eBook: Embedded Insurance

The Modern Approach to Embedded Insurance

Using Innovative Technology to Maximize the Benefits of a Proven Concept

earnix

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Introduction

Insurers have been offering embedded insurance for nearly a century. It provides a “winning formula” for all the players in the insurance value chain:

- ✓ **For customers**, whether individuals or businesses, embedded insurance reduces the number of decision points, presenting them with new, potentially more affordable, and contextually-relevant choices at the moment of decision.
- ✓ **For insurers**, it has the potential to unlock channels of lower-cost distribution and convert more customers.
- ✓ **For insurers**, it also opens additional communications channels to gather information about customers and prospects and turn them into actionable insights, such as which offerings are attractive and why, and for determining the price elasticity across product offerings. This can help drive innovation in new products and signal when existing products need to be sunsetted due to their lack of attractiveness.
- ✓ **For third-party partners**, embedded insurance can enhance their value propositions, create new revenue streams, and serve as a competitive advantage.
- ✓ **For the world economy**, it helps close the insurance protection gap, which has been steadily increasing for many years, due to the increasing incidence of natural and man-made catastrophes, the recent COVID-19 pandemic, lack of insurance affordability, recent unexpected inflation, and regulatory pressures.

While embedded insurance is an established concept, technology is now available that vastly increases choice for consumers and allows them to receive truly personalized offers. This increases the chances that insurers will realize new business without taking on unnecessary risk, increasing revenue streams and boosting profitability.

This eBook takes a step back to look at the history of embedded insurance, highlights the weaknesses in the “traditional” approach to offering it, and lays out the technology architecture and functionality required to modernize and upgrade embedded insurance for future success.



Embedded Insurance Background

Renewed Interest in Embedded Insurance Addresses Rapid Changes in the Insurance Industry

When cataloguing the forces impacting today's insurance industry, it's clear that insurers face a "perfect storm" due to climate change, once-in-a-generation inflation, global supply chain issues, skyrocketing consumer expectations, increasing regulatory pressures, new workforce dynamics, and hungry competitors. In this harsh environment, insurers are looking for new business opportunities, competitive advantage, and ways to increase their profitability.

Embedded insurance provides one way for insurers to overcome some of these market pressures. One of the attractions to embedded insurance is its current rapid growth. InsTech London, for example, projects that the embedded insurance market is poised grow to US **$722 Billion** in gross written premiums (GWP) by 2030, making the market opportunity more than six times its current size. Other estimates put the market potential in the trillions of dollars, when all insurance types (P&C, health, etc.) and distribution channels are considered.

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Another factor driving a new look at embedded insurance is insurers' increasing need for and willingness to partner. This quote from Marleen Lemmens, Chief Operating Officer, EMEA, for Liberty Mutual Specialty Markets, sums it up nicely:

> *"It's necessary to be conscious about your own capabilities and decide which you want to bring to the table yourself and where you want to partner up with strategic partners to enhance operational resilience across the insurance value chain."*

In its report "Insurance 2025 and beyond, Insurance reimagined", PwC lists the drivers of embedded insurance as three C's:



Convergence



Collaboration



Competition

These forces are driven by advances in technology, economic imperatives, and changing market dynamics.

As PwC puts it, "A digital, data-rich economy is allowing organizations to share and collaborate within and across industry boundaries in new ways and create new value propositions for customers."

With that in mind, let's look at what exactly embedded insurance is, how we arrived at this point in its evolution, and what insurers need to do to modernize and upgrade their embedded offerings to take full advantage of the opportunity today and in the future.



Embedded Insurance Definition

Although there are many definitions of embedded insurance, we happen to like this one from Accenture for its succinctness and broad nature:

"We define embedded insurance as any insurance that can be purchased within the commercial transaction of another product or service."



History of Embedded Insurance

The concept and availability of embedded insurance are not new. As far back as 1925, Chrysler began offering one year of fire and theft insurance, provided by Palmetto Fire Insurance Company, with its new cars.

