

# Embedded Finance & Super App Strategies

EMBEDDED INSURANCE PEER GROUP REPORT - JUNE 2022

## How and why insurers should increase investment in ‘Embedded Insurance 2.0’

Supported by



Google Cloud



NINETY

[www.embedded-finance.io](http://www.embedded-finance.io)

# Contents

03

About this report

04

Introduction & Summary

09

Problems and opportunities

15

Learning from Innovators

26

Creating an Effective Strategy

36

Practical Next Steps

38

Conclusion

39

Frequently Asked Questions

42

Appendices:

42

Market Sizing details

44

About the Authors

45

Further reading

# About this report

This report is an output from a special Peer Group of leading international insurance companies looking into Embedded Insurance from October 2021 to May 2022.

Those participating included senior executives from Allianz, American Family, AXA, Ergo, Google, IAG, Liberty Mutual, Marsh, Munich Re, Swiss Re, and Travelers\*

The Peer Group was independently organised and facilitated by Simon Torrance, Founder of Embedded Finance & Super App Strategies, and a senior adviser on business model transformation and corporate innovation; and Dawn LeBlanc, an insurance industry veteran and Managing Director of the Hartford Insurtech Hub.

The goal of the peer group was to bring together insurance leaders with a variety of perspectives and backgrounds to discuss the Embedded Insurance market today and how it could evolve.

Each monthly workshop was stimulated by special research created by the organisers to frame our brainstorming and discussions.

The workshops covered the following topics: the status of the Embedded Insurance market today; a potential vision for how it should evolve; the barriers and blockers that may prevent the realisation of the vision; options for working around the barriers; and best next step actions for industry incumbents (of all kinds).

The workshops were run in accordance with anti-trust and 'Chatham House' rules, meaning that no commercial information that wasn't already in the public domain was exchanged and comments from individual participants were not attributable.

In this report we have captured (and anonymised) some of the verbatim comments made by participants during the workshops. They reflect the way some forward-thinking leaders from within the industry articulate the issues and opportunities.

We would like to thank all the participants for their open and creative contributions to the workshops and the discussions around them, their passion for this industry and their determination to drive impactful innovation within their organisations.

We are also grateful to iptiQ (a division of Swiss Re) and Google for their kind sponsorship of the Peer Group, and to Dan White from Ninety for his personal support.

We hope that this report will stimulate your thinking about Embedded Insurance and we would be happy to have one-on-one conversations to discuss questions, ideas, plans.



**SIMON TORRANCE**

Founder & CEO,  
Embedded Finance & Super App Strategies  
Simon.torrance@embedded-finance.io

*\* Participants included positions such as: Chief Underwriting Officer, Divisional CEO, Chief Digital Officer, Chief Innovation Officer, SVP Digital Distribution, Chief Strategy Officer.*

“ Ceding control to new intermediaries = failure

Peer Group Member



## Introduction & Summary – a \$2.5 trillion GWP opportunity

What is Embedded Insurance 2.0 and why is it important to insurance incumbents?

Embedded Insurance 2.0 (EI 2.0) is a new way of collaborating and innovating with third party brands, of all types and sizes, to help them grow their businesses, create compelling new protection solutions for end customers and, ultimately, close protection gaps.

It exploits digital technology and data in new ways to create better underwriting models that improve customer experiences, marketing effectiveness, risk selection, pricing and unit economics.

EI 2.0 is complementary to, but different from, current affinity and partnership programs in a number of ways:

**1. PURPOSE:**

it's focus is on enabling brands and their customers to access a broader set of diverse and customised solutions to problems, rather than on distributing existing risk transfer products from a single supplier.

**2. TECHNOLOGY:**

it exploits a new type of infrastructure - 'Operating Systems' that can aggregate demand and orchestrate supply from multiple parties.

**3. SKILLS:**

to be successful, it requires new capabilities in digital sales and marketing, data science, open platform development, as well as digital underwriting.

**4. MONETISATION:**

it combines Software-as-a-Service fees with recurring GWP and AuM revenue share.<sup>1</sup>

1. More detailed comparison with Affinity/Partnership programs in the FAQ section of this report

EI 2.0 is part of the broader market trend of ‘Embedded Finance’ which is accelerating across all sectors due to four key factors:

**TECHNOLOGY SOPHISTICATION:**  
 The ability of financial service capabilities and components to be modularised and abstracted into software formats, such that they can be accessed and creatively re-configured by third-party developers and non-financial product managers, quickly and cost-effectively.

**GROWING SOCIETAL NEED:**  
 Enormous and ever widening protection gaps (between what individuals and businesses have and need for financial wellness and resilience), exacerbated by changes in demographics, working patterns, climate and other new and more severe risks facing the world.

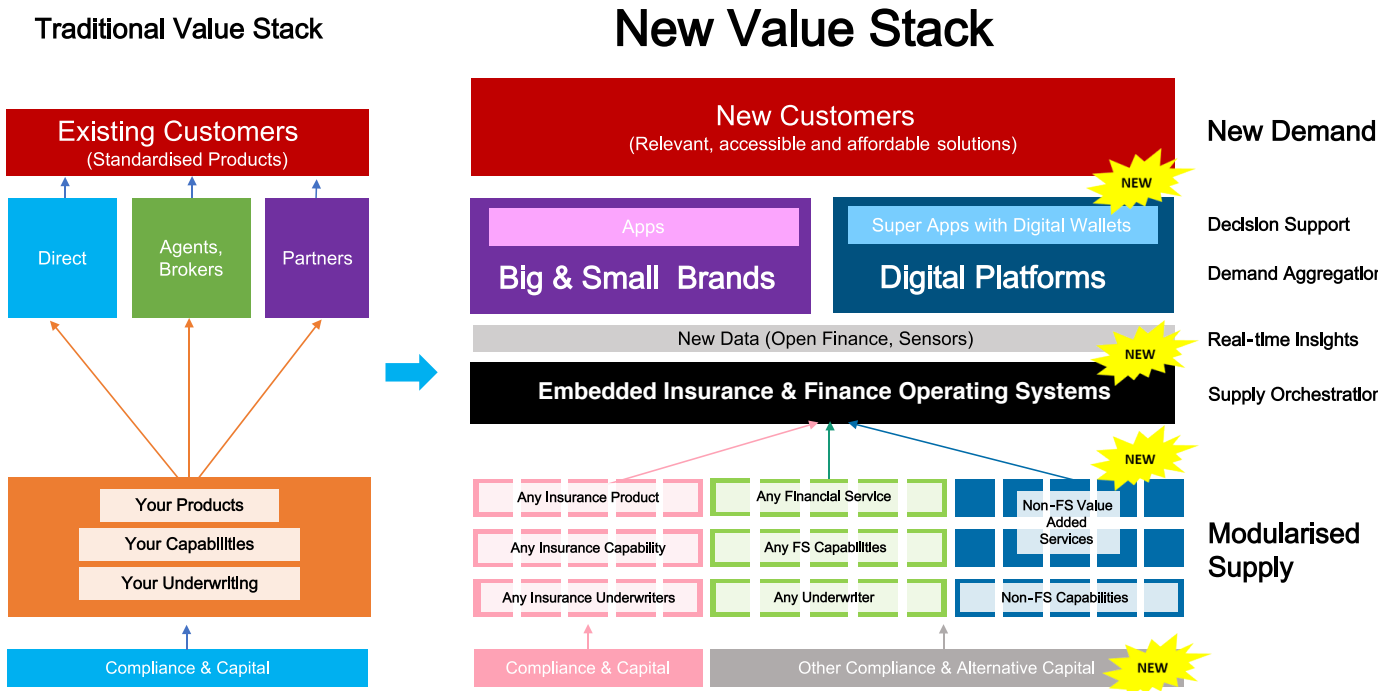
**INCREASING COMMERCIAL DEMAND:**  
 The pressure from digitisation on existing business models and the growing awareness among third party brands of the potential to use digital financial services to improve their value to customers and their own profitability. (Some brands, like Tesla, are looking to create their own insurance entities, to control the whole brand experience and retain all the economics).

**INVESTORS SEEKING SAFER RETURNS:**  
 Smart capital shifting to more sustainable ‘B2B infrastructure’ plays, away from more risky direct-to-consumer plays.

As a result of these trends we are seeing a new ‘value stack’ emerging in the insurance industry, per the chart below. The ‘Operating System’ layer (the black bar on the right in the diagram) will become the key control point, orchestrating the supply of modularised products and components from multiple insurance and adjacent providers to brands and digital platforms, and through them to more end customers.

Figure 1:

**A new ‘value stack’ is emerging**



Source: Simon Torrance. 2022

\* Insurance, payments, credit, cards, investments, loyalty, etc



“Ceding control to intermediaries = failure

Peer Group Member

Operating Systems will increasingly be able to ingest more and more real-time data from the operations of brands, their customers and other sources to optimise the process of matching the right solution to the right customer, at the right moment, in the right way.

This is still an early stage market, with most of the innovation coming from a growing number of start-ups deploying a range of different business models.<sup>2</sup> Some bigger start-ups are winning significant contracts from traditional incumbents, especially from digitally-native companies who are looking for non-standard, tech-led and cross-border protection solutions that they can specify and control. Some start-ups are focused on niche markets, individually generating relatively small volumes today. One start-up already managed \$44 billion of quoted premium last year on its platform.

Within the next five years this new ‘value stack’ will be mature. The biggest winners then will be those running the Operating Systems. These are much less capital-intensive businesses than risk carrying.

The skills to develop, manage and grow Operating Systems do not (yet) reside within incumbent insurers, and should be learnt fast.

Size of the Prize

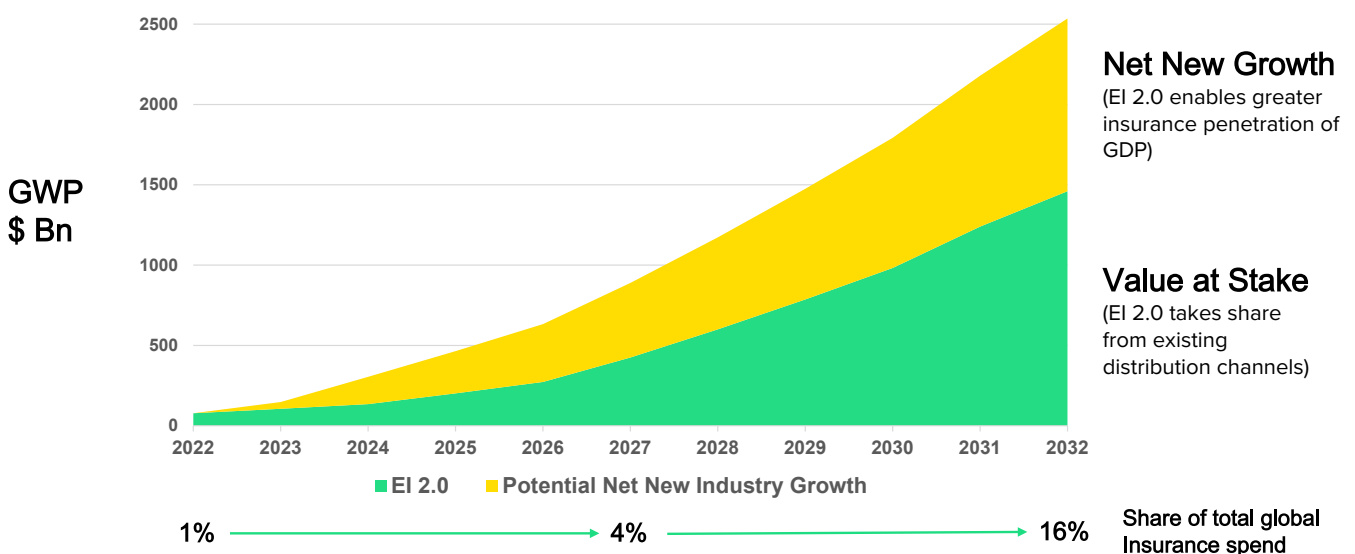
Our analysis suggests that about 60% of Non-Life (P&C<sup>3</sup>, business, commercial) and 30% of Life markets (life, pensions, annuities) are addressable by EI 2.0.

2. See section 4: Learning from Innovators

3. Property and Casualty

Figure 2:

Potential Size of the EI 2.0 Prize (worldwide, Non-Life and Life insurance)



Source: Simon Torrance. 2022

Given the trends described above, we estimate that, by 2032, EI 2.0 could account for around 16% of total global insurance distribution, or \$1.5 trillion of GWP<sup>4</sup>. In certain P&C markets this would likely be nearer 30% of the total, taking share in particular from tied agent and branch channels.

“ It sometimes takes time for the world to catch up with new technology development. But then things can take off much faster than predicted once a critical mass of people is focused on taking advantage of them.

Peer Group Member

In the US the total market for EI 2.0 could reach \$150 billion in five years' time, rising to \$500 billion by 2032. In Europe and China we estimate the market reaching roughly \$60 billion by 2027 and \$200 billion by 2032 in each.

In addition, we believe that EI 2.0 has the potential to increase the size of the overall insurance market (as a percentage of global GDP), potentially adding an extra \$1 trillion of net new GWP to the industry by the end of the decade, mostly by leveraging the reach of digital platforms in emerging markets<sup>5</sup>.

