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Growing insurer-retailer relationships through automation:
how embedded insurance removes complexity and adds value

Up to 20% of current insurance business will migrate into embedded distribution within the next 10 years![1]

Consumer shifts are changing the face of insurance provision

Technology has changed the way we buy and sell goods and services – and insurance is no exception. In today's increasingly 'digital-first' society, more people – across all age groups – are shopping online than ever before, especially since the pandemic. And insurance protection for their purchases is front of mind.

Customers seek convenience and value

In a world where e-commerce is part of daily life, and convenience is king, consumers expect something akin to the 'Amazon experience' whether they're shopping for an iphone or insurance. They want simple and personalised online purchasing experiences, and good value is a top priority.

Shoppers are also aware of ever-changing and emerging risks in the world around them, making insurance more of a priority when it comes to protecting their purchases. And customers are happy to buy this cover directly from the retail brands they know, trust and like.

Customers are also comfortable for these brands to share their personal data with insurance partners in return for beneficial offers of protection.

Retailers and insurers are stepping up

In response to these shifting consumer attitudes, retailers and financial institutions are upgrading and aligning their technologies to bring consumers the type of shopping experiences they have come to expect in all their online transactions. Swift and seamless purchasing is becoming ubiquitous, thanks to new technologies and integrations that delight customers and add real value across the e-commerce ecosystem.

A key part of this **added value** is integrated insurance offerings – protection offered to shoppers as a seamless part of their customer journey when making a related purchase.

This concept of 'embedded insurance' is not new, but technological developments have made it a simple, cost-effective, and business-enhancing 'must-have' for retailers in various industries. To the point that **embedded insurance is now revolutionising e-commerce ecosystems around the world.**

What is embedded insurance?

Partnering with brands to expose insurance products and insurance-powered value propositions within their products and services.

With embedded insurance, we can make insurance products and services more accessible and appealing, by offering them through brands that people and businesses trust, within user experiences that they enjoy, and in contexts where valuable transactional data are created.

Explore the benefits of embedded insurance for all stakeholders>

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Simplifying insurance through automation

Embedded insurance reduces some of the most common complexities in insurance – removing key challenges when it comes to supplying and obtaining cover; and making insurance more accessible. It does this in a number of ways.

Products that are fit for purpose

Examples of embedded insurance include extended warranties offered alongside the purchase of white goods. Flight cancellation cover offered alongside the purchase of an airline ticket. And motor insurance bundled into the purchase of a new car. Whatever industry or organisation is integrating insurance into its value proposition, the insurance products have key features:

- The cover is often simple, tailored to the customer, and relevant to the core product or service being purchased.
- The insurance has an appropriate level of cover – no more and no less than is needed.

Case example:

A US-based online rug retailer found that around 5% of their customer shipments were damaged in transit, costing the company $3 million annually. By embedding product and shipping protection into the sales process, the customer experience has been greatly enhanced. And with attach rates at 45%, the

Processes that delight

Insurance processes are also made much simpler through embedded channels:

- Customers are offered the insurance they need, when they need it – removing the necessity to search and apply separately for appropriate cover for their purchase.
- This all happens in real-time, making use of rich customer data from the retailer and AI to automatically calculate risk and offer a relevant insurance product at an affordable premium.
- Accepting the insurance is simple, often involving just one click to opt in and receive the cover on offer.
- Automated claims functionality – which makes use of pre-authenticated customer data – removes lengthy claims processing and greatly enhances the claims experience.

Case example:

A North American electric bike brand didn't want their customers to have to worry about theft or damage to their new purchase, so embedded targeted protection products into their online sales process. The cover can be added in just two clicks, and the claims process is fully digital.

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The importance of automation: a win-win revolution

By reducing the complexities commonly found in traditional insurance products and processes, embedded insurance is enhancing consumer satisfaction.

With no need to re-share personal data with an insurer in order to obtain a quote, the speed and convenience of automated insurance offerings is a real bonus for customers.

Simpler insurance products also make for a better understanding of cover – meaning fewer nasty surprises at claims stage. And simpler claims processing removes the headache of lengthy claim submissions and confusion as to where to start when it comes to making a claim. The claims experience can be further improved when claims pay-outs are automated, as in the case of parametric cover.

With happy customers comes repeat business and a stronger brand reputation for retailers and insurers alike.

Furthermore, the friction-free nature of automated insurance removes barriers to purchase, encouraging sales and closing the protection gap.

Automating insurance processes also results in real cost-savings for insurers. From real-time quotation and risk pricing to smart claims handling – insurers can reduce their claims loss ratios and realise business efficiencies. These cost savings are invariably passed on in the way of lower premiums.

60.1% of consumers would buy insurance or a warranty from their e-commerce retailers if it were offered at checkout...while **78%** of customers said they would have a greater propensity to spend more online if offered warranties and insurance at the checkout, as it ensures a sense of security that their items are protected in the case something goes wrong, especially with more expensive goods.[2]
– PYMNTS

300% increase in sales of product protection following the implementation of an embedded insurance product
– North America-based online personalised jewellery company
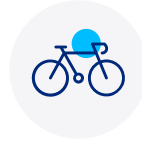
50% of customers add insurance to their basket
– Belgian bicycle manufacturer

30% month-on-month growth of consumers choosing to buy insurance cover
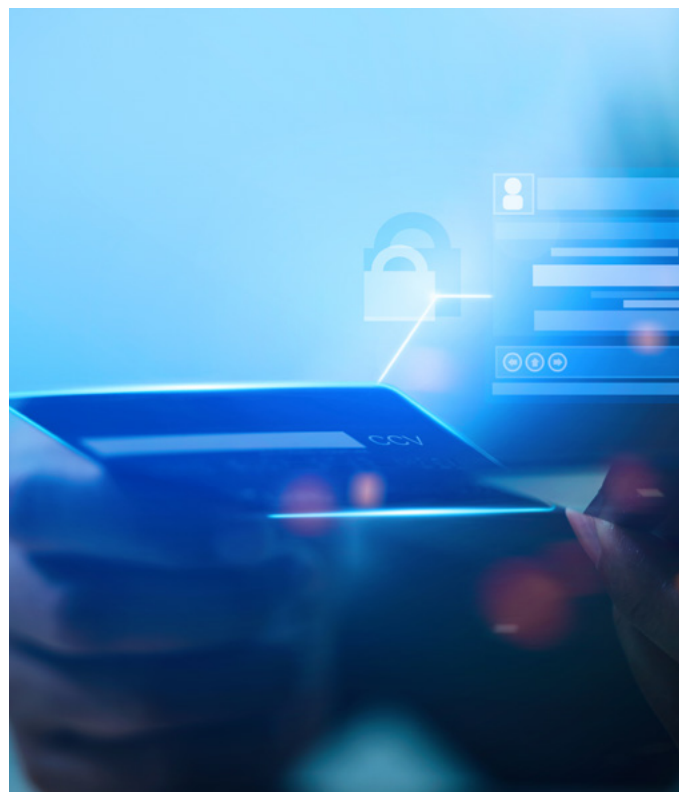*– renewed products marketplace headquartered in Germany*

76% cut in insurance premiums
– global motorcycle sharing community

513% revenue growth in 4 weeks
– warranties and product cover offered on eBay

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Embedded insurance:
clear benefits for all stakeholders in the value chain

For customers

- Embedded insurance makes it easier and more convenient to buy cover, so customers are better protected

- Hyper-personalised insurance products mean more relevant and appropriate cover

- Personalisation, automation and simpler products allow for lower premium costs

- The offer of insurance is clear and transparent, building trust

- Customers have a simple insurance purchasing journey, increasing customer satisfaction

For retailers

- Retailers partnering with insurers gain an additional revenue stream

- Covered products are more attractive for some shoppers, leading to an increased purchase rate

- Including insurance gives retailers an enhanced value proposition

- An insurance offering provides retailers with differentiation in the marketplace

- Increased customer satisfaction leads to better brand loyalty

For insurers

- Access to retail partners' rich customer data allows insurers to create attractive personalised products

- This customer data is also used to provide tailored real-time quotes with competitive pricing

- Data further gives insurers the ability to offer protection products to previously hard-to-cover population segments

- Retail partners provide a low-cost distribution channel

- Access to a wider audience, together with the opportunity to cross-sell, up-sell and maximise renewals, means increased revenue

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The changing face of insurers' relationship with retailers

Globally, the shift towards increasingly customer-centric propositions across all areas of commerce is creating exciting opportunities for innovation. From high-street stores to tech giants, and from telcos to car manufacturers – organisatons are looking for ways to add value to their offering; and embedded insurance is playing a big part in this.

