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EMBEDDED INSURANCE.

A new route to growth and value.

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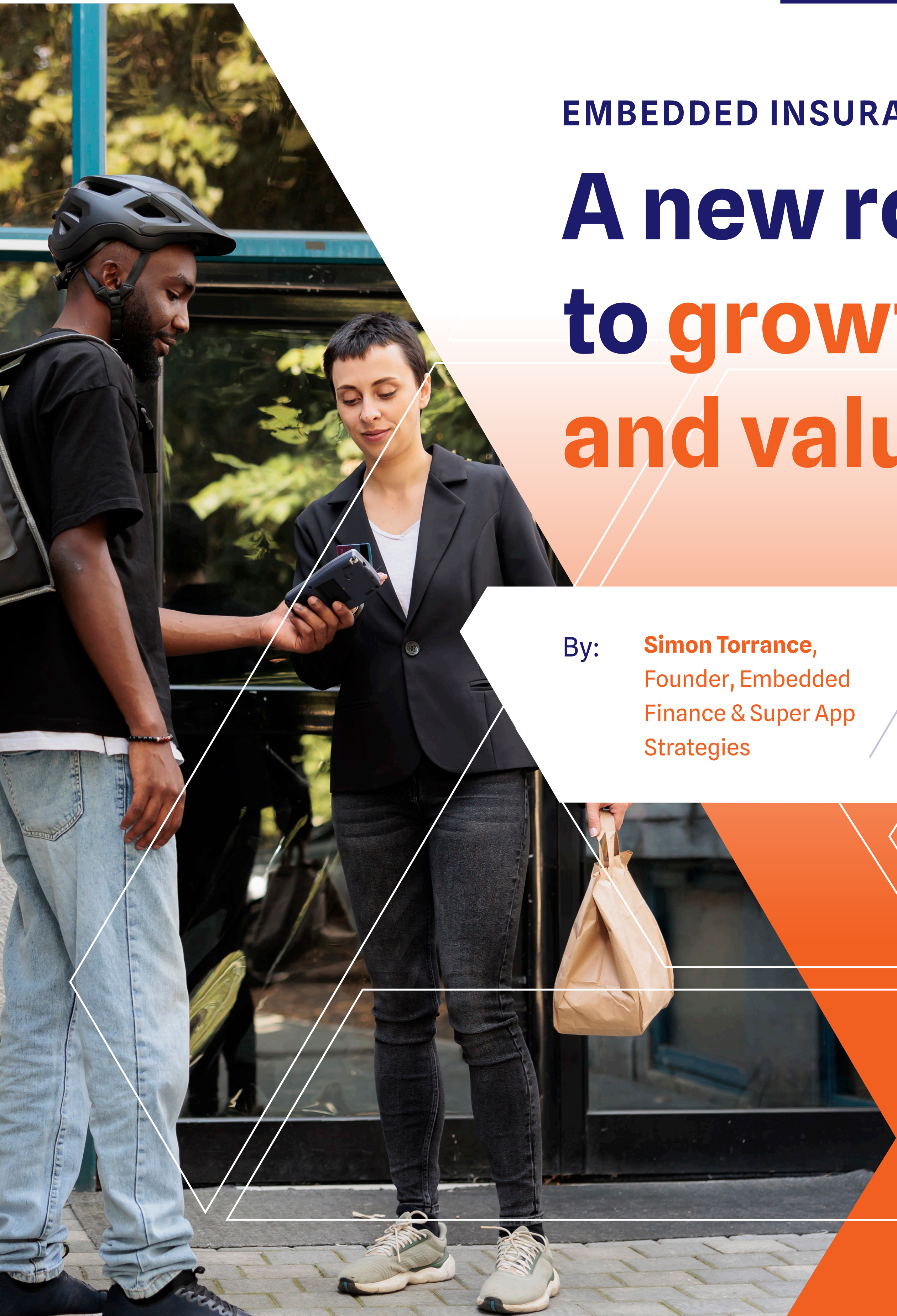
and **EIS**



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The rapid emergence of new digital technologies, consumers' heightened expectations for more personalised service, and a new and growing wave of more complex risks have put pressure on insurance companies to enhance their products and find new ways to stay compelling and relevant in a fast-evolving insurance market.

With the potential to generate more than **$3 trillion** in new market value for those who enable it, embedded insurance is one of the most interesting developments carriers are exploring to adjust to those market conditions.

