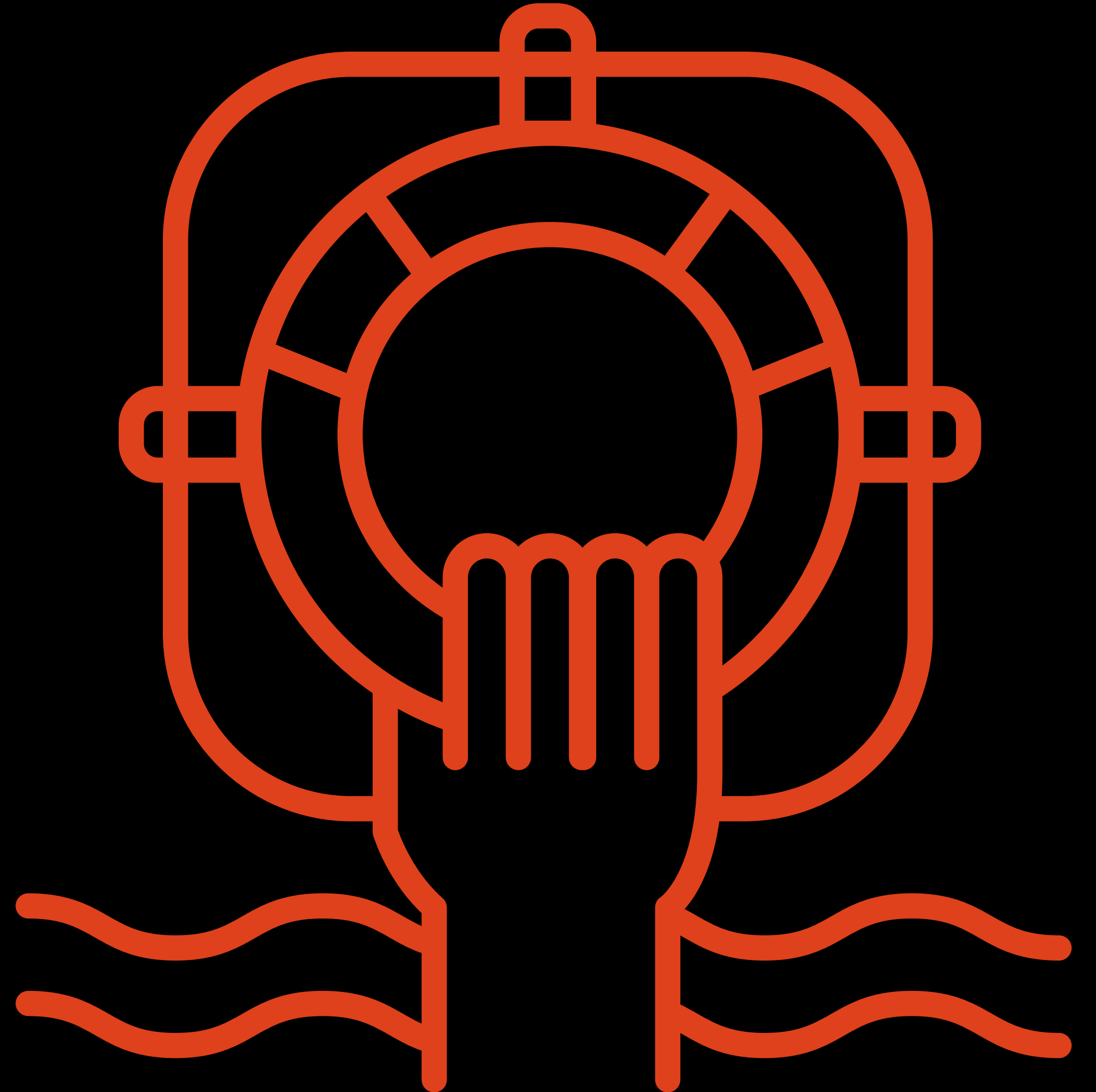
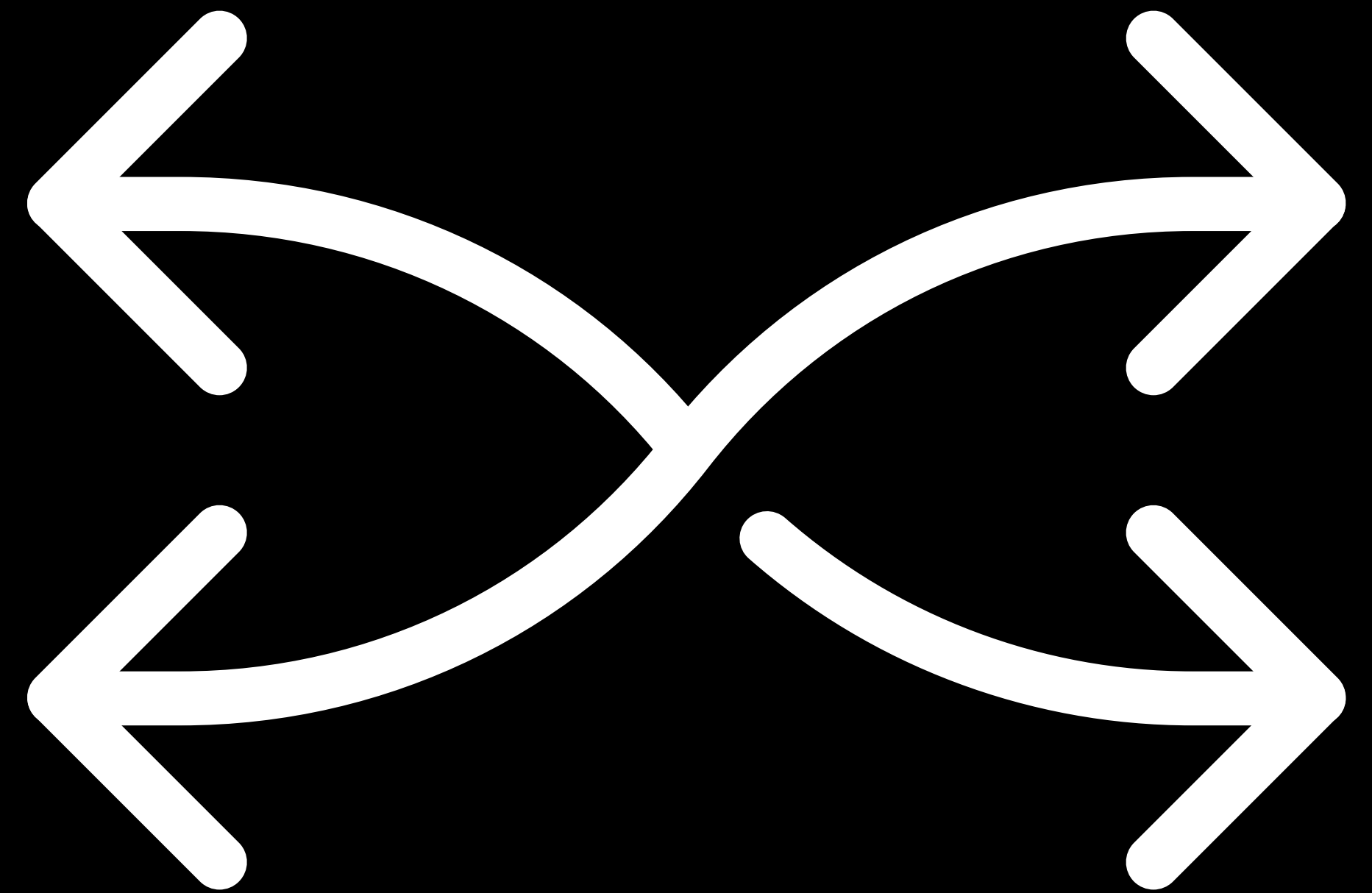


REPORT  
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# Embedded Insurance – bringing insurance to you



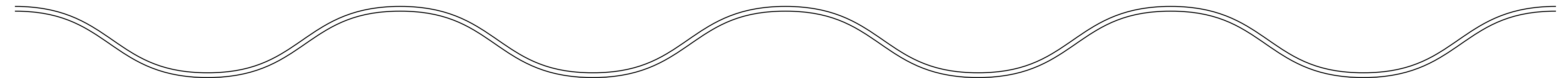
The Insurance industry is without a doubt a long-standing one, with one of the oldest firms in London having been established in 1710, and often, legacy and tradition are accompanied by a stale air... So it may surprise many, that this industry is advancing at a similar pace to that of the tech industry: implementing change, learning and constantly evolving. With this short report, we bring you an insight into the latest change that is shaping the landscape and what it means for you.



## ● The changing landscape: *how insurance has evolved*

Buying a car before the new millennium, meant we needed to purchase insurance separately for it. As such, we'd go into the office of a well-known insurance company, sign all relevant paperwork and present them with a form of ID to confirm it really was us taking out the policy. **Things have since evolved.** Simultaneously, we've seen insurance companies go online and the rise of price comparison websites (PCWs), making the purchasing of insurance easier for those who know how to navigate the world wide web. Both of these changes, however, still rely on the consumer to actively go out and search for insurance.