4. Gross Written Premiums

5. See appendix for more detailed sizing assumptions and analysis

## Benefits

As EI 2.0 becomes more pervasive it will bring significant benefits to multiple parties, as follows:

- **Brands (of all sizes, in all sectors and geographies):** new opportunities to use more creative and flexible insurance and risk management tools that support new customer propositions and experiences, help differentiate the brand in the market, grow new recurring revenue streams and enhance overall business models. New Operating Systems will make EI 2.0 increasingly quicker, easier and cost effective to exploit.
- **End customers (consumers and businesses):** easier access to simpler, more affordable and convenient protection solutions that are more relevant to their evolving needs and changing circumstances, available and consumable at contextually relevant moments.
- **Insurers:** greater adoption of insurance and risk solutions by more individuals, businesses and customer types; lower cost access to real-time 3rd party data to improve underwriting models; opportunities to create new higher margin revenue streams; accelerated learning about how to run software-based business models; attracting new entrepreneurial and digital talent and more investment to the industry.
- **Investors:** more confidence and better returns as the insurance industry demonstrates a new way to innovate and grow, new business models are proven and economic profit improves.

Embedded Insurance 2.0  
OUR VISION AND  
NOBLE PURPOSE

More and better  
protection baked  
in to the everyday  
lives of everyone

- **Government and society:** more people and businesses become better protected; protection gaps have the potential to be addressed more effectively.

Our vision for EI 2.0 is “More and better protection baked into the everyday lives of everyone”.

Ultimately, by orchestrating and coordinating more resources more efficiently and creatively - data, skills, technology, customers and their attention - EI 2.0 will help the insurance industry play a stronger role in helping achieve the United Nations Sustainable Development Goals.

“In a world of growing and converging risks, insurance and risk-finance products, tools and services provide the financial resilience necessary to secure our critical infrastructure, protect our agriculture and businesses, reduce debt and poverty, and preserve critical ecosystems that make life on earth possible.” Achim Steiner, UNDP Administrator and Chair of the UN Sustainable Development Group, Sept 2021.

“ We’ve found automated Embedded Insurance to be very profitable when working at scale.

Peer Group Member

Next steps

To realise the opportunities of EI 2.0, and avoid the threats, we suggest that it’s now time for incumbents – of all types and sizes – to create holistic and joined up strategies.

Appreciating the constraints of culture, skills, resources and current KPIs, we recommend a ‘dual’ approach that allows incumbents to both

- ‘optimise the core’ business whilst also
- ‘fast tracking the future’.

We outline what this could look like and propose six specific next step actions.

“ We incumbents typically play ‘defence’, focusing on negative issues. How could we play ‘offense’ in this space?!

Peer Group Member





“ Most insurance today is statistical cover, not behaviour-based.

Peer Group Member

## Problems and Opportunities

As we know, insurance is critical to the working of business and society. It protects lives, drives growth and builds resilient economies and it has the potential to accelerate progress towards the United Nations' Sustainable Development Goals.

Yet the current business model of the industry – the way it creates, captures and shares value – is not delivering these benefits for most stakeholders today.

### End customers (consumers and businesses)

Insurance is, in general, still a grudge purchase. In its current form it tends to be perceived as expensive, inconvenient, complicated, paper-based, slow, sometimes unfair, and impersonal. It's a certain, immediate expense, but the benefits are uncertain and distant and the experience of making a claim is often painful.

As the world digitizes, the options available to customers are rising rapidly in parallel with their expectations. Digitally-native generations – Millennials and Generation Z - will soon make up the majority of economically active adults. They do not tolerate complex, paper-based, analogue experiences.

“ Many categories of gig worker were previously uninsurable by traditional insurers, until Insurtechs stepped in to fill the gap.

Peer Group Member

They will migrate to where the experience is easy, good value and transparent, and will buy solutions from brands they interact with and trust most.

But these are the lucky few who are aware of and can afford insurance. Spend on insurance as a proportion of GDP is tiny in most parts of the world and has remained flat for the last 20 years. This is because insurance today, according to the Geneva Association, is difficult to understand, access, afford and use.

As populations grow larger and older, the risks facing them become more complex and severe and insurance products and experiences remain unchanged, protection gaps – the gap between what people need to be economically resilient and what they have – are getting wider and wider.<sup>6</sup>

Today some insurers perceive a dichotomy between traditional and digital approaches to advice, distribution, sales, underwriting and claims management. EI 2.0 means combining the best of both worlds in new ways, working with brands that customers use and trust most, to create compelling solutions for end customers.

We asked our Peer Group for analogies that might bring to life the step change we need to deliver for end customers. They suggested: Apple vs Nokia; Netflix vs Blockbuster; Amazon vs Retailers; M-Pesa vs cash; Google vs Newspapers; Mobile Phones vs Fixed Lines; Android vs proprietary Operating Systems; even horses vs automobiles!

## Brands (big and small, all sectors)

Most brands, big and small, in most sectors, are struggling with the impact of accelerating digitalisation: new entrants offer disruptive solutions, customer expectations increase, and new regulations often up-end previously protected practices. These pressures increase the cost to serve and reduce traditional profit pools. Therefore brands are constantly looking for new ways to differentiate, attract and retain customers and find new profitable growth.

Insurance and financial services are important components of a brand's customer experience. In the past these aspects were controlled by separate organisations - financial institutions. You buy a product or use a service, but you have to get it protected elsewhere. As a result, the brand loses that important part of the relationship with you, along with the financial value of it.

The cost of buying a car, for example, is a small fraction of the total amount of money you spend on it over its lifetime, and interactions with the OEM brand dissipate post-purchase.

“ Embedded Insurance actually reduces the distance between producers [of insurance solutions] and consumers.

Peer Group Member

6. Protection Gap figures are eye-watering: for example, Swiss Re estimates the mortality protection gap - the financial resources needed to sustain a household in the event of the death of that household's primary earner – to be \$25 trillion in the US today, and \$141 trillion globally. The World Economic Forum estimates the retirement savings gap is \$10 trillion in the UK today, and \$98 trillion globally. Even in the most advanced economies, typically less than 2% of small businesses purchase protection policies or employee benefits.

Up until recently insurance was complicated and expensive to integrate into a brand's user experience and business processes. Only the biggest brands have had the operational resources to sell the products of incumbent insurers to their customers. And those that do find that the standardised products they've been offering are becoming less competitive compared to other more creative and more digitally-enabled solutions available on the open market.

“ It's painful for fast-growing digital brands, with unusual requirements, to work with incumbents!

Peer Group Member

What's changing is that much of the friction – in terms of cost, time and effort - of incorporating more innovative insurance solutions into a brand's proposition is disappearing. Even very small, local brands can now rapidly test, iterate and incorporate different types of protection solutions into their offers and increase profits quite dramatically.<sup>7</sup>

At the same time, some very large non-financial brands, such as supermarket chains, which created their own banks and insurance divisions have realised that the capital requirements, regulatory scrutiny and operational overheads are no longer viable, given the increasing squeeze on their core profits, and are now outsourcing all of this to new EI 2.0 providers<sup>8</sup>.

“ Insurers are expert at teaching insurance intermediaries to sell products. For embedded we need new content and methods that engages and convinces more brands to offer, and people to buy, coverage within non-insurance digital customer journeys.

Peer Group Member

7. See examples in Section 4, Learning from Innovators

8. See 'Anatomy of an Ultimate Operating System', Figure 8, Page 25

## Insurers

Finding new sources of profitable growth is hard for insurers as digitalisation impacts traditional profit pools. Investors are sceptical that this will change any time soon, according to McKinsey:

“after decades of stable returns, insurance is now a value-destroying industry in which half of players do not earn their cost of equity”<sup>9</sup>.

The fundamental business model problem for the insurance industry is one of ‘imperfect information’. Underwriters lack access to enough accurate, real-time data and information about the behaviours and needs of end customers’ and the environments in which they operate.

As a result insurers are forced to be cautious when choosing what risks to cover and the types of products and experiences they are willing to create. This limits the range and attractiveness of customer propositions, increases the threat of churn, and perpetuates protection gaps.

The insurance industry today is not able to profitably match supply with demand.

“As insurers we need to be more proactive in helping brands identify the insurance appetite of their customer base. And then help brands market insurance effectively, as it is very different from marketing their core product.

### Peer Group Member

The paucity of impactful innovation in the industry (the key driver of growth) has also manifested itself in the relationship insurers have with non-insurance brands (banks, retailers, airlines, auto OEMs, telcos, digital platforms, and others).

Insurers have – typically - treated them as channels for their products, rather than co-creators of new solutions and experiences for end users. This has led to a vicious cycle of low growth and lukewarm value creation for all parties.

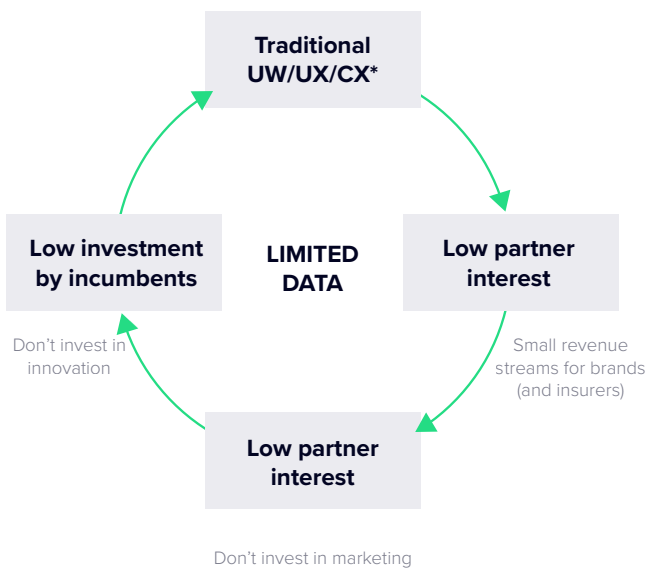
9. *Creating Value, Finding Focus: Global Insurance Report, February 2022, McKinsey* <https://www.mckinsey.com/industries/financial-services/our-insights/creating-value-finding-focus-global-insurance-report-2022>

Figure 3:

## Time to create a new ‘growth flywheel’ from brand relationships

### Typical Affinity/Partner programs today

Awkward Discovery, Quote, Bind, Manage, Bill and Claim experiences, determined by the insurer, based on historic data, focused on indemnification



### Embedded Insurance 2.0\*\*\*

Convenient, intuitive, timely, low-effort experiences, specified by the brand (cheaper, faster, more relevant and personalised; preventative, holistic solutions)



\* UW = Underwriting; UX = User Experience (for end users); CX = Customer Experience (for brand marketers)

\*\* 3rd party data informs marketing, sales, underwriting, quoting, renewals, claims

\*\*\* EI 2.0 is already delivering 10x better conversion rates, compared to traditional approaches.

As life becomes increasingly mediated by software and digital platforms, insurers are finding that brands in all sectors are no longer willing to put up with old-fashioned analogue propositions and experiences. They are demanding faster, more effective innovation, and looking to new types of partners if incumbents can't support them.

“ Today we are only losing 5% of partnership deals to start-ups. But that proportion will only get bigger over the next few years.

Peer Group Member

Some brands are going further and deciding to take advantage of new EI 2.0 infrastructure so they can control the ‘peace of mind’ part of their proposition as well as retain more of the economics. Tesla, Revolut, Chime, PayPal, Alipay, WeChat, Grab, Intuit, Booking.com, Amazon, Apple, Samsung are good examples of digitally-native companies who understand the value of the real-time customer data their services generate and are re-conceiving the role of insurance in enhancing their own business models. More traditional brands are starting to follow.

“ Embedded Insurance is moving from a ‘commission game’ to a ‘value game’ for more and more brands now.

Peer Group Member

EI 2.0 allows underwriters to take advantage of the data brands have about their customers and co-create new solutions that combine new approaches to data science, digital technology, digital marketing, risk management and claims processing.

“ Realistically we won’t be the only carrier for every single product offered by a brand in every market. Today we feel comfortable with simple product types but we know we will be graduating to more complex propositions since the market is changing fast now.

Peer Group Member

## Government

Fast growing protection gaps increase the strain on public finances and threaten social cohesion. The way government regulates insurance and other financial services was designed for a different world and is out of step with technical, commercial and societal trends. There is a need for a new discussion between insurance stakeholders, to review and update regulations at a faster pace, so that the private sector can fairly and transparently play its role in addressing important unmet protection needs.



“ Large brands, like OEMs, banks and retailers, could be our competitors in the future.

Peer Group Member



# Learning from Innovators

There are wonderful examples of EI 2.0 in action from around the world. One of the best is Alipay, a Chinese ‘super app’ and part of Ant Group. It has created its own Operating System to orchestrate over 90 insurance companies to create tailored protection products for a generation of people who have never had any insurance cover before.

Figure 4:

## Alipay: Embedded Insurance 2.0 global best practice



Alipay orchestrates 90 insurance partners to create 2000 affordable products (life and non-life), protecting 100m rural Chinese for the first time

Added \$8bn + of high margin revenue in 2020

Alipay users are carefully segmented and offered highly attractive insurance solutions at contextually relevant moments, directed by data science.

For example, Alipay is able to offer to certain segments ‘Quanminbao’, a simple pension annuity product with premiums starting from as little as 15 US cents. In health, ‘Haoyibao’ provides guaranteed lifetime cancer protection with annual premiums of circa \$15 for

payouts of \$600,000, even for those already diagnosed with cancer or with pre-existing conditions such as diabetes.