The aim of embedded insurance is to allow any developer or product manager at any brand in any sector to quickly and easily test and integrate innovative digital risk solutions into their own propositions, either to generate new revenue or to make their products more attractive with the added value of insurance. Leveraging a technology platform that features APIs and lowcode tooling is at the heart of achieving those goals.

Embedded insurance is related to — but distinct from — another concept getting a lot of attention from insurers: **insurance ecosystems**. Noninsurance brands use ecosystems to orchestrate a broader range of different-but-related products, which can include insurance products, to provide customers with more comprehensive and relevant service offerings. Embedded insurance gives insurers the tools to access and join the ecosystems in a more efficient and effective manner.

Industry trends that are giving rise to embedded insurance

1 The emergence of new technologies

Insurance companies have been pivoting in recent years, introducing a series of innovative approaches aimed at maximising convenience for customers. These include:

- **Microinsurance**
- **Behaviour-based insurance**
- **On-demand insurance**
- **Parametric insurance**
- **Usage-based insurance**

Both insurers and brands are recognising the potential of the digital technologies behind these approaches to converge their offerings, products, or propositions to jointly provide more personalised, timely, and relevant offerings to a wider set of customers and reach a much wider consumer base.

In many ways, **embedded insurance** represents the intersection of these technologies and approaches. And while it's now feasible for insurance companies to access and move data more quickly to support rating, underwriting, and binding processes necessary to support these models, many insurers find that the foundational "core systems" their businesses are built on severely limit their ability to take advantage of these new opportunities.

2 Changes in customer behaviour

Customer expectations have undergone unprecedented change in recent years, as digital transformation narrows the gap between products and services at different companies and makes experience and service a much higher priority for customers. And yet, insurers have failed to keep up, driving consumers to look for alternatives to traditional suppliers.

More than 70% of consumers now expect companies to both personalise and simplify their interactions, and **more than 75%** of them aren't happy when companies fall short of that mark, according to McKinsey

One of the driving forces behind this phenomenon is the **changing demographic composition** of the global insurance consumer base. The Millennial and Gen Z share of the population is steadily growing; they are expected to constitute roughly two-thirds of the global workforce by 2030, according to "An early outlook of a Millennial-led economy in 2030," from University Professional and Continuing Education Association.

