facing changes in customer expectations and wanted to make their customer service processes more scalable and efficient. HDI integrated the hybrid solution from e-bot7 on their website. Thanks to Chatbot Lizzy, the customer is able to add another driver to their existing insurance policy quickly and directly via chat. The process is fully automated, so HDI did not have to allocate any internal resources. Chatbot Lizzy is now one of HDI's best service agents with 35% of the customers extending their insurance policy via chat. With Chatbot Lizzy, HDI is able to offer its customers an outstanding customer experience with maximum flexibility and answer customer requests around the clock.

HDI

98%
Automation rate

35%
Conversion rate

How mailo improved their customer experience with Conversation AI.

As a digital insurer, mailo wanted to implement a chatbot to improve the user experience on their website and guide customers to the requested information within seconds. Their goal was to make it as easy as possible for their customers to find the right information and simplify complicated processes without having to browse through the whole website. mailo integrated the e-bot7 AI platform to automate customer requests via Chatbot. Chatbot MIA is prominently placed on their homepage and welcomes all visitors and lets them choose between different topics. If users want to express a different issue, the bot offers free text input as well. Chatbot MIA is online 24/7 without additional resources and automatically answers 98.5% of all incoming requests regarding insurance and damage reports.

mailo

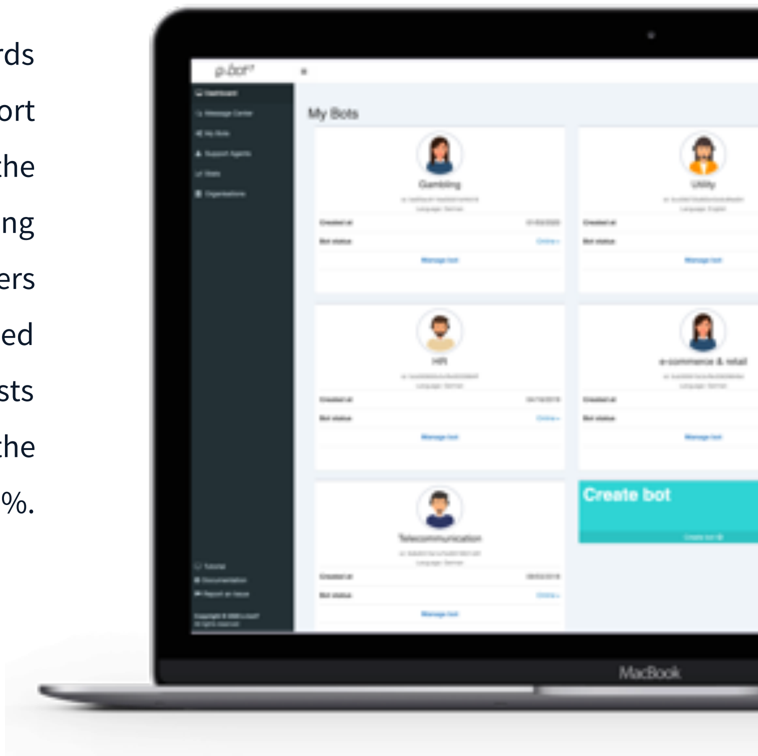
200%
Traffic increase

98%
Automation rate

The next-generation Conversational AI platform.

The key to automating customer conversations is a suitable AI solution. e-bot7's leading Conversational AI platform can be integrated on all channels and in any language. You can get started within a few minutes thanks to plug & play technology. The solution can be controlled directly from the business unit and, thanks to its simplicity, not only supports the specialists but also the agents. While customers' preferred channels vary, our AI solution ensures consistent customer service. This allows insurers to scale their customer service volume and provide a better customer experience 24/7 while reducing costs.

Our system analyses incoming messages, forwards them to the right department and equips support agents with smart reply suggestions during the operational business. Our AI is constantly learning and supports employees with automated answers and processes. The NLP is constantly optimized during operation so that more and more requests can be processed more efficiently. This reduces the average processing time by up to more than 80%. Find more information about our technology here.



> *We were looking for an innovative and interactive way to integrate a chatbot into our sales process. We found that with e-bot7!*
>
> Miriam Dieser, Head of Content at HDI Insurances

Insurtechs, a part of insurers' digital transformation?

Frederik Bisbjerg
Executive Director, Digitalization & Innovation

- Insurtech overview today & placement into the insurance value chain
- Identifying where and how insurtechs can play a role in the incumbent's transformation
- Success criteria for onboarding insurtechs

Insurtechs have long been touted as the future of insurance and as the disruptors of the industry. In essence, insurtech is a about using technology innovations to make the current insurance model more efficient (Investopedia) and should be seen as a part of the industry's development, but to a lesser degree as disruptors of the industry.

Given the nature of insurance, and the possibilities data analytics and technology are offering to the industry, there should be little doubt that the industry is moving towards becoming a technology industry.

It is therefore only natural that insurers are looking for ways to reinvent themselves as technology companies, running corporate-wide digital transformation project to ensure adjustment to the changing markets and secure a competitive position in the future.

This whitepaper demonstrates how insurtechs are important for the development of the industry, but also underlines that insurtechs does not address all challenges faced when creating a future successful insurer – insurtechs are digital instruments to be used in the transformation journey, but it's still with the incumbent to get the real transformation done.

It explores how to use insurtechs to address current incumbent pain points and what to look for before entering a partnership with the insurtechs.

The insurtech landscape mid-2020

Given the pace of the market development, it makes little sense to provide a fully updated and detailed state-of-insurtech – it does makes sense, however, to understand the underlying nature of the insurtech landscape to examine how insurtechs are entering and affecting the insurance industry.

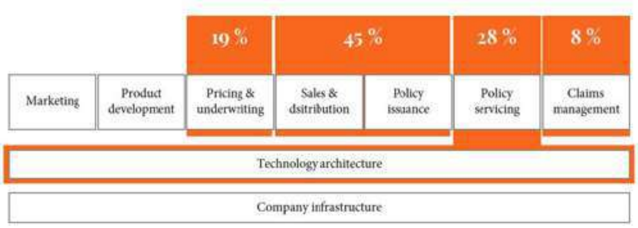
This understanding will provide insurers with a future outlook and enable the development of adequate strategic responses – this will also help insurers to identify if and where insurtechs can fit into the insurer's value chain.

More than 75% of total dollar investments are invested in insurtechs offering products and services within distribution and a total of 79% of all investments are in single-line insurtechs.

Line of Business	Amount raised (USD)	Share
Property & Casualty	$2.27bn	41
Healthcare	$1.79bn	32
Multiline	$1.19bn	21
Life & Health	$336m	6
Total	**$5.59bn**	**100%**

These two numbers, 75% of investments in products and services within distribution and 79% of all investments in single-line insurtechs, combined with insurtechs' focus in the insurance value chain (see below) clearly shows that insurtechs are focusing on specific areas of the total insurance value chain and not in creating new, full-fledged insurers.

