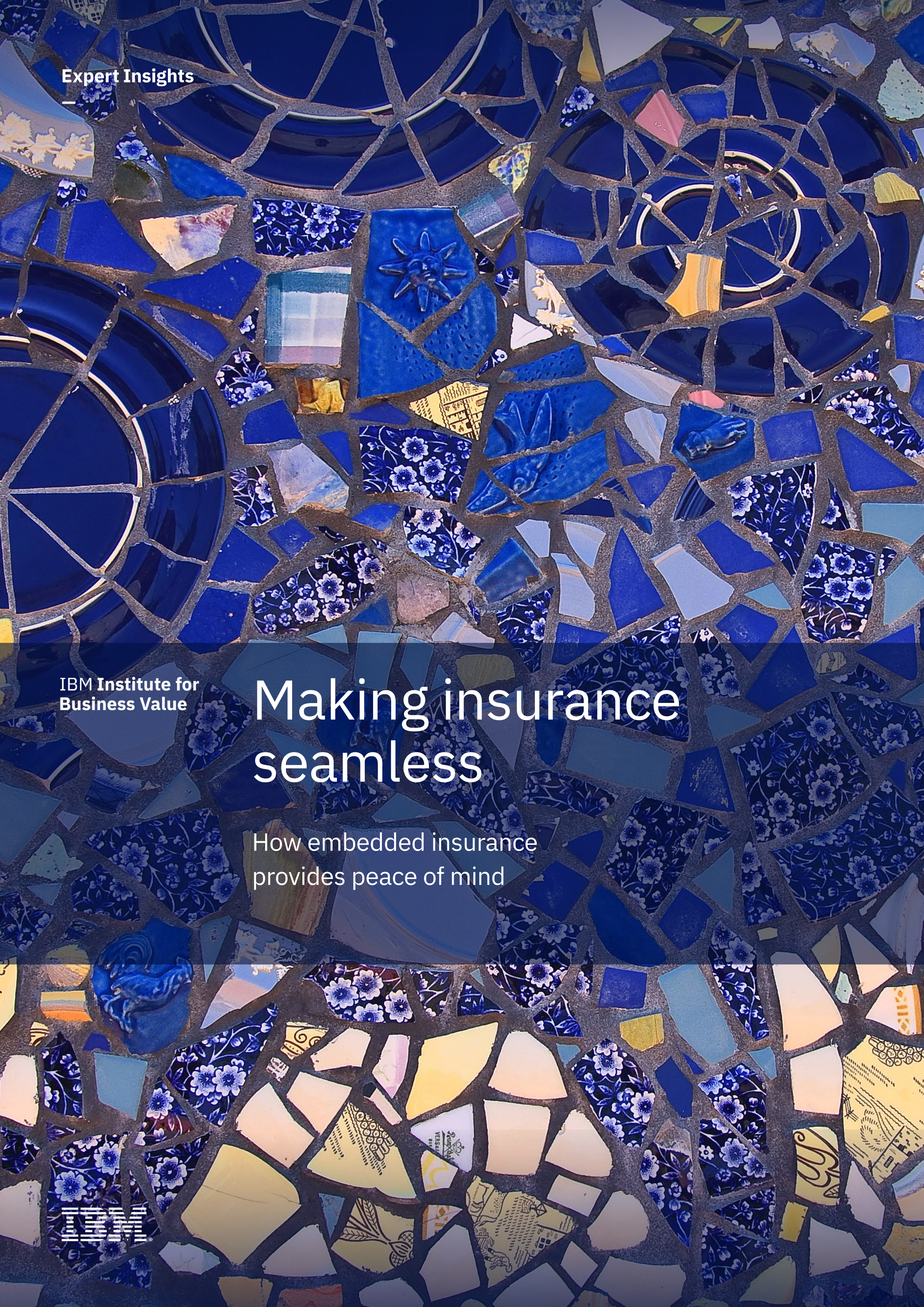

Expert Insights

IBM **Institute for Business Value**

Making insurance seamless

How embedded insurance provides peace of mind

IBM

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Rob Bauer serves as group chief MGA officer at bolttech—an international insurtech in 26 markets with the largest insurance exchange in the world, transacting nearly $5 billion in premium. He also is a venture partner at Trust Ventures and serves on the boards of several insurtechs, including Strongarm Technologies and Degree. Before bolttech, Rob was managing director at Marsh McLennan, where he built and led the Sharing Economy and Mobility Group. Previously, he served as global head of commercial innovation at AIG.