2/3 of the global workforce by 2030 — Millennial and Gen Z

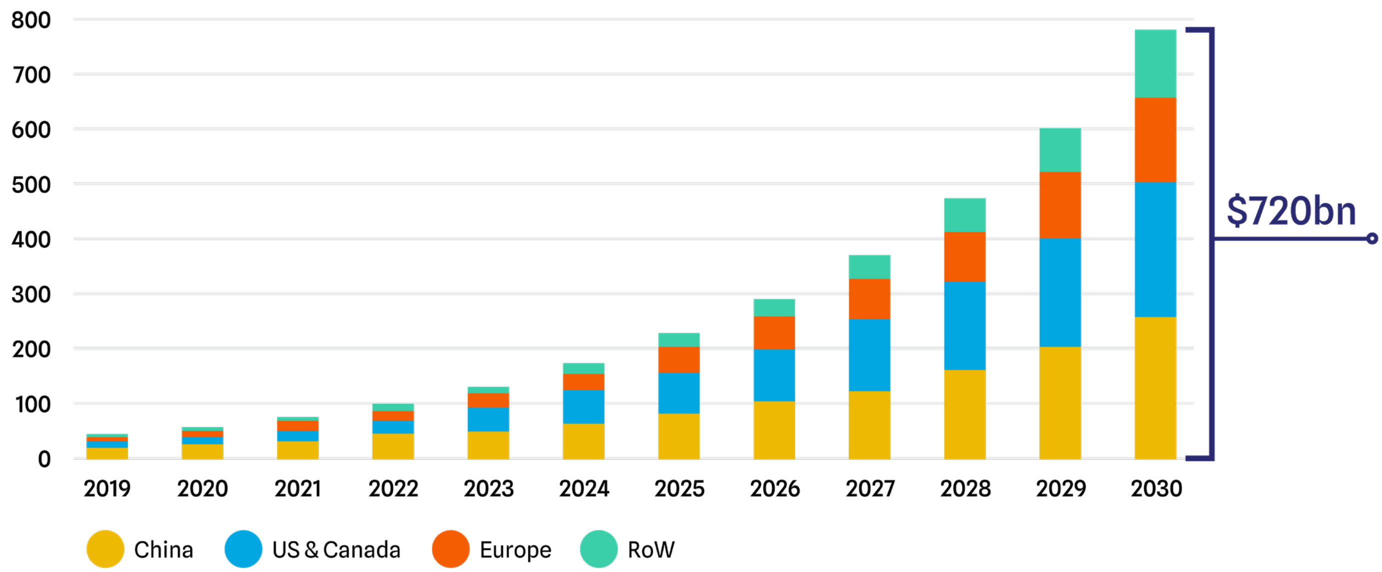
$1.2 trillion — global protection gap

Moreover, the **emergence of new and more complex risks** (like climate change, public health crises, sophisticated digital assets) has led to a growing protection gap across all insurance markets. The global protection gap sat at $1.2 trillion before the COVID-19 pandemic, according to "Indexing resilience: A primer for insurance markets and economies," from the Swiss Re Institute.

Most importantly, Millennials and Gen Zers are the two most digitally savvy generations of end users, meaning they expect highly personalised, bespoke products and services that match their unique circumstances, with accessibility from virtually any device. This has put immense pressure on companies in all sectors to digitalise their products and services in order to find new ways to keep their customers engaged and satisfied.

3 Opportunities for embedded insurance

Total Embedded Insurance Worldwide, GWP, $USD bn*



The **growth of embedded insurance** presents enormous opportunities for stakeholders across the insurance market and has the potential to rejuvenate traditional insurance business and distribution models and enhance the way insurers add value to end users and society as a whole.

- **Carriers** can create new addressable markets by co-opting the customer bases of third-party brands.
- **Managing general agents** can make themselves more attractive to brokers and agents and accelerate sales processes via low friction digital environments.
- **Brands** can deepen their relationships with customers by offering new personalised solutions that are complementary to their products and services.
- **Customers** can access more relevant, affordable, and timely risk solutions from brands they trust.

The caveat is that to deliver on the promise of embedded insurance, insurers need a technology platform that features APIs to connect to partners, data, and insurance core systems, plus the low-code tools to quickly and easily configure and reconfigure the insurance products and customer experiences the market increasingly demands.

*Source: Simon Torrance analysis of the global P&C market

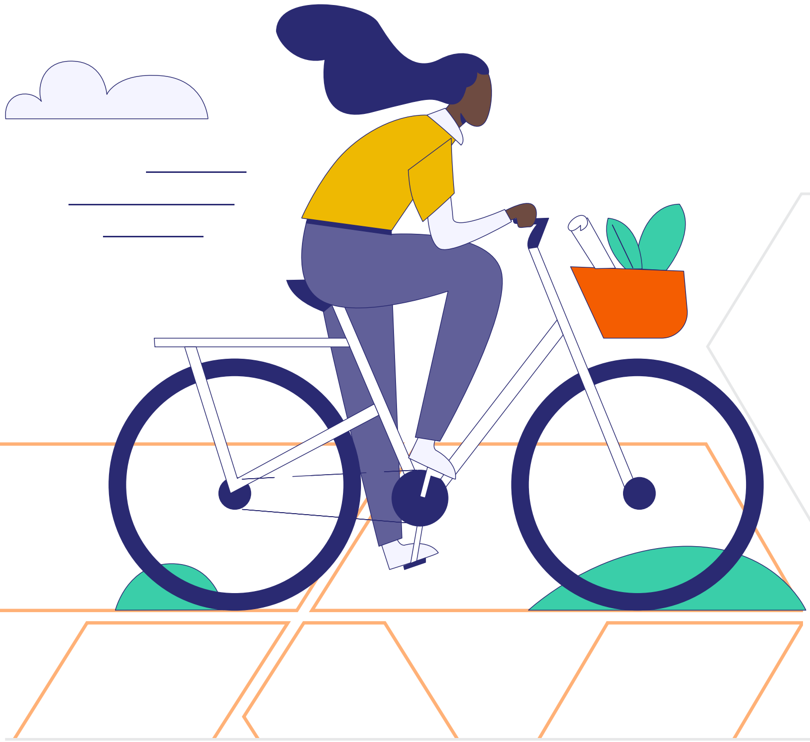
What it means for the carrier

New Addressable Markets

Carriers can use embedded insurance to reach new addressable markets by distributing relevant products and services directly to the established customer bases of noninsurance brands. Those customers are already highly engaged with the noninsurance brand, meaning carriers can much more easily co-opt that customer loyalty and generate new business opportunities by offering relevant products at the point of sale. In addition, they can distribute their products at scale through new digital channels using embedded insurance platforms that sit on top of their legacy systems.

