

EMBEDDED INSURANCE

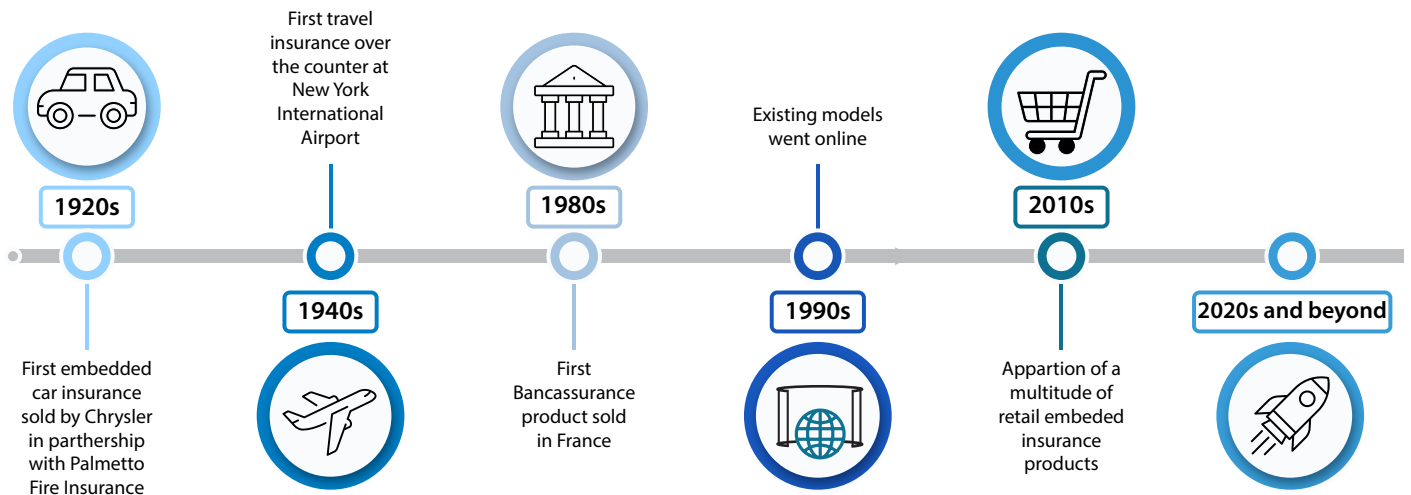
Abstract

Technology is revolutionizing the insurance landscape, particularly through the emergence of embedded insurance. By seamlessly integrating insurance products into various platforms and services, this innovative approach offers unprecedented opportunities for both consumers and businesses.

Through advancements in data analytics, artificial intelligence, and digital platforms, embedded insurance can enhance customer experience, expand market reach, and optimize risk management. However, challenges such as data privacy, regulatory compliance, and consumer trust must be carefully addressed to fully realize the potential of this transformative model.

By understanding the interplay between technology, stakeholders, and market dynamics, the insurance industry can harness the power of embedded insurance to create new value propositions and foster long-term sustainability.





Introduction

The insurance industry, traditionally characterized by its complex processes, lengthy sales cycles, and often opaque offerings, is undergoing a paradigm shift. Embedded insurance, a novel approach that seamlessly integrates insurance products into the customer journey at the point of need, is at the forefront of this transformation. By offering relevant coverage in a frictionless manner, embedded insurance aims to redefine the customer experience and challenge the industry's conventional business models. As consumers increasingly demand convenience and personalization, this innovative concept has the potential to disrupt traditional insurance practices.