Retailers have built ecosystems and harnessed technologies that keep customers engaged. While insurers are building digital systems or partnering with experienced insurtech providers to tap into these retail ecosystems. Together, they are aligning their brands and their technologies to provide a better customer experience – and reap the benefits of being part of an enhanced value chain.

The simplified nature of embedded insurance products makes for an easy and improved relationship between retailers and insurers. The simplified cover and ease of access to embedded products, in turn, provides a less complex user experience. In this way, insurers are adding real value for retailers and customers – in many different industries.

New markets, worldwide, now have access to innovative embedded insurance products, thanks to the evolving relationship between retailers and forward-thinking insurers.

And with non-insurance organisations claiming a growing presence in the embedded insurance space - and creating a high degree of loyalty and purchasing influence with the customers[3]- now is the time to consider the impact embedded insurance could have on your business.

Embedded insurance is predicted to capture $1.2 trillion of insurance premiums in the next decade[1]
–Open and Embedded Insurance Observatory

"**The shift towards increasingly customer-centric propositions across all areas of commerce is creating exciting opportunities for innovation**"

"**Retailers are looking for ways to add value to their offering; and embedded insurance is playing a big part in this.**"

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The wonder of warranties

Warranties are one of the oldest types of embedded insurance – but one that is undergoing some of the most eye-catching developments.

Warranties work by protecting a purchase – such as an appliance, gadget or car – from breakdown or faults, by providing a replacement or repair service if something goes wrong with the product within a specified timeframe. Warranties are usually provided by the manufacturer. But insurers offer 'extended' warranties that provide cover beyond the manufacturer's guarantee, often with additional services.

Examples of these types of products are ELEMENT and Intec AG's extended warranties for used cars, which insure against wear and tear beyond the original manufacturer's warranty. And Extend's product protection plans, which – in partnership with a number of retail brands – provide online shoppers with the opportunity to protect their new purchases with cover for damage and repairs, including extended protection beyond the manufacturer's warranty.

Offering this type of cover at the point of sale – whether through digital or phygital channels – when a customer is most concerned about protecting their new purchase, has taken place for many years. But now, embedded insurance is revolutionising the extended warranty market, through faster, more relatable product offerings.

A golden era

Buoying the evolution of the extended warranties marketplace is the rise in the global consumption of electronic devices, such as home appliances, computers and smartphones.

In 2023, the consumer electronics market is valued at $1,103 billion and expected to grow at a CAGR of 2.17% to 2027.[4]

Concurrently, the global extended warranties market is valued in excess of $120 billion, with an expected CAGR of between 7% and 8.5% in the next decade.[5]

Pioneers in this marketplace are positioning this type of insurance as a service, not just a product – adding value in the form of on-site services and hassle-free repairs.

All with the benefit of a technology-powered embedded product – including instant warranty delivery upon purchase and faster claims settlement.

With these new types of embedded warranty products, customers are being offered insurance products they can understand and relate to – providing instant protection for their new purchase. And retailers get to delight and care for their customers with an attractive, service-enhanced insurance offering that provides additional business revenue.

Embedded vs home contents insurance: addressing the issue of double insurance

When it comes to buying embedded insurance coverage for a product purchase, the question of double insurance naturally arises. The presumption may be that an existing home contents policy automatically protects the product.

This, however, isn't always the case – especially with high-cost items that need to be individually named on a home contents policy in order to benefit from full-value coverage.