Ultimately, embedded insurance has the potential to help insurers distribute products and services at much lower costs. Distribution costs currently consume **around 50% of total industry costs,** representing an enormous savings opportunity for carriers. They can then reinvest these savings in product innovation.

Similar methods of reaching customers have been present in the industry for years, primarily in the form of affinity programs. Affinity programs are distribution agreements that put insurers in a position to sell to groups of similar people, like trade unions or fraternal organisations.

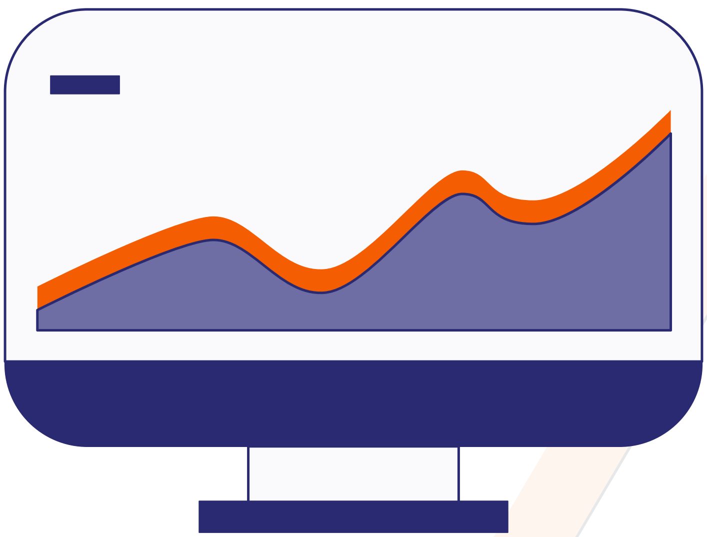


Embedded insurance serves as an advancement of this traditional practice, except the technology can now allow any insurer to access virtually **any addressable market**.

New Types of Customer, Partner, and End-User Relationships

By **leveraging the knowledge and data** that brands have about their end users, embedded insurance allows carriers to design more attractive product offerings at better prices, potentially requiring less complex risk underwriting. Creating better, more personalised end user experiences makes carriers better able to develop more valuable relationships with their brand customers and partners, helping them, in turn, strengthen their relationships with their end users.

As carriers learn more about the industries their brand customers operate within, they can create more compelling solutions to the risk management needs of their end users. The insurer and brand partner can collaboratively create compelling solutions for end users, and generate new value for all parties in doing so.



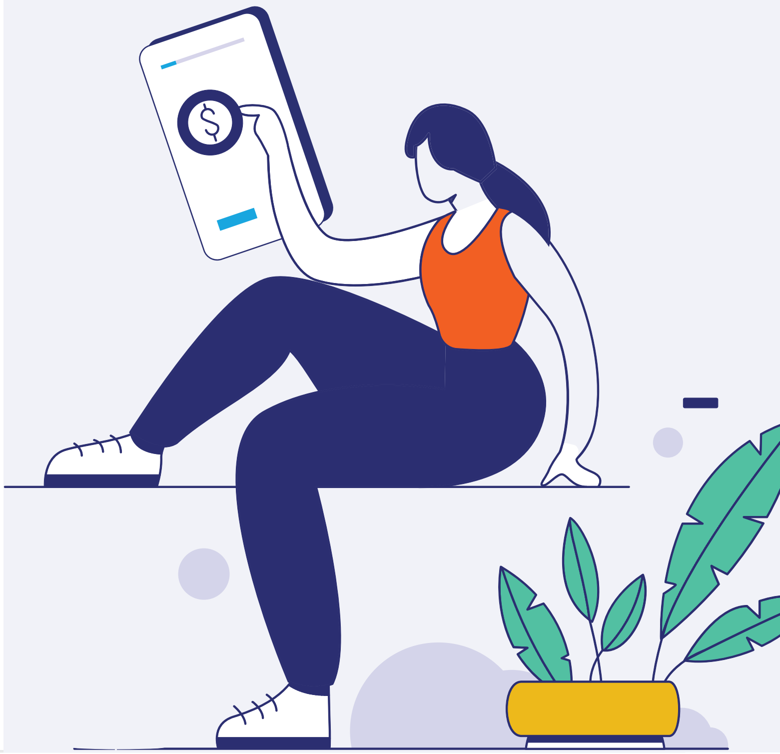
End users already trust their favourite brands to deliver quality products and services. As the embedded insurance market evolves, insurers become like 'Intel inside,' trusted ingredient brands that power **new forms of growth and value** for their brand customers.