On the Property & Casualty (P&C) side Ant’s insurtech solutions are also themselves embedded in Alibaba’s Taobao product marketplace (an equivalent to eBay), providing shipping returns protection products to small businesses for 50 US cents.

Since Covid, Ant has sold hundreds of thousands of new business interruption policies to small offline merchants, offering payouts for very short periods of time as they are needed, without long-term commitment.

Ant Group helps its users appreciate the value of insurance which increases adoption and creates opportunities to upsell other solutions. Payments and disbursements are managed through Alipay’s super app. They are turning unmet needs into wants – creating new markets and new demand for insurance.

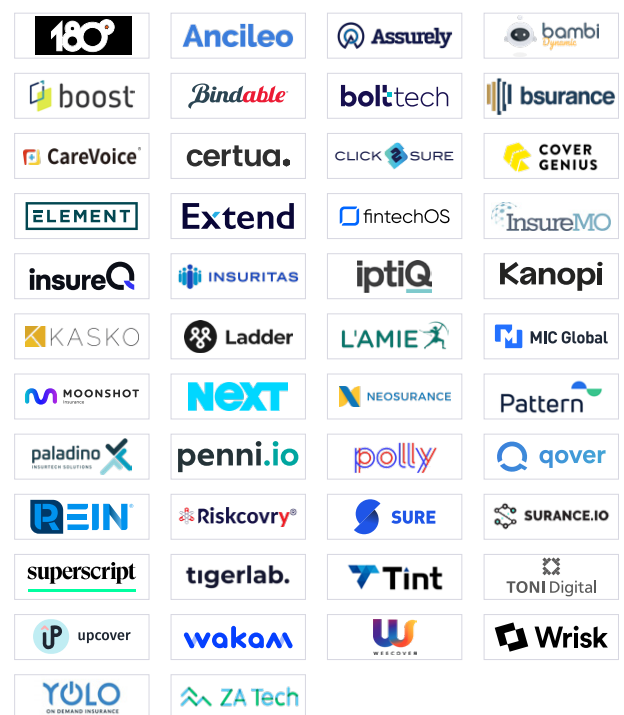
With this embedded insurance strategy Ant is closing local protection gaps. As a result its insurance arm has become the largest online insurer in China with over 500m customers. Insurers have benefited from low cost access to a large new customer base, proactive assistance in product innovation, better product pricing, improved underwriting results by leveraging unique customer data and enhanced claims management through automated servicing and fraud detection using Ant Group’s advanced technologies such as Natural Language Processing and Machine Learning.

Ant Group is deriving significant commercial value from Embedded Insurance as well as delivering socio-economic value to its local communities.

As an early pioneer in this space Alipay had to build its own Embedded Insurance and Finance Operating System. Now it sells its software platform, as-a-service, to 3rd party brands.

Venture capitalists have seen the power of this new approach to insurance and have increased their investments in B2B insurtech infrastructure (the category that is creating these types of intermediary Operating Systems).

There are now over 50 start-ups around the world in this field, enabling brands and insurers to take advantage of EI 2.0. Our recent report provides a detailed review and benchmark of the best<sup>10</sup>. Notable examples include Additiv, BoltTech, Branch, Collective Benefits, Cover Genius, Extend, Insuritas, MIC Global, Next Connect, REIN, Riskcovry, Qover, and ZA Tech. Some are pure tech companies, some are ‘Digital MGAs’, some act as exchanges between brands and carriers and some are full stack players with their own balance sheets.



10. Embedded Insurance 2.0 Market Map, May 2022: <https://research.aperture.co/embedded-insurance-2022/>

By inserting themselves into the value chain per the ‘Value Stack’ diagram in Section 2, these new intermediary platforms and nascent Operating Systems are giving brands of all types and sizes the potential to emulate Alipay’s approach of leveraging insurance to enhance its overall business model. Not necessarily to the same extent, of course, but they make it very quick and easy to embed highly relevant, simple and personalised protection solutions into brand propositions.

A small number of incumbents have also entered this space with separate dedicated tech-centric business units, for example Swiss Re’s iptiQ and Chubb Studio. Others have acquired EI technology platforms.

What’s different about the approach of leading EI 2.0 pioneers is their ability to very quickly achieve dramatic improvements in the capabilities of Embedded Insurance, as described in a recent investor deck from one of the fastest growing start-ups, Cover Genius.

Figure 5:

### EI 2.0 Pioneer Playbook - Cover Genius

	Traditional Insurer	Cover Genius
Focus	Distributing existing products	Solving commercial problems for brands
Architecture	Legacy systems	Microservices
Quote & Bind Integration	N/A	API
Product innovation	Risk-oriented	Growth-oriented
Policy wording	Static policies	Continuous refinement
Personalisation	N/A	Dynamic recommendations
Pricing preference	Static pricing	Dynamic pricing
Claims payments	Many days	Instant
Claims NPS	-20 to +15	+ 65
Countries	1, or multiple OpCos	60+
Regulation	Requires agent licensing	Part of the service
Balance sheet	Yes	Own risk carrier now

Source: Adapted from Cover Genius investor presentation 2021

Cover Genius claims that this approach is helping them win more business from incumbents. They cite the following examples of brands that have improved the value they get from insurance, having switched to them from previous incumbent providers:

**65%** growth in average revenue per user for a car rental agency;

**650%** growth in insurance attach rate for a travel agency that rapidly introduced global Covid-19 policies;

**500%** growth in warranty revenue within four weeks for an online marketplace;

**Reduction** in claims processing time for customers of a logistics provider from 20 days to less than 24 hours.

There are more and more examples like these from other EI 2.0 providers around the world. They demonstrate the tangible, commercial benefits to brands of shifting from the slow, inflexible, expensive and inconvenient propositions that typifies the approach today from many incumbents. (See more case studies in the Embedded 2.0 Market Map report<sup>11</sup>)

Many of the insurtechs in this market have focused on helping traditional carriers address these issues and distribute their existing products through new channels more effectively.

Others – particularly the ‘Digital MGAs’ - focus on creating entirely new solutions for brands and their end users, and collaborate with incumbents as risk carriers only.

Or, they work directly with reinsurers to support new risk categories. Others still are creating their own balance sheets, via Lloyds Syndicates, to bring more control and flexibility to their offering to brands.

Typically, the most successful EI 2.0 insurtechs follow a playbook that can be summed up in 10 key points:

**01. Target new, emerging markets:**

they have focused on new brands in fast growing digital sectors like gig-working, B2B Software-as-a-Service, online travel, neo-banking, e-commerce, health and well-being. These sectors often start off relatively small with limited risk history, and so have been largely ignored by traditional insurers. This has created the opportunity for new digitally-native entrants to learn and grow with these new brands. For example, Next Connect creates new employee solutions for Intuit’s SMB customers; Extend enables any online retailer to offer ‘Apple Care+’ like after-sale services, potentially doubling the size of the addressable market for extended warranties and product protection; and Collective Benefits is enabling food delivery platforms to increase their attractiveness to independent workers.

“Some powerful brands demand ridiculous commission levels. How do we have a new conversation with them?”

Peer Group Member

11. Embedded Insurance 2.0 Market Map, May 2022: <https://research.aperture.co/embedded-insurance-2022/>

“ Products and platforms are different for [EI 2.0] compared to traditional partner programs

Peer Group Member

**02. Serve unmet customer needs**

Brands in these markets often operate new types of business models which require creative insurance and protection solutions that traditional carriers typically find it hard to support. For example, MIC Global provides parametric micro-insurance to Uber drivers in the middle east; Cover Genius provides differentiated travel cover for Booking.com’s customers; Qover enables neo-banks to create unique purchase protection experiences that support loyalty and up-selling. In many cases, by switching from an incumbent carrier offering standard products to a specialist insurtech which is happy to create customised solutions, brands have seen a dramatic improvement in their sales of insurance.

**03. Combine expertise in technology, insurance, data science and digital marketing**

Since they focus on digital brands or brands that wish to be more digital, the most successful EI 2.0 start-ups have invested heavily in attracting the best technology talent and matching it with deep underwriting experience. They’ve then layered on data science skills to exploit new sources of data from brand partners, and digital marketing and behavioural science to work with brands on engaging with end customers across multiple touch points in new ways. For example, Tesla is hiring its own actuaries and underwriters to complement its other skills to create its own in-house insurance propositions, focusing on cheaper pricing based on real driver behaviour and aiming to turn the traditional claims process “from a nightmare into a dream” according to Elon Musk.

“ Copy and pasting what worked in one distribution channel to another is a path to failure. Embedded will test many companies’ ability to capture data, use AI for real-time pricing and develop niche products. Specializing in market segments will open up access to more precise data that you wouldn’t get if the customer was coming through normal channels. This is where the opportunity lies.”

Peer Group Member



#### 04. Create own tech stacks

The majority of leading pioneers in EI 2.0 have created their own tech stacks, avoiding legacy insurance software providers. This is key to creating a winning position in the market. For example, Branch's own built stack means it can instantly quote and bind bundled home and auto cover for its brand partners with only two data points; Cover Genius's X-Cover platform enables its brand partners to create unique solution bundles made up of components from different underwriters and insurers. With the right skills, building a tech stack from scratch need not be expensive or take long. In India, Riskcovry rapidly created an 'Insurance in a box' platform that now connects over 70 brands with over 50 carriers across all lines of insurance, for less than \$3m.

“When speaking to startups about the cost and timeframe to develop their tech stacks, I was shocked, having worked in a large insurer most of my career, how low the cost and quick the timeframes were compared to our's.

Peer Group Member

#### 05. 1 API, product agnostic

A single API enables brands to collapse the time, cost and complexity of launching full insurance programs. For example, BoltTech helped an Asian fintech app launch 12 categories of insurance products in a few weeks; REIN's platform enables incumbent insurers to create new embeddable solutions that can be distributed at scale through digital channels.

#### 06. Omnichannel solutions

EI 2.0 leverages the best of digital technology to support all the ways that end customers want to interact with their suppliers. For example, Insuritas provides white-labelled 'insurance agencies' for over 250 small banks and credit unions in the US, supported by a network of 40 pre-integrated carriers. Its platform allows human agents to optimise sales and claims processes, using its technology platform which is integrated into banks' CRM systems.

#### 07. Rapid solution testing, iterating, launching

It often takes months or years to integrate incumbent products into a brand's customer journeys, sometimes after drawn-out and complex commercial negotiations. Digital brands and smaller non-digital brands operate at different clock speeds. They need low cost systems that support the process of achieving 'product-market fit' fast. For example, Qover enabled an e-bike retailer to launch point of sale insurance, increasing its EBITDA by 25%, in a few months, after spending nearly two years looking for practical solutions from incumbents.

“Insurtechs will be our competitors in the future as they learn how to cover more sophisticated risks and offer adjacent services.”

Peer Group Member



### 08. Drag and drop product design

Product managers at digital brands increasingly want to be able to configure their own protection solutions, not just sell standard products from insurers. The best platforms provide low code/no code systems that don't require complex IT integration. For example, additiv provides tools for traditional retailers to design and configure increasingly complex protection products and solutions.

“ Embedded allows different sources of underwriting data to be used which won't have a 30-50 year history. So we need to accelerate our ability to underwrite new risks with this sort of data.

Peer Group Member

### 09. 3rd party data exploitation

Brands hold unique data – often real time data - about their products and their customers – their interests, behaviours and environments. Insurtechs that take advantage of this can dramatically lower expense and loss ratios as well as improve risk pricing. By reducing the information opaqueness that bedevils the traditional industry, insurtechs and their brand customers target the right customers at the right time with much better propositions. For example, a specialist product liability insurtech is able to operate at half the loss ratio of traditional carriers in the US; a healthcare insurtech in Asia achieves loss ratios below 30% through better targeting; in the UK an insurtech start-up has integrated with all accounting software packages to give it access to real time information about revenue, payroll, fixed assets and create new solutions for small business customers.

### 10. Manage the supply of risk carriers... including their own

a single insurer is unlikely to satisfy the requirements of brands as they get more sophisticated in exploiting insurance. As the examples above have shown many leading EI 2.0 insurtechs manage and orchestrate a panel of carriers. The most advanced will specify to the carriers what they need, and if those requirements can't be met they will create their own. To give them extra flexibility and agility in creating compelling solutions for brands and their end customers, some insurtechs in this space also have their own balance sheets to deploy. For example, BoltTech, Cover Genius, Next Connect, iptiQ and Extend have their own balance sheets, in addition to working with primary carriers and reinsurers. MIC Global has formed its own Lloyds syndicate to enable it to price new risk solutions for its brand partners more creatively and to retain more of the insurance economics.