Home contents insurance generally has relatively low cover limits for individual items not named on the policy. Whereas embedded insurance provides specific cover for a new purchase, making sure it is protected by a more complete coverage, from the moment it is purchased, further preventing any gaps in protection.

Embedded insurance also saves the inconvenience of having to add a new purchase to an existing home contents policy. And is a much more affordable option compared to the premium increase that would be experienced if you were able to add a like-for-like level of coverage onto a home contents policy. Particularly as standard home contents cover provides just that – protection for loss or damage within the home. Whereas an embedded insurance product would more often… →

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→ ...than not provide cover for a product, wherever it is – inside or outside of the home. Plus, many embedded insurance products – especially warranties – are built around offering a valuable and unique 'service' element. Therefore, they will include repair or maintenance services – something not offered by general home contents policies.

So, where home contents insurance is already in place, there will potentially be a very small overlap in terms of cover for theft or damage within the home. But the cover levels even for these elements of insurance are hardly comparable to the range and level of protection, service offering, and ease of use inherent in an embedded insurance product. Which all comes at a very attractive premium price.

Case studies: automated insurance in practice
Volvo – just add fuel

Sapiens worked with Volvo and leading Swedish insurer Folksam to create a model for embedding bundled insurance into Volvo's subscription service for the C40 vehicle.

For anyone wishing to acquire one of these cars, the process is streamlined and purely digital. Under the subscription model, customers have a short onboarding process, including an eligibility check, which takes less than five minutes to complete. Once approved, the customer has no deposit to pay – just a monthly subscription charge, which includes breakdown and recovery (via a free subscription to Volvo's On Call service for the first three years) servicing of the vehicle, maintenance, wear and tear cover, and vehicle tax – and the option to add insurance. For customers meeting a handful of basic criteria, the insurance is also free for the first three years.

Utilizing the car's onboard telematics, vast amounts of data can be collected to see how the car is driven – including speed, driving style, time of day, distance driven – where the car is located, and whether it has been involved in an accident. This helps build a picture of the driver that allows for very tailored risk profiling, which enables Folksam to create a bespoke insurance quote for each individual C40 driver. So, following the first three years of free insurance, the insurer has a plethora of data to enable it to create accurate pricing and cover – based on driver behaviour and car usage – for the customer, to meet their ongoing insurance needs – all embedded within the Volvo platform.

Thanks to advanced onboard safety features in the C40 – such as collision warnings, intelligent brake assist, and obstacle avoidance – claims frequency is lower than average. And where claims need to be made, this all takes place within Volvo's app or website, using pre-populated driver data, to make for a friction-free and seamless customer journey.
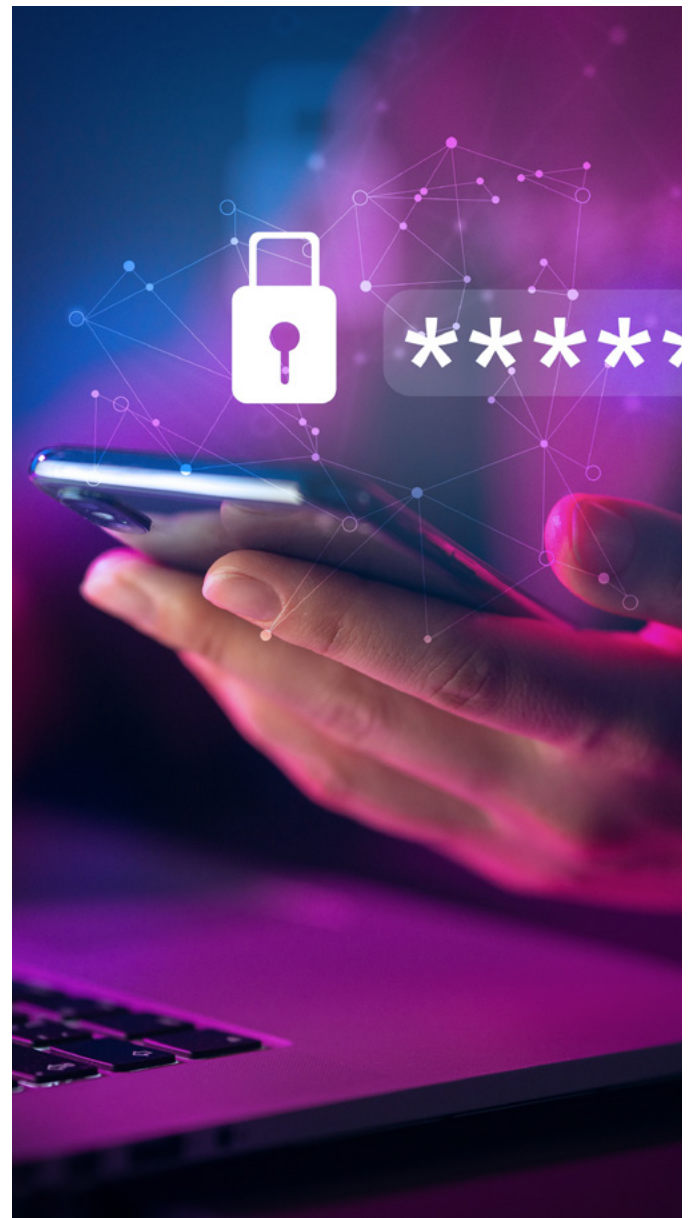
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Case studies: Anadolu Sigorta – next generation screen protection

