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# The insurance software marketplace in Eastern Europe – Challenges and Opportunities

**T**he enlargement of the European Union (EU) in 2004 has provided European financial services companies with access to ten new insurance markets, including eight countries from Central and Eastern Europe (CEE). The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Cyprus and Malta, are now part of the world's largest free trade zone and financial services market.

The "Central and Eastern European Five" (CEE5) - Poland, Hungary, the Czech Republic, Slovakia, and Slovenia - are recognized as the leaders of the pack. The insurance market in these countries is growing rapidly with reaping profits, while each market is dominated by no more than a handful of major, mostly foreign-owned, players and a former state-owned monopolist.

## Growing Patterns across CEE:

Global insurers, such as our customers Eureko and Groupama, as well as other players like Group Allianz, Aegon and AXA, have already established leading market positions in CEE5. These companies are further expanding their footprint into the CEE through additional M&As.

Here are a few examples:

- Eureko B.V. operates in the Dutch market under well-known brands, such as: Centraal Beheer Achmea, Interpolis, Zilveren Kruis Achmea, Avéro Achmea and FBTO. Eureko has decided to capitalize on the growth potential in Central and Eastern Europe, and has acquired insurance operation licenses in eleven countries, including: Poland, Greece, Romania, Bulgaria, Slovakia, and Slovenia, to name a few.
- In Hungary, the acquisition of OTP Garancia by Groupama Hungary (from Feb 11<sup>th</sup>, 2008) is yet another example of how a global insurer extends its market share through M&A of an insurance company in Hungary, together with its wholly owned subsidiaries in Bulgaria, Romania and Slovakia.
- We have witnessed the same trend in Greece; where Phoenix Metrolife, the second-largest insurer in Greece, was acquired by our customer Groupama, and Alpha Insurance, part of Alpha Bank Greece, was acquired by global insurer AXA.

## Emerging Opportunities in FSU:

In addition to the CEE, and following the collapse of the Soviet Union, there are remarkable growth trends across the former Soviet Union (FSU) countries:

The Russian insurance market comprised in 2005 less than 1% of the world market. The insurance written premium in Russia is growing in excess of 20-30% yearly and is expected to achieve 45-60% growth by 2010, with car insurance as the more active product to date. The Russian market is similar to the Polish market, while the economy and the population of Poland are several times less than in Russia.

The recent rise of democracy and the fast growing economy in Ukraine is also attracting much interest from overseas, and the Ukrainian insurance industry is also expected to boom. The analyst community believes that Ukraine is certainly one of the Commonwealth Independent States countries having the highest potential, and insurers in Ukraine are expected to increase their IT spending by more than 60% over the next three years.

## The Insurers' Perspective:

Although much has been written about the potential growth in CEE and FSU markets, little attention has been paid to the IT strategy issues that will make this growth possible. The evolving needs and distribution trends

are forcing many insurers to adapt their existing business models and IT strategies, without delay.

We see that most of the IT investment in the CEE5 is focused primarily on distribution, which is not surprising given the market's focus on growth. However, the insurance market analyst firm Celent believes that CEE5 insurers are making a mistake by under-investing in infrastructure, which is necessary to support growth in the long term.

## The Vendors' Perspective:

A recent market analysis indicates that the IT environment in the CEE countries is relatively advanced, and companies have access to a highly skilled technical labor force, with a relatively low salary level, compared to Western Europe. Accordingly, many insurance companies opt for internal IT solutions, but they lack the West European best practices, and consequently – seek help from Western and global software vendors such as IDIT.

On the vendor side, the market is dominated by the major Western players; leveraging their relationships with the Western parents of CEE5 insurers. At the same time, software companies considering expansion into CEE countries, must recognize that a single CEE insurance market does not exist. Each country is different in terms of its economic strength, population, penetration, insurance market size, regulations and legislations.

## Our Insights:

Our impression, while working tightly with numerous CEE and FSU insurers, is their absolute desire for flexible IT solutions, such as IDIT™ Software Suite, to stay ahead of their competition:

- Our prospective clients keep asking for package-based, proven modern solutions, which will enable them fast deployment of new insurance products. The business people are expecting their IT products to demonstrate not just a superior technology, but also to affect the organizational aspects of IT, such as business process reengineering, which are considered "Best Practices" across Western Europe. And indeed, according to business analyst Celent, "IDIT is highly appreciated as an excellent option for all insurers wanting to adopt proven modern technologies".
- IT executives, in return, share with IDIT their business rational for core system replacement projects, and ask for IDIT support for these strategic projects. IT executives expect that new software integrate all operational procedures - both front and back office processes - including multi language, multi currency and multi brand, on a single instance of a software package. Here again, IDIT™ is highly regarded by the analysts as the leader of the pack.

## The Bottom Line:

Our customers in CEE show continued investment in modern technologies including web services and SOA, in order to improve their integration efforts, especially in the area of new business. The feedback on the IDIT solution was: "...a very good combination of deep functionality on modern technology".

Our findings are very much in line with what we hear from the analyst community, which expect 2008 to be a year of continued investment in new IT applications and software solutions, while insurance CIOs will maintain focus on streamlining their operations.

*Yoel Amir is the CEO of IDIT I.D.I. Technologies. Yoel has over 17 years management experience in international software companies. Most recently as the Executive Vice President, Sales and Marketing at IDIT, and prior to that as CEO of IDIT Europe NV, the European branch of IDIT I.D.I. Technologies. Before joining IDIT, Yoel served as CEO of Advanced Systems Europe and held a number of CIO positions in advanced international hi-tech companies. Yoel holds an MBA from Erasmus University in Rotterdam and an MBI from Georgia State University in the US.*