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There currently is a $1.2 trillion gap globally between the protection consumers need and the insurance they have.

Key takeaways

Embedded insurance gives consumers peace of mind
When it's embedded natively in everyday purchases and activities, insurance can narrow the protection gap that exists between the protection consumers need and the insurance product they actually bought.

Embedded insurance can fuel innovation and improve the customer experience
Technology has changed the way we live, work, and play. Using it to embed insurance in daily experiences can spawn entirely new insurance products or enhance existing ones.

Embedded offerings should improve insurance outcomes
Especially when it leverages data and technology not originally designed for insurance purposes, embedded insurance could drive safer, healthier outcomes for insured consumers.

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Insurance is an analog industry living in a digital world

Although global insurance premiums totaled $6.3 trillion in 2020, insurance isn't just about transactions.[1] At its best, it's about trust.

Unfortunately, insurance in its current form is among the least-trusted sectors of the economy.[2] Most people understand its value—62% of consumers say insurance provides peace of mind, 61% that it's an important service, and 57% that it's "smart and responsible"—but over half (53%) have had a bad insurance experience.[3] Our own surveys show that less than half of customers trust the insurance industry (see Figure 1 on page 2).[4] The result is a culture of underinsurance in even the most mature economies.[5]

In fact, there currently is a $1.2 trillion gap globally between the protection consumers need and the insurance they have.[6] Filling it will require insurance that's more responsive, transparent, and affordable—not to mention easier to use and purchase.

And yet, insurance has remained remarkably unchanged over time. Like an untended garden, weeds have begun to grow:

- Actuarial data sets are largely static despite increased demand for dynamic pricing
- Insurers over-rely on traditional financial products and rarely invent new ones
- Offerings don't reflect new ways of living and working
- Customer acquisition still relies on old-fashioned human networks
- Products have become commoditized
- Manual processes persist, leading to low customer satisfaction

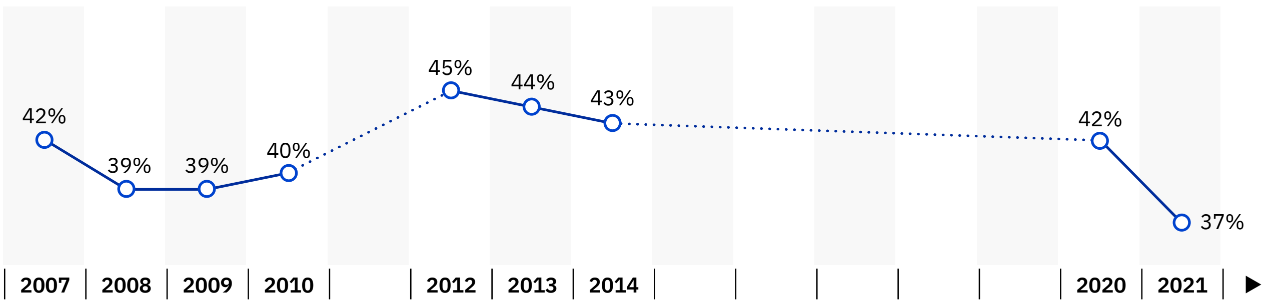
It doesn't have to be this way. Like banks did with mobile banking, retailers have done with digital wallets, and restaurants are doing with last-mile delivery, insurers and reinsurers can use technology to recast themselves as leaders instead of laggards.

Insurance is only a means. The ends are protection, peace of mind, and courage to pursue new challenges and opportunities.

Figure 1

The insurance trust deficit

Few customers say they trust the insurance industry



Q: Do you trust the insurance industry?
Source: IBM Institute for Business Value consumer surveys 2007 to 2021

Modernizing insurance begins with a fundamental realization: insurance is only a means. The ends are protection, peace of mind, and courage to pursue new challenges and opportunities. Done well, insurance sits humbly in the background. But when you need it—after a car accident, when you lose your phone, when your child needs medical attention—it's there to save the day.

Other industries already have made a similar realization with regard to their own products and services. When you travel, for example, you're not flying in order to experience the plane, or staying in a hotel to experience the sheets. Rather, your goals are spending holidays with family, learning how to cook Thai food in Bangkok, or finally eating at New York's hottest new restaurant. With that in mind, brands like Airbnb and Expedia have created offerings like Airbnb Experiences and Expedia Activities, which lead with the end—travel experiences—and work backward to embed the means: where to stay and how to get there.