The roots of embedded insurance can be traced back to the early 20th century. A pivotal moment arrived in the 1920s when Chrysler partnered with Palmetto Fire Insurance to offer the first embedded car insurance policy. This pioneering collaboration marked the inception of a concept that would remain largely dormant for decades. The insurance industry continued to operate predominantly through standalone models, with limited integration into other sectors. However, the advent of

digital technology and the rise of e-commerce in recent years have accelerated the development and adoption of embedded insurance, positioning it as a key driver of industry innovation

Embedded insurance encompasses various forms, including:

- **Intrinsic insurance:** This type is inherently part of a product or service, such as warranties on appliances or liability coverage in car rentals.
- **Opt-out bundled insurance:** Insurance is included by default in a product or service package, but customers can choose to opt out.
- **Opt-in bundled insurance:** Insurance is offered as an add-on to a product or service, requiring customers to actively choose coverage.
- **Billboard insurance:** This involves displaying insurance options prominently at the point of sale or service delivery.

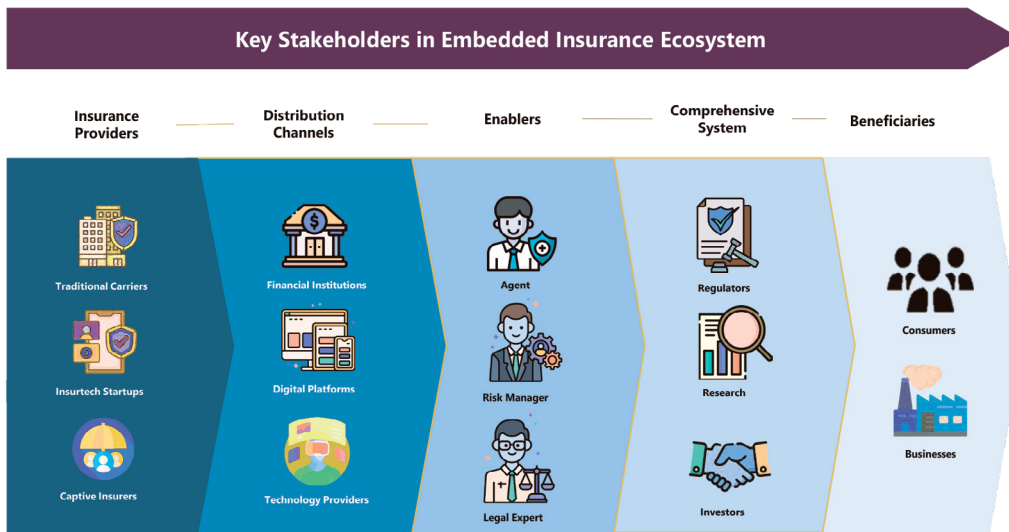


Stakeholders in Embedded Insurance Ecosystem

Key stakeholders in the Embedded Insurance Ecosystem:

The Embedded Insurance ecosystem involves a diverse array of stakeholders who play crucial roles in the development and delivery of these integrated insurance solutions. At the core are the insurance providers themselves, including traditional insurers as well as InsurTech startups, who are responsible for underwriting the policies and managing the associated risks. Alongside the insurers are the technology companies and platforms that

enable the seamless embedding of insurance into other products and services. These could include e-commerce marketplaces, financial institutions, mobility providers, and a wide range of other businesses that serve as distribution channels for the embedded offerings. Consumers are, of course, a key stakeholder group, as their evolving preferences and demands are driving the growth of Embedded Insurance. The collaborative efforts and interdependencies of these diverse stakeholders are shaping the rapid expansion of the Embedded Insurance market globally.



Insurance Providers:

- ◆ **Traditional Carriers:** Reshaping their portfolio and channels to integrate with platforms and ecosystems.
- ◆ **Insurtech Startups:** Bringing tech agility and customized solutions to the table.
- ◆ **Captive Insurers:** Tailoring coverage for specific risks within their own ecosystems.

Distribution Channels:

- ◆ **Digital Platforms:** E-commerce, travel, ride-sharing, etc., bundling or embedding insurance with their core offerings.
- ◆ **Financial Institutions:** Banks, fintechs, and wealth managers adding embedded insurance to enhance customer value and loyalty.
- ◆ **Technology Providers:** Cloud platforms, API marketplaces, and data analytics companies powering the infrastructure and data exchange for seamless solutions.