The insurtechs seems to be zooming in on the areas that have the greatest business and growth potential and leaving out the less lucrative parts of the entire insurance value chain which makes perfectly good business sense. You would only enter into industry areas with high inertia and potential for fast improvements.



Following the numbers from Figure 1, it appears that the structural issues impeding insurers to realize transformations at scale and speed are not addressed in particular by the insurtechs in the market.

Successful transformation of incumbent insurers requires more than a digital frontend or various, isolated digital innovations – granted, it may add to the overall value provided to the customers or partners, but the underlying structural and process challenges still exists in the incumbents and still needs to be redesigned for the insurer to reach the future virtual and digital state.

As shown later, some insurers are already partnering with insurtechs and benefiting from improved, isolated, processes within distribution, sales, policy servicing and claims management, but very few – if any – have created a cohesive end-to-end experience for the customers and partners.

Partnering with an insurtech for a specific element of the value chain still leaves it with the incumbent insurer to realign, adjust and connect surrounding processes in an effort to create a complete customer-oriented solution.

Besides ensuring technical and operational integration, the incumbent should also carefully understand the cultural and organizational changes required when aligning and redesigning core processes.

In other words, and put provocatively, insurtechs are acting as digitally advanced middlemen or brokers – their disruption primarily lies within customer experience and service while some leverage on internet of things to refine pricing and / or improve service offering (health, home, car, travel).

Most insurtechs greatly rely on the backbone of the insurer – an important point to make and for incumbent insurers considering partnerships with insurtech to be aware about.

Successfully integrating with insurtechs

As mentioned, it does make good sense for incumbent insurers to look towards insurtechs for partnerships, as a partnership can fast-track the digital development process. Apart from being aware of the organizational changes required to make the partnership work as discussed earlier, it is beneficial to create a gap analysis to evaluate existing competences against competences required to deliver on the insurer's overall strategic direction and targets.

While looking at the elements in the value chain, and apart from identifying the gaps, noting down current pain points can detail the requirements for an insurtech partnership further.

A starting exercise can be mapping the insurer against the 'three-speed' insurer model to have a point of departure in defining the gaps and requirements for an insurtech partnership, followed by identification of current pain points throughout the value chain.

The three speeds of insurers

Insurers can broadly be divided into three different categories, reflecting their current digital strategy and ability to react fast to changes in the market from both users and competitors/partners.

Hyper-speed: "Insurtechs"	Medium speed: "Innovative incumbents"	Slow speed: "Incumbent laggards"
As basically all insurtechs are startup companies, they possess all elements required to adapt quickly and effectively to changes in market conditions, whether it is changing user requirements or shifts in the competitor arena They're able to do so due to a very flat organizational structure, a clear and aligned goal for the company and ultra-short decision processes Most insurtechs operate after agile principles	Several incumbents are pursuing new and innovative strategies, acquiring insurtechs or establishing in-house 'disruption' units They've chosen an integration strategy, where the innovations are being implemented into existing product lines and processes Because of this, integration takes time as the new must connect to legacy systems and be aligned with prevailing processes and governance structures	Most insurers fall into this category, relying on a well-tested, slow-paced evolution strategy, building upon the existing legacy systems after the well-tried methods of product and IT development This does not by any way mean that they're not innovative or capable of introducing new products or services, but the speed at which they do is slow compared to the two other categories of retail insurers

You can fill out Table 3 on the next page to get an idea of how fast your insurer is capable of reacting to market changes.

Both internal factors as well as external factors are evaluated as external factors plays an important role in an insurer's commercial success and viability.

Process change refers to the ease of changing internal processes within the insurer, such as claims services, approval processes etc.

An important part of innovation in insurance is to offer a seamless and very fast experience for the users, which requires the incumbent insurers to change their existing processes – this will not be a significant issue for Insurtechs due to their startup nature and very short decision processes.

Innovative incumbents acknowledge this need and change their internal procedures to accommodate this – but they are still far from the nimbleness and flexibility of the insurtechs because the innovative incumbents require the innovations to be integrate with existing systems and processes.

The rationale behind product changes (agility) is similar to the process change described above but needs to be treated separately as some products and services can be integrated at arm's length and thus require less integration and internal adjustments to work.

Organizational agility is the insurer's ability to react on changes, internal as well as external, and is generally an indication of how fast the organization can get projects approved and begin implementing them. It's also an indicator for how fast the projects can be implanted once approved.

	Low / difficult	Medium	High / easy
Ease of doing process changes			
Product development agility			
Organizaitonal agility			
Digital flexibility			
Size of cutting edge talent pool			
Innovation level			
	"Insurtechs"	*"Innovative incumbents"*	*"Incumbent laggards"*

The organizational agility is depending on the formal hierarchical structure and numbers of approval nodes each change request must pass before finally approved and ready to implement.

Insurtechs have a flat structure with very few formal approval nodes which means they're able to approve and begin implementation of changes almost immediately, where laggards are at the opposite end of the spectrum, being slowed down by a large number of approval nodes and longlasting approval processes and management committees to be taking into oath before proceeding.

The innovative insurers are placed in between, again because they've realized the need for agility and adjusted internal structures and processes to accommodate this somewhat.

The level of an insurer's digital flexibility is based on how open and flexible the IT systems, especially the customer facing systems, are.

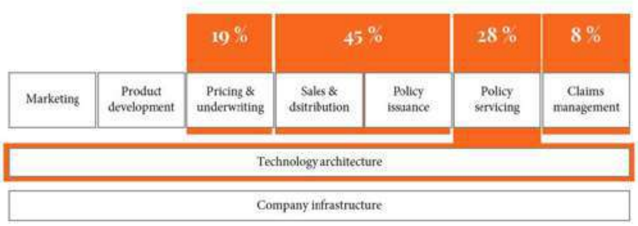
The laggards are basing their development almost purely on legacy IT systems which most often are inflexible monolithic structures, making it a long process to carry out changes, let alone introduce new products and functionalities.

Innovative insurers have typically been through one or more digital transformation projects making them far nimbler than laggards in terms of IT connectivity and development, but they still lag behind the insurtechs who have full control of each and every bit in their digital control room.

It takes cutting edge talent to drive innovation through, regardless of company and industry, and here again the Insurtechs are in front as they wouldn't have been insurtechs if not highly competent people got together to create the insurer.

These two numbers, 75% of investments in products and services within distribution and 79% of all investments in single-line insurtechs, combined with insurtechs' focus in the insurance value chain (see below) clearly shows that insurtechs are focusing on specific areas of the total insurance value chain and not in creating new, full-fledged insurers.

The insurtechs seems to be zooming in on the areas that have the greatest business and growth potential and leaving out the less lucrative parts of the entire insurance value chain which makes perfectly good business sense. You would only enter into industry areas with high inertia and potential for fast improvements.



Following the numbers from Figure 1, it appears that the structural issues impeding insurers to realize transformations at scale and speed are not addressed in particular by the insurtechs in the market.

Successful transformation of incumbent insurers requires more than a digital frontend or various, isolated digital innovations – granted, it may add to the overall value provided to the customers or partners, but the underlying structural and process challenges still exists in the incumbents and still needs to be redesigned for the insurer to reach the future virtual and digital state.

As shown later, some insurers are already partnering with insurtechs and benefiting from improved, isolated, processes within distribution, sales, policy servicing and claims management, but very few – if any – have created a cohesive end-to-end experience for the customers and partners.

Partnering with an insurtech for a specific element of the value chain still leaves it with the incumbent insurer to realign, adjust and connect surrounding processes in an effort to create a complete customer-oriented solution.

Innovative incumbents are partly innovative and forward-reaching because they've managed to hire the right key talent to develop their new digital universe, but even the best talent is bogged down by the existing organizational structures and processes, reducing their ability to impact fully.

Even laggards with exceptional talent will find it difficult to perform due to the organizational structures and systems as discussed earlier.

Given this, it's furthermore unlikely that they're able to attract the right talent and in right numbers as the right talent is focused on deliveries which is too complex in laggard insurance companies.

The presence of talent, and the insurer's willingness to invest, is key to determine the insurers' level of innovation.

Laggards don't possess the talent and cannot have an innovation strategy due to their choice on building evolutionary on existing IT systems, where innovative incumbents very much have an innovation strategy as this is the basis for their future development.

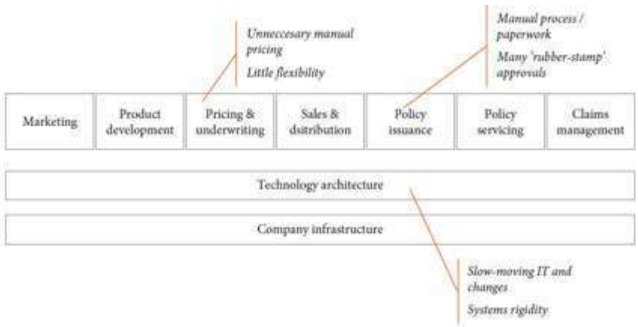
The delivery on the innovation strategy is still not as fast as with the Insurtechs for the.

Mapping current paint points

A quick analysis of the insurer's current speed and flexibility, combined with the identification of current pain points, sets the basis for understanding what kind of insurtech would add the most value in a partnership.

Pain points are generally specific processes or procedures that causes customers – or the organization – difficulties in getting their job don whether it is buying a policy from the insurer, filing a claim or it is bureaucratic red tape stopping marketing or sales processes required to keep – or establish – a competitive market position.

A fast and easy way to identify the pain points throughout the organization is to use the value chain and for each element write down what is causing delays, inflexibility, challenges or downright customer issues.



It is often a good idea to identify the pain points with colleagues to get a more accurate and unbiased view of the pains throughout the organization – done alone, the exercise can be biased towards specific areas that may not be representative for the organization.

These two small company analyses; the speed of the insurer and current pain points, provides a great starting point for understanding how insurtechs can help in the transformation of the insurer to a virtual and digital insurer. Next step is to search the marketplace for insurtech companies that offers products and services that match the insurer's planned transformation journey.

Benefits of partnering with insurtechs

It should already now be clear that partnering with insurtechs can make very good sense for the insurer to speed up and improve the digital transformation of the incumbent. There are at least four distinct advantages for insurers partnering with insurtechs that are worth highlighting.

Business development

An obvious advantage of partnering with a techsavvy professional is the opportunities it creates for new ways of selling existing products and introducing new products to the market.

However, as previously discussed, many insurtechs are building products and services that focuses on optimizing existing business processes, including operational efficiency and claims costs savings (direct as well as indirect through reduction of operational expenses).

Business development can therefore be both in terms of increasing revenue through new sales channels or new products and in terms of improving business processes and hence reduce operating / claims costs.

Organizational advancement

It's important again to underline that successful integration of an insurtech partner requires significant adjustments of the insurer's organization to fully cater to new processes/products that are introduced through the partnership.

This is, of course, especially true when the insurtech's product is focused on internal process development, where the full participation of the organization is required.

When done correctly, these organizational advancements will lead to a changed organization with a broader understanding and acceptance of new and more efficient ways of working.

Creating a future state of business

The organizational changes pave the way for creating a more advanced organization, capable of dealing with complex partnerships going forward.

This will not only benefit potential future insurtechs, but also improve the way the incumbent insurers are handling their partnerships – the learnings from the insurtech partnership enables the insurer to revisit existing agreements with fresh eyes and new ideas on how to optimize for the future.

The insurtech partnership helps direct the attention on a future state and a successful integration will instill a 'can-do' attitude in the organization.

Working with insurtechs creates a source of continuous learning and organization development, enabling the insurer to stay competitive going forward.

Supporting a new breed of companies

Apart from direct business and organizational benefits, partnering with insurtechs sends a strong message from the insurer to the market, a message of being at the forefront of the industry, which increases the insurer's ability to attract new talent, partners and customers.

Furthermore, the insurtech partnership actively supports the development of the next generation of insurers and partners, thereby supporting the development of the industry long into the future the insurer leaves its mark on the industry.

Will all insurtechs do?

There are several areas the incumbent insurer should be aware of before venturing into a partnership with an insurtech.

The insurtech must be a real new technology service /product provider and partnering with them should demonstrate a clear business leap for the insurer, as opposed to an incremental change.

Incremental changes and improvements are required and should be part of any company's ongoing improvement programs, but to reap the benefits discussed above, the insurtech must offer a truly innovative leap for the insurer.

Partnering with the insurtech should match the company's current strategic direction – or actively be part of a new strategic direction set by the management.

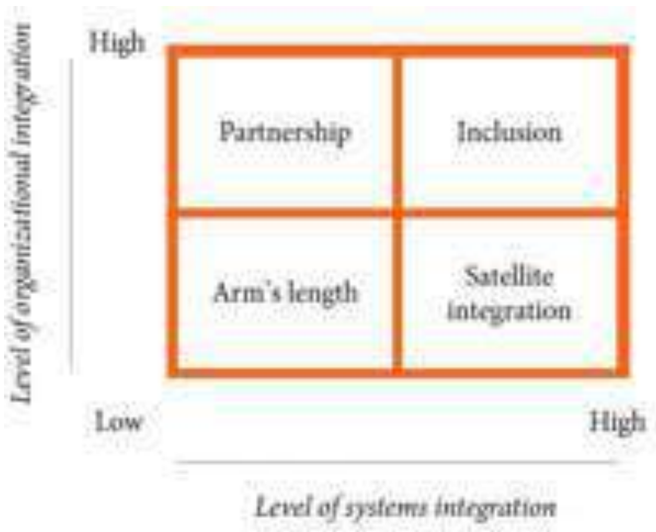
It makes little sense to spend time, money and organizational effort to partner with an insurtech if the partnership will not take the incumbent insurer a great step towards the set strategic targets.

Following the discussion on organizational learning and culture, it's an extreme benefit if there's a people / culture match even before the partnership is agreed upon.