Sapiens customer Anadolu Sigorta, headquartered in Turkey, created an embedded mobile phone damage protection product aimed at Millennials, after carrying out market research that showed a gap in the local market for this type of coverage. The product is distributed by Anadolu Sigorta's juno insurance platform and via mobile phone vendors, including Vodaphone.

The juno platform auto-detects all of the required parameters to determine coverage using AI, and there is no 'application process' that requires any kind of form completion. Users are requested to mirror their phone screens – which allows juno to detect the insurability of the device and prevent fraud. A one-minute, AI-based interactive screen test sends data to cloud-based applications and servers to automatically detect and identify pre-existing screen damage or fraud by using machine learning image processing algorithms. Moreover, the application digitally captures the phone's unique identifier IMEI via phone profiling technology.

When it comes to the claims stage, an innovative repair service provides the convenience of sending a damaged phone to be repaired. Within Istanbul, a courier is sent to pick up the damaged phone from the address specified by the policyholder and deliver it back to that address when it has been fixed. Outside of Istanbul, Anadolu Sigorta provides the services of a cargo company, so customers can send their phone off for repair.

Anadolu Sigorta wanted to lead with a customer-centric experience, so they built the juno platform to ensure the customer journey is convenient, integrated, fast, and enjoyable. It allows the policyholder to complete other services in addition to buying a policy – for example, they can view their insurance products, test their phone's screen, initiate a claim, and track their claim. Claims can be initiated via a call centre, mobile app, or website. This provides a unique service experience and a smooth claims process for policyholders who incur screen damage while protected.

Getting your technology right

Effective tech-powered systems are the driving force behind successful insurer-retailer partnerships when it comes to embedding insurance. So, where to start?

Traditionally, the insurance industry has been held back by legacy systems, which haven't allowed them to fully integrate with third-parties such as retailers. Now, some innovative insurers are developing new digital strategies with integration in mind. And others are partnering with experienced insurtechs that bring to the table extensive insurance expertise combined with the technological infrastructure essential for embedding insurance products.

Working with an agile insurtech empowers insurers to bring new products to market in a matter of weeks, seamlessly integrating their insurance offering into a third-party's brand without incurring a large technical debt.

Fuelling this insurance integration are open APIs, no-code or low-code platforms, and AI-powered software. These emerging technologies enable insurers to modernise their legacy systems and meet customer needs through digital innovation, while remaining compliant. Through this technology, the insurance landscape is fully automated – from quotation and customer acquisition, to complete policy lifecycle support; and from billing and renewals, to claims.

Third-party retailers and distributors can harness this technology to incorporate relevant and agile insurance products into their own customer purchase journeys – swiftly, efficiently, and affordably.