We are in the midst of yet another change in the insurance landscape—embedded insurance. This is where the option of buying insurance is embedded, whether in a third-party sales platform or within the product itself. This brings insurance to where the customers are, removing the need for them to go out and search for it separately. When you buy a new cat or dog, the pet store can offer you pet insurance on the spot. When you book a hotel room, you are offered travel insurance straight from the hotel. When you buy a new smartphone, you can get gadget insurance straight from the manufacturer or retailer's website.



# ● Who benefits?

## ○ INSURANCE PROVIDERS

For insurance providers, they get easier access to customers. Now instead of waiting for customers to come to them, they can go to where the customers are. They can make their products available on the sales platform that customers are already using.

Insurance providers can offer new products. They can experiment a bit more and see which products are successful and identify gaps in the market in order to differentiate themselves from their competitors. The embedded nature of the insurance products means that they can be created, modified, or removed with a shorter lead time than the traditional platforms.

They also get richer sets of data, for example metrics on who is buying versus not buying, which products result in the least amount of claims, and which online channels drive the most sales. Previously, insurance companies could only get metrics when the customer landed on their website or the PCW. Now, they can get metrics prior to the point of sale, which can drive new insights into customer behaviours and needs.

## ○ THIRD PARTY PARTNERS

For insurance partners (e.g. sales channels), they get the opportunity to add value to the sales process, and to get higher customer satisfaction.

You can also embed the insurance in the product itself, thus making it invisible. If you're running a hotel, you can incorporate the travel insurance into the cost of the room and then you can offer a 'free' cancellation policy. This immediately makes your hotel more attractive than your competitors who can't offer this.

Insurance partners also have the opportunity to increase their revenues. The transaction is no longer between the customer and the insurance company. Instead, the third-party is acting as the middleman, and as such will get either a percentage of the sales or a monthly commission. This is a great way of increasing profits with minimal ongoing costs.

## **CONSUMER**

For the consumer, it makes it easier to buy insurance when you need it. For example, suppose you buy a new television set. You often have the option of buying an extended warranty (which is just another form of insurance) at the point of purchase. Embedded insurance can make this process more seamless and more ubiquitous.

It also means you can buy insurance on things you wouldn't normally do. Curtains are expensive and replacing them isn't trivial financially, but they are also not expensive enough where it's worth claiming on your contents insurance. If something happens to them, you really have no recourse but to buy new curtains. However, if you had the option to spend a small amount of more money and get them insured for three years, this could be something worth considering.

## **BUSINESS CHALLENGES**

While embedded insurance sounds like it should be something all insurance companies should adopt, not all insurance companies are equipped to adopt it successfully. There are certain challenges that need to be overcome from a business perspective.



## Consumer Trust

Consumers have a low trust value with the insurance industry and the wider financial services sector as a whole. Of the 16 major industries, financial services came second to last, only beating out social media.<sup>1</sup>

This lack of trust is due to a number of factors. Foremost amongst them is that insurance companies are often perceived as finding loopholes to avoid paying claims and when a claim is approved - payment can take weeks. Also a massive factor for distrust is the lack of communication between customer and provider. Unless a policyholder makes a claim, providers will typically reach out only once per year at the time of renewal.

What would happen if an insurance company offered a product where the odds of filing a successful claim were actually in your favour, you had to wait a few days instead of weeks for a payout and offered you personalised reminders and products that could save you money? Not only does this positively impact trust, but also instils loyalty come renewal time.