How to integrate, four basic ways

It's imperative to understand that this is two very different worlds: an agile and very 'modern' small-business environment and the more bureaucratic and institutionalized environment of the incumbent insurer. At some point, these must match to make the partnership a success and positive vibes between the partners beforehand will ease this process.

There are different ways of considering structuring the partnership between the insurer and the insurtech, all of which have different advantages and disadvantages to consider – and the be aware of when the partnership 'hits the insurer's organization.



Arm's length

Partnering with an insurtech and managing the relationship at arm's length makes it little more than an external distribution partner or an outsourced claims management function. It is very easy for the insurer to administer as there will be minimal disturbance and interruption of the daily operations, processes and organization.

The 'Arm's length' will have very limited transformation effect on the insurer.

Satellite integration

A high level of systems integration with little organizational integration is typical for insurtechs that connects to the insurer via APIs or utilizing the insurer's microservices for a specific set of transactions.

In this scenario there will be little organizational red tape, but some IT challenges can be expected as the IT unit must work and integrate with the insurtech.

Partnership

Insurtech partnerships with little systems integration and high levels of organizational integration typically relies on the technology from the insurtech and requires a high level of cooperation and coordination between the insurtech and the insurer – advanced use of artificial intelligence for underwriting or fraud detection could be examples of this, where the insurer in many cases only need to export simple data sets for the insurtech's solution to work with.

This can have quite a few organizational challenges as the incumbent organization can get the 'not invented here' syndrome and feel the insurtech is coming and interfering with the daily work.

Inclusion

Integrating the insurtech into the insurer will most likely be the partnership model with the biggest return on investment, but at the same time this model poses the greatest challenges as both systems and organizations must be included and aligned towards each other.

It's safe to say the most significant risk is a clash of cultures between a well-established, well-regulated, experienced incumbent insurer and a newly founded, agile, dynamic and 'free-of-rules' insurtech.

Performance Indicators – the cornerstone of success

The organizational and cultural strain caused by introducing external parties to the organization – or simply caused by digital change initiatives – can be somewhat reduced by creating a set of clearly articulated targets and goals for the company, the units, the teams and the individuals.

To be successful, the targets and goals must be interconnected, so the teams and units will be depending on each other to achieve them. This will initially force collaboration that over time, if managed, will reduce the cultural tensions – working towards the same target is a strong motivator.

A fast way of setting up a framework for target and goal setting is to use the principles from the balanced scorecard , illustrated below.

Financial targets	Financial performance	Effective resource use
Customer targets	Customer value	Satisfaction and retention
Operational targets	Efficiency	Quality
Organizational targets	Human capital and culture	IT and technology

One of the major strengths of the balanced scorecard is that targets are set for the organization as a whole and then cascaded down to the business units, teams and individuals. This provides an overview of how each goal and target is actively supporting the organization in achieving the end targets.

Given the insurer already have a set of financial performance targets, the balanced scorecard is used to set underlying goals for the units working with the digital transformation and insurtech partnerships, all aiming at supporting the insurer in reaching the overall targets.

This approach can further be used to create business cases for investments and calculate return on investments, because of the specificity of the targets and goals required to create a successful balanced scorecard.

When setting the goals in the scorecard, it can be defined how investments actively help move the performance indicators toward the goals and therefore illustrate the value of the investment.

Final thoughts

Insurtechs are not the only answer to transforming incumbent insurers into virtual and digital insurers, but they may be able to play a very important role for the insurer to achieving the virtual vision.

When embarking on a continuous transformation journey, it is vital for insurers to keep the overall picture of the organization, it's interdependencies, culture and modus operandi in mind.

For insurers to become agile, virtually and digital competent organizations, they must ensure proper adjustment and development of the underlying key systems, which include organizational structure, management processes and culture 'Just' partnering with insurtechs or other companies does not make these challenges disappear – and conquering these challenges are key for future and sustainable success.

About the author

Frederik Bisbjerg (b. 1973) is widely respected as international business (digital) transformation specialist and a digital insurance thought leader with a focus on being realistic and pragmatic to get things done.

He's been in the digital insurance industry for a decade and been working with business transformations, strategy development and leadership challenges worldwide since the mid-1990's.

Read more on frederikbisbjerg.com

Insurtech in Europe: 2020 in review

Florian Graillot
Founding partner, Astorya.vc

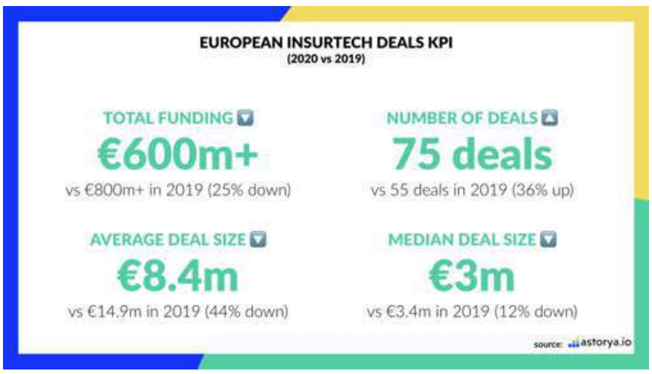
In 2020, €600m+ was invested in European InsurTech startups, which is a 25% YoY drop from €800€+.

Interestingly, COVID-19 had little to do with the drop in funding. The lack of German megarounds from 2019 was the main cause of the shrink of insurtech in Germany (€460m to €95m). The growth in other European countries didn't manage to fill the gap.

Certainly, the numbers could have been better if covid-19 didn't impact the VC/ startups space with 3 combined trends: (i) several startups didn't manage to raise money due to poor KPI and/or shift among VCs from doing new deals into focusing on portfolio companies, (ii) others waited for a better market timing before kicking-off a new fundraising round, (iii) a few raised money but didn't announce the round yet, waiting for a quiet moment to get more visibility.

To help you get a comprehensive view of the European insurtech scene, we are happy to provide you with further details on deals done in 2020. Based on astorya.io's market watch tool, every deal announced was spotted and analyzed, to build this report. You will find usual KPIs by size and countries, and a business-oriented analysis alongside the insurance value chain.

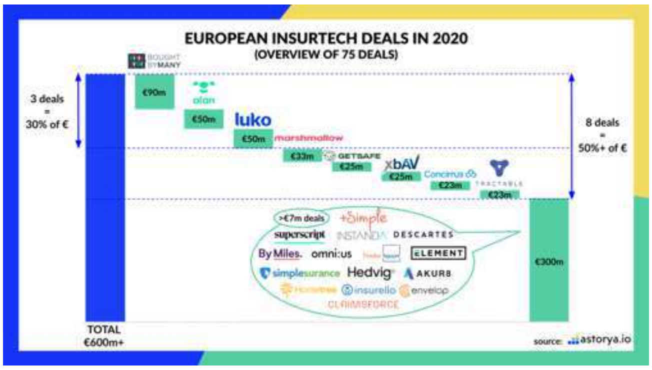
Key KPI



In 2020, insurtech funding is democratizing. 20 more deals closed in 2020 (75) than in 2019 (55), which gives a 36% YoY increase in the number of deals.

