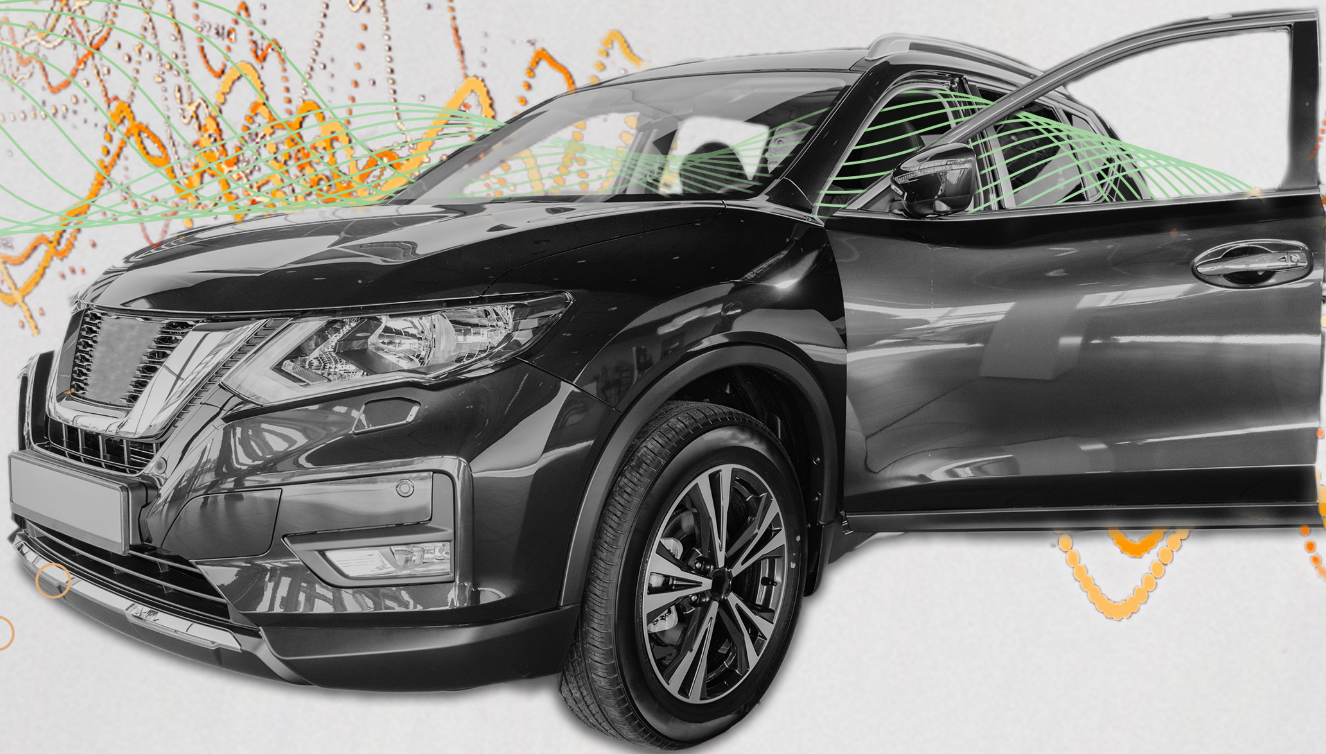
# Embedded insurance is poised for exponential growth

*Carriers should assess new distribution partners sooner rather than later to capitalize on embedded finance opportunities.*

Deloitte Center for Financial Services



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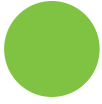


Among the emerging trends on the financial services horizon, embedded finance may end up having the biggest impact on the industry's makeup and infrastructure. Embedding large-scale insurance and banking products or services at the point of sale could not only disrupt long-time distribution channels over the rest of this decade, but may also result in the creation of an entirely new set of alliances with nonfinancial services partners—many of whom may be unfamiliar with the transactions they are facilitating.

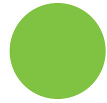
There are already many bullish predictions being circulated about the growth potential of embedded insurance. Forecasts for embedded sales of property and casualty (P&C) insurance alone by 2030 range from US$70 billion[1] in the United States to US$700 billion globally.[2] Deloitte predicts that if as much as 20% of the US personal auto market goes the embedded route by 2030, at least US$50 billion in premiums could be diverted away from the industry's traditional distribution channels.

Embedded insurