Embedded Finance
& Super App Strategies

Embedded Insurance 2.0

New Growth Opportunities For Brands And Insurers In Europe

White Paper

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In Partnership with

insureMO

Key points

- Digitalization is shrinking traditional profit pools and increasing competition for all brands in all sectors across Europe.
- Embedding insurance and other 'peace of mind' solutions into a brand's proposition can help create more value for customers and drive new profitable growth.
- In the past only the very biggest brands in a few sectors could afford to run insurance programs.
- Now, new tried and tested insurtech 'operating systems' make it easy, quick and cost-effective for brands of all sizes to offer high value protection solutions to their customers.
- They also help insurers to distribute their products much more efficiently.
- Our recent research across 36 sub-segments of 12 industrial sectors in Europe demonstrates the commercial attractiveness for many different types of companies from new approaches to Embedded Insurance.
- We estimate over 1.5 trillion Euros of insurance premiums is sharable with non-insurance brands over the next decade, making brand-insurer collaboration a very important growth opportunity for all parties.
- Closer collaboration also has the potential to address insurance 'protection gaps', which offer additional growth opportunity.

All brands – big and small – want to deepen their relationships with customers

Accelerating digitalization is shrinking traditional profit pools across all sectors in Europe. It reduces barriers to entry, increases the bargaining power of buyers, creates new substitutes, and changes consumer preferences. All businesses need to adapt to a changing landscape by differentiating themselves from their competitors and finding new revenue streams.

Insurance provides a good way of doing this. When done well it brings peace of mind to consumers, encourages them to try to things, and enables companies to create new products and services.

Up until recently only the biggest brands had the resources to include insurance within their product portfolios – typically, large banks, retailers, airlines, telcos and trade associations. Sometimes big brands had to establish their own insurance companies, with the significant capital and regulatory overheads that entails, or they formed re-sale agreements with incumbent insurers. Typically, their insurance propositions were simply replicas of what customers could get from traditional insurance companies on the open market.

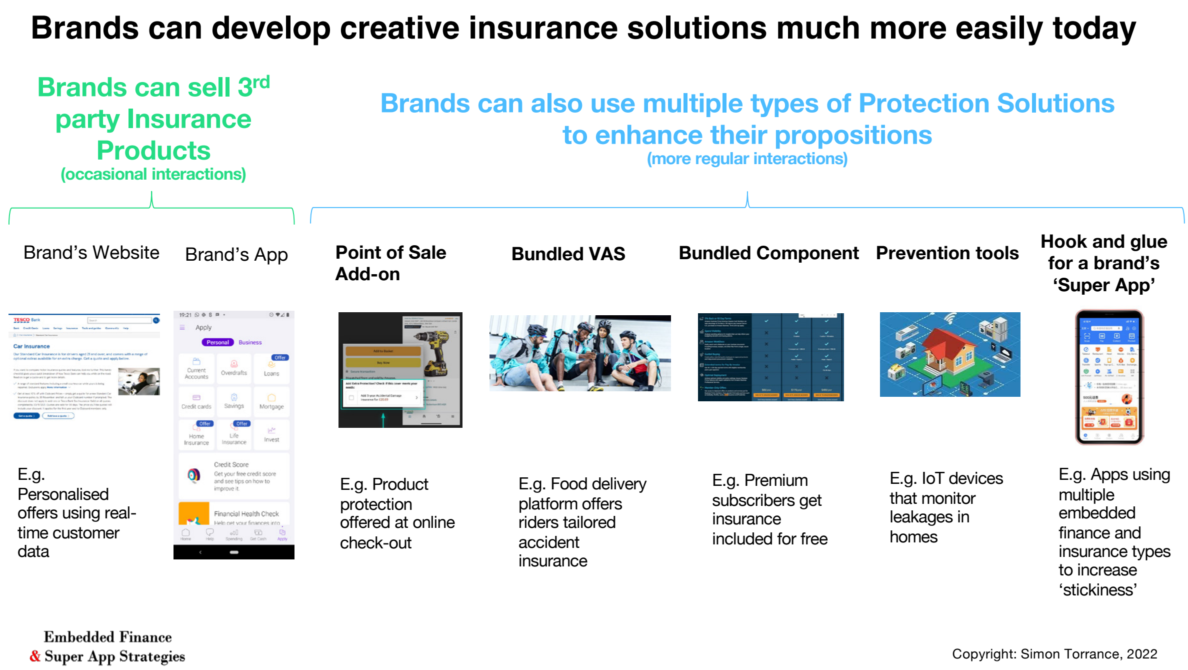
In the last five years or so a new breed of insurtech has emerged to enable any company to not only re-sell insurance products from incumbents, but also to design new forms of 'protection' solutions themselves and incorporate them into their own offerings.

These insurtechs initially worked with likeminded digital-native companies – fast-growing online travel agents, neo-banks, e-commerce players, mobility service providers, gig worker platforms - who were not satisfied with the long development cycles, slow integration capabilities and unappealing end customer experiences that incumbent insurers were able to offer.

Digital native companies typically operate internationally, so trying to coordinate a program with insurers who only had presence in a few geographies or who were not able to offer support consistently across geographies was painful.

Using advanced digital technology and exploiting data in new ways specialist insurtechs have been able to co-create more tailored products for brands their end users. For example, they've been able to apply dynamic pricing and recommendations mechanisms, to design much easier claims processes with faster payouts, all integrated within a brand's cross-border workflows, and in weeks or months rather than the typical years.

As a result, an increasing number of big brands have been moving over to insurtech-enabled insurance programs. What's exciting now is that any brand, big or small, can now integrate insurance and protection into their propositions in new and creative ways, quickly and cost-effectively. They can do so to generate new revenues, to differentiate from competitors, or to bundle insurance as a free component of a core proposition, per the diagram below.



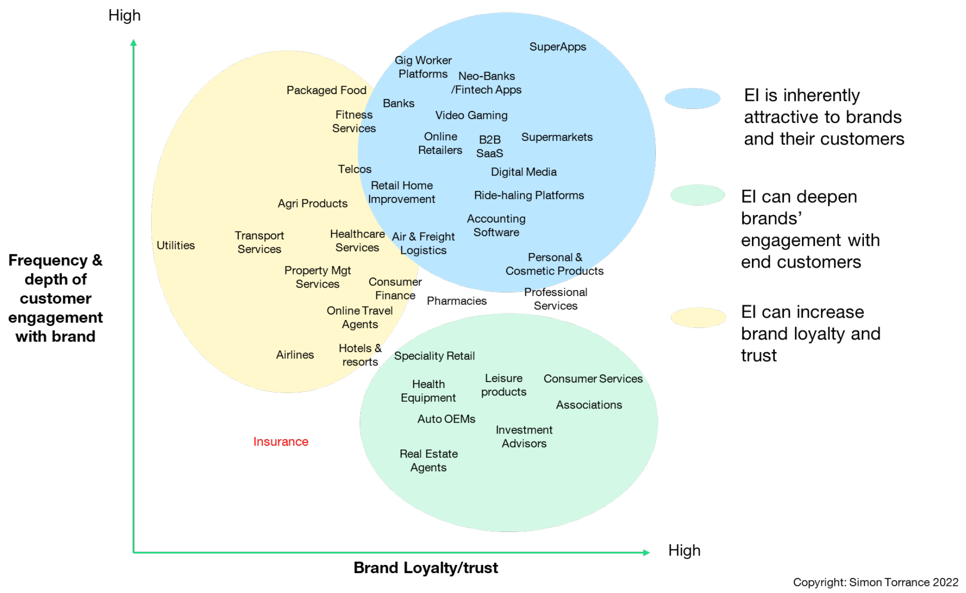
Embedded Insurance promises new value for multiple parties

By leveraging both the frequency of interactions they have with users and the levels of trust they've built up in their niches, brands across many sectors are finding that insurance – if designed, priced and delivered effectively - can enhance their business models. It can either deepen their engagement with end customers – create a new reason to interact with them – it can increase brand loyalty by providing a new and useful additional service, or it can do both, as shown in the diagram below.

Surveys across sectors consistently show that customers are increasingly willing to buy more non-core, adjacent products and services from brands they trust and use regularly, as long as they are personalised, offer better value and are more convenient to access through the brand than via the open market.

- Accessing all products and services, including insurance, is going to be increasingly through digital channels. Millennials and Gen Z, brought up on digital services, will soon make up the majority of the workforce.
- The components that make up an insurance or protection 'product' - access to data, underwriting and pricing skills, policy administration, claims management, customer service, capacity provision, regulatory compliance - are increasingly becoming a.) abstracted into software and, as such, b.) configurable in new ways by developers – like 'lego bricks'.
- Ever expanding volumes of data and their exploitation by AI is dramatically increasing the efficiency of old business processes and the ability to innovate in new ways.
- As a result, it will be increasingly easier for more parties to create new types of insurance and protection propositions which are tailored to the specific needs of their customers.
- These propositions will also be embeddable within many more brand-customer workflows, which will be digital or digitally-enabled.
- Many more third party brands will see the value of leveraging insurance to serve customers better and will invest more in developing new skills and capabilities to do so.

Embedded Insurance (EI) brings different value to different sectors



Car dealership networks in Europe, especially in France and Germany, have long accounted for a large proportion of motor insurance sales because it's much more convenient for the customer to buy it at the same time as the car.

Banks account for around 60% of life insurance sales in Italy due to the trust customers have in them and how frequently they use physical branches. It's not surprising that telcos are best placed to sell device damage and repair insurance when a customer is in their shop buying a new phone, or retailers of high end electronics selling extended warrantees at point of purchase. Travel insurance is particularly relevant to consumers when they are booking a flight.

But trends suggest that insurance distribution is going to change quite significantly over the next decade, in several ways:

As a result, we can expect insurance distribution that is 'Fully Embedded' – that is, insurance solutions digitally integrated into third party processes – to grow its share of the market quite considerably. In 'P&C' (Property and Casualty – motor, property, general liability, medical expenses, etc) we expect it to grow from around 1% of the total insurance market in Europe today to 31% over the next decade.

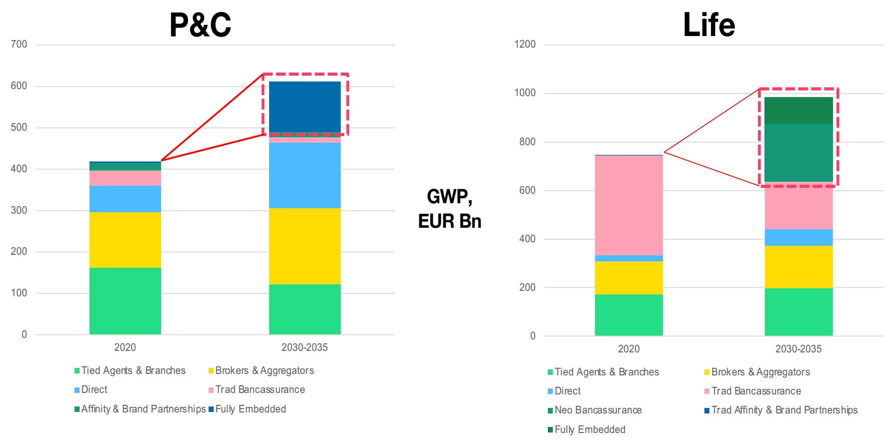
In 'Life' (death, critical illness, income protection and retirement savings) we expect to see growth from negligible today to over 10% of the market in a decade's time, plus a major shift from traditional bancassurance (insurance sold by banks) to 'neo bancassurance' which will take 24% market share.

In total, across the two, this equates to about 500 billion Euros of insurance premiums (gross revenue) sold by

that in France. Broker channels in UK and Belgian P&C are much larger than Italy, and UK direct channels are 3-4 times the importance of the same in Germany or Switzerland.

Secondly, we've excluded Health insurance from the chart above, only because it's a relatively small market in Europe due to the prevalence of public health systems. Even so, we believe that embedded health could reach 25 billion Euros in ten years' time and, given the huge burden on the state from ageing populations, there could be an opportunity to grow that market quite considerably higher through new forms of health insurance.

Embedded Insurance will become a significant distribution channel in Europe



Source: Simon Torrance analysis, 2023

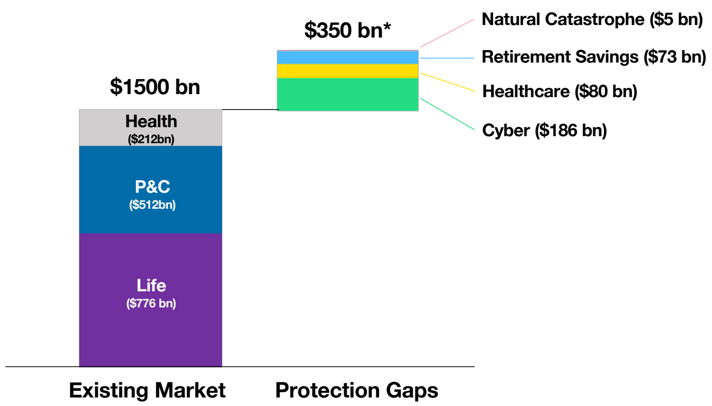
* 'Neo Bancassurance' = more advanced embedded insurance techniques implemented by banks and neo-banks

many more non-insurance brands in ten years' time. Over the course of the decade that amounts to around 1.5 trillion Euros of value shared with brands in new ways.

It's important to bear in mind three additional points. Firstly, insurance distribution varies quite widely across Europe. The chart above is an average. For example, banks' share of the life market in Germany is about half

Thirdly, building on the last point, given the size and growth of insurance 'protection gaps' – gaps between what society needs to be financially resilient to risk and what cover it has in place today – there's a significant additional opportunity to collaborate with third party brands to address this 'non-consumption' in new and creative ways.

'Protection Gaps': Insurance non-consumption in Europe 2022*



* Addressable by private sector

Source: Simon Torrance analysis, based on GFIA data

Insurance innovation in different sectors

Examples of relevant, embeddable insurance for fast-growth sectors

	Labour & Recruitment	Neo Banks	B2B Vertical SaaS
P&C Insurance	• Public + employee liability • Legal protection • Equipment cover • Business interruption • Business travel • Cyber	• Property • Contents • Credit protection • Mortgage protection • Business liability • Professional liability • Legal • Business Travel • Business interruption	• Property • Motor • Equipment / contents • Cyber • Credit protection • Seller protection • Fraud protection • Liability • Legal protection • Accident • Business Interruption
Life & Health Insurance	• Death in Service • Critical Illness • Income protection • Savings & Pensions • Accident & Sickness • Other Employee Benefits	• Term life • Whole life • Credit life • Income protection • Savings & Pensions • Accident • Other Employee Benefits	• Death in Service • Critical Illness • Disability • Other Employee Benefits

We recently undertook a detailed analysis of the applicability and potential of embedded insurance for companies within 36 sub-segments of 12 industrial sectors in Europe. For each sub-segment we looked at two dimensions. Firstly, 'Commercial Attractiveness': the level of unmet end customer needs related to 'insurance', the frequency of brands' customer interactions, and the amount of useful data they possessed for underwriting.

Secondly, 'Ease of Execution': the regulatory barriers, competitive intensity (from existing insurance products), digital maturity and insurance maturity in the segment.

Some segments such as 'Labour & Recruitment platforms', 'Neo-Banks' and 'B2B Vertical Software-as-a-Service (SaaS)' ranked particularly highly against our criteria, compared to other more traditional sectors.

In principle, there are many insurance solutions that are relevant to their users, brands in these segments are highly digital and have frequent interactions and trusted relationships with their customers. They also have access to valuable, often real-time, data for better underwriting, pricing and personalisation. Most of the specific companies we looked at within these sectors had limited or non-existent insurance programs today.

Below are some examples of how new approaches to embedded insurance are winning in different sectors.

B2B Vertical SaaS

B2B Vertical SaaS companies provide mission-critical software to large numbers of small businesses within specific vertical sectors. Their software manages the day to day running of small business operations. As a result, the amount of real time data Vertical SaaS companies have access to is invaluable for making very targeted offers to businesses who are notoriously under-insured.

A recent business case we undertook for one such brand demonstrates the potential. It has 10,000 small businesses on its platform who use it all day, every day. On average such companies spend 10,000 Euros a year on insurance, creating an addressable insurance market through this one platform of 100 million Euros. A specialist insurtech is now enabling the platform to make targeted offers, from its network of underwriting partners, at just the right moment based on real-time customer data. The platform shares in an annual recurring revenue stream for virtually zero marginal cost.