What it means for non-insurance brands

Brands are increasingly seeing the benefit of integrating insurance and other financial services, like payments and credit, into their overall offerings in ways that allow them to retain their customers' loyalty and innovate new customer propositions.

Today, most customers have to leave the brand and call a bank, insurer, or broker to get a loan or organise insurance coverage for a product or service they want to buy from a brand. When this happens, the **brand cedes customer engagement and data to financial service providers.**

Now, the experience of accessing, buying, or using insurance and other financial services can be managed and controlled **by the brand.**

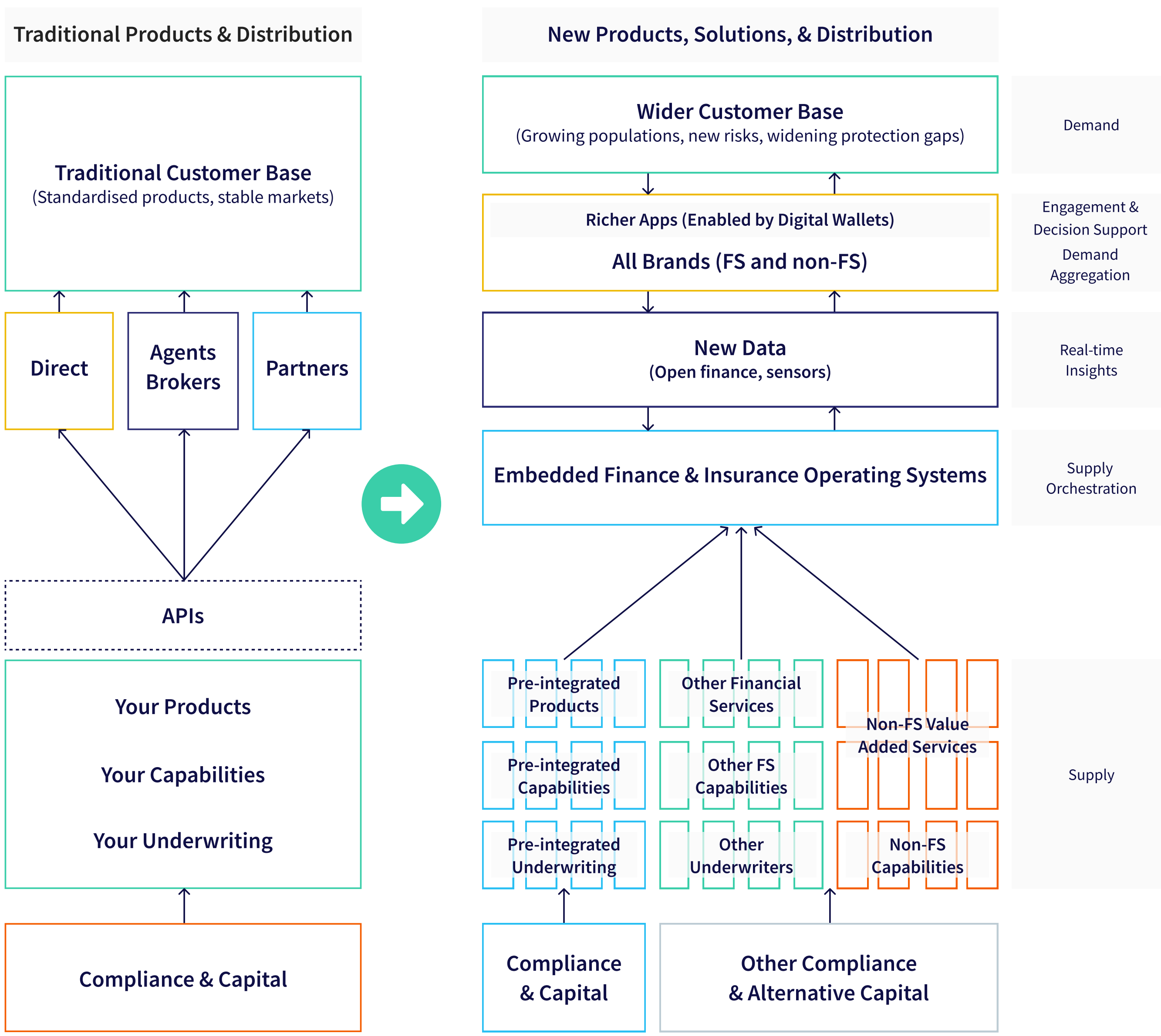


One relevant analogy is Lyft. Riders are delighted they don't have to get their credit card out at the end of each journey or have to find out the driver's mobile number to message them if they're running late or move to a new pick-up point. It all happens in the background of the Lyft app, with the help of embedded payments and communications.