In the nearly 100 years since then, the auto industry has been one of the biggest proponents and distributors of embedded insurance products and services. The model dominated throughout the 20th century, as insurance was typically offered alongside financing when auto buyers met with the finance manager at their dealership.

The auto industry, though, provides an object lesson as to why embedded insurance products and practices are ripe for change:

- ✓ **Consumer buying preferences have changed**, as Earnix has pointed out, while much of the process of car buying still takes place in person, buyers are increasingly financing their vehicles online, led by the prized cohort of younger consumers. This opens up the possibility of insurance products being offered digitally, in tandem with autos themselves and complementary lending products.

- ✓ **Technology has caught up** to service this new market, with technology leaders such as Earnix delivering digital tools to allow insurers to capture consumers' business at key decision points, whether in person, online, or in a hybrid model.

- ✓ **New competitors have emerged** - the well-established automaker/insurer partnership model was upended in 2019 when Tesla launched Tesla Insurance, promising an offering "much more compelling than anything else out there," with policies available at the time of purchase or anytime through the Tesla app. This put Tesla in direct competition with the likes of Liberty Mutual, which, among its more general business, had been writing policies tailored specifically to the Tesla market.

First introduced in California, Tesla insurance is now available in about a dozen additional states. While confined so far to Tesla vehicles, this direct sales model poses a potential threat to insurers in the auto market, should Elon Musk and company decide to expand in the future.



Embedded Insurance Today

Today, most consumers are familiar with a variety of typical and not-so-typical embedded insurance products and services. For example:

- ✓ Trip cancellation insurance that's offered when booking flights, hotels, rental cars, etc.
- ✓ Extended warranties on everything from automobiles to consumer electronics
- ✓ Breakage and loss insurance for mobile phones
- ✓ Optional insurance offered with car rentals
- ✓ Specialized vehicle insurance, such as electric vehicle coverage offered with Volvos, supplied by Allianz
- ✓ Coverage for digital products and services such as concert tickets and other events
- ✓ Delivery insurance for online purchases
- ✓ Bill protection offered by banks in the event of loss of income
- ✓ Title insurance offered concurrent with mortgage refinancing
- ✓ Hole-in-one insurance for golf tournament sponsors and directors (yes, really)

And the list goes on and on. In almost every product category imaginable, if you can buy the product or service, there is most likely embedded insurance available to the consumer.

What's Wrong with Today's Embedded Model?

These "traditional" embedded insurance products all suffer one overriding weakness – they are seldom personalized to the individual consumer; they are marketed as a "one size fits all" proposition, with premiums based on statistical analysis of a broad swath of "typical" customers over time.

To succeed in today's market, insurers instead need to craft offers to meet the demands of today's consumers.

Driven by their personalized digital experiences in other industries such as retail, insurance customers now expect nothing less in their insurance decision-making. This is especially true of customers and prospects in the prized younger demographics, many of whom are entering the prime years for home ownership, more expensive cars, and starting families, all key decision points for insurance coverage and ripe for embedded insurance products.

> As EY puts it, *"insurers must leverage data and analytical capabilities while rethinking the value chain so they can respond to producers and customers in ways that recognize their context — that is, taking into consideration their unique circumstances at any given moment — and respond in an empathetic and relevant manner.*
>
> *"We call this hyper-personalization, and it is at the forefront of the digital transformation of the customer journey. Importantly, this is not limited to sending out marketing offers. Hyper-personalization is about enabling personalized, contextualized interactions across sales, marketing, underwriting, servicing, and claims."*



The Winning Formula for Embedded Insurance Today

With so much at stake, and with rapid market evolution ongoing, insurers need to seize on the embedded insurance opportunity now. A key component is technology, technology that far surpasses what has been used with embedded insurance in the past.

Earnix offers the Earnix Intelligent Insurance Operations suite, based on composable, agile and real-time-capable technology. This allows insurers to capitalize on the embedded insurance opportunity with a world-class technology partner, one who can integrate seamlessly with existing systems and add the layer of intelligence needed to create fully-connected offerings and insurer organizations.