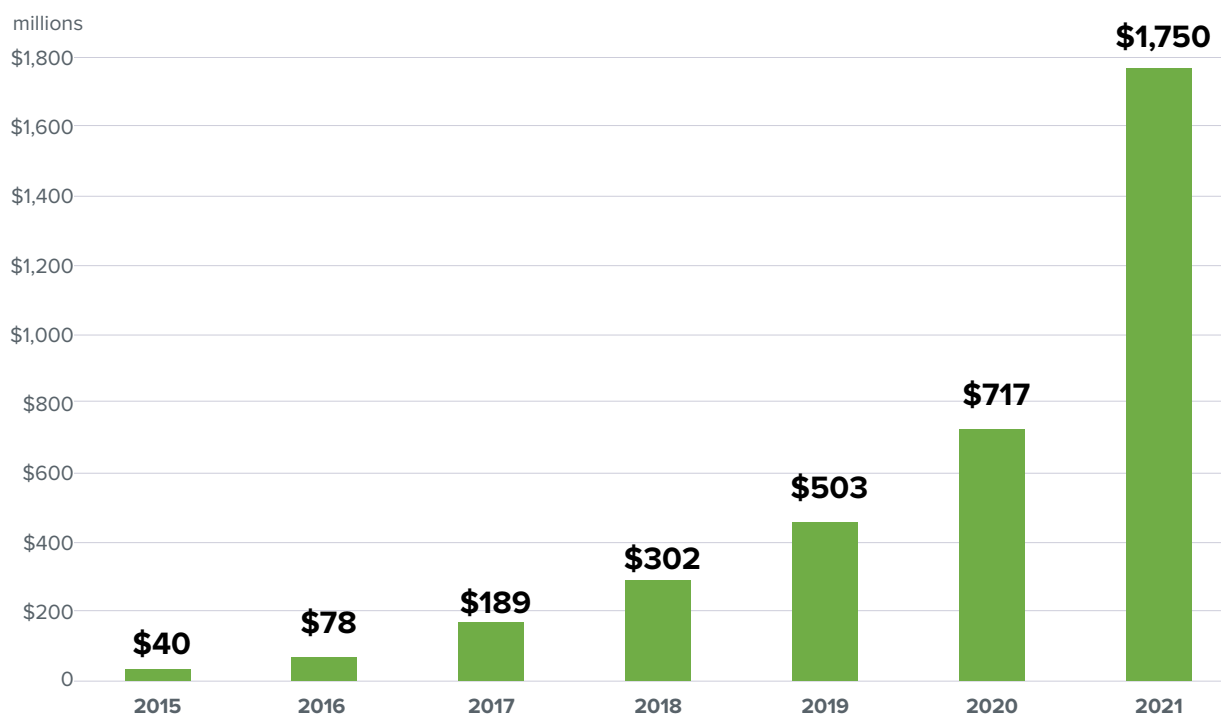
“ The market is increasingly international, brands want to hand off all the complexity to embedded insurance providers.

Peer Group Member

Based on these approaches Embedded Insurance has become the fastest growing insurtech investment segment over the last few years, with a CAGR of over 70%, following a broader VC shift away from direct-to-consumer plays towards 'B2B infrastructure'.<sup>12</sup>

Figure 6:

### VC investment in Embedded Insurance infrastructure companies



Source: Embedded Insurance 2.0 Market Map: <https://research.aperture.co/embedded-insurance-2022/>

“ Many digital MGAs have limited insurance expertise. This creates our opportunity.

Peer Group Member

12. Some of the early wave of B2C insurtechs were not innovating the fundamental insurance business model. They offered great experiences, but with terrible unit economics: <https://medium.com/balderton/reports-of-insurtechs-death-are-greatly-exaggerated-34b7e26a26f3a>

## **iptiQ – Swiss Re’s digital B2B2C insurance company – provides a useful case study on how incumbents should think about Embedded Insurance 2.0.**

### **Background**

iptiQ was created by Swiss Re to improve the way that insurance is bought by consumers, with the aim of helping to close protection gaps. The company was formally established by Swiss Re in 2016 and offers insurance through partnerships with insurers, insurance intermediaries, banks and leading consumer brands. Today, iptiQ has over 50 distribution partners in Europe, Australia and the US and serves more than 1.6 million policyholders. It provides a ‘full stack’ proposition, comprising product co-creation to technology, to underwriting and balance sheet. It now has over 750 employees, a third of which have a technology background.

### **Incumbent insurance business model challenges**

iptiQ recognises that the insurance industry has not been strong at creating attractive purchase, management and claims experiences. Buying a car, a phone or nearly any product or service is nearly always a better experience than getting insurance for them.

It has also seen increased distribution costs for insurers. This has too often led to high prices for end customers and low profitability for insurers.

At the same time, insurance products have not changed much in decades. Regulation has often reinforced slow and narrow innovation. Other industries have exploited technology and data much better.

### **The opportunity from Embedded Insurance 2.0**

The new approach described in this report creates a win-win-win for brands, their customers, and tech-enabled insurers. By creating closer partnerships with brands, taking advantage of their access to customers and the data they hold about them, insurers are in a much better position to develop more creative, affordable and customised solutions that are available and offered at the most relevant moment. This not only increases value for brands and their customers but also profitability for insurers in terms of lower expenses and, when data is leveraged effectively, loss ratios.

Embedded Insurance 2.0 has already proven successful in travel, extended warranty and gig worker markets and is now rapidly expanding to other market sectors and solution areas.

### **Key learnings**

iptiQ has learnt that co-creating new types of protection solutions with brands is multifaceted. It requires new technology and skills (especially related to underwriting, marketing and user experience design). A recent example in the peer-to-peer ‘shared mobility’ sector illustrates a number of key points.

Firstly, the brand had created a new multi-sided digital platform for a market that did not exist before, so there was no historic data for underwriters and a small but growing customer base. Secondly, to make its business model work it needed to be able to offer ‘pay-by-the-day’ cover to the renter. But no fit-for-purpose incumbent products existed to support this and no traditional underwriters wanted to take it on. Thirdly, the brand required the insurance cover to be a seamless part of its end to end customer experience – cheap, easy to access, no separate payment streams, no paper documents, and simple, fair and transparent claims, for multiple stakeholders. None of this existed off the shelf.

iptiQ found a way to close the rental protection gap for this brand partner. It provided a full stack ‘white-labelled’ service to the mobility platform, which has resulted in 100-200% annual revenue growth for itself and immediately raised the average order value for the platform by 20%. While volumes are still relatively low, iptiQ is now well placed to reap the rewards as the brand grows in the years to come.

### **Summary**

iptiQ recognises that as every sector becomes tech enabled, those insurers who learn to efficiently respond to the needs of brands and their customers in these environments will be best placed to generate new growth and value.

“ We need state of the art technical expertise to compete in this market

Peer Group Member

As we’ve shown with these examples, EI 2.0 is not about distributing simple, niche products that exist today. It’s about orchestrating sophisticated new protection solutions for brands and their end customers that drive new and unique value to both.

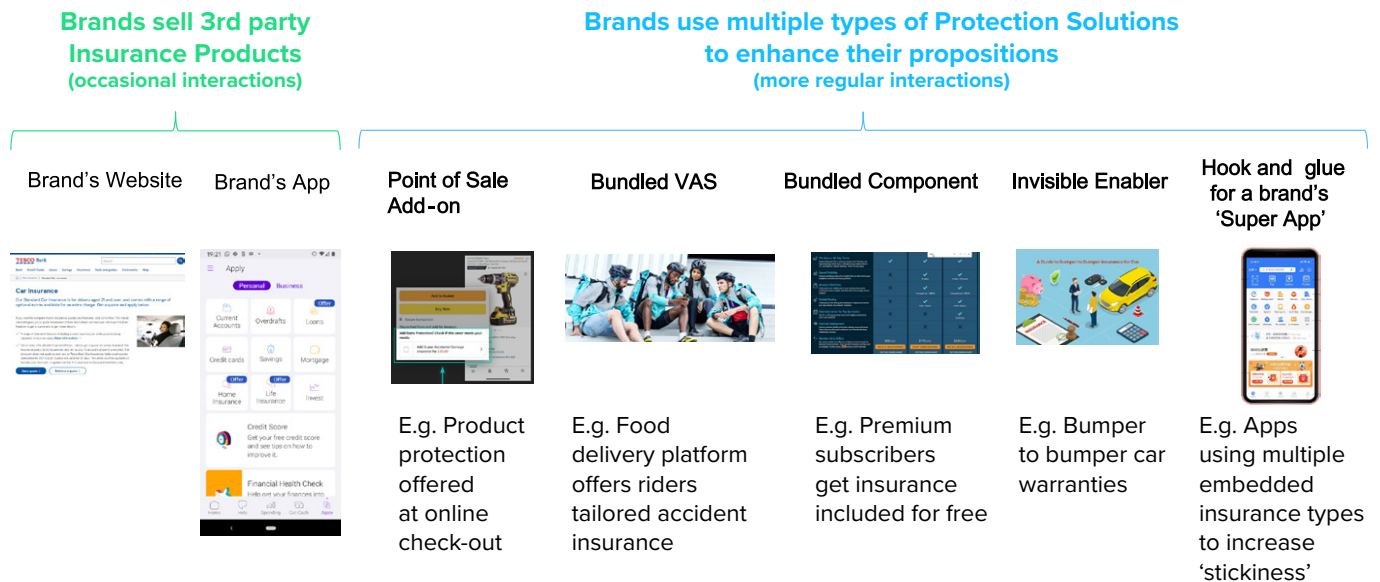
As brands, of all types, become more aware of the ‘art of the possible’, we anticipate a growth in demand for EI 2.0, including from those who have been selling insurance for many years with traditional carriers.

We are just at the start of this journey, and are seeing more and more innovation from start-ups across what we call the ‘EI 2.0 Continuum’. By taking advantage of new Operating Systems, brands are able to incorporate many more types of protection solutions into their propositions.

Some generate new revenue, some enable new customer experiences, some ensure brands comply with regulations, others generate greater brand loyalty.

Figure 7:

### The Embeded Insurance Continuum



Source: Simon Torrance, 2022

“ Authentic re-design [of insurance products] is the winning formula in Embedded

Peer Group Member

## Where next?

Ultimately, as large brands with large customer bases realise the benefits of incorporating more creative financial services into their offerings, they will look to a new breed of Operating System provider that can manage all their needs, beyond insurance, via one platform. As a result, we are starting to see the emergence of new providers that can offer this one-stop-shop to brands.

For example, one of the Europe’s biggest supermarket chains recently closed down its own insurance company and bank and instead formed a partnership with a new Embedded Insurance and Finance Operating System provider to sell pensions, Payment Protection Insurance, car insurance, loans, and investment services to customers.

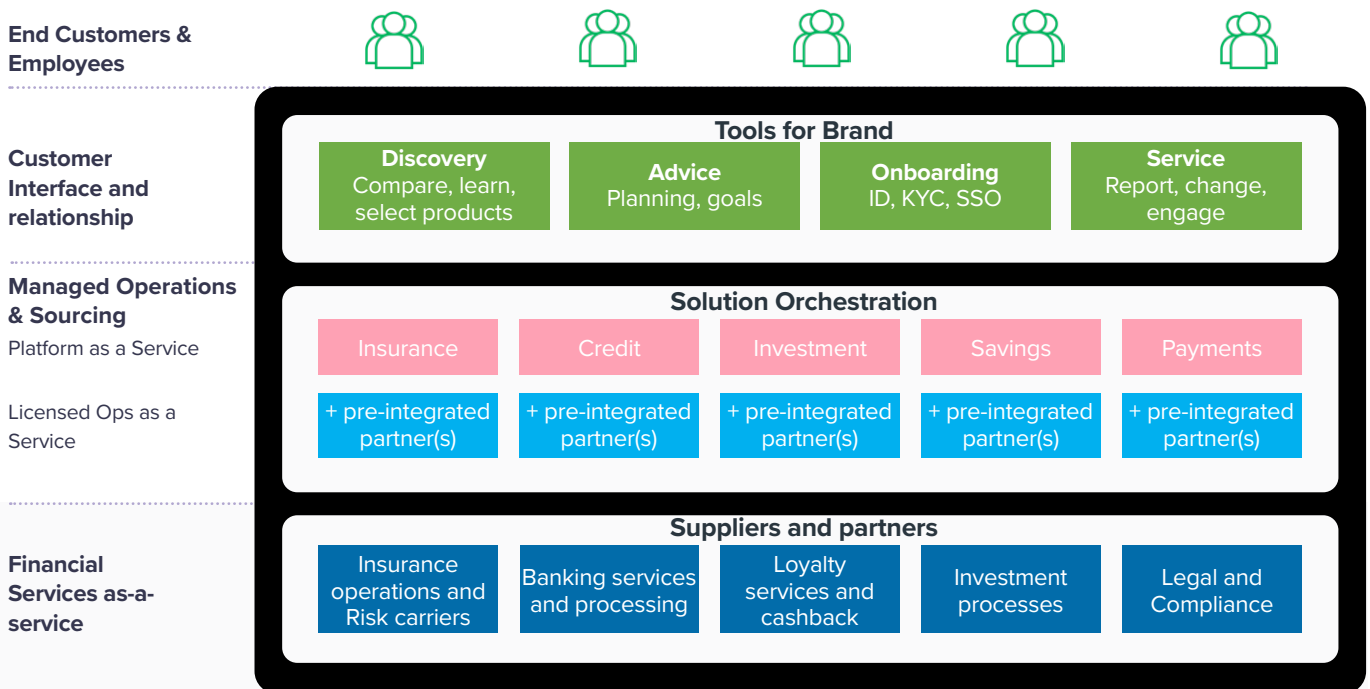
The features and benefits of this new breed of platform are summarised in the diagram below.

The Operating System provider sources the best suppliers to meet the needs of the brand’s Embedded Finance strategy. Some of them are pre-integrated insurance and financial service suppliers and some are new insurtechs and fintechs.