1. Edelman Trust Barometer 2021

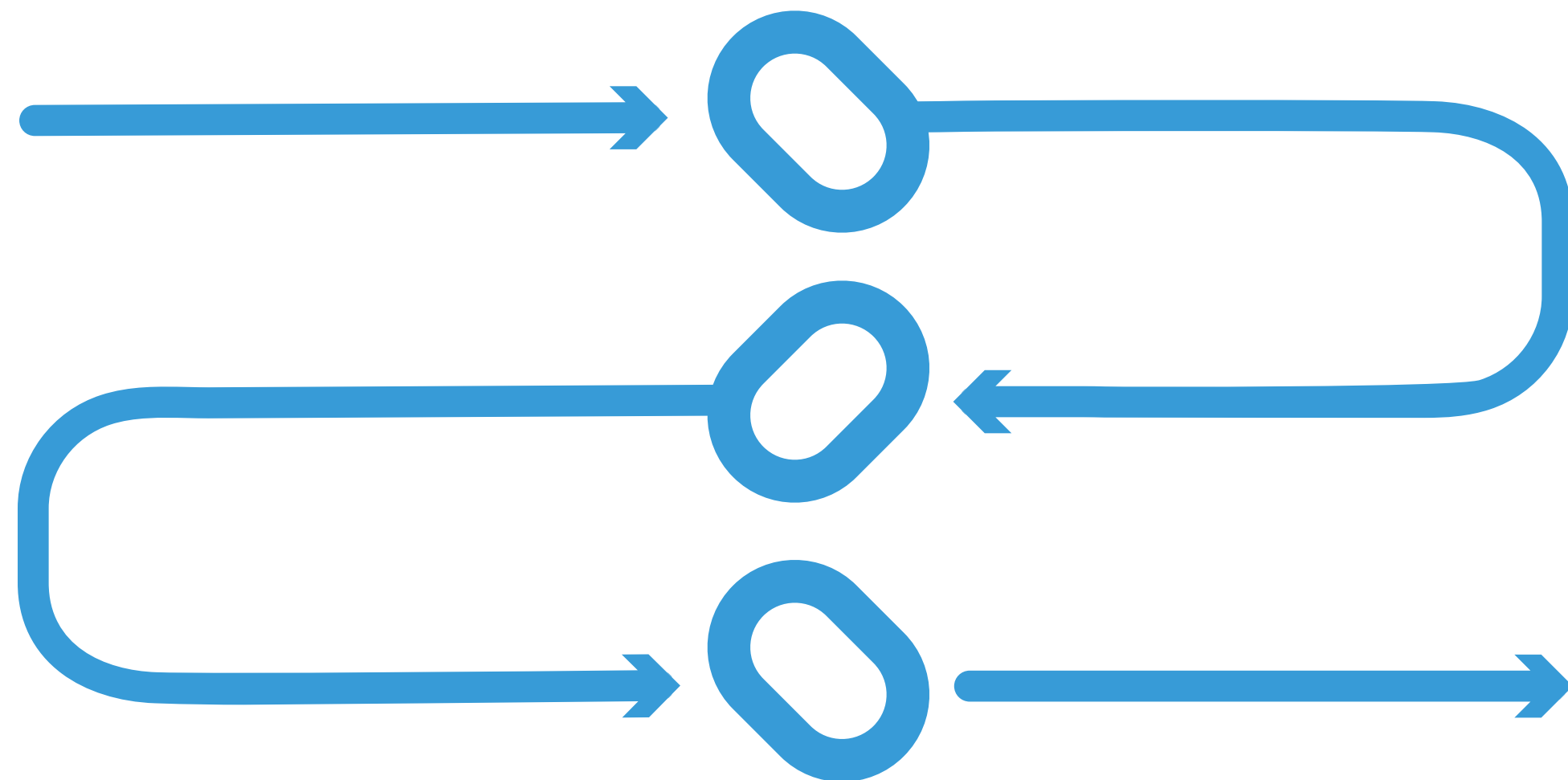
## Convenience-store model: *how to make insurance appealing*

Additionally, insurance companies have inadvertently conditioned buyers to shop around in order to get a better deal. They've done this by providing attractive premiums to acquire new customers, but then have given them poor pricing on renewals in order to retain them. In the UK, it is mandated that on renewals documents, insurance providers need to show the previous year's premium along with the new premium, making any increase in price very evident. The end result is that customers feel like insurance companies are trying to extract as much money as possible from their customers, and as such most customers now shop around when it's time to buy or renew a policy.

This issue is only exacerbated when there appears to be a lack of competition (e.g. only being able to buy the extended warranty from a single provider). To combat this, insurance companies need to somehow change the mindset of their customers. In order for embedded insurance to be successful, customers need to see the products as akin to buying something from a convenience store (where they are happy to potentially pay a bit more for the convenience), instead of from a marketplace (where they shop around to get the best value for money).

## ● Technical enablers: *stepping insurance into the future*

So how does an insurance company transition from providing just the traditional model of insurance to one where its products can be embedded anywhere? There are **three primary technology enablers**.



### 01.

#### MODULARISATION

The first is to modularise the insurance platform. It needs to be broken down into services that can be easily adapted to serve the different platforms that it's going to be embedded into. So instead of having a single quote-and-buy journey that works only for your homepage, you need to have a quote-and-buy journey that can be seamlessly embedded into someone else's quote-and-buy journey. It is important to clearly delineate up front who is responsible for which parts of the journey as certain processes will still have to work in the embedded model, regardless of the sales channel, e.g. ensuring you're not selling insurance to someone who is on a sanctions list.