It's a quadruple win: 1.) the SaaS platform gets a high margin insurance program up and running in weeks with limited effort, 2.) The insurtech tests market demand with an initial set of simple off-the-shelf products, ingests more and more data from the platform to develop additional tailored solutions with its underwriting partners, and ensures regulatory compliance throughout, 3.) The capacity providers get access to a new risk pool, 4.) the small business owner gets more convenient access to affordable protection solutions that are personalised to their business needs.

Banks

The majority of banks in Europe - around 60% - do not provide any insurance to customers today.

Of those that do, about half have their own insurance license and half re-sell insurance from 3rd party, typically incumbent, insurers. They generate between 10-15% of their total revenues from insurance (for Societe Generale, that's over 2 billion Euros per annum). Yet only about 25% of European banks who offer insurance at all do so to small businesses. That's a very significant missed market opportunity, in large part due to the challenges of creating an insurance program with traditional insurance partners.

Revolut, by contrast, sees insurance as very important to its overall proposition and ambition to become a financial 'super app'. It was founded in 2015 as a 'neo-bank', and is now valued at $33 billion. This is comparable to the market valuation of some of Europe's largest incumbent banks, such as NatWest ($38 billion), Deutsche Bank ($34 billion), and Societe Generale ($33 billion).

Travel insurance, pet insurance, mobile phone insurance, gadget insurance, travel insurance for business, landlord insurance, tenant insurance,

flight insurance, winter sports insurance, and cancellation insurance are all directly available in the Revolut app in 31 markets across Europe, made available through partnerships with insurtechs and incumbents. By integrating insurance products, it looks to me as if Revolut is looking to encourage customers to use their bank accounts more frequently and transition to becoming their primary bank.

While its insurance offerings are today more limited than those of the incumbent banks, they are typically cheaper and much easier to manage through a digital-first platform, according to my research.

NatWest, Deutsche Bank, and Societe Generale certainly offer a wider range of insurance products, including home, car, travel, life and health insurance. But it is costly to manage these product lines and innovation is weak.

We see a golden opportunity for banks and neo-banks across Europe to create more sophisticated and attractive insurance programs, for consumers and small businesses, by applying new approaches that are 'fully embedded' into workflows like getting a loan, buying a house, starting a business, opening a joint account with a spouse, and so on.

Automotive

Dealerships account for a large proportion of private motor insurance sales in many countries in Europe today, but are coming under increasing pressure as consumers search for and buy cars online and auto manufacturers move to Direct-to-Consumer strategies. Online and offline car retail networks will need to innovate their business models to compete.

Being able to efficiently offer a broader range of innovative 'protection' solutions across the full lifecycle of car ownership – from purchase to maintenance to spare parts, to credit protection, to tyres and servicing – will be increasingly important to compete.

Tesla demonstrates the future for OEMs. To provide a consistently strong customer experience across all aspects of owning one of its cars, Tesla has created its own insurance business. Rather than customers having to 'leave' a Tesla interface to find insurance, owners in the US (and soon Europe) are now offered the option of personalised, cheaper cover based on their actual driving behaviours, along with access to special claims and repair services in case of accidents, all via Tesla's app.

This is designed not only to provide a better, 'on-brand' experience for customers but is also considered a significant new revenue opportunity. On average it costs $2000 to insure a Tesla car. With estimated sales in the US alone of roughly 1.5m in five years' time, that creates an addressable insurance market of $3 billion. Rather than that revenue going to third party insurers, who's quality of service Tesla cannot control, Tesla can now retain that value for itself.

More brands in the automotive and alternative mobility sectors are looking for innovative ways to compete. Insurance – as a mandatory legal requirement – is a key battleground. Companies like Volvo, Greely and BYD are innovating at pace now.

Auto Shop in China: Insurance for Mobility Ecosystem

Consumer Electronics

Over recent years Apple has also increased its investment in insurance, along with other adjacent services, such as music, cloud, payments, credit and banking.

AppleCare and AppleCare+, its extended warrantee schemes, contributed an estimated $10 billion in extra revenue last year. Collectively, embedded finance and insurance services now account for around 10% of Apple's total revenue and are growing fast.

Margins are high because Apple incurs no manufacturing costs and near zero distribution costs for insurance services. Indeed, nearly 50% of Apple customers now buy AppleCare. Analysts expect Apple to launch health insurance soon, leveraging the Apple Watch as a monitoring device, and make other investments into insurtech.

Retail and E-Commerce Marketplaces

To strengthen its position with customers Amazon has been making significant investments in financial services and insurance over the last few years, including payment services, small business lending, loyalty credit cards, product warrantees, and pet, commercial auto and home insurance. Amazon's financial services are designed to help the company bind consumers and merchants more deeply into its ecosystem, as well as generating direct revenue.

Recently, it required third party sellers on its marketplace to take out product liability insurance, to protect end users from injury or other harms from faulty products. Incumbent product liability policies are very unattractive to both sellers and insurers. For sellers they are expensive, have to be paid up front, and are priced based on revenue projections rather than actual sales. For insurers, they have very high claims ratios. As a result product liability insurance has not been innovated for decades.

However, one insurtech entrepreneur was able to completely reinvent this product line by integrating with Amazon's real-time commerce data. By doing so it could re-invent the targeting, pricing and payment mechanisms for its policies and achieve claims ratios that were half those of competitors. Distribution costs are also near to zero. It's a good example of how to re-think insurance for a retail brand and its customers, especially as online marketplaces proliferate.

New insurtech 'operating systems' are now enabling manufacturers of any size to offer extended warranty, shipping protection and other creative insurance programs to their customers. For example, using insurance mechanisms to guarantee the performance of solar panels helps to reduce customer concerns about making a large purchase and drives sales.

Gig Worker Platforms

Uber, Ola and other labour platforms such as Deliveroo and Wolt now offer special insurance and financial services to their 'gig workers' to attract and retain them. Uber, for example, provides drivers with free financial protection in the event of an accident or illness. It also offers additional paid-for insurance, tailored to the lifestyles of its drivers.

In our research we found many labour and recruitment platforms – incumbents and start-ups – that were growing fast and had large populations of gig and freelance workers using them to support their working lives. This is a valuable and trusted role, which can be reinforced with protection solutions tailored to their lifestyles.

The key role of new Embedded Insurance 'Operating Systems'

To take full advantage of the potential of Embedded Insurance all stakeholders – brands (big and small), insurers, brokers, and insurtechs – will need a step-change in their technology capabilities.

Today, if programs do exist, they can take a long time to set up, at significant cost. Even when they are set up, they can fail to deliver material value because they are either too simple – reliant on one or two simple, traditional products that are not compelling to end users – or they are too complex – too many products from diverse sources, which are difficult and costly to manage.

Non-insurance brands need complexity to be removed, so they can focus their efforts on delivering value to customers.

In recent years we have seen the emergence of new embedded insurance 'operating systems'. They sit between the supply side (insurance and protection product, service and component providers) and the demand side (brands, big and small, wanting to create innovative insurance programs). They automate tasks on both sides, adding value in a number of ways:

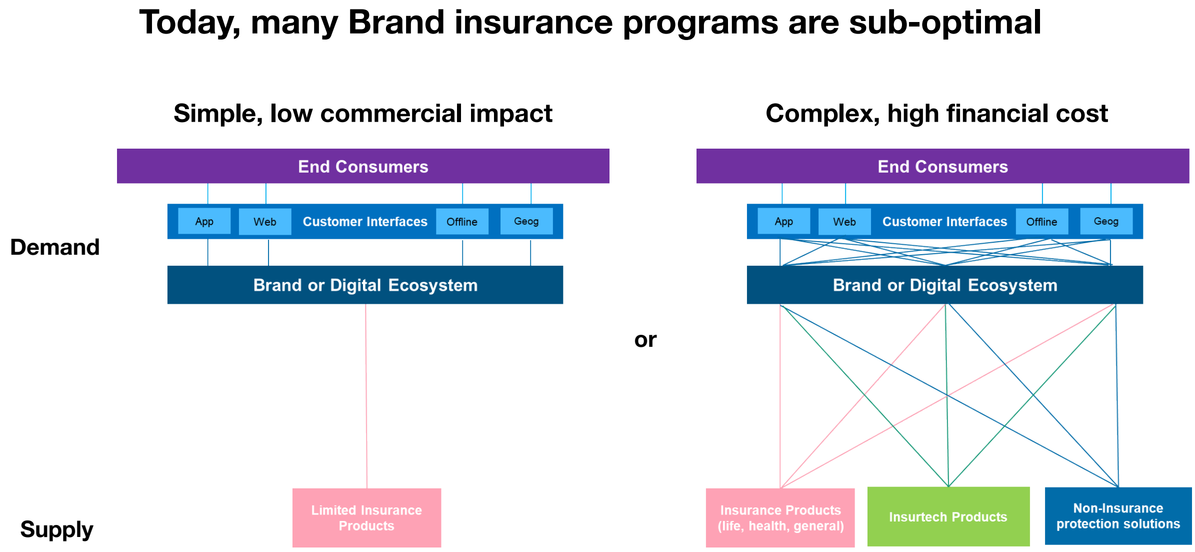
- They provide a single platform for orchestrating an insurance program of increasing sophistication
- They enable commercial teams at non-insurance brand to easily configure the right solutions for their customers from multiple suppliers
- They enable insurers, insurtechs and other protection providers to efficiently distribute their capabilities through any channel
- They use API's to integrate the components of all parties into the 'system'
- They are based on 'multi-tenant cloud infrastructure' to support the international and local activity of different entities
- They combine data from the demand side with AI tools to facilitate effective matchmaking with supply side innovation
- They help create standards, datasets and data models to increase the efficiency of an insurance program comprised of many different parties.

Embedded Insurance Operating Systems sit in between and seamlessly integrate with the legacy systems of brands and insurance companies to streamline interactions across and between internal silo's and external interfaces.

For brands it means they can manage more sophisticated insurance programs. For insurers, brokers, insurtechs and other protection providers it means they can distribute much more efficiently through new channels.

Modern Embedded Insurance Operating Systems are not expensive to use or to integrate with. They allow companies to fully focus on driving customer and commercial value rather than managing IT cost and complexity.

They are the key enablers of Embedded Insurance 2.0.



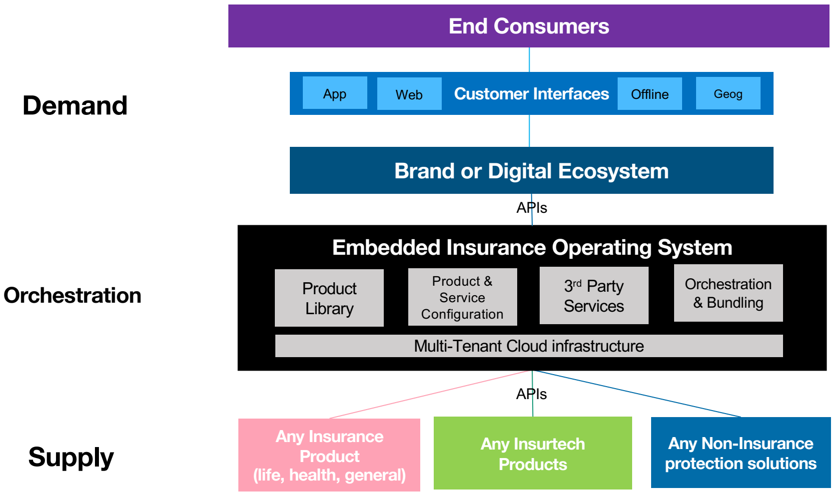
Learning from hands-on experience

The sponsor of this white paper, InsureMO, is a great example of a company that has, at scale, turned theory into practice.

In our recent study of forty-five global Embedded workflows, and then enable rapid distribution through any digitally-enabled channel.

InsureMO has deep hands-on experience of running large and complex digital ecosystems around the world.

An Embedded Insurance 'Operating System' helps match supply and demand more effectively



Insurance pioneers, InsureMO, stood out as one of the leading enablers of Embedded Insurance 2.0.

What impressed our team were three elements. Firstly, the technical capabilities of its AI-ready middleware platform. Secondly, its deep and long-standing insurance pedigree. And thirdly, its hands-on experience of orchestrating complex insurance-based ecosystems, for brands and insurers around the world.