Like travel providers with flights and hotels, insurers should look for ways to embed insurance into consumers' core activities. In a world of embedded insurance, buying insurance could be as simple as making a purchase through your AI-powered home assistant, then giving a verbal "yes" when it asks, "Would you like to pay a few dollars extra to replace your purchase if something happens to it?"

Frankly, that world is already here. To exploit it to the mutual benefit of their customers and shareholders, insurers can explore 3 emerging opportunities for embedded insurance: creating new insurance products for modern experiences; integrating existing insurance products into daily activities; and applying data and technology from other industries in order to drive better insurance outcomes.

Creating new insurance products for modern experiences

In order to serve and satisfy consumers, insurance must keep pace with new, modern ways of living, working, and playing. That might require insurers to invent new financial products where offerings don't yet exist.

They've done it before.

When Michigan lawmaker David Hollister introduced the first law requiring motorists to wear seat belts in 1984, he received angry letters and even death threats from constituents who felt the law infringed on their personal liberty. At the time, fewer than 15% of Americans wore seat belts regularly even though the federal government had been requiring them in new vehicles since 1968.[7]

Today, seat belt use in the US exceeds 90%.[8] Once perceived as "bugs," seat belts, airbags, automatic stopping (ADAS) systems, and other safety equipment are now accepted as features. So much so that automakers collectively spend over $13 billion per year to compete with each other on the basis of safety.[9]

The insurance industry helped increase seat belt use by offering discounts, additional coverage, and lower deductibles. In fact, insurers now offer at least 25 different types of discounts on auto insurance premiums in order to incentivize safe driving.[10]

Another example of innovation in insurance is home sharing. Before Airbnb, sleeping in someone else's bed sounded like couch-surfing. Now, it's a chic and practical way to experience cities through the eyes of locals.

To make it possible, homeowners demanded a guarantee that they would be compensated if a guest broke something or left their home in poor condition. That required an entirely new financial product. Enter Airbnb's Host Guarantee and Host Protection Insurance programs, which make owners whole against property loss and liability, respectively, by charging guests a nightly fee that's embedded into the cost of their stay.[11] Although the latter is insurance, the former is not. Still, both satisfy hosts' need for protection.

Airbnb reinterpreted homeowners' insurance by chopping the traditional annual or monthly policy into nightly "bits." Pool-sharing platform Swimply has gone even further by chopping nightly bits into hourly "atoms."[12]

Swimply's insurance offering is as much a sword to spur growth as it is a shield against liability. Consider a couple that uses Swimply to rent a swimming pool from their neighbor. They could easily approach the same neighbor afterward and offer cash to rent the pool again "off-platform." But they don't, because the neighbor's homeowners' insurance won't cover claims when the home is being used commercially. The only way to protect the homeowner and the renters is to transact through Swimply.

In that way, insurance acts as a business enabler, binding the community to the platform and providing Swimply members a valuable offering that's not yet available elsewhere.

Not long ago, it would have sounded alien to share your home or swimming pool with strangers. Now, it's entirely routine. That's thanks in large part to the invention of new, "episodic" financial products that act like insurance and are embedded into core purchases. Like seat belt discounts before them, these products can fill real or perceived gaps in consumer protection that have been created by new trends, technologies, and behaviors. In turn, this encourages more people to trust and enjoy new activities.

Integrating existing insurance products into daily activities

New products can help insurers seize new opportunities. But that doesn't mean they have to forsake existing products and services. Rather, it suggests there might be opportunities to rethink them—for example, by integrating them into daily activities and experiences.

Doing so can reduce friction for consumers. Take travel insurance, for example. Most airlines and online travel agencies offer the option to purchase travel insurance when booking a trip. All a traveler needs to do is check a box during the checkout process and pay a small fee that's bundled into the cost of their fare. If they can't travel due to sickness, weather, or other circumstances, their coverage will reimburse them. And if they can travel, but have a medical emergency while they're away, it will fund emergency medical care or evacuation.

In the wake of COVID-19, it's obvious how valuable that kind of coverage can be. In fact, demand for travel insurance has soared, according to AAA, which says 33% of US travelers are more likely to purchase travel insurance because of the pandemic.[13]

Although demand for travel insurance is increasing, most travelers who check the "just add insurance" box when they're booking a trip are ambivalent as to which carrier is underwriting their coverage. Even when there's an insurance company's logo next to the box, travelers interpret insurance as an extra service that they're purchasing from airlines or the online booking website. It's easy to see why: in most cases, buying it doesn't require them to leave the booking platform or website where they purchased their ticket.