This approach gives brands similar functionality to that which Alipay had to create for itself. It enables the brand the ability to evolve into more of a ‘super app’, at least offering more innovative services than they could before. This delivers immense value to the brand.

Figure 8:

### Ultimate Embedded Insurance & Finance ‘Operating System’



#### Features

- SaaS or Outsourced Managed Service
- Modular and flexible sourcing of regulated services (insurance etc)
- CRM, Call Centre, Analytics, Orders & Payments, App Marketplace
- Low code product development tools
- Open Banking data for greater insights
- Easy integration of partners via APIs

#### Benefits (to brands)

- Tailored solutions for end users
- Annual Recurring Revenue: higher net profitability than referral commissions
- Control of customer relationship
- Deeper relationships with customers
- Own all customer data
- Cross-sell/up-sell potential
- No license or regulatory burden
- Single point of contact into ecosystem
- Asset light, near zero capex

Source: Additiv and Simon Torrance, 2022

“ Since [EI 2.0] is not a mature market, brand customers are not aware of the art of the possible, so they are not asking for new solutions. Finding existing relationships that are really important to retain might be a good place to start to co-create the next generation of solutions.

Peer Group Member

## Creating an effective Strategy

“ A more entrepreneurial approach would help us compete in this market

Peer Group Member

### Strategic Options

There are plenty of options for incumbents in the EI 2.0 market, that map onto the 'Value Stack' diagram in Section 2 of this report. For example, they can:

1. Create their own 'Operating System' proposition to brands
2. Create new protection solutions that address unmet needs in new or evolving vertical markets
3. Package other core capabilities into new digital services for digital distribution
4. Optimise their existing affinity and partnership programs with 2.0-like capabilities<sup>13</sup>
5. Digitise their existing product portfolio to be more easily distributable through 3rd party brand channels
6. Resell 3rd party solutions to existing or new brand customers
7. Enhance their direct-to-customer offerings with a broader portfolio of own and 3rd party services
8. Create completely new direct-to-customer brands in spaces adjacent to insurance

For each of these, incumbents can - in theory - build, buy or partner.

13. See the FAQ section for a full comparison of existing Affinity/Partnership versus EI 2.0 capabilities



“ We need to learn how to experiment and act much faster than today

Peer Group Member

### Challenges and blockers

However, when asked to identify blockers to realising the full opportunity of EI 2.0, Peer Group members identified ‘organisational structure and skills’ as the number one barrier.

This was ranked ahead of ‘legacy technology’, ‘market adoption’, ‘leadership mindset’ and ‘regulation’.

What they meant was that most incumbent organisations are set up to support the skills and resources needed to deliver the existing business model.

Many incumbents are already involved in what we might call ‘Embedded Insurance 1.0’ through affinity and brand partnership programs. Like the rest of the core business these need to be protected and optimised.

But, as we have seen, EI 2.0 requires very different skills, metrics, technology and ‘clock speeds’. It requires new business and operating models, which are very difficult to create and most unlikely to thrive within existing organisational structures.

Figure 9:

### #1 blocker to incumbent success = Organisational structure

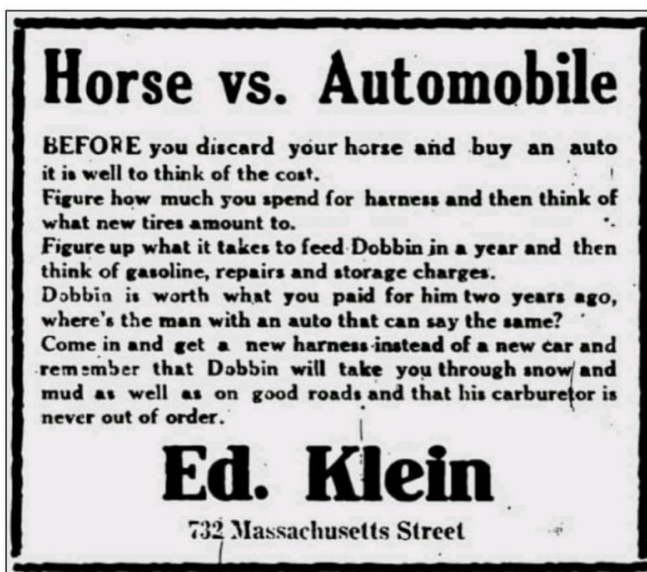


Image: New York Times, 1915; Source Adrian Jones

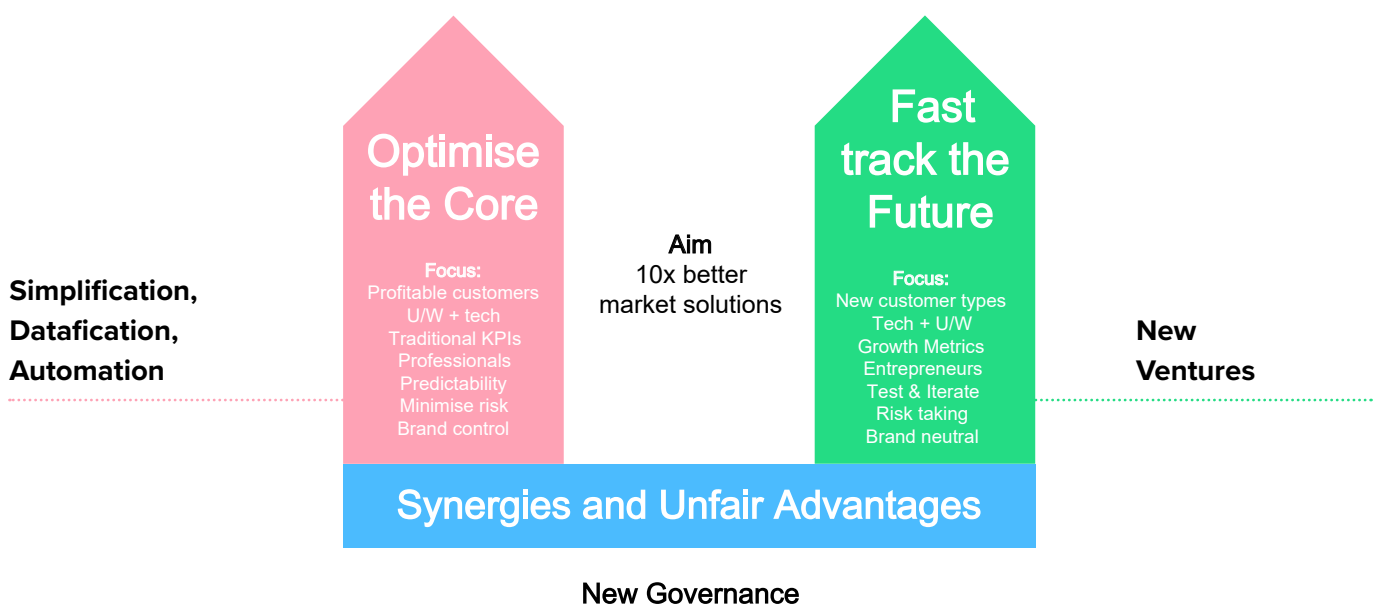
### Existing organisational structures reinforce 10 typical barriers to successful breakthrough innovation

1. Status quo and loss aversion biases
2. Financial metrics
3. Bureaucratic hierarchies
4. Slow decision-making processes
5. Inflexible legacy IT and processes
6. Leaders lack software business experience
7. Limited in-house digital skills
8. Difficulty in attracting non-core talent
9. Regulatory environments protect old models
10. Sceptical analysts and investors

As a result we recommend a ‘dual strategy’ executed within a new ‘ambidextrous’ organisational structure.

Figure 10:

**Key to EI 2.0 success = Dual strategy + Ambidextrous Organisation System**



Source: Simon Torrance, 2022

By this, we mean executing some of the EI 2.0 options listed above in the core business, and some in a new part of the organisation which we can call ‘Fast Track the Future’.

Typically items 1-3 and 8 of the Strategic Options are best allocated to a ‘Fast Track the Future’ part of the organisation and items 2-7 are best managed from within the core.

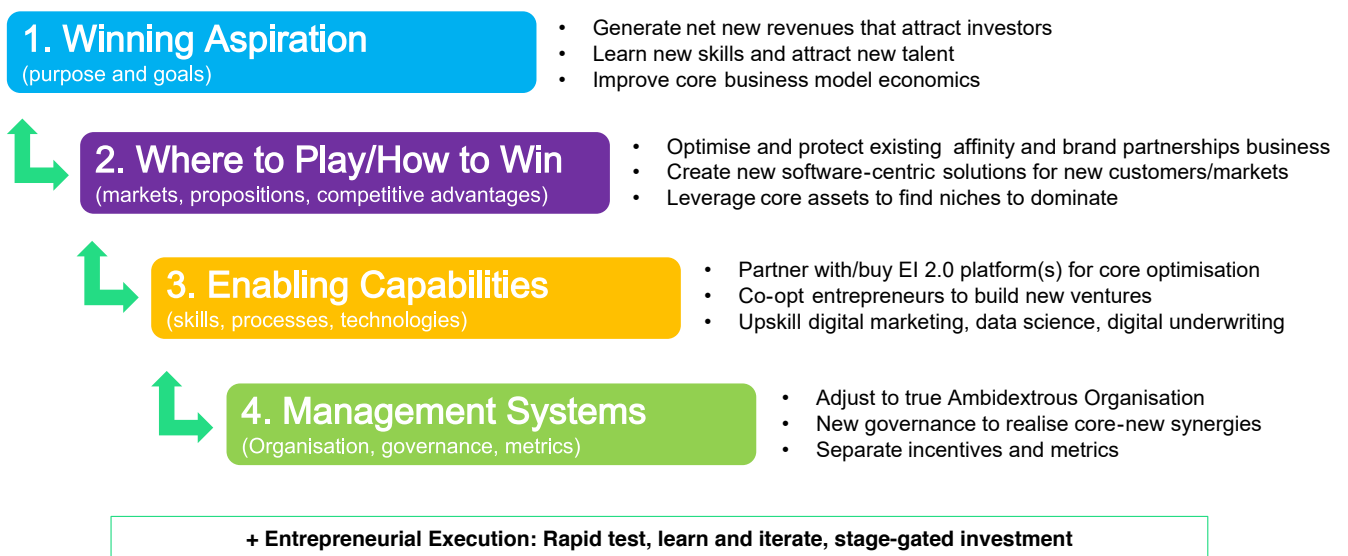
Best practice experience from other sectors suggests that this approach helps avoid the common ‘failure modes’ that constrain incumbent businesses: being too slow, allocating too few resources, impatience for results, and tensions between the core and the new (we discuss this in more detail below).

## Strategy Framework

To support effective business planning and decision making, we recommend creating a joined up strategy based on a robust framework<sup>14</sup>.

Figure 11:

### EI 2.0 Strategy Framework



Source: Simon Torrance, 2022

#### 01. What's our 'Winning Aspiration' related to EI 2.0?

This needs to be clearly defined, articulated and aligned with stakeholders internally.

For example, from a net new revenue point of view, an insurer in the UK with, say, 5% share of the local insurance market might decide to create a bold target of taking 20% share of the UK's emerging EI 2.0 market. This would equate to \$4bn by 2027 (20% of \$20bn), adding 25% net new revenue growth to the business by that date. Depending on the roles played the revenue could be at a significantly higher margin than the traditional business and contribute significantly to Enterprise Value.

The ambition could also include attracting new digital tech, data science and user experience design talent to the company, to develop new ventures in this space and to optimise and protect existing affinity and brand partnerships programs.

If done well, this would demonstrate the ability of the company to innovate and grow with improved economics, and so the 'winning aspiration' could include a positive re-rating of the company by the investment community.

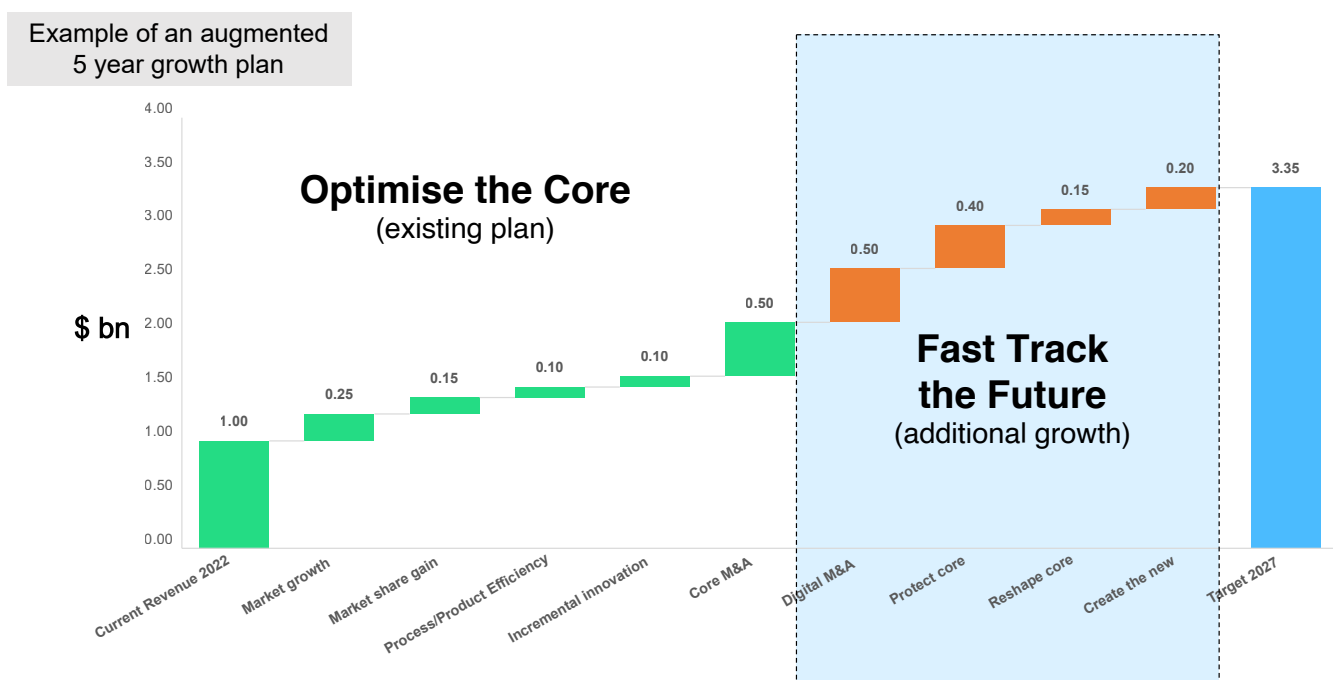
14. This framework has been adapted from Professor Roger Martin's *Playing to Win* framework.