Supporting Roles:

- ◆ **Risk Management Consultants:** Advising on program design and implementation.
- ◆ **Legal and Regulatory Experts:** Ensuring compliance and addressing legal challenges.
- ◆ **Insurance Brokers and Agents:** Offering personalized advice and facilitating access to coverage within ecosystems.

Beneficiaries:

- ◆ **Consumers:** Enjoying convenient, personalized, and potentially cheaper insurance integrated into their daily activities.
- ◆ **Businesses:** Accessing new revenue streams, improved customer engagement, and enhanced risk management solutions.

Wider Ecosystem:

- ◆ **Regulators:** Setting the rules and ensuring fair play.
- ◆ **Investors:** Fueling innovation and platform development.
- ◆ **Academia and Research:** Investigating and shaping the future of embedded insurance.

The embedded insurance landscape is constantly evolving, so this list is not exhaustive but provides a solid foundation for understanding the diverse players at play.

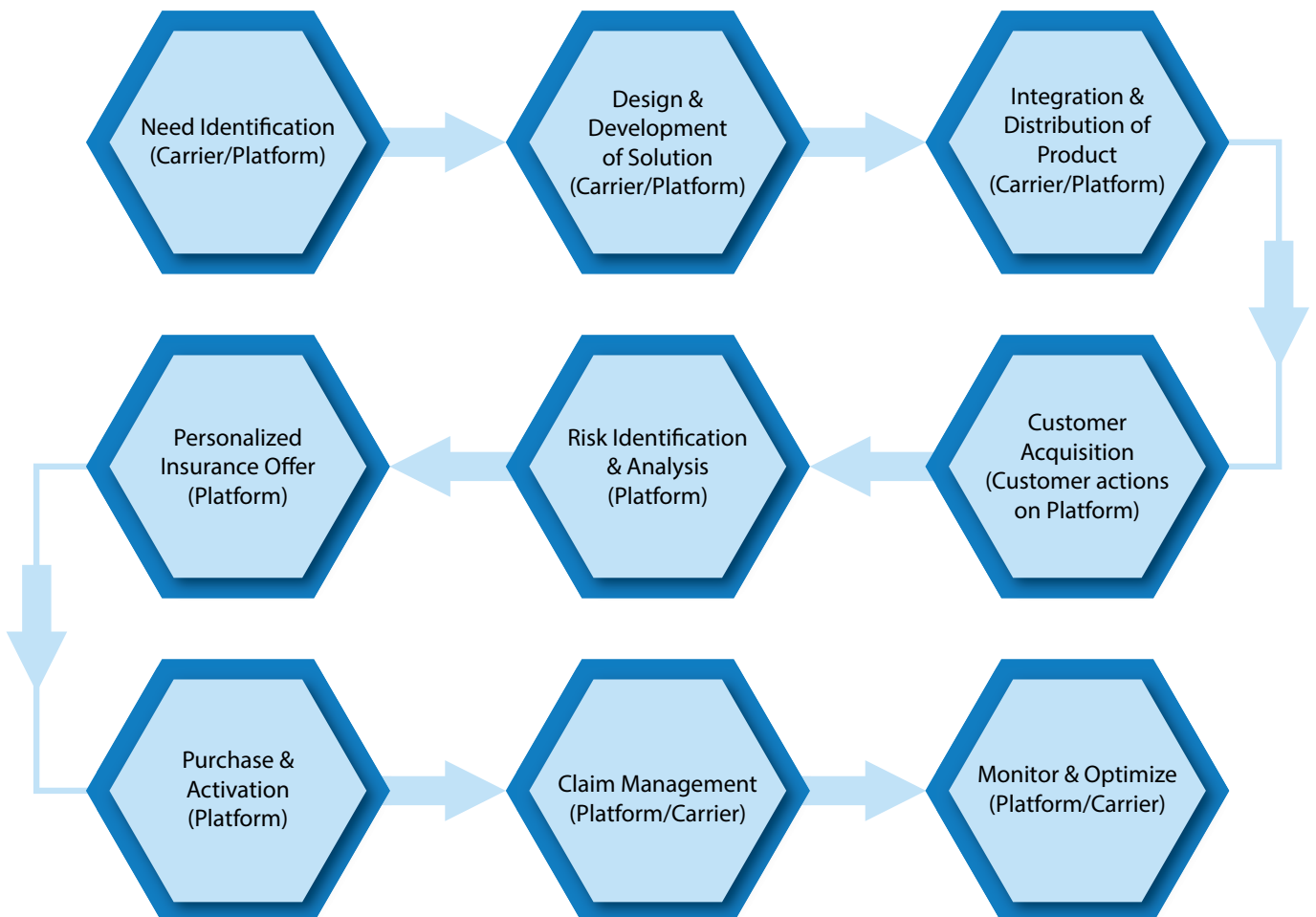


Business Process

The following business process flow outlines the key steps involved in this embedded insurance model from the provider's perspective. It highlights the various stages of need identification, solution design and development, customer acquisition, risk management, insurance offer personalization, and post-purchase support. This end-to-end view illustrates how embedded insurance can streamline the customer experience while also