Revenue models

Simply put, if the retailer acts as an intermediary, they are allocated a percentage of the premium and often also a share of the profits. For retailers not taking an intermediary role, there is usually a fee paid for all leads generated by the retailer.

Based on data from the 2022 10-K of one of North America's top 15 retailers , its sale of protection plans contributed to **1.4%** of its overall revenues – equal to **$725 million.**

41% say they are likely or more likely to switch insurance providers due to a lack of digital capabilities [6]
– Pwc

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Preparation for the future starts now

With new ways of thinking about insurance, combined with evolving retail models, opportunities and challenges abound when it comes to developing future strategies for protecting customer purchases. Some of the key industry trends, their accompanying risks, and how to navigate them include:

The changing face of retail. With the growth in omni-channel shopping – integrating both online and in-person consumer experiences – POS and e-commerce technology is equally important. As this technology is constantly changing, it's important to work with an agile insurtech partner to ensure your aligned insurance systems keep up.

Customer acquisition and retention are a key focus for retailers. This provides an opportunity for insurers to add value and help brands to differentiate themselves.

Younger generations are especially happy to share their data, creating future opportunities for insurers to capture more rich customer data. But with this comes the increased threat of data breaches, so insurers must be able to demonstrate their cyber resilience and reassure retailers and customers that personal data is secure.

Consumers are seeking more personalised shopping experiences – whatever they buy – and insurance is no exception. E-commerce provides an optimal opportunity for insurers to access data that allows them to refine their risk profiling as more data is collected, allowing for real-time premium pricing and coverage that is specific to the needs of the individual customer.

Embedded insurance offers **vast opportunities to create innovative protection products that align with the ever-changing needs of today's** – and tomorrow's – consumers. For example**,** in the warranties space, Garanteasy provides an innovative digital wallet, allowing customers to keep and access all their warranties in one place. While insurtech bolttech's partnership with telco Three in Ireland – for the creation of a subscription service that allows SIM-only customers to swop their device for another, regardless of its physical condition, up to twice a year – provides a unique customer-centric proposition.

Insurers and retailers now have a **myriad of opportunities for growth** – through the offer of good value cover and services that allow for differentiation through innovation.

Final thoughts

For retailers, insurers and consumers, the benefits of embedded insurance are already being enjoyed in key markets around the world. But we're only just scratching the surface of what's possible with truly embedded insurance, the innovative protection products that it will help to create for brands of all sizes – and the way it will shape and create new e-commerce ecosystems.

"Those retailers and insurers who move quickly and seize the opportunities now available to them – to work with innovative tech companies and insurtechs – to create relevant and affordable embedded insurance products for consumers, will see quick and lasting rewards," says Graham Gordon, Strategy & Product Marketing Director – P&C at Sapiens. "But the risk to those insurers who wait too long to start their embedded journey, may see the market share increasingly taken by larger insurers who are rapidly transforming their digital capabilities."

The future of insurance is embedded. It's already changing the way people think about insurance. And it's redefining the insurer-retailer relationship.

Simplifying insurance products and processes, and adding real value for insurers, retailers and customers alike - is at the heart of insurance automation.

Talk to Sapiens about how we can help you on your embedded insurance journey.

OPEN & EMBEDDED INSURANCE OBSERVATORY

The Open and Embedded Insurance Observatory is a global organization aimed at delivering the value of embedded and open insurance. The Observatory performs research and market intelligence on the global applications of embedded insurance and open insurance, and provides its members with actionable insights to best position them in making their business decisions. Based on the ongoing observation and decoding of the global applications of open and embedded insurance, we analyze the information captured, connect them to draw a coherent and meaningful view of the market, and deliver actionable insights on the success cases and lessons learned, leveraging on our extensive advisory experience.
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About Sapiens

Sapiens empowers the financial sector, with a focus on insurance, to transform and become digital, innovative, and agile. Backed by 40 years of industry expertise, Sapiens offers a complete insurance platform, with pre-integrated, low-code solutions and a cloud-first approach that accelerates customers' digital transformation. Serving over 600 customers in 30 countries, Sapiens offers insurers across property and casualty, workers compensation and life markets the most comprehensive set of solutions.

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