Median deal size decreased, meaning that more small deals have happened in 2020. 2019 was dominated by two >€100m fundraising megarounds of German insurtechs Wefox Group (€221m) and Friday (€128m), which drove the numbers of 2019. Subtracting these deals from the calculation, gives us a 2019 average deal size of €9m vs €8.4m in 2020.

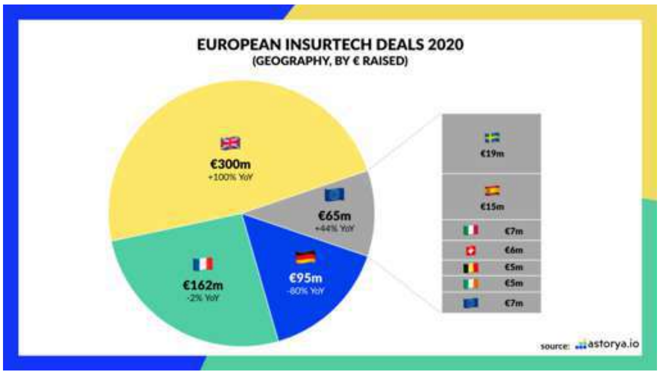
Split of insurtech deals



In 2020 it took 8 companies to secure 50% of funding, while the top 3 gathered "only" 30%. In 2019 50% of funds were secured by only 3 top startups (Wefox, Friday, Ottonova).

Interesting to see Alan and Luko both raising 50m€ and both reaching 100k customers in 2020. We shouldn't forget though that they have two different business models. Alan is a licensed insurance company, therefore a risk carrier and it's business model is based on underwriting profitability. Luko is an insurance MGA (agent) selling policies of an established carrier, hence its revenues are commissions on policies sold.

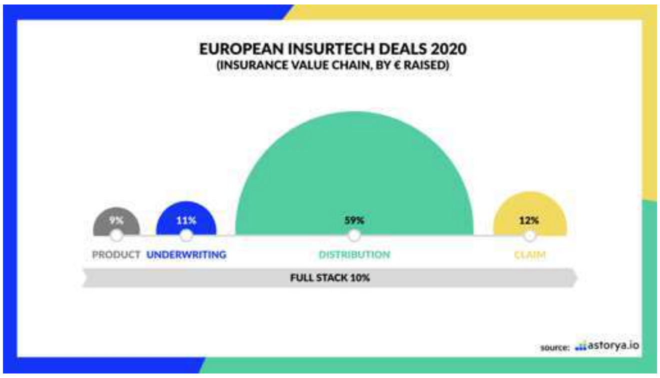
Split per country



Although Germany has a few well established insurtechs, its entire ecosystem seems limited and undiversified (9 deals in 2019, 8 in 2020) compared to the UK (21, 29) and France (14, 17). What causes this conservatism in insurtech investments?

Bravo to the UK for doubling its insurtech funding YoY! Bravo to the rest of Europe for a nice increase (+44%), esp. Sweden and Spain! High five to France for maintaining its numbers!

Split alongside the value chain



It's great to see that distribution is leaving a bit of space to other parts of the value chain, which are often more tech savvy and have more impact on corporate development. In 2019, they took over 75% of funding, down to 59% in 2020.

Insurtechs building insurance products and underwriting models grew from 6% cumulatively in 2019 to 20% in 2020, which made us split them into two separate categories. As mentioned in astorya.io half-year review, our belief is that this growth is due to the significant growth of funding in the UK, the capital of actuarial talents.

Claim insurtechs up to 12% from 9% in 2019.

Split per maturiy

Great news! (Pre-)series A deals grew in number and proportion, with 30+ deals below €3m for ~€50m in total. Bad news. We still need more very early stage funding, from angels, VCs and corporates!

Also check out our list of every investor that was active in the European insurtech space last year.

Perspective for 2021

Beyond the investment activity that will happen this year - more or fewer deals than last year? smaller or bigger rounds? - insurtech startups' activity will have to be monitored closely. As a seed investor, we have spotted a few trends that may keep growing in the coming months:

Starting with insurtech positioning, we anticipate more startups will seek the insurance licence. It started with Zego that was the first insurtech startup in Europe to move up from MGA to licensed player at the end of 2019. And more recently Getsafe announced it was under the process to get a license too.

Another trend that we see surging on the market: platforms are progressively considering offering insurance as part of their customer journey. Hence, insurance may increasingly be embedded. In late 2020, Qover announced it was embedded into Revolut, and earlier the online driving school Ornikar announced its project to distribute car insurance. With a huge market opportunity (see here) we might see more platforms adding insurance to their offer.

Ultimately, after a first insurtech wave mainly focused on personal lines and mendatory products, more startups are now targeting SME - either with a direct to consumer or b2b2c approach - and we believe new risks (weather, business outage, cyber, etc) will remain an exciting opportunity for new players entering the insurtech space. ■

11 insurtech predictions for 2021

Martha Notaras
Managing Partner, Brewer Lane Ventures

We couldn't wait for 2020 to be over. Despite what we all feared in March, insurtech has continued to flourish, with lots of capital supporting the sector in public and private markets, closer integration between incumbents and startups, and promising solutions for long-time needs in SME and cyber. Keeping up the annual tradition, here are my 11 predictions for the insurtech market in 2021.

01 - Do you want insurance with that? Insurance will be embedded in every financial & retail transaction

Since no one loves shopping for it, we will see more insurance being sold as part of another transaction, where the user has a high intention to buy. Embedded has been a buzzword in fintech for several years, best illustrated by Buy Now Pay Later (BNPL) players like Affirm and Klarna.

Embedded insurance started with travel insurance and extended warranties sold at point of sale, like Square Trade and Assurion. Branch Insurance now sells home and auto as part of the mortgage process and Matic is embedding with mortgage servicers. 2021 will bring opportunities to embed insurance into transactions, with the end goal being delivering a seamless experience of product plus protection.

02 - 2021 will be the year for Plaid for Insurance

The original Plaid provides infrastructure to connect banks to financial apps like Venmo, which need access to a consumer's bank account, so the user can take money from their bank and send it via Venmo, to the recipient's bank.

The explosion of financial apps drove dramatic growth at Plaid. Yes, the Department of Justice has sued to block the acquisition of Plaid by Visa. Worst case: Plaid is forced to go public at a valuation way above the $5.3 billion offered by Visa. In 2020, at least seven "Plaid for Human Resources" were funded. Data connections and enablement are critical across life, health, and P&C insurance. In 2021, we will only see more pitches for Plaid for Insurance, and some of those pitches will be winners.

03 - The robotic uprising: Automation will take over routine processes & improve customer experience

Automation will be used to support and empower the humans who are still in the process, starting with claims. Startups will accelerate the sale of automation to incumbent insurers, leading to improved customer satisfaction. Who wants to call their insurer to check whether the policy includes glass coverage? Consumers prefer to use their cell phones to text or speak, submit the claim, and schedule the windshield replacement service.