Now, sophisticated risk management solutions can also be embedded and used for multiple purposes by brands: as an upsell at the point of purchase (buy instant protection for your product here and now with two clicks) or bundled into the experience itself (Lyft drivers get free basic insurance when they sign up to the platform and have access to other, paid-for coverage if they want it from Lyft).

Emergence of a new insurance 'Value Stack'

New solutions, distribution, and control points



Analysis Source & Copyright: Simon Torrance, 2022

New enabling intermediaries

What's facilitating this is a **new set of intermediaries who act as "operating systems"** for brands. An open operating system is a very powerful control point in the value chain. These are software companies that orchestrate the supply of the most relevant insurance and financial service components, solutions, and capabilities from multiple partners. This helps developers and brand managers configure new solutions and experiences for their end users in weeks or months, rather than years in the still prevalent analogue world.

In the most extreme cases, these operating systems are created by highly digital brands themselves. For example, super apps in China like Alipay and WeChat built their own insurance operating system because none existed in the market. They then worked with a host of insurance partners (40 in AliPay's case) to supply components and products, which the super apps configure and sell.

In doing so, these powerful brands have **generated new revenue streams** from millions of their end-users, accessing more and more useful customer data, while controlling the customer interface and experience.

Elsewhere, brands are just starting to explore working with a growing number of insurance OS, most typically today digital MGAs or specialist niche tech platforms.

At the same time, **insurers need to create a strategy in the operating system space.** Exposing APIs alone is not enough. An open operating system is a very powerful control point in the value chain. Insurers are left with a number of choices: build their own, independent of their core business; create more flexible products and solutions that easily plug in to third-party OS; or both.

What it means for the customer

The **global insurance protection gap** has more than doubled since 2000, but it's particularly acute for small businesses. Between 2019 and 2020, for example, only 0.2% of the United Kingdom's entire small- and medium-sized enterprise population purchased business protection policies, according to "'Intimidated' and 'scared' advisers fuel SME protection gap," from the Financial Times.

From the end user's standpoint, **embedded insurance could help close that protection gap** by making relevant, personalised, and immediate insurance options available when they need them, making it easy for them to access insurance options they wouldn't otherwise be able to.

For example, many travellers don't consider purchasing travel insurance when planning an excursion, but trip cancellations (or worse, a medical emergency while on vacation) can cost consumers several thousands of dollars (up to $200,000 for medical emergencies, according to "Should you buy travel insurance?" from Forbes, which reported data from Allianz Travel).

Now, embedded travel insurance can be designed for better value, less complexity, and reduced costs for the end user, making it a more attractive and accessible offering to a much wider customer base. This ensures more end users would have coverage that they otherwise wouldn't, potentially closing the protection gap.

Better customer experiences

For brands and insurance providers, embedded insurance creates more frictionless experiences. It also eliminates both the onerous work of the terrible claims process and researching and comparing different coverage options, which could encourage customers to simply bypass insurance coverage altogether. With embedded insurance, brands can curate attractive experiences that are tailored to their customers' needs and preferences.

Convenient insurance experiences mean **better and more comprehensive coverage, greater customer satisfaction**, and **more personalised options.**

Key challenges

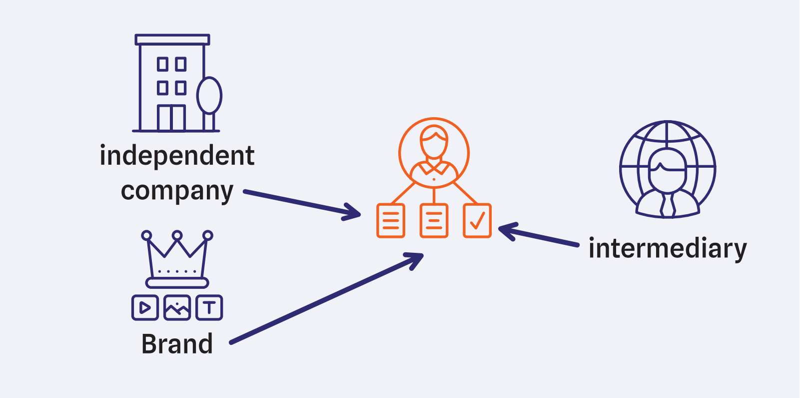
Of course, an industry advancement like embedded insurance doesn't come without its threats and risks.