“What could our winning ambition be if we believe there is a trillion dollars that could be distributed in this way? How should this ambition fit with our existing strategy and growth plans? We need to create a hypothesis...and at least just have the discussion, which we’re not doing today...”

Peer Group Member

Figure 12:

**EI 2.0 can drive new growth and value for incumbents**



Source: Simon Torrance, 2022

“Defining the addressable market is difficult. We are used to sizing the market with traditional distribution, but we need to think about embedded insurance as something different. How do we create experiments to go after those opportunities, establish ourselves as a new important enabler for brands and tap into new, longer-term and more strategic partnerships?”

Peer Group Member

## 02. Where to Play and How to Win?

As we have shown, there are many different roles to play within the new 'Value Stack' and many different potential markets to address with different solutions. 'Optimising the Core' business will almost certainly mean deploying better technology, typically middleware that sits above the legacy systems. But that won't be enough to keep up with evolving demand.

Existing affinity and brand partners may not be asking for '2.0' features today, but they soon will be as they see what others (especially their competitors) are able to achieve working with more innovative and flexible suppliers.

The biggest threat to a large incumbent in a digitizing market is typically not a start-up or a new entrant, but a traditional competitor that makes a bold, disruptive move using new methods and tools.

Large digital brands increasingly want insurance partners who can support and grow with them regionally or internationally. Insurance operations today are very local, driven by local market objectives and regulations. Serving fast-growing international digital clients with '2.0' solutions could certainly be lucrative, but may be too risky for some.

In this case it may be better to focus on creating new digital insurance products that leverage an incumbent's expertise in a few targeted domains. For example, a provider of credit insurance could double down on innovating the most flexible and digitally distributable product suite for the fastest-growing brands in the credit market.

If a unique value proposition with a genuine competitive advantage can be created that has the real potential to dominate a market niche, then this could be a good strategy. If not, then there is a danger of becoming aggregated on 'panels' by powerful intermediary Operating Systems.

Discussions about where to play and how to win will inform an incumbent's winning aspiration. They will include what level of 'control' a company wants to create in a certain market.

Creating an Operating System that orchestrates and manages the supply of innovative solutions for brands creates the most powerful 'control point' in the emerging 'Value Stack', if done well. But creating a digital platform that simply helps distribute existing insurance products built on existing underwriting models is unlikely to win in a '2.0' world.

“ We don't have many products that are defined or ready for [EI 2.0] today. Certainly, we have some simple products ready but we should prepare to componentize products so they can support the needs of richer embedded propositions.

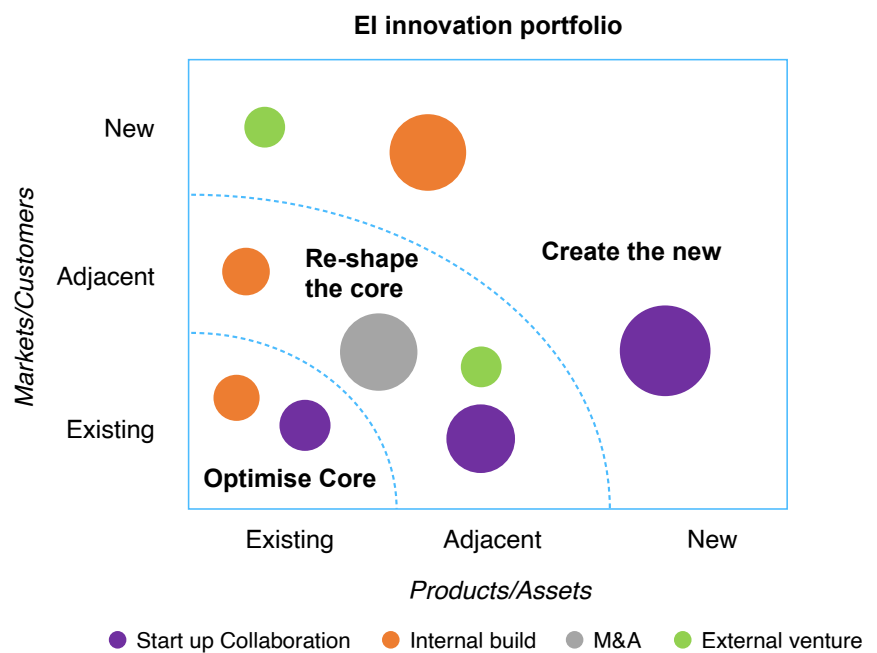
Peer Group Member

There are many trade-offs in terms of risk and reward that need to be thought through. A portfolio approach - covering product and platform types, vertical markets and geographies – provides a good way for most incumbents to hedge bets while not missing out on opportunities.

For many incumbents there will be multiple opportunities in EI 2.0, with different commercial objectives and benefits. Mapping these carefully is an important step in informing the Winning Ambition and defining the capabilities needed.

Figure 13:

### An EI 2.0 Portfolio is the key to realising new growth and value



### 03. What Capabilities will enable us to achieve our goals?

Different options of where to play and how to win require different capabilities. This is where the ambidextrous organisational structure allows incumbents to play in markets they would otherwise not be able to compete in. Creating an effective 'Fast Track the Future' space gives an incumbent much more optionality.

Too often incumbents decide not to tackle an adjacent market opportunity because it 'lacks the skills', 'it's not our core business' or 'we'll wait and see'. Understandably they focus on what they know best: protecting their market position, responding to explicit customer demand, and incremental innovation.

“ Our internal IT function is not capable of supporting [EI 2.0] propositions today. We need to be able to create platforms with modular architectures that can rapidly develop, test and iterate customer-centric products.”

Peer Group Member



## Spotlight on technology and data

While organizational structure and skills were rated by the Peer Group as the number one barrier to incumbents winning in EI 2.0, the ability to exploit data effectively is also a key requirement for success.

The insurance industry relies on data and the information and insights it creates. Yet, as we have discussed, insurers are working semi blind, unable to take full advantage of an explosion of new datasets, especially from external sources.

The Peer Group agreed that addressing this issue would dramatically improve the ability of the industry to innovate in collaboration with brands, to create more accessible, affordable and attractive products and solutions for more end customers, as well as make the whole experience of managing policies and making claims simpler and more automated.

As the examples in this report have shown, EI 2.0 start-ups are already reaping these benefits. Incumbents should be able to do the same, but at greater scale.

By harnessing new technology and data effectively incumbents should reasonably target claims loss ratios in the region of 50% and expense ratios around 20% for your EI 2.0 business lines and ventures.

What's needed, as part of a holistic EI 2.0 strategy, are new data-driven capabilities and analytics on an industrial scale. This is where collaborating with tech companies like Google Cloud becomes important.

Google's mission, 'to organise the world's information and make it universally accessible and useful', is strikingly aligned to the needs of the insurance industry.

The richer and more organized the information we have the better we can assess, manage and transfer risk, and close protection gaps in so doing.

Google Cloud provides underlying infrastructure to enable this, with data and analytics at scale. It is supporting the insurance industry in a number of ways, which are key to the thesis of this report.

Firstly, enabling new forms of underwriting using advanced data orchestration, Machine Learning and AI methods and tools. Secondly, through its API management capability (Apigee), enabling product teams to rapidly configure the new types of solutions needed for EI 2.0 and make them easily distributable through all types of channels. Thirdly, by giving insurers the flexibility to scale operations up or down in near real-time, in response to demand.

All of these are key 'Enabling Capabilities' that have the potential to significantly enhance the underlying economics of the industry and empower individual insurers to innovate their business models at greater speed - key requirements for success in EI 2.0.

“ By harnessing technology and data Insurers should ultimately expect loss ratios of 50% and expense ratios of 20% from their EI 2.0 activities’

Peer Group Member

“ Insurers are experts at teaching intermediaries to sell products. In embedded we need content that engages and convinces people to buy during other digital journeys.

Peer Group Member

Much worse is when an incumbent decides to enter a non-core market half-heartedly. It assigns an internal project team of enthusiasts and allocates internal IT resource. Unfortunately, to get a green light the ‘business case’ is adjusted to fit within traditional parameters, creating disappointment when the wrong targets are not met. The project team often has limited experience of successfully running a tech-centric business. The internal IT resources are slow, expensive, inappropriate and inflexible. Bringing in consultants or external IT partners does not address the fundamental capability gap.

The skills needed to win in EI 2.0 are summarised earlier in this report and are, today, mostly encapsulated in the start-ups that we’ve investigated.

#### 04. What Management Systems are needed?

The most important Management System to enable the capabilities to deliver propositions that achieve the winning aspiration is an Ambidextrous Organisation. It allows incumbents to co-opt the new types of entrepreneurial and digital capabilities and talent that would not normally be attracted to traditional insurance companies.

The core business – in its product development, affinity and partnership business units – optimises its activities with new technology and skills, at a pace it can manage, delivering against existing performance metrics that fit within the current business model. It may well partner with or acquire specialist embedded insurance start-ups and others to augment its capabilities. This approach protects the existing business which delivers all the profits today.

In parallel, a new part of the organisation operates at arms-length from the core. An agreed set of priority ‘opportunity spaces’ are defined – the EI 2.0 portfolio. Collectively, they support achievement of the agreed ‘Winning Ambition’.

For the non-core opportunities, draft investment cases are made using different parameters to the core business. They include hypotheses about the best execution roadmaps and the types of resourcing needed for the different stand-alone ventures.

“ We need to identify new metrics, incentives and accountability structures.

Peer Group Member

Proven entrepreneurs (typically from outside the company) are incentivised to lead these ventures as founders, typically with equity or equity-like remuneration.

“ Setting up ventures ‘outside the tent’ makes sense. We’ve had some success with this already

Peer Group Member

The incumbent funds the ongoing development of the ventures based on them hitting pre-agreed milestones and has the option to attract joint investment at scale from private equity firms and other 3rd parties.

It’s important to note that the ventures are not independent start-ups - they are owned and controlled by the incumbent, which can be re-incorporated into the core business, spun off or IPO’d, as required.

Entrepreneurs are attracted to collaborate with incumbents in this way because of the freedom they are given and the powerful institutional assets they can exploit to create an unfair advantage in the market. Combined, these characteristics

de-risk the ventures and accelerate their ability to succeed and reach scale.

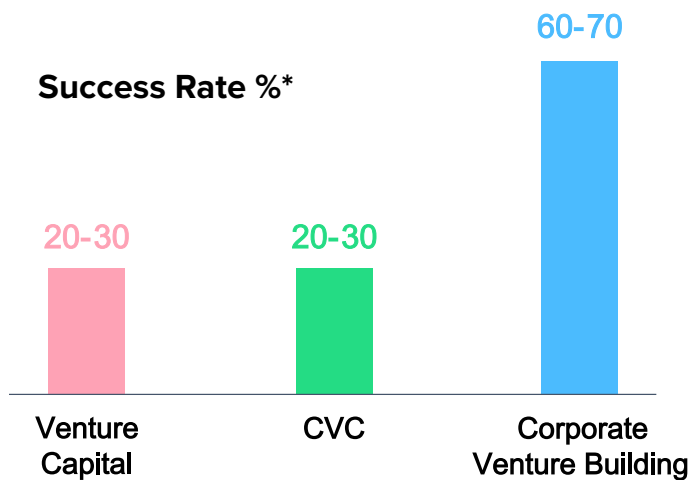
The best ambidextrous organisations ensure new ventures include a metric to drive demand for the core. Internal contracts are also put in place between the core and the ventures on how they can leverage and share assets. The ventures are not managed by leaders of existing business units. Instead they are carefully governed by a new growth board focused on EI 2.0 that ensures support from the core, freedom for the ventures and mutually beneficial synergies between the two.

Ping An provides perhaps the best demonstration of the power of an ambidextrous organisation, in terms of creating a separate division to scale tech ventures in adjacent markets in a way that created new channels for the core business. There are other good examples from other industries where this approach has proved successful.