And there's no need to speak to an insurance agent. Instead, the transaction is entirely integrated into the airline's existing user journey. It leverages information that the consumer already has entered in order to purchase their ticket, as well as historical data based on their travel behavior.

E-commerce is yet another arena in which established insurance products are integrated in a frictionless fashion. Sellers on Amazon, for example, have long sold products with warranties or other insurance attached to them. In August 2021, however, Amazon went further by extending its A-to-z Guarantee to protect customers if a defective product causes property damage or personal injury—regardless of who sells it.

Originally designed to facilitate hassle-free returns for products sold and fulfilled by third-party sellers, the new A-to-z Guarantee includes compensation of up to $1,000 for any valid personal injury or property damage claim, at no cost to sellers. And if a seller is unresponsive, Amazon might even pay valid claims that are larger than that.

Here, Amazon is selling more than a physical product. It's also offering peace of mind. The seamless inclusion of insurance becomes part of the buying process.

Simple, short-tail insurance products like travel insurance, device protection, and warranties are easier to integrate into everyday purchasing events. But integration also is possible with more complex products and transactions. A newer addition to the marketplace, for example, is homeowners' insurance that's integrated into the homebuying process.

In the US, most banks require buyers to have insurance before they'll issue a mortgage. It therefore makes little sense that homeowners have to purchase insurance after, and separately from, purchasing a home. Instead, they should be able to access insurance through their real estate agent while they're completing their home purchase. Real estate company Keller Williams solved this conundrum by creating Keller Covered, a centralized website where homebuyers answer just 7 questions and receive quotes from up to 33 competing insurers.[14]

Therein lies the promise of embedded insurance: instead of purchasing insurance through insurance agents or directly from insurance companies, customers have a choice. Insurers, meanwhile, can gain customers that, in many cases, would not have bothered to purchase coverage separately. In that way, embedded insurance represents an extra distribution channel that creates net new leads and markets for insurers without cannibalizing current revenue streams.

Repurposing data and technology for better insurance outcomes

Embedded insurance isn't only about integrating insurance into everyday activities. Just as much, it's about integrating everyday activities into insurance.

To achieve this, insurers will need to embrace data and technologies in adjacent sectors. Although they weren't conceived with insurance in mind, such partnerships may prove useful as insurers pursue continuous improvement in areas like risk selection, dynamic pricing, and safety outcomes.

Life insurance is a prime example. The availability and price of life insurance often is contingent on medical screening. Although underwriting requirements can vary, screening can be quite invasive, requiring physical exams, blood tests, and extensive family history questionnaires. In most cases, a professional medical opinion is compulsory. And yet, some life insurers have asked themselves, "If you can run a mile in under 7 minutes, do you really need an invasive physical exam?"

Embedded insurance represents an extra distribution channel that creates net new leads and markets for insurers.

Health IQ is one insurer that rewards healthy behaviors. Citing scientific studies, it claims that runners have a 45% lower risk of dying from cardiovascular disease than non-runners, as well as a higher life expectancy. As a result, it offers runners cheaper premiums based on data collected from body-worn fitness trackers.[15]

This approach to underwriting is not only new and novel, but also smart and strategic. Think about it: your fitness tracker was not designed as a telematics device to help rate insurance. Nevertheless, clever insurers are using it that way. By leveraging third-party data and devices, they've devised a way to improve life insurance.

Before, it was a static financial transaction wherein you applied and qualified, then had little engagement with your policy thereafter—aside from paying monthly premiums. Now, it's a dynamic, interactive, daily experience that's forged from an intimate relationship with daily health and wellness. It's linked to something you enjoy—fitness—with behavioral nudges inspiring healthier outcomes.

Insurers that invest in that kind of relationship with consumers might soon have access to entirely new business models, like subscription-based insurance.

When was the last time you purchased a physical movie or piece of music? Like digital entertainment purchases, an insurance contract is an agreement to pay a fee and abide by given terms in exchange for access to a specific product. If you can subscribe to music, shouldn't you be able to subscribe to insurance?

Doing so might make sense for products like auto insurance. Drivers already can take their contacts, music library, and navigation system with them from one vehicle to another, thanks to smartphones and Bluetooth. In the future, they might also be able to take their loss history with them. In that case, policyholders would be rated based on movement sensors in their personal mobile device—agnostic to the vehicle they're driving, whether they own the vehicle or not, where in the world they're driving it, and whether they're driving for business or personal use. In a behavior-based insurance system, safe drivers would be favored to win.

The future of insurance is embedded

The insurance industry may feel stale. Thanks to embedded insurance, however, its prospects have never been more fresh or relevant.