Key risks include:

Commoditisation

The insurance industry has a hard enough time creating flexible and attractive digital insurance solutions that brands would want to embed. On top of that is the **threat of commoditisation.**

Despite having the products that drive embedded insurance, insurers lack a substantial degree of leverage. They are dependent on the brand to distribute their products to a wider consumer base and on independent technology companies to provide the operating systems that power embedded insurance. That gives the emerging subset of intermediaries (operating systems) the incentive to orchestrate supply on behalf of brands, which creates distance between the insurer and the end customer.



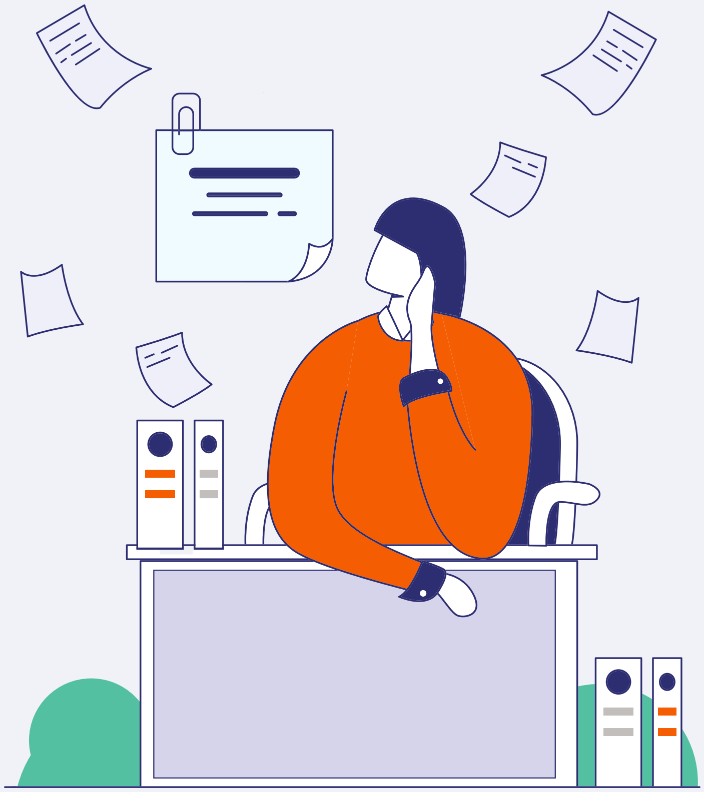
While those operating systems might either be developed by independent companies or by the brands themselves, intermediaries are inclined to select insurers whose products and services best match their end customers. Because it's more difficult for the insurer to build those customer relationships directly, it can be easy for them to become marginalised and lost in a sea of competitors.

Whether incumbent insurers like it or not, they need a strategy for **being both a scale supplier and an orchestrating partner**.

Failure to digitalise products

For many insurers trying to leverage embedded insurance, **failing to sufficiently digitalise products can be a nonstarter**. The emerging operating systems that will increasingly power embedded insurance depend on highly advanced API-driven technology, and insurance products must be capable of seamless systems integrations for maximum distribution and scalability.

By failing to digitalise their product offerings, insurers can't integrate into new propositions, which would **almost certainly cause them to fall behind** direct competitors that are able to digitalise more quickly, and insurtechs who can develop these technologies on their own.



Stay ahead of change

As new technologies emerge and customer expectations get even higher, insurance companies are under pressure to enhance their products and stay competitive. Embedded insurance lets insurers take on the challenges of this fast-evolving market. With the potential to generate more than $3 trillion in new market value, embedded insurance offers insurers an opportunity to gain market share, launch new products and services fast, and increase customer value.

Knowing how to stay ahead of change can be difficult. **That's where EIS comes in.** We provide leading coretech solutions that empower insurance companies to innovate like tech companies: fast, simple, and agile.

Get in touch to start a conversation.

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