With modularisation, the third-party platform will most likely handle some parts of the quote-and-buy journey. As such, they will need only certain services of the insurance platform embedded into it. The specific services that are needed can change from one sales platform to the next. As such getting the modularisation right is critical to being able to embed the insurance in as many platforms and products as possible.

## 02.

### APPLICATION PROGRAMMING INTERFACES

The second enabler is to make the services easily consumable by third parties. This is usually done through application programming interfaces (APIs). APIs are a standard way of providing external systems access to your internal capability. If you make it easy for third parties to embed your services into their products, then they will want to work with you.

Insurance companies usually build these great API platforms that no one wants to use. The reason for this is because they have made it too difficult for third-party developers to actually use them. Therefore, having the right API strategy in place is crucial in getting third parties to partner with you.

## 03.

### DATA MODEL

The final, and arguably the most important enabler is the underlying data model. This data model needs to be flexible to accommodate products being launched, modified, or retired. Additionally, it needs to be able to ingest the data and structure it in a way where someone can properly interrogate it and derive valuable insights from it. This can be particularly challenging where current data is merged with historical data, which might contain incomplete or improperly formatted data.

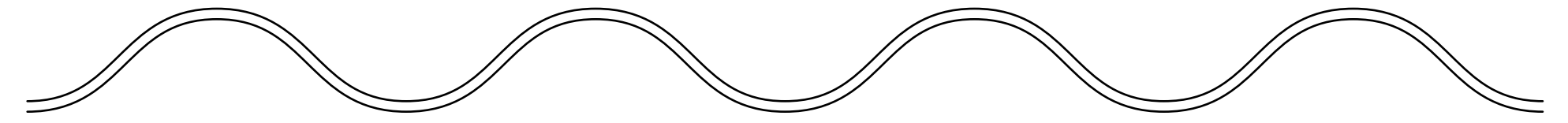
Where we have seen embedded insurance programmes fail or not derive the expected benefits is because there was too much focus on the technology and not enough focus on the underlying data and the flow of that data. The technology needs to be designed upfront to facilitate frictionless data ingestion, production, and utilisation.

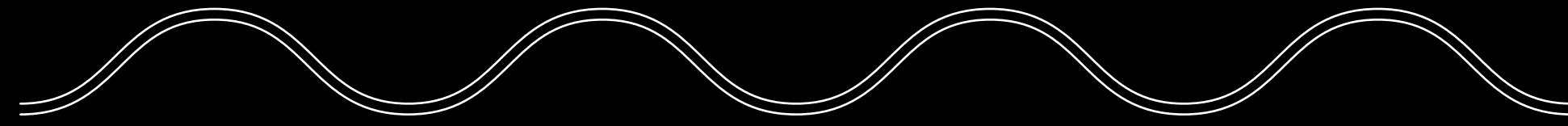


## ● Finding the right partner: *transformational tech*

A number of programmes that have tried to be done in house, either fail or take three times the time and budget to deliver half the functionality. Unless you're an insurance company that was born digital, there's a high likelihood that there's a lot of legacy technology that will need to be updated and modernised in order to modularise the services, open them up to third party partners, and sort out the underlying data model. Historically, insurance companies have a poor track record of delivering large transformation programmes.

The right technology partner will help make this transition easier. You need to find someone that has done this before, who knows the pitfalls, and who can approach it both at the strategic and tactical levels. For example, some technology partners will focus only on developing the APIs, without documenting them properly, which makes it difficult for third parties to actually use them. Other technology partners will want everything defined and designed up front in the minutest detail before starting to develop anything. You need to find someone that is willing to work at the pace you're comfortable with, but still bringing their experience and expertise to guide the programme where appropriate.





**To conclude,** embedded insurance, can have huge benefits for all parties involved, but only if it's done correctly. It can open new channels for insurance providers, increase revenues for sales partners, and bring increased peace of mind for consumers.

Endava has partnered with a number of insurance companies to enable them to embed their products. We have broken up and modularised monolithic systems so they could be more flexible in providing new products and capabilities. We have developed API strategies and delivered against them, safely opening up internal systems to external partners. We have defined new, flexible data models that can adapt quickly to changes in products and partners.

If you are interested in starting your own journey with embedded insurance and want to know how Endava can help you with it, please do reach out and get in touch.