To show how quickly this change is happening: In 2019, State Farm ran ads mocking Lemonade's bot; in 2020, State Farm led a venture investment in Replicant, which provides Voice AI to support human call centers. Faster, better customer service, which is cheaper for the carrier: automation is a win-win with unstoppable momentum.

04 - Playing for keeps: Deeper partnerships between incumbents & startups, accelerated by the pandemic

At the beginning of the insurtech phenomenon, way back in 2015, insurers responded by creating innovation groups and adding innovation KPIs to employee reviews.

Following the law of unintended consequences, the result was incumbents starting a lot of experiments and proofs of concepts with startups. It was frustrating all around, and many of those experiments failed. Now, insurers have moved the decision making back to the operating teams, and those teams are choosing partners to last. The pandemic has focused the efforts of incumbents. That focus will only get stronger going forward, as incumbents understand that they are dependent on startups to deliver the organization's goals.

05 - More startups will go full stack

Insurtechs will continue to take off their MGA training wheels. Following the high profile IPOs of Lemonade and Root, 2021 will see full stack carriers multiply. While the Managing General Agent model has the advantage of being capital light and enables a startup to get to market quickly, structuring as full stack gives the startup maximum control over its product and customer experience.

Capital is available to build a carrier, coming from multiple sources, as evidenced by sizeable fundraises by Pie, Kin, Hippo, and several life insurance startups.

06 - SME market will finally get the solutions it needs

At the end of 2019, I swore it was the last time I would predict the success of insurance solutions for SME. But there are finally some serious signs of success and traction in this market. Embroker, Vouch and Next Insurance continue to grow. And Bold Penguin has integrated with the flow of existing insurers, delivering value where incumbents could not. Finally, SME will have some good choices in protecting their businesses, thanks to persistent insurtechs!

07 - Achieving scale with coretech

Incumbents are yearning for alternatives to existing core systems, with an average age over 15 years, antiquated programming languages and vendor implementations measured in years. Two trends are providing hope here: no code/ low code and coretech, delivering cloud-native core capabilities. The challenges of 2020 encouraged more incumbents and insurers to start limited implementations of no code and coretech. In 2021, we will start seeing a few insurers adopt these new approaches at scale.

08 - Cyber insurance will lead the market in delivering dynamic risk protection

There have been many startups in cyber insurance, covering one of the existential threats for companies. Some startups have struggled by aiming at companies that are too small to afford the premium; others have chosen the wrong threat assessment partner and taken unwarranted risk. The whole market continues innovating and growing, which is good news, because cyber threats are also increasing.

By combining real time threat assessment with insurance, startups cyber insurers will deliver dynamic risk protection, enabling their customers to reduce risks as soon as they are identified. That may be a model for future real-time risk coverage in other business lines.

09 - Parametric coverage will surge

Insurtechs will tackle claims costs and delays by eliminating the claims process, via parametric solutions. Defining a loss by reference to a standard objective index like rainfall in a specific geography is no longer reserved for markets like drought risk in developing countries.

Now, insurtechs are delivering parametric cover for a range of risks, including earthquake, wind and cyber outages in developed countries. One driver is the user experience, where the insured no longer needs to trust the insurer to pay an indemnity claim promptly. Look for more kinds of risks to be covered by parametric solutions in 2021.

10 - Record support for insurtechs at all stages

The pace of both early and later stage investments in insurtechs proves that investors remain enthusiastic about the market. Valuable business models built in Fintech will serve as examples to its younger sibling, Insurtech. There is still plenty of insurtech innovation to go around, and abundant capital to support it. We will see new launches and a record amount of capital raised across insurtech in 2021.

11 - More big exits

The public market in 2020 has been the story of hot money looking for a home, and eager to pay up for future growth. Insurtech carriers Lemonade and Root went public via IPO, and Hippo is expected to become public either via IPO or SPAC. Metromile became the first insurtech carrier to be acquired by a SPAC. These successful exits will drive continued investment in insurtechs that are taking big swings, and we will see more public exits.
We can also expect more insurtechs buying insurtechs, like Bold Penguin's acquisition of Risk Genius and Next Insurance's purchase of Juniper Labs. The target will be filling a specific strategic need for the acquirer and buying is faster than building.

In addition to going public, insurtechs will find other options, including strategic exits. Prudential's 2019 acquisition of Assurance IQ created a lot of hope, but insurers have not yet shown a broad willingness to pay startup valuations. Brokers, always ready to spot the main chance, have made a couple acquisitions, and can be counted on to find deals that deliver focused value to their existing clients. Verisk, Duck Creek, Guidewire all have public currency and at least the latter two have created long lists of partnerships with startups. There will be multiple insurtech exits in 2021, ranging from additive deals between insurtechs all the way to more IPOs. ■

Insurance Factory

Create a new insurance experience: Prevention and Ecosystems

Jörg-Tobias Hinterthür
Innovator, incubator, mentor at Insurtrends

Insurers are changing more and more. Customers have been expecting a new type of service experience for the actual core product since yesterday.

In addition to classic insurance services, insurers want to create a positive customer experience with new services. This helps both in customer interaction and in customer loyalty. In the best case, this results in positive recommendations.

But what could the new customer experience be? Prevention!
Insurers enable their customers to massively minimize the damage and, in the best case, even to avoid it entirely. This is a whole new experience with "insurance" of damage reduction. Away from a pure claims adjuster to a service provider!

But let's start a little earlier in history. Using the example of the first smart home proposals in connection with assistance services, some insurers dared to take a very first step into the world of networked smart living. This was a combination of intelligent building technology and helpful services and insurance benefits. There is an integrated service module with services such as a locksmith or general tradesperson placement. These do not initially have to have anything to do with an insured event.

With an attractive range of services, relevance in the purchase decision can be achieved. Regular interviews with customers show that these services are increasingly in demand and that customers include these options in their decision for or against an insurer.
Cooperation with companies from the IoT and smart home industry can result in unique advantages for customers. In addition to price advantages when purchasing networked devices, these are in particular innovative offers.

Plus, one of these cooperation partners can bring in their own services (e.g. maintenance of systems) or integrate partners from their own ecosystem.

After all, there are three parties involved in the actual purchase decision process: insurer, sales partner and customer. In my assessment, the smart world is unfortunately not yet self-explanatory, so that there is an increased need for explanations when purchasing, installing and expanding smart household technology.

Contrary to all forecasts, the technology is developing rather slowly. Practice has shown that these hardware properties, which require explanation, in conjunction with service and insurance services that also require explanation, increase the barriers to motivation to conclude a contract considerably. In addition, the management of a merchandise management system is not the original work of an insurer and the introduction of related processes involves considerable effort.