Figure 14:

### Corporate ‘Venture Building’ is 2-3x more likely to produce a success than Venture Capital or Corporate Venture Capital

\*‘Success rate’ is defined as returning capital for a CVC, reaching acquisition or IPO for VC, and ‘on track or outperforming’ for Corporate Venture Building



Source: BCG Digital Ventures, June 2022



“ There are several channel owners for whom embedded resonates, but in many parts of the business they are not thinking about this topic at all today.

Peer Group Member

## Practical Next Steps

### How to move forward

Based on our experience of helping companies work through this type of opportunity, we recommend six practical next steps for incumbents to take.

#### 1. Leadership understanding:

Help leadership fully appreciate how ‘EI 2.0’ creates a new opportunity for new growth and value, as well as how it can enhance and protect its existing affinity and partnership operations. It’s particularly useful to include discussions around the following topics:

- The emerging insurance industry ‘Value Stack’ – its status today and future evolution; potential roles of different players; key control points; likely speed of development; potential impact on different parts of your business.
- Start-up innovation – the different types of Embedded Insurance 2.0 player; their strengths and weaknesses; case studies and use cases that illustrate the ‘art of the possible’; potential impact on our markets; which might we want to acquire.
- Market sizing projections – detailed assumptions behind them; potential impact on overall industry economics and on our business.
- Direct/indirect competitors – status of their activities and investments in this market; potential impact on us if they take bold moves.
- Capability gaps – what do we need to compete in this market; status of our capabilities today; what are the gaps; how to fill them; timing and prioritisation?

#### 2. Initial Strategy:

Rapidly create a high level EI 2.0 strategy in the way we have described in the previous section (articulate an initial Winning Ambition, Where to Play/How to Win, Enabling Capabilities, Management Systems). It’s best done inclusively with internal stakeholders to enhance engagement and alignment, and iteratively, rather than through a long outsourced study.

The key is to create a set of initial hypotheses that can be tested externally with the market (real customers – brands and end users). Output from the draft strategy should include an initial ‘portfolio’ of EI 2.0 activities and venture opportunity spaces and an indication of investment requirements.

**3. Establish a true Ambidextrous Capability:**

allocate priority opportunity spaces in the draft portfolio to either the core business or a separate ‘fast track the future’ part of the organisation. A very small number of incumbents have sophisticated and effective venture building organisations in place today, but the vast majority do not. Review what you have already in place against global best practice in corporate venture building (look beyond the insurance industry), and either upgrade your current set up or establish a new space in the organisation for this topic, following the principles articulated in the previous section of this report. This can be done quickly, at low cost and highly effectively with the right internal sponsorship.

“ There are 260 insurance producers in the US today. Only 10% are digitally-enabled.”

Peer Group Member

**4. Test, Validate and Refine Strategy:**

Reduce risk for each activity or venture in the draft portfolio by rapidly testing all assumptions with internal and (most importantly) external stakeholders via a series of coordinated and rigorous validation experiments to gain unique customer insights. This can be done at relatively low cost and will help refine and enhance the individual investment cases.

**5. Stage-gated investment:**

As part of an effective governance approach to a dual strategy of ‘Optimising the Core’ and ‘Fast Tracking the Future’, investments in ventures in the latter are best managed using a venture capital approach based on achieving performance milestones. While funding for the venture portfolio will need to be ‘ring-fenced’, a stage-gated funding approach reduces risk and creates greater focus on pre-agreed metrics.

**6. Shareholder/Analyst communication:**

Do not publicly announce or communicate this activity until meaningful results are achieved. In general today, financial analysts are highly sceptical of the ability for incumbent insurers to innovate at scale. If managed effectively using the Ambidextrous approach, incumbents should expect to see incremental improvements in the core business within 1-2 years and the first wave of significant results from ventures within 3-5 years.

In the meantime, we recommend focusing all effort on solving customer problems and keeping any venture activity ‘under the radar’ until they reach profitability.

In terms of impact on market valuation the full benefits from taking bold moves in the EI 2.0 market are most likely to be achieved over a ten year horizon. Those who plant a seed today will reap the rewards then.

“ Our company is not clear today what the best strategy for Embedded is: expose existing products, participate on panels, orchestrate our own panels, or all of the above...”

Peer Group Member



“I skate to where the puck is going to be, not where it is now.”

Steve Jobs

“The best time to plant a tree was ten years ago. The second best time is now.”

Chinese Proverb

## Conclusion

The vision for ‘Embedded Insurance 2.0’ - ‘more and better protection baked into the everyday lives of everyone’ – is an attractive vision for all stakeholders: brands, insurers, individuals, businesses, government and civil society.

The vision is achievable if expertise in risk assessment, management and transfer is combined with the best skills at exploiting digital technology, data science, digital marketing and user experience design to create new solutions using new underwriting models and new customer experiences. The former reside inside insurance companies, the latter outside.

In commercial terms, over \$5 Trillion of GWP could be distributed through non-insurance brands worldwide over the next decade (cumulatively), enabled by new Embedded Insurance and Finance ‘operating systems’. This creates both an opportunity and threat to incumbents.

“ What is the cost of doing nothing? [EI 2.0] is something we need to respond to now; we have new competition looming ahead.

Peer Group Member

Insurance incumbents who move fast and boldly to create compelling new solutions across the new industry ‘Value Stack’ have everything to gain and little to lose.

But appreciating institutional weaknesses and strengths is key. A dual, parallel strategy of ‘Optimising the Core’ and ‘Fast Tracking the Future’, that co-opts proven entrepreneurs, offers the best approach for an incumbent to win in this sort of market.

Creating a robust EI 2.0 strategy can be done quickly and efficiently if a non-traditional, entrepreneurial approach is taken. Execution should also be governed in such a way that powerful internal assets can be complemented and supplemented by external digital skills and capabilities, to create unique synergies between the two.



# Frequently Asked Questions (FAQs)

**Q: How is EI 2.0 different from traditional Affinity and Partnership programs?**

**A:** The chart below compares the characteristics of each. EI 2.0 is still nascent.

	Typical characteristics	Traditional Affinity & Partner programs	Embedded Insurance 2.0
1	Commercial purpose	Distribution of profitable products through non-core channels	Satisfying the unmet market needs of brands and their end-users
2	Customers	Non-digital brands with large customer bases	Fast growing digital brands, of all sizes; and large digitising corporates
3	Products	Risk transfer products	Risk mitigation, prevention & transfer solutions + adjacent products, services and experiences
4	Brand	Promote insurer brand and its products	White-label enabler of 3rd party brands; product and solution agnostic
5	Data	Underwriting models based on static, historic and asymmetric data	Real-time data from brands and customers; new underwriting models for tailored risk selection, pricing, marketing and claims
6	Costs	High claims and expense ratios; capital-intensive	Better risk selection and lower marketing costs; capital-light
7	Technology	Slow and expensive development on legacy	New, open, microservices-based tech stacks; product agnostic
8	Monetisation	Commission income	Rev Share and/or SaaS and/or AUM
9	Metrics	Traditional combined ratio metrics	Customer Life Time Value and CAC metrics
10	Core competences	Underwriting; regulatory compliance; at scale linear business models	Insurance + digital technology + user experience design + data science + digital marketing; open platform business models; regulatory compliance; fast ‘test and learn’ innovation

**Q: Why shouldn’t we just focus on digitising and optimising our existing affinity and partnership business and sell our existing products?**

**A:** This is absolutely necessary...but insufficient to win in this fast evolving market. A parallel or ‘dual’ strategy of ‘optimising the core’ and ‘fast tracking the future’ will provide you with greater flexibility, optionality and speed in responding to market demand. Latest best practice at managing this sort ‘ambidextrous’ approach can be adopted quickly and cost-effectively.

**Q: How are products and platforms different in EI 2.0 compared to our existing affinity or partnership business?**

**A:** New products are created for new types of customers and new types of risk, based on new underwriting models (for example for gig workers, who are not traditional ‘employees’). Platforms orchestrate the best solutions for these customers rather than, primarily, distributing the existing products of a single company.

**Q: Which vertical market sectors are most relevant for EI 2.0 solutions?**

**A:** Typically fast-growing digital markets with large customer bases needing non-traditional protection solutions are best. For example: Gig worker and freelance platforms, fintech apps and neo-banks, online retailers, online marketplaces, B2B SaaS companies, online travel sites, online home management platforms, digital payment providers, health and fitness organisations, service providers (telcos, utilities, travel), Big Tech and social media, farm/agriculture suppliers, automotive manufacturers.

**Q: Can/should incumbents build EI 2.0 'operating systems' in house?**

**A:** The skills to design, build, sell and innovate new B2B infrastructure at scale do not reside within an underwriting-centric business and its IT department. In most cases, it's better to create a separate venture to do this, or acquire a company that has done it and let it operate separately from the core business.

**Q: Our existing affinity and brand partners are not asking for EI 2.0 features or solutions today and we are not losing much business to start-ups, so why should we do things differently?**

**A:** As brands see their competitors generate new value with more modern and innovative approaches they will want the same. EI 2.0 is an early stage market, but it's growing fast, and specialist start-ups are winning more and more business from incumbents. The biggest threat is when your traditional competitors make bold moves to augment their assets with the capabilities of an EI 2.0 player.

**Q: Will EI 2.0 dilute our brand to end customers?**

**A:** The primary aim of EI 2.0 is to solve high value commercial problems for third party brands and their end customers, and generate new high margin revenues for those supplying solutions. The brand of an incumbent insurer will increasingly need to find creative ways to add real value to the 3rd party partner and their end customers.

**Q: How are insurance economics improved with EI 2.0?**

**A:** By leveraging the real-time or near-real time data of a brand and its users, EI 2.0 should enable insurers to price risk much better for different customer segments, thus lowering claims losses. By leveraging a brand's ability to engage its users with new offers, insurers should be able to reduce distribution costs. By attracting more end customers, insurers get access to more data which enables it to further improve its underwriting models, attract more reinsurers to support more attractive products in terms of price and customer experience, which then allows it to attract more brands and more end customers, creating a growth 'flywheel' effect.

**Q: Claims management – how is this done with multiple carriers on a panel?**

**A:** Typically, EI 2.0 platforms will enable brands to manage certain aspects of the claims process, for example through special call centres or chatbots, as well as specify/agree the end-to-end experience they require from their insurance partners and clearly communicate that to end-customers.

For customer experience and optimal profitability with embedded programs, we suggest that the claim process design include automation for 50% or more of claims. Quick claim turnaround and ability to scale claims will help reach overall profitability goals and improve customer satisfaction levels. A claims administration vendor can also be added to assure consistency of experience.

New digital technologies as well as parametric solutions will help reduce friction further over time, such that the claims process becomes, in Elon Musk's recent announcement a 'dream, rather than a nightmare'. Some EI 2.0 players are already achieving claims NPS scores in the +60-80 range.

**Q: How is underwriting different with EI 2.0?**

**A:** EI 2.0 generates new types of data from brands and their customers, increasingly real-time or near real-time data. These unique datasets can be incorporated by a new generation of underwriters to improve risk selection and pricing and create new underwriting models. They also come for ‘free’, via the brand partnership, rather than being an expensive 3rd party cost to insurers. The problem today is that traditional underwriters may not feel this data is a relevant or reliable prediction of risk. Gathering new data and testing claim outcomes is a way to learn how real-time data can impact results., so we need a separate safe space to quickly train them away from core business metrics and practices, hence the need for an ‘ambidextrous’ approach to the market.

**Q: How is EI 2.0 a solution to ‘protection gaps’ within society?**

**A:** Protection Gaps (the difference between the amount of insurance that is economically beneficial, and the amount of coverage people have) are caused by a combination of four factors, according to the Geneva Association. A lack of: 1.) awareness about insurance, 2.) accessibility to it, 3.) affordability of it, and 4.) attractive products and experience design. Collaborating with brands which have frequent and trusted interactions with end customers addresses all these factors. The Alipay case study in this report shows how a brand can leverage its assets and work with the insurance industry to address all these issues.

**Q: Our resources are scarce, EI 2.0 is new, why should we invest?**

**A:** Don’t invest anything until you have created a robust and validated strategy, in the way we have described in this report. Then de-risk any investment by working with proven entrepreneurs to test and iterate EI 2.0 solutions with real customers until you get to product-market fit and have a clear path to dominance in your chosen niche(s). An ‘ambidextrous’ organisational set up will be needed for this approach to scale effectively.

**Q: Can you give examples of successful products in the embedded insurance market? Do they all need to be simplified?**

**A:** Successful insurance products tend to fit the risk exactly and easily without much thought. Leveraging the data brands have about their products and their customers helps to target and price indemnity products better. For example, short term rental products covering all potential host concerns and risks, warranty coverage replacing the product with a new one by product sensor indicator, parametrically-triggered natural disaster payouts, or your car coming with 90 days of free insurance, with easy digital activation via the car app after a trial period.

**Q: How does regulation work when more non-licensed companies sell embedded insurance?**

**A:** The best third party EI 2.0 providers and platforms will typically ensure regulatory compliance as part of their service. However, when there is a high degree of innovation between the parties it will be necessary to engage regulators early to review customer journeys and propositions to ensure their support. More generally, there will need to be a broader conversation between regulators, brands, insurtech infrastructure providers and insurers to ensure there is alignment on the vision for EI 2.0 (‘more and better protection baked into the everyday lives of everyone’) and that it is achievable.

