

InsurTech Evolution: Enabling Traditional Insurance Through Innovation



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The COVID years have accelerated digital transformation in the insurance industry, with about a decade worth of work happening in these 3 years. This transformation – of systems, mindsets and experience – creates new ways for insurers and InsurTech to engage. Will the challenge and disruption increase or will there be a new model of partnership?

In a recent webinar, our own **Rod Haire, Global Head of Insurance Practice Group** and **Inga Ezera, Principal, InsurTech** were joined by a panel of leading industry experts to gain insights from **Prashant Agarwal, Digital Innovation, Customer & Ecosystems Marketing Expert**. Together, the panel engaged in a dynamic discussion with insurance executive attendees, where they discussed and explored key strategies for industry growth through InsurTech-led innovation and collaboration. The webinar addressed critical challenges facing traditional insurers and the InsurTechs highlighting how they can adapt to the evolving landscape by leveraging technological advancements to thrive in a competitive environment.

The growing concern over market disruption has motivated insurers to seek new strategies. However the pace of change in insurance lags behind the wider financial services space. A number of insightful comments and questions were raised to dissect this topic, focusing on actionable insights aimed at helping traditional insurers adapt to these evolving conditions.

The key underlying premise is that the “disruptors” in the InsurTech space have not as yet driven substantial alternative options for consumers vis-a-vis the traditional insurers. Does this mean that the tsunami of change is just round the corner, or does it point to a different role that InsurTech could play?

The speakers shared their experiences, both successes and failures, with the intent of guiding insurers towards sustainable growth by navigating the challenges posed by this digital revolution.

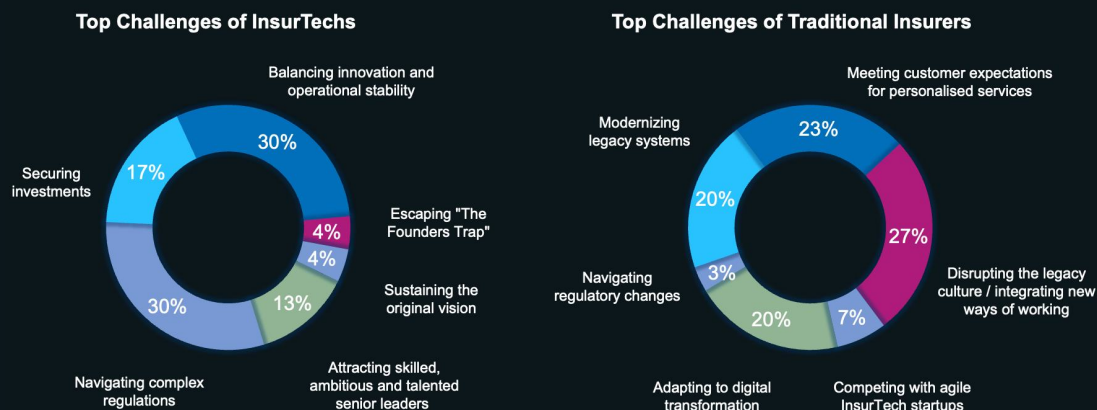
Key Challenges Facing Insurers

A survey we conducted prior to the webinar with InsurTech founders, C-suite leaders, and executives from traditional insurance companies worldwide, along with data from the 2023 survey, highlighted significant business growth challenges for both traditional insurers and InsurTechs, revealing their ongoing struggle to adapt to the rapidly evolving insurance landscape.

For traditional insurers, a primary challenge is disrupting legacy culture and integrating new ways of working (27% in 2024, slightly up from 26% in 2023). This is closely tied to the industry's difficulty in shifting from product-centric to customer-centric models and a widespread underinvestment in digital transformation, which leaves many companies reliant on outdated legacy systems (modernizing these systems ranked 20% in 2024, down from 28% in 2023). Additionally, meeting customer expectations for personalized services is a growing concern, increasing from 17% in 2023 to 23% in 2024. The need for a mindset shift remains critical, as an industry trained to assess and minimize risk often struggles to embrace change and innovation.