addressing critical operational and regulatory considerations for the insurance provider.

As the embedded insurance landscape continues to evolve, understanding the underlying dynamics will be crucial for evaluating the model's benefits, challenges, and implications for the future of the insurance industry.



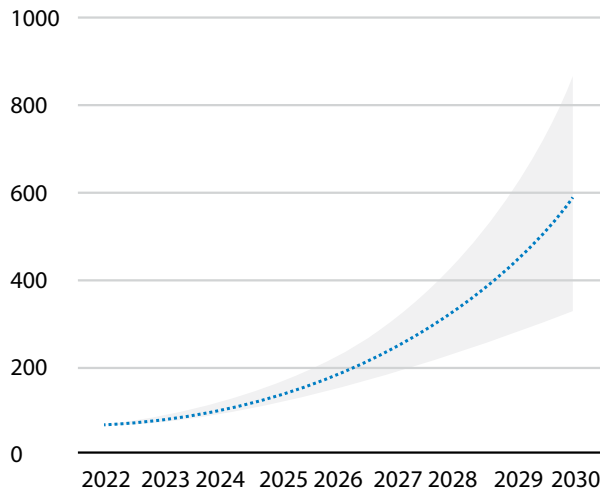
Industry Landscape

Embedded Insurance is expected to grow at CAGR 25% until 2030 and could account for over US\$ 500 billion in gross written premiums globally by 2030, or 20% of the total market worldwide.

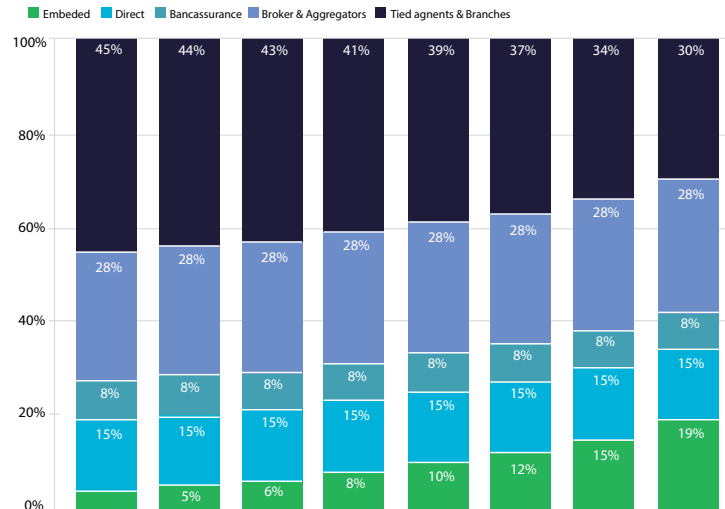
Embedded Insurance is a rapidly growing segment of the global insurance industry, and its trajectory is expected to continue accelerating in the coming years. Industry analysts predict that Embedded Insurance will grow at a Compound Annual Growth Rate (CAGR) of 25% until 2030. This robust growth rate indicates that Embedded Insurance is becoming an increasingly attractive and viable option for both consumers and insurance providers alike. The projected growth is expected to result in Embedded Insurance accounting for over \$500 billion in gross written