Still, it's early. There are more pressing questions than answers right now:

- What products, services, or experiences might insurance feel natural to be embedded with?
- Will non-insurers create their own managing general agents (MGAs) and/or insurance structures in order to generate new revenue sources, thereby enabling adjacent business models? If so, how will traditional insurers respond to competition from non-insurers?
- How can insurers co-develop new products to meet the episodic nature of smaller exposure units?
- What new inputs does a sensor-enabled and data-rich world give insurers for rating and pricing purposes?
- In what ways might the insurance business model change?
- Will introducing embedded insurance cannibalize the agent and/or direct distribution channels, or will it mostly capture "net new" segments and revenues?
- How can embedded insurance be enabled across the enterprise, regardless of the line of business, instead of in just one area? Who are the right partners and experiences, given existing and future insurance products and services?

In time, answers will come. What seems clear in the meantime is that myriad companies across a multitude of industries will soon couple their product or service with some form of risk-protection—and that early adopters will have a front-row seat to this exciting, massive market.

Action guide

Making insurance seamless

Recommendations for traditional insurers

Adopt a consumer mindset to find new opportunities in existing products
From established products like auto insurance and homeowners' insurance to newer products like cellphone insurance and cyber insurance, your product portfolio already contains offerings that could be embedded. To find them, take a user-centric approach to surveying your lines of business.

First, ask yourself when, where, and under what circumstances coverage is needed. Then, look through the customer's eyes to determine how you can make it more intuitive and natural to seamlessly acquire coverage alongside experiences. Finally, brainstorm potential partnerships that could move your products closer to the time and place where they're needed. Prioritize opportunities by taking time to understand required investments and potential ROI.

Remember: Insurance is the means, not the end. Embedding insurance requires identifying the end, understanding how consumers will get there, and creating a purchase occasion to organically intercept them on their way.

Decide on your embedded insurance focus
In the world of embedded insurance, insurers can be coverage providers, underwriters, risk managers, ecosystem facilitators, and many other things. Before you determine which roles you want to embrace, consider the pros and cons of each. Although it might be tempting to be only an underwriter—to cash in on external opportunities by being partners' purse strings—doing so is fraught with risk. If you remain behind the scenes, you're vulnerable to commoditization. But if you establish relationships with consumers by insuring them directly, you have an opportunity to build brand equity that fuels differentiation and longevity.

Define and refine your value proposition
Embedded insurance requires partnerships with adjacent industries. Often, securing those partnerships requires generating as much value for partners as you do for their customers. To the latter, you offer insurance. But ask yourself: What can you offer the former? One potential answer is data. Insurers typically know more about consumers than almost anyone. Find ways to package and monetize the consumer data that companies want to open the door to new partnerships.

Pairing insurance with collected data—both yours and your partners'—can be especially powerful as a means of "triggering" insurance as part of a new or existing experience. Doing so makes the value proposition relevant to the customer while feeling minimally intrusive.

Develop a distribution channel
Once you decide what products to embed and where to embed them, you must develop a means for distribution. One option, for example, is a digital studio approach, wherein you create an off-the-shelf API that partners can acquire from your website and use to digitally embed your product with theirs.

To avoid starting from scratch, partner with insurtechs and fintechs to leverage their unique intermediary platforms.

Recommendations for non-traditional insurers:

Search your products and services for risk events
Whatever industry you're in, there probably are risks consumers face when they use your product or service. To capitalize on embedded insurance, find those risks and seek insurance solutions that can address them. This creates new ways to interact with a customer, and creates additional, stronger relationships.

Decide whether you want to be a provider or a partner
Ponder whether you want to become an insurer yourself, or whether you'd rather partner with an existing insurer and/or underwriter. Although partnering might initially sound more practical, becoming an insurer is more attainable than you might imagine. The structures and mechanisms exist today to turn almost any company into a financial services company. Carefully consider the costs and benefits of each option.

Recommendations for all insurers:

Explore enabling technologies
Consider what technologies you will need to bring embedded insurance to fruition. For example, you might require the Internet of Things (IoT) to meet consumers where they are, artificial intelligence (AI) to supply the context sensitivity that's needed to move insurance to the edge, or cloud computing to create the flexibility and scalability that "as-a-service" business models demand. Furthermore, you may need to pair business and technology platforms with APIs and extended intelligent workflows to efficiently distribute embedded insurance.

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IBM Corporation
New Orchard Road
Armonk, NY 10504
Produced in the United States of America
November 2021