Meanwhile, InsurTechs continue to grapple with their own set of challenges, led by balancing innovation and operational stability (30% in 2024, up from 24% in 2023) and navigating complex regulations, including standards like IFRS 17 (30% in 2024, up from 20% in 2023). They also still face difficulty scaling operations and securing investments (17% in 2024, down from 22% in 2023). A decline in attracting skilled, ambitious senior leaders from 20% in 2023 to 13% in 2024, and the reduced concern over escaping “The Founders Trap” (falling from 15% to 4%) show that while talent acquisition and internal leadership transitions remain ongoing challenges, these shifts also suggest recent change of focus to different areas of challenge to be improved and stabilized.

These challenges underscore the tension between maintaining operational stability and driving innovation, a struggle that both sectors face in their efforts to adapt to an increasingly digital world. As the demand for insurance continues to rise, the urgency to create a winning model that blends innovation with operational resilience cannot be overstated.

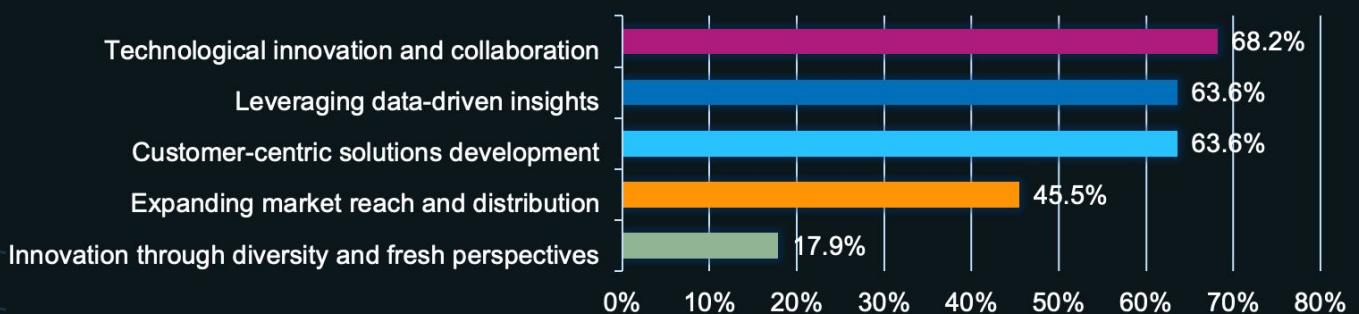


The survey revealed a diverse geographical representation in the InsurTech sector, with Europe and APAC having the highest participation rates at 25% and 19%, respectively, followed by respondents from other geographies. The majority of respondents were InsurTech founders or executives (42%), while participation from Insurance Industry Professionals (25%) and Traditional Insurance Leaders/Executives (33%) was relatively similar, highlighting balanced representation from both emerging and established sectors of the industry.

Potential mutual areas of growth between Insurers and InsurTechs

In both 2023 and 2024, technological innovation and collaboration emerged as the leading mutual area of growth between insurers and InsurTechs, with 68.2% of respondents highlighting its importance. Similarly, leveraging data-driven insights and customer-centric solutions development maintained their significance, with 63.6% in both years identifying these areas as critical for mutual growth. Expanding market reach and distribution also remained consistent, with 45.5% of respondents recognizing this as a key opportunity in both years.

However, one notable shift was seen in the area of innovation through diversity and fresh perspectives, which decreased from 31.8% in 2023 to 17.9% in 2024. This suggests that while diversity continues to play a role in driving innovation, it has become less of a focal point for growth compared to the other areas over the past year. Overall, the data underscores a strong and ongoing emphasis on technology, data, and customer-focused strategies as primary drivers of collaboration and growth between insurers and InsurTechs.



InsurTech Trends and the Importance of Industry Collaboration

A significant shift in the InsurTech space has been the transition from disruptors to collaborators. Once perceived as a threat to traditional insurance, InsurTech companies are now increasingly working alongside incumbents. This collaboration is proving invaluable for:

- Enhancing the customer experience.
- Accelerating product time-to-market.
- Building digital capabilities like embedded insurance and data-driven underwriting.

Key Areas of Collaboration

Operational Optimization

Data-driven dynamic & rapid underwriting
Claims adjudication, Straight-through-processing
Payment optimization (premiums and claim payouts)



Talent Traffic

Partnerships, pilots and 'neo insurers' Cross-hiring and cultural exposure

Digital Innovation

Embedded insurance with digital journeys New risks innovation (e.g. Climate Insurance, Cyber)

Most important benefits of collaboration, according to incumbents



These collaborative efforts underline the growing symbiosis between InsurTechs and traditional insurers, strengthening both sectors and driving the industry towards a more digital, customer-focused future.