premiums globally by the end of the decade. This substantial market size would represent a significant portion of the overall insurance industry, with Embedded Insurance potentially making up 20% of the total worldwide insurance market by 2030. The rise of Embedded Insurance can be attributed to the growing consumer demand for seamless, integrated insurance solutions that are conveniently bundled with other products and services. As technology continues to drive innovation in the insurance sector, Embedded Insurance is poised to become an increasingly prominent and integral component of the global insurance landscape in the years ahead.

Billion (USD)



P&C Distribution Channels - EU



Untapped potential

Embedded Insurance will have role play in both life and non-life sectors of Insurance industry. Opportunities could be in property, travel, life or in health insurance as well.

Property Insurance: Property insurance as a bundled product or as over the counter product could be sold by real estate developers to the house owners at the time of sale. Interestingly, gathering the data on mobile assets of the property owner, vehicle insurance can also be proposed.

Case Study: Chinese online insurer ZhongAn, has introduced a unique insurance plan, which is bundled and sold along with the new mobile device. This unique product by leveraging the power of IoT, detects and reports the insurer using the integrated sensors of the damage incurred by the device because of the fall. Insurer ZhongAn provides the customer with new device without the customer having to go through the time-consuming claims process.

In the Mobility ecosystem, the embedded insurance takes prominence, where the products are offered to consumers through the partners, right where it matters the most. A travel insurance to a customer who is booking his/her tickets for the ensuing journey or a insurance.

Why is it the NEXT ?

While embedded insurance is not a novel concept in the industry, its popularity has surged due to several market factors. Firstly, the dominant presence of millennials as the largest buying market in the insurance industry has propelled the demand for seamless, personalized, and digitally-integrated insurance experiences throughout the consumer journey. Their familiarity with technology-driven solutions has set the expectation for insurers to meet their evolving needs accordingly.

Secondly, the significant rise in investments in insurtech has played a pivotal role. Reports indicate that insurtech investments reached a record high of \$10.5 billion in the first three quarters of 2021 alone, in stark contrast to the mere \$140 million global investments in 2011. This influx of capital has enabled innovative startups and progressive insurers to leverage cloud computing and spearhead transformative changes in the insurance sector.

These two factors had set the stage for the rise of embedded insurance, but it was the third market factor—the COVID-19 pandemic—that pushed it into mainstream popularity. As the pandemic unfolded, the demand for personalized insurance solutions, delivered digitally at the point of need, transcended the preferences of millennials and became a necessity for all insurance consumers.

Case Study: SWISS collaborates with carriers AIG & AXA to offer its customers a product which packages compensation payments and medical assistance in the case unforeseen events such as illnesses or illness.

In Life or health insurance ecosystem, the embedded products could be complex in nature, as the risk involved is greater in parity with the non-life realm. Nevertheless, the industry has evolved and will continue to evolve considering the mine of data it holds and analytical results which gets generated by that data.

Case Study: For the customers, who buy tickets via Raffeisen mobile application, Bsurance offers accident insurance for full-day skiing, with immediate coverage.

Case Study: The power of IoT can never be underplayed, Bsurance has designed a unique product which gets embedded into the smart IoT toothbrush which Playbrush has developed. Gathering the data of brushing behavior of the consumer, it covers the expenses incurred on white fillings and other dental treatments.