For these reasons, too, insurers should decide to increasingly offer service and insurance services in the future directly where the technology-savvy customers move, namely at the dealer or manufacturer. A closer cooperation is to be sought with these in order to be able to create mutual synergies and market profiling characteristics in the future.
For example, an ecosystem can provide additional services that are not necessarily immediately associated with insurance. The aim should be to become the so-called orchestrator or co-creator of these topics, through whose platform or marketplace customers obtain services from partners, but always combine this with insurance.

The continuous expansion of partnerships is the focus of all efforts in order to be able to offer customers a recurring positive event along the entire value chain.

So how does the topic of prevention come into play?

A successful example of this approach is e.g. the topic of water damage prevention.

The water damage is pretty much the most uncomfortable thing you can have in your own four walls. Many even say that it is worse than fire. If the cellar has filled up knee-deep, then with drying devices for months, noise and dirt, no customer really wants to have that or experience it again.

Because of this motivation, insurers are increasingly approaching sanitary providers. The trick is not to enter into a one-sided connection, but to generate added value in the interests of customers and your own company. It has to fit into an overall story that tastes good to the company, the partners involved, the customers and also the sales department.

In the meantime, there are devices from established sanitary manufacturers that are able to detect irregularities, from micro leaks to dripping taps to classic broken pipes. Ideally, these devices not only warn, but also actively intervene and prevent further water inflow. This leads directly to active damage reduction, sometimes even to complete damage avoidance.

With the use of these smart devices, a high level of customer acceptance can be achieved. The topic of insurance becomes tangible! Customers say: "If you help me preventively avoid events now, then I will feel an added value, which is why I opted for this insurance."

This leads to positive NPS scores (Net Promoter Scores). Because customers naturally talk about this experience among friends and acquaintances. This leads to high customer loyalty, customer loyalty is strengthened and insurers have the opportunity to address and convince new customers. You can address this at many touchpoints, from construction financing to renovation, and thus find great access to (new and existing) customers, as new topics can now be addressed in customer interaction. The whole topic of sustainability and the resource-efficient use of water is another topic that is still completely underestimated. ■

New ways to innovate: from lockdown to success

Roland Kovács
CO-Founder & CEO, Pozi

Most of the idea competitions are missed in 2020, although bolder businesses are well aware that the solutions to the crisis will be the success stories of the future Insurtech.

Services that build a new generation of events are available to help with that. Successful large companies and banks have been looking for the best ideas and startups for years. Hundreds of ideas are received for global competitions, but the results at these events are also deplorable.

Most of the solutions born here have caused almost no change in the sector beyond the awards ceremony. "At such innovation events and hackathons, we not only waste ideas but also talents, which are otherwise sought after by large companies at universities. Said Roland Kovács, CEO of Pozi.io. - The result of the competition is an Excel sheet that the organizers will forget about overtime. The ideas will never be published and in a month no one will remember them. "

For many companies, innovation is still just a fancy communication tool, mainly because integrating a new idea poses very big challenges to many elements of the organization. Internal innovation may be more likely, but mistrust of external innovation is the case across different departments of the firms. And this appears to be serious. Most startups don't understand or know how insurers work internally and are lost in the jungle of bureaucracy, even if the company is "open" to fresh ideas.

This system, which was not working very well anyway, was almost completely paralyzed by the pandemic. The idea competitions have stopped and a year later almost no one dared to rethink the possibility of holding such events online. However, Covid-19 doesn't seem to be a quick fix so more and more people are thinking about how to implement events in newly organized online communities.

Everyone knows that only by fleeing ahead can have a counter-economic effect. It is also clear that we need to be aware that it is no longer possible to return to what we used to do. Sustainability will be one of the new messages for the near future. One possible way for insurers to develop is to support external innovation and create conditions for it.

It is not enough to relaunch innovation competitions, because the solutions created in them can only be integrated if the organization is open to it. The solution is clearly to activate the online community and create corporate "open innovation labs". However, these innovation workshops cannot function effectively until the foundations of a new generation of online platforms are born.

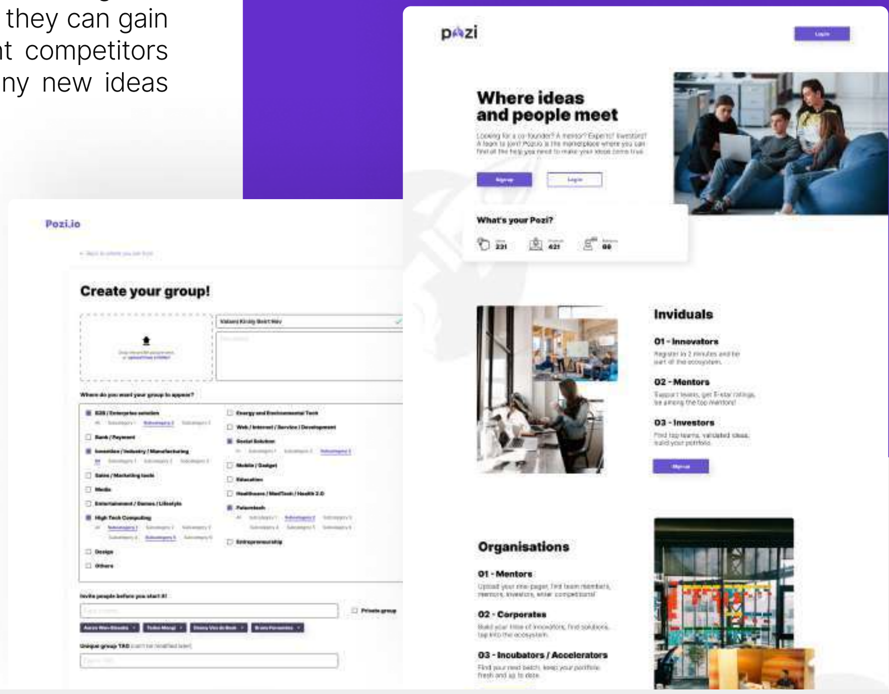
The solution - could be a new kind of online Think-Tank. During the last year, many people started looking for a solution, just like Pozi.io. The innovation meeting point now offers an opportunity for thinkers in 30 countries to connect. The founders of the site have been researching the possibilities of enterprise innovation for more than a decade, building on the experience of countless idea competitions to rethink the standard social media model.

The site, which now also suitable for large corporate events, was launched in 2020 with an event called Restart2020. By 2021, it is planned that with their service, anyone can organize events similar to traditional idea competitions with the help of an ever-building online community.

"Our site has mentors, talents, professionals, and think tanks alike. They are bound together by something, namely a commitment to innovation. The majority of the online community is built on friendships and acquaintances, and we build an open innovation community in which members share a common interest."

- explains the essence of the new page Roland Kovács, who himself gained his previous experience in the world of innovation.

The new situation requires new solutions. Besides, to clear teleworking for large companies today, we will learn many new concepts in the future. These will include the birth of innovation communities and the emergence of new forms of community events. Those who understand the need for these changes in time will be the winners of the crisis, as they can gain a serious advantage over their hesitant competitors by preparing for a fresh start with many new ideas and strategies.