**Q: There are many insurtechs that are enabling EI 2.0. How do we decide how to build, buy, or partner?**

**A:** The best starting point is our recent review and benchmark of 46 of the world’s leading start-ups in this space (the EI 2.0 ‘Market Map’). This includes a detailed description of the different types of players, criteria for assessing them and a 10-point checklist. If you don’t yet have a fully documented and joined-up strategy for EI 2.0, it’s best to use the Market Map report as a stimulus for one.

# Appendices

## What are the assumptions behind the market sizing forecasts in this report?

In this report we've defined EI 2.0 as a new approach to serving brands and their customers that is complementary and supplementary to traditional affinity and brand partnerships. Our assumptions are:

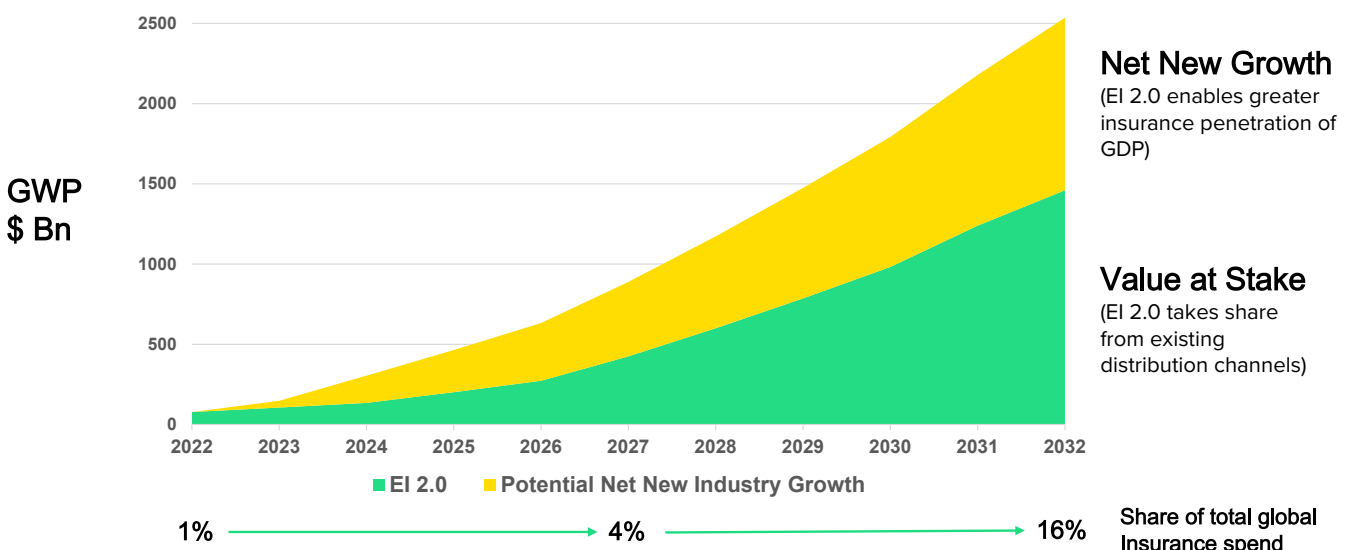
- 60% of Non-Life and 30% of Life markets are theoretically addressable by 'Embedded Insurance 2.0'. The remainder is unlikely to be managed by non-insurance brands.
- In 2022 the global insurance industry will generate \$7 Trillion GWP and this will grow 3% year on year for the next 10 years worldwide.
- There are two macro scenarios we look at
  1. Insurance penetration of GDP remains flat at 7% over the next decade (following the level it's been at for the last 20 years)
  2. Insurance penetration of GDP reaches 8% by 2032, driven by a realisation that the world is facing greater risks than ever before and needs much more innovation

from the industry. ie. supply meets demand. Our assumption is that 80% of this net new industry growth will be driven by Embedded Insurance 2.0 (per the Alipay example).

- 'Value at Stake' (grey area): Embedded Insurance 2.0 (as we've defined it) is less than 1% of the total insurance market today, and will rise to about 5% by 2027 and 15% in 2032 (it will be about double in P&C). This means that, in 2032, \$1.46 Trillion will be distributed by non-insurance brands, enabled by new Embedded Insurance operating systems, displacing these volumes from other channels (agents, brokers, direct, affinity, etc)
- 'Additional EI' (yellow area): this is the net new industry growth - above current industry forecasts - that EI 2.0 could drive, and comes to another \$1.075 Trillion.
- So, in summary: the chart below shows EI 2.0 in 2022 at about \$78 billion, rising to \$889 billion in 2027 and \$2.535 Trillion in 2032.

Figure 15:

### Potential Size of the EI 2.0 Prize (worldwide, Non-Life and Life insurance)



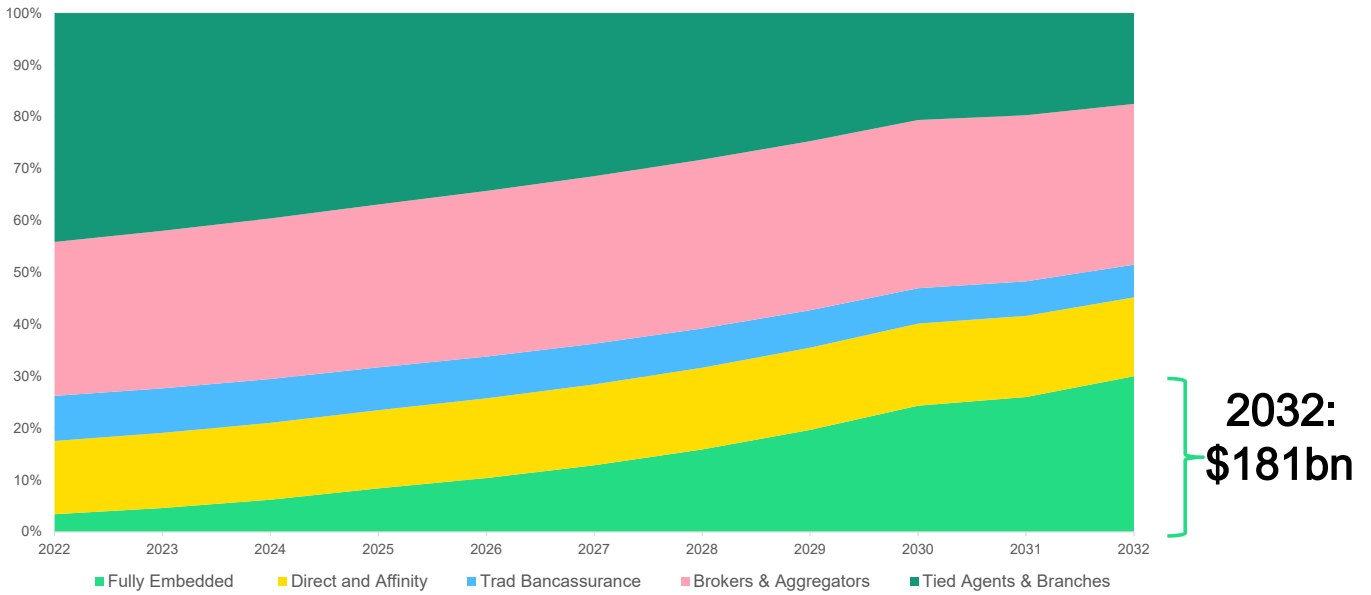
Source: Simon Torrance, 2022

In terms of P&C, we can envisage the following change in distribution patterns over the next decade:

Figure 16:

### Property & Casualty Insurance Distribution – Advanced Europe

Estimated market share of GWP, by different distribution methods

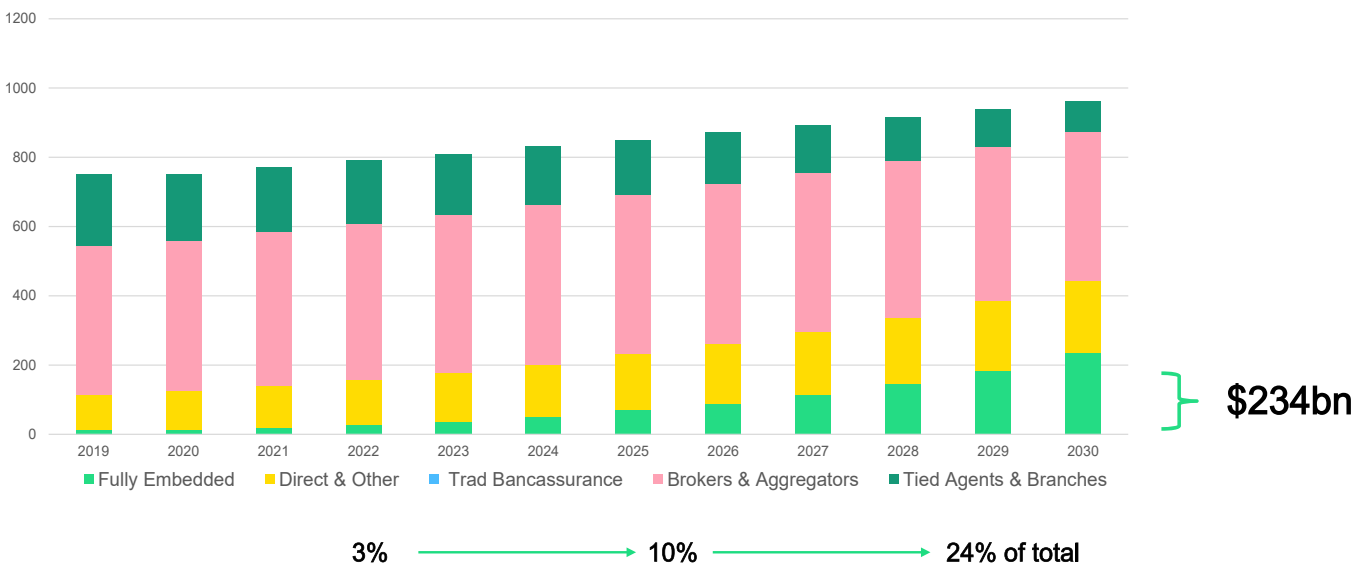


Source: Simon Torrance analysis: <https://www.linkedin.com/pulse/embedded-insurance-3-trillion-market-opportunity-could-simon-torrance/>

Figure 17:

### Market Potential in N. America (P&C only) – ‘Value at Stake’

US & Canada P&C Distribution, GWP \$USD bn



Source: Simon Torrance analysis: <https://www.linkedin.com/pulse/embedded-insurance-3-trillion-market-opportunity-could-simon-torrance/>

# Author biographies



## **SIMON TORRANCE**

Founder and CEO, Embedded Finance & Super App Strategies

Simon is a senior independent advisor to Boards and Leadership Teams on new growth strategy, platform and ecosystem business models, corporate innovation and venture building. He and his teams work with companies around the world to create and execute impactful Embedded Finance and Super App strategies. Simon is a member of the World Economic Forum's 'Accelerating Digital Transformation' executive working group, and author of 'The New Growth Playbook' and co-author of 'Fightback - how to win in the digital economy with platforms, ventures and entrepreneurs'.

Simon established the Embedded Insurance International Peer Group in 2021.

[Simon.torrance@embedded-finance.io](mailto:Simon.torrance@embedded-finance.io)



## **DAWN LEBLANC**

Senior Associate, Embedded Finance & Super App Strategies

Dawn specializes in connecting insurtechs, large insurers and investors. She brings over 35 years' experience of working at senior positions at several well-known insurance and financial services companies where she led forward-thinking innovative initiatives. She has been involved in many growth strategy, corporate innovation and startup acceleration programs.

Dawn is a co-facilitator of the Embedded Insurance International Peer Group. In parallel she scouts insurtech startups for investors and is the Managing Director of the Hartford InsurTech Hub.

[Dawn.leblanc@embedded-finance.io](mailto:Dawn.leblanc@embedded-finance.io)



## Further Reading

### The Market Map Embedded Insurance 2.0



This 90 page report offers the most comprehensive analysis of how Embedded Insurance works today and will evolve in the future. It contains key reference frameworks, forecasts, statistics, use cases and case studies, as well as practical next steps for all types of organisations.

In addition, it includes the world's first in-depth review and assessment of over 45 of the world's most pioneering startups, benchmarked using a special 'Market Map' methodology.



<https://research.aperture.co/embedded-insurance-2022/>

#### WHO IS THIS REPORT FOR?

This is an in-depth report for senior commercial and strategy leaders across all sectors and geographies who want to understand how Embedded Insurance can help grow their business.

- ✓ **For brands (big and small)** – looking for new ways to add value to customers
- ✓ **For insurers** – looking for new growth opportunities.
- ✓ **For insuretechs** – looking to keep pace with new market developments.
- ✓ **For fintech investors** – looking to understand the characteristics of future winners.
- ✓ **For entrepreneurs** – looking for a new, exciting market to play in.
- ✓ **For regulators** – looking to understand the next wave of fintech innovation.
- ✓ **For advisors** – seeking new insights to help their clients enhance their business models.

## Embedded Finance & Super App Strategies

Embedded Finance & Super App Strategies is a virtual strategy consulting, innovation and venture building organisation that helps financial and non-financial brands take advantage of embedded finance, to enhance their business models and drive new growth and value. It works with a network of leading partners to execute high impact projects and programs.

For More, see: [www.embedded-finance.io](http://www.embedded-finance.io)