Tailored products: As the market matures, consumers are increasingly embracing the concept of enhanced convenience and simplicity offered by embedded insurance. This is because embedded insurance allows consumers to access customized insurance options that align with their product or service purchases, eliminating the need for extensive insurance shopping. Instead, all insurance needs are consolidated at the point of sale for the respective product or service.

Closing the protection gap: Customers may find it burdensome to purchase a standalone insurance policy. However, when the insurance is bundled with other non-insurance products, it presents customers with an incentive to obtain the policy effortlessly and safeguard themselves against potential losses.

Access to new markets: Embedded insurance offers opportunities to access untapped markets. In developing markets, insurers may face challenges selling policies directly to economically disadvantaged customers. However, by utilizing embedded insurance processes, they can establish partnerships with the microfinance industry and provide suitable insurance products to rural markets.

Cost of acquiring new customers: Insurers face substantial costs when acquiring new customers. However, by leveraging affinity partnerships and utilizing the existing distribution channels of primary products, embedded insurance significantly reduces these costs. As a result, not only do customers benefit from lower premiums, but insurers also enjoy improved profit margins.

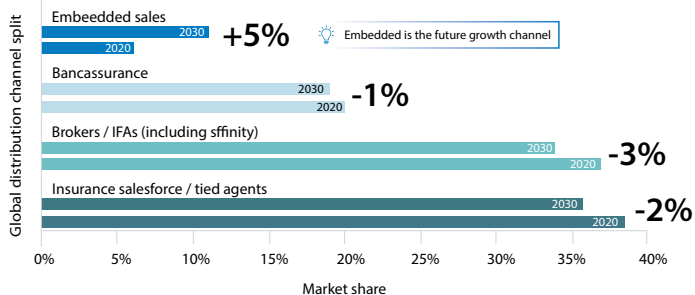
The Claim process: A streamlined insurance process benefits both customers and insurers. Embedded insurance simplifies the claims process by granting insurers access to data collected during the onboarding stage, facilitating the evaluation and settlement of claims.

The onboarding process: Embedded insurance relies on the parent product, allowing for a significant simplification of the insurance onboarding process by utilizing the information gathered during the sale of the parent product. For instance, if a customer has already provided their information to obtain a loan from a bank or an NBFC, that same information can be used to issue an insurance policy, with the customer's consent. This eliminates the need for additional form filling, whether physical or digital, and reduces the occurrence of incomplete or inaccurate applications being submitted to the insurer.

The ease of buying: The pandemic has compelled a significant number of people to depend exclusively on digital services, even for their basic needs. As a result, customers now have higher expectations. Embedded insurance effectively meets customers where they are, utilizing their preferred channels and delivering insurance products and services promptly, enabling customers to obtain instant access to the coverage they require.

Embedded insurance on the rise

Expected development 2020 to 2030



Benefits

Embedded insurance offers a multitude of benefits, both for consumers and the businesses involved. Here's a deeper dive into its advantages:

For Consumers

- Convenience:** Embedded insurance removes the hassle of searching for separate insurance policies. It seamlessly integrates insurance coverage within familiar platforms, providing coverage right at the point of need. Imagine automatically buying travel insurance when booking a flight, or gadget protection when purchasing a new phone.
- Personalization:** By leveraging data from existing customer relationships, embedded insurance providers can offer personalized product recommendations and pricing. This leads to more relevant and affordable coverage tailored to individual needs.
- Increased awareness:** Integrating insurance into familiar platforms raises awareness of relevant insurance options that wouldn't have been considered otherwise. This can result in a higher insurance penetration rate and better protection for consumers.
- Simplified claims processing:** When insurance is intertwined with the purchase, information about the insured event and customer history is readily available. This streamlines claims processing, making it faster and easier for both the insurer and the insured.
- Improved accessibility:** Embedded insurance can make insurance more accessible to underserved populations who might find traditional insurance channels daunting or unfamiliar.