About the site

POZI.io is an open innovation platform that allows you to search for targeted, industry-specific ideas and projects. By focusing on a specific problem or area, we can gather the best solutions and connect them directly with end-users.

The platform gathers professionally outstanding people, organizes them into thematic groups so that the target is directly market participants.

About the founder

Roland Kovács - CEO 10+ years of innovation project development, domestic and foreign mega-project implementation (Slovakia, Norway, UK, Oman, Pakistan, Croatia), organizational development experience in the corporate and multinational corporate sector, risk management expert, behavior analysis expert. Startup and business development mentor and consultant.

Insurance trends: Open insurance APIs as success factor

Sebastian Langrehr
CSO Market Strategy & Sales, Friendsurance

With the EU Payment Services Directive PSD2, a milestone in Open Banking has been reached. PSD2, dissolves the monopoly of banks on access to account data. Since autumn 2019, banks must open their interfaces to third-party providers in order to promote consumer protection, competition and innovation.

PSD2 is also used in the insurance context: If customers authorises the insurer to use their bank account data, intelligent algorithms and machine learning are used to extract information from bank account transactions: On the one hand, insurance-relevant information such as the name of the insurance company and the insurance policy number can be obtained from account movements and displayed in a digital insurance overview. This is very convenient for customers: they do not need to have their insurance documents at hand but can have them transferred automatically.

On the other hand, important life events can be identified, and meaningful adjustments of the insurance coverage can be suggested. If, for example, child benefit is suddenly transferred to a customer's bank account, the insurer can ask whether there has been a family addition and, if so, trigger a consultation about which existing insurance policies need to be adapted and which additional insurance policies might be useful.

But unlike the banking sector, the insurance sector itself still lacks open interfaces. Since there is no uniform industry standard, data exchange between insurers, customers and third-party providers has so far often been tedious, cost-intensive and inefficient. Against this background, Friendsurance and the insurer Alte Leipziger - Hallesche founded the Free Insurance Data Initiative (FRIDA) in 2018. As an addition to existing data exchange formats such as BiPRO and GDV, the initiative aims to establish an industry-wide interface standard for fast and secure data exchange while reducing process and operating costs.

The initiative is supported by HDI, Deutsche Rück, SAP, Bitmarck, Okta, InsurLab Germany and Accenture.

"The goal of our initiative is to enable customers to handle insurance matters fast while maintaining data sovereignty through standardized processes and solutions – comparable to PSD2 in banking," says Sebastian Langrehr, CSO of Friendsurance.

"As an insurer, we are highly interested in providing our customers and their advisors with an overview of all insurance and financial matters. In the context of our financial home platform fin4u a standardized B2C interface is the next logical step to complete this service", explains Julius Kretz of ALTE LEIPZIGER - HALLESCHE. "We believe in positive impulses by strengthening the data sovereignty of our clients. Strategically we focus on the topics 'API Economy' and 'Open Insurance'. That is why we have been involved in FRIDA from the very beginning", adds Guido Leber from ALTE LEIPZIGER - HALLESCHE.

"In the coming years, Big Data and Artificial Intelligence will significantly change the insurance industry. Insurers will be able to use various data sources to improve the quality of advice and products. If this insurance data can also be used by third parties for the development of value-added services, positive impulses will arise for the entire industry - the banking sector has long since set an example. FRIDA has set itself the task of doing its part here - for the benefit of the customers and thus for the good of the entire industry," says Sebastian Langrehr. ■

For more information please visit:
friendsurance.com/news-center

The Three-step Insurance Industry Makeover

Ravindra Salavi
Lead Data Analytics & AI Solutions, LTI

To reach customers who are at once tech-savvy and demanding, insurers needs to leverage the latest technologies and incorporate three major industry shifts into their planning.

The insurance industry is going through digital transformation and it2 needs to leverage the latest technologies to cater to the new age customer who is at once tech-savvy and demanding. To stay relevant, the industry will need to incorporate three major industry shifts:

- Applied Intelligence
- The New Normal of Consumerism
- Transformation of Insurance Products

Applied Intelligence

Most insurers have embraced the value of data and the business benefits it delivers. Sensors, smart devices and third-party industry data sources have made it easier to monitor risks. For example, telematics, monitoring of driving habits and patterns, and commercial properties have made risk prevention easier.

Applied Intelligence combines the power of analytics, AI and automation to enhance outcomes for data-driven Insurers. This is done by automating the actions required to utilize the key Insights produced by analytical models, driving autonomous decisions.

However, applications of these capabilities are still in nascent stages. The success of Applied Intelligence thus significantly depends on how focused your approach is for specific business outcomes.

Applied intelligence will play a big role in making next big things such as autonomous cars, connected homes etc. mainstream in our lives.

The new normal of consumerism

Consumerism is all about keeping your customer at the center of your product design and building lasting relationships. Brands like Uber have changed the paradigms of the consumer game by consistently staying on top of customer needs and personalizing services on the fly.

In the insurance industry, typically there is negativity around connecting with customers—renewals are expensive, accidents are not exactly the best time to deal with them either. However, staying in touch with customers is important for the insurance industry, in order to maintain relationship and to understand their needs.

Home Inventory by American Family Insurance is a great example of an innovative way to connect with customers. It helps policy holders store actual images of all things insured. This way they don't need to worry about the claim payout list in case of some loss. Another example is a wellness/ health checkup reminder app for insurance customers from Cigna. The Mygbclaim app from Gallagher Bassett lets injured workers manage their claim anytime, anywhere from their smartphone. MetLife's Infinity App allows customers to store the memories of various events by building a photo album.

Thus, increasing positive touchpoints with customers outside of traditional interactions has helped several insurers achieve better customer engagement.

Starting from taking a Quote to getting policy issued during sales process, how am I utilizing my coverages and premium paid while my policy is in-force, how my driving habits and usage patterns are impacting my cost of insurance on regular basis, when I am need to

open a claim—how my claim is getting moved from first notice to next stages in the process of getting my car/ property restored and all this without the need for the customer to take additional efforts such as calling or emailing someone. It will be interesting to see how the insurance industry responds to this new era of consumerism.

Transformation of insurance products

Traditionally, insurance customers have been able to pick the services they require only from an inflexible menu card, which means that they might have to visit multiple insurers to cover all their needs. The next generation insurance services will offer customized products and services as per customer requirements, so they don't have to run to multiple providers.

Another key development is the evaluation of InsureTech, which have taken early movers advantage, e.g., telematics, connected Homes, wellness or health monitoring etc. These providers eventually build a sea of data from IoT sensors, wearable or other customer engagements and will have significant knowledge of risk associated with every customer and would be in better position to issue customized Insurance coverage to these customer (independent or in collaboration with a primary Insurer).

Product transformation will bring in the next wave of disruption for the insurance business and is expected to take consumerism to the next level. Many insurance firms are already providing such value-added services to their customers, and some have even partnered with third-party ancillary services providers for building additional capabilities. ■