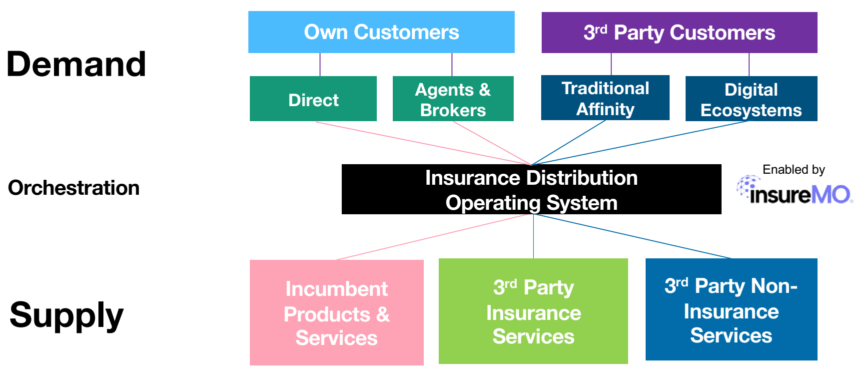
Today InsureMO orchestrates over $20 billion of insurance premiums annually, and has built up a suite of over 3000 pre-configured products that have been proven with end-customers. They provide a highly flexible and modular platform that can integrate any kind of insurance product and protection service – across life, health, pensions and P&C – enable them to be (re-)configured in creative ways, manage end-to-end

These include the biggest mobility network in China that involves OEMs, insurers, parts manufacturers, service centres and claims handling organisations; a major credit network in Japan; some of South East Asia's biggest retailers; and an increasing number of incumbent insurers and insurtechs in Europe.

What we particularly liked is their entrepreneurial approach: their risk-sharing commercial model that keep costs low and their ability to very quickly test and iterate new concepts with internal users and external customers. Companies around world – such as Ageas, Ola, Cred, Indeez, SBI, HSBC, Generali, Chubb – are finding significant benefits from working with InsureMO.

As a result, we recommend InsureMO to companies, of all types, looking to execute Embedded Insurance 2.0 strategies.

InsureMO's AI-ready Modern Middleware enables insurers, brokers and brands to distribute insurance cost-effectively



InsureMO is powering Insurance across many Ecosystems

Banks, Payments & Fintechs

Mobility
(Car maker/dealer, trucking, etc.)

Telecom (Mobile Networks)

Travel / Hospitality

Health

Brokers/agents

Small and medium enterprise

GIG Economy

Conclusion and Next Steps

Embedded Insurance offers an attractive value creating opportunity for many forward-looking brands. In the past it was complicated, costly and inflexible, with limited innovation for customers. But now, thanks to the growth of insurtech and specialised 'Operating Systems', any company can cost effectively launch sophisticated insurance programs.

The key next steps are, firstly, to create or update your strategy for Embedded Insurance, carefully defining a business and operating model that works for your market. Then, secondly, rapidly test and iterate the strategy with the market, using new, flexible technology.

Simon Torrance

Embedded Finance
& Super App Strategies

insureMO®

About the Author

Simon Torrance is an expert on new growth strategy and business model innovation. He is Founder and CEO of Embedded Finance & Super App Strategies and is a Senior Partner at ARK Venture Studios which builds insurtechs to address ‘protection gaps’. He recently ran the world’s first industry Peer Group on Embedded Insurance with ten of the world’s largest insurers and is author of ‘How and why insurers should increase investment in Embedded Insurance 2.0’.

Embedded Finance & Super App Strategies helps forward-thinking companies across the world improve their business models by applying the disciplines of Digital Ecosystem Management, Ambidextrous Innovation and Venture Building. We believe in the power of fintech and insurtech to enable and unlock new levels of innovation across all sectors. We work with large corporations, start-ups, entrepreneurs and investors.

www.embedded-finance.io

About InsureMO

InsureMO is a pioneering platform-as-a-service (PaaS), specifically tailored for the insurance industry, aiming to significantly boost insurance innovation and enhance connectivity among key stakeholders. This platform is adeptly designed to manage the immense volume, variety, and velocity of data characteristic of the Digital Age. Functioning as a robust middleware, InsureMO liberates insurers from the limitations of legacy systems, unlocking new horizons for innovation and stakeholder engagement.

Central to InsureMO’s offering is its comprehensive suite of insurance APIs and microservices, catering to general (P&C), life, and health insurance sectors, and encompassing the entire policy lifecycle.

With a global footprint, InsureMO operates across 40+ countries, engaging over 300 insurers, 5,000+ channels, and numerous InsurTechs. It’s instrumental in managing more than $20 billion in annual premiums, showcasing its scalability and market relevance.

www.InsureMO.com