For Businesses

- New revenue streams:** Embedding insurance creates new revenue streams for non-insurance companies through commissions, partnerships, or offering their own branded insurance products. This diversifies income sources and potentially boosts profitability.
- Enhanced customer engagement:** Integrating insurance can deepen customer relationships by offering valuable added-risk protection. This fosters trust and loyalty, potentially leading to increased customer retention and engagement.
- Data-driven insights:** Customer data from the embedded insurance platform can provide valuable insights into consumer behavior and risk profiles. This data can be used to improve product offerings, marketing strategies, and overall customer experience.
- Competitive advantage:** Offering embedded insurance can differentiate a business from competitors by providing a more comprehensive and convenient customer experience. This can attract new customers and give a competitive edge in the market.
- Brand value enhancement:** When done right, embedded insurance can add value to a company's brand by aligning it with themes of security, responsibility, and customer care. This can strengthen brand image and reputation.

By carefully considering these benefits, businesses and consumers can leverage embedded insurance to streamline transactions, personalize coverage, and ultimately create a more efficient and accessible insurance landscape.

Remember, while embedded insurance holds remarkable potential, it's important to address and manage certain limitations like transparency, data privacy, and regulatory complexities to ensure its continued success and trust among stakeholders.

Limitations

Embedded insurance, while exciting, comes with a set of limitations that need to be addressed for its sustainable growth and widespread adoption. Here are some key limitations:

Limited product range: Embedded insurance offerings are often focused on specific risks directly relevant to the platform they are integrated with. This can leave customers with broader insurance needs needing to seek traditional insurance providers for comprehensive coverage. For example, while flight booking platforms might offer travel insurance, they might not cater to life insurance or property insurance needs.

Transparency and trust concerns: Integrating insurance into non-insurance platforms raises concerns about transparency and potential conflicts of interest. Consumers might wonder if the embedded insurance is truly in their best interest or influenced by the platform's goals. Clear communication, fair pricing, and robust compliance measures are crucial to building trust and ensuring ethical practices.

Regulatory complexities: Embedded insurance may fall under multiple regulatory frameworks, depending on the specific platform, product, and geographic location. Navigating these complexities can be challenging and costly for businesses, potentially hindering widespread adoption.

Data privacy concerns: Sharing customer data for insurance purposes requires explicit consent and strong data security practices. Failing to address these concerns can erode trust and lead to regulatory issues.

Customer dependence: Embedded insurance providers rely heavily on the success of the platform they are integrated with. If the platform experiences any decline in business, the embedded insurance provider might face similar challenges. This dependency can be mitigated by diversifying partnerships and developing a strong brand identity.

Technology compatibility challenges: Integrating insurance solutions seamlessly into different platforms can be technically challenging, requiring significant investment in technology and expertise.

Lack of awareness and understanding: Both consumers and businesses might not be fully aware of the benefits and limitations of embedded insurance, leading to hesitation or reluctance to adopt it.

Consumer behavior challenges: Encouraging consumers to purchase embedded insurance products requires understanding their risk perception, decision-making processes, and preferences. Designing effective marketing and communication strategies is crucial to drive adoption.

Addressing these limitations is essential for the sustainable growth and success of embedded insurance. By fostering transparency, ensuring regulatory compliance, protecting data privacy, and educating both consumers and businesses, embedded insurance can fulfill its potential to revolutionize the insurance landscape and make it more accessible and relevant for everyone.



Role of AI

Imagine a world where your insurance adapts to your every move, anticipating your needs and protecting you in real-time. This is the future promised by AI in embedded insurance, a burgeoning field revolutionizing how we manage risk.

Personalized Protection:

- ◆ **Beyond Demographics:** AI delves deeper than age and location, analyzing vast data sets like purchase history, browsing habits, and even wearable sensor data to create detailed customer profiles. These profiles empower insurers to build dynamic risk assessments, leading to truly personalized pricing and product recommendations. No more one-size-fits-all policies! Imagine receiving travel insurance tailored to your upcoming hike through a volcano-prone region, or gadget protection adjusted based on your clumsy tendencies.
- ◆ **Predictive Power:** AI models unlock the secrets of history. By analyzing past claims data, they can predict future risks with uncanny accuracy. This foresight allows insurers to proactively offer targeted solutions, like winter tire coverage during a predicted icy season, or suggest cyber insurance based on your online financial activity.