The components of the winning technology strategy are both IT infrastructure and software functionality:

Application Programming Interfaces (APIs)

The architectural linchpin of embedded insurance is the application programming interface, or API. APIs allow software components from multiple, independent suppliers to interact and exchange information. The components may be an assemblage of new, off-the-shelf technologies, or APIs can provide connections between new technologies and existing insurer systems which are still viable (e.g., billing, accounting, policy management).

APIs allow solutions to be assembled that are agile, composable, and intelligent, so that specialized functionality can be brought to bear, regardless of the provider.

The end result is that insurers can create an intelligent layer that connects existing systems, new technologies, and diverse teams to create more focused and flexible solutions. This delivers immediate operational improvements, while eliminating barriers posed by legacy technologies to run a more connected organization.

As just one example, Earnix and JD Power are collaborating to allow insurance carriers (and auto lenders) to utilize granular and precise information for dynamic pricing. This not only brings unique capabilities together from two industry-leading vendors, it also speeds time to market and avoids unnecessary expense – one can only imagine the prohibitive investment an insurer would need to make to replicate one or both of the individual Earnix and JD Power offerings, should they even endeavor to do so.

AI-Driven Pricing and Rating

Informed decision-making for customers and at all levels of the insurer's organization requires powerful analytics and integrating new and existing data sets in real time. Earnix infuses artificial intelligence (AI) and machine learning (ML) capabilities with predictive modeling and world-class data science to make smarter pricing and rating decisions automatic.

The Earnix Enterprise Rating Engine makes real-time pricing and product personalization possible. This AI-driven enterprise rating engine deploys rates to market in milliseconds, capturing customers in real time at their point of decision-making, while enhancing governance and control across the organization.

Insurers can instantly deploy rates to online channels, serve up to millions of quotes per day, and optimize their digital channels in real time.

Earnix Price-It™ delivers dynamic pricing and rating backed by robust data science, analytical modeling, and AI capabilities. It enhances all aspects of pricing by applying industry-leading analytics across strategy, modeling, and implementation to gain more accuracy and agility. Insurers can better identify and capitalize on new embedded revenue opportunities with clearer insight into pricing strategy performance.

Personalization

Earnix capabilities push personalization beyond a customer's name or alignment to a broad demographic. Individualized offers make every interaction between a carrier and customer feel like a one-to-one connection. This improves embedded insurance success by increasing digital sales and conversion rates, improving customer loyalty, and adapting to dynamic market trends much more quickly than ever before.

Upgraded Underwriting Capabilities

Underwrite-It™, the latest addition to the Earnix product set, is tightly integrated with Earnix Price-It and the Earnix Enterprise Rating Engine, drawing pricing, rating and underwriting together in a coordinated, intelligent layer of insurance solutions.

Underwrite-It allows insurers to easily add powerful advanced analytics to underwriting decision-making, blending algorithms, geospatial, and complex machine learning to make decisions timelier and more accurate. Existing underwriting rules that are still considered valuable can be retained, with those rules-based approaches augmented with advanced machine learning to deliver better business results.

Summary

Now is the time to seize the opportunity of modern embedded insurance. The technology is there to bring-world class capabilities to your embedded offerings, and to attract the partners you need to greatly expand your distribution channels.

Earnix solutions can help you seize embedded insurance opportunities. They deliver the additional benefits of breaking down silos and of unifying and empowering the teams that are responsible for critical business operations within insurance organizations. From C-suite decision makers to back-office system integrators, Earnix infuses efficiency, clarity, and capability at every level of business operations.



Modernize and Upgrade Your Embedded Insurance Strategy Today

Reimagine Insurance →

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Earnix is the premier provider of composable intelligent solutions designed to transform how global insurers and banks are run. Earnix solutions unlock value across all facets of the business, connecting with customers, and breaking away from the status quo imposed by legacy monolithic, single systems. Earnix's solutions offer systemized, enterprise-wide value with ultra-fast ROI. It has been innovating for Insurers and Banks since 2001 with offices in the Americas, Europe, Asia Pacific, and Israel. For more information visit: earnix.com.