The Slow but Steady Evolution of InsurTech

Although initially seen as a disruptive force, InsurTech's evolution has been slower than expected. The conversation during the webinar pointed out that InsurTech attracts just 15% of the total FinServ startup funding despite the industry value pool being a third of the total. In recent years valuations of successful InsurTechs have taken a beating, indicating more caution around their growth expectations.

The complexity of insurance, particularly the long-term nature of life and health policies, makes operating stability, ample capital and heightened regulation and rigorous risk assessment a must. As an example, during the webinar a case was highlighted, equated buying a life insurance policy to taking a 75 year warranty on a vehicle highlighting the significant complexities and responsibilities when managing life insurance policies. In the P&C domain, unpredictable risks like extreme climate events, and newer risks like cyber-security and autonomous vehicles have challenged the core of how to understand, reduce and price these risks. A historical view to predict the future no longer works.

It was noted that one of InsurTech's early missteps was attempting to become full-stack alternatives to traditional insurers without fully appreciating the complexity of the insurance landscape. Rather than seeking to completely disrupt the industry, the real value may lie in mutually beneficial partnerships that blend InsurTech's agility and innovation with the risk management and regulatory strengths of traditional insurers.

AI, Digital Transformation, and Innovation

Artificial Intelligence emerged as a key theme throughout the discussion. AI's role in transforming operational processes—such as claims processing, underwriting, and payment handling—was highlighted as a game-changer for improving efficiency and customer experience. AI-driven automation is reducing friction across the customer journey, helping insurers respond more swiftly and accurately to policyholder needs.

However, despite these advances, the success of AI and other digital tools depends on how well they are integrated into the broader operational and cultural frameworks of insurance companies. It was emphasized that insurers must carefully balance the need for technological innovation with the traditional focus on stability and risk mitigation.

Embedded Insurance, Emerging Risks, and the Future

Several emerging trends were discussed, including the growing importance of embedded insurance. InsurTechs are at the forefront of this trend, using digital-first approaches to make the insurance buying process easier, friendlier and more aligned with customer expectations.

Additionally, risks associated with climate change and cybersecurity are increasingly becoming focal points. Traditional insurers are struggling to keep pace with these emerging threats, while InsurTechs are uniquely positioned to innovate in the areas of risk assessment and pricing. The annual nature of P&C insurance also enables innovation within a sandbox, and plays well to the core capabilities of startups.

Cultural and Operational Differences

A persistent challenge for InsurTech collaborations with traditional insurers is the cultural divide. Traditional insurers prioritize risk mitigation and tend to be slower in decision making, while InsurTechs focus on rapid innovation but may lack expertise in risk management. This mismatch creates friction in partnerships, but as the conversation pointed out, the solution lies in fostering greater collaboration and understanding between the two sectors.

The conversation also touched on the transfer of talent between traditional insurance and InsurTechs. As more professionals transition between these sectors, blending conventional expertise with innovative thinking, partnerships are expected to grow stronger. However, finding individuals who can thrive in both environments remains a challenge. Pedersen & Partners' Global Insurance and InsurTech Practice has a proven track record of identifying the right candidates and introducing, connecting them with to the right businesses.

Partnerships and the Path to Sustainable Innovation

Despite cultural and operational differences, partnerships between InsurTechs and incumbents are key to driving innovation. The industry is seeing increasing collaboration, where InsurTechs provide technological solutions, and traditional insurers offer capital, regulatory expertise, and long-term risk management capabilities.

Funding for InsurTech partnerships is growing, with the majority of investments focusing on enhancing customer experience and building digital capabilities. These partnerships offer a promising path forward, combining the agility of InsurTech with the scale and stability of traditional insurers.

Conclusion: A Collaborative Future for Insurance

The message from the webinar was clear: the future of insurance lies in collaboration, not disruption. As InsurTech continues to evolve, traditional insurers must embrace innovation to stay competitive. By forming strategic partnerships, leveraging AI and data-driven insights, and addressing emerging risks, both InsurTechs and traditional insurers can unlock new opportunities for growth.

Ultimately, the future of insurance will be shaped by the combination of technological agility and operational strength, ensuring that the industry not only adapts but thrives in the face of digital transformation.

To enhance further insightful discussions, contact us:

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