Frictionless Experience:

- ◆ **AI Claims Assistant:** Say goodbye to mountains of paperwork and endless phone calls! AI-powered bots handle the tedious work. They verify documents, assess initial claims, and even process simple payouts, freeing up human agents for complex cases. This speeds up the process, reducing frustration and delivering quicker resolutions for customers.
- ◆ **24/7 Virtual Insurance Buddy:** Chatbots and virtual assistants powered by AI are your always-available guides. They answer questions, explain options, and even initiate coverage purchases through secure platforms. This enhances accessibility and simplifies the insurance journey for busy customers who value convenience.

Safeguarding the System:

- ◆ **Real-time Fraud Watchdog:** AI never sleeps. It constantly monitors transactions and claims data, flagging suspicious patterns and activities that could indicate fraud attempts. This protects both insurers and customers from financial losses, ensuring trust and fairness in the system.
- ◆ **Dynamic Pricing with a Conscience:** AI analyzes claims data and learns, enabling continuous refinement of pricing models. This translates to fairer pricing for low-risk individuals while safeguarding the sustainability of the insurance pool.

Unlocking New Horizons:

- ◆ **Beyond Traditional Coverage:** AI opens doors to innovative insurance products tailored for specific needs and seamlessly embedded within various platforms. Imagine drone insurance integrated with your new drone purchase, or legal liability coverage automatically activated alongside your online business launch.
- ◆ **Operational Efficiency Unleashed:** AI automates repetitive tasks like policy issuance, renewal reminders, and claims processing, freeing up resources for insurers to focus on core activities and drive down costs. This allows them to offer more competitive prices and invest in further innovation.

Challenges and the Path Forward:

- ◆ **Fairness for All:** Biased algorithms can have unintended consequences. We must invest in ethical AI development, rigorous testing, and transparent practices to ensure equitable access to insurance for all.
- ◆ **Building Trust through Transparency:** AI's power shouldn't be shrouded in mystery. Explaining how decisions are made and empowering users to understand data analysis is crucial for building trust and fostering adoption.
- ◆ **Continuous Learning: The Only Constant:** As AI technology and data sets evolve, we must embrace continuous learning and adaptation to maintain accuracy and effectiveness. Investing in ongoing improvement and staying ahead of the curve is key.

The future of embedded insurance is fueled by AI. By embracing its potential and navigating the challenges responsibly, we can unlock a world where risk is redefined, experiences are seamless, and protection adapts to our ever-changing lives. This is not just about insurance; it's about a future where technology empowers us to live with greater confidence and peace of mind.



Conclusion

Traditional insurance is cracking, replaced by a future where protection seamlessly integrates into daily life. Embedded insurance isn't just a trend, it's a fundamental shift - proactive, accessible, and invisible. It's time to embrace this evolution and forge a safer, more confident tomorrow. Today, insurance can feel distant and complex. Embedded insurance flips the script - proactive, contextual, and woven into the fabric of life. It builds trust by anticipating needs, not reacting to disasters. This is more than just insurance, it's a paradigm shift towards greater security and shared well-being. Embedded insurance is built for the future - proactive, invisible, and tailored to our evolving needs.



About the Author



Meti Pradeep

Meti Pradeep, is senior consultant with Microsoft practice with over eleven years of insurance industry and IT experience. With a keen focus on delivering contextualized solutions, Pradeep is driven by a passion for transformative outcomes that fuel business growth and elevate customer experiences. His unique ability to bridge the gap between insurance industry intricacies and Dynamics 365's potential ensures the delivery of tailored solutions that revolutionize the way businesses operate and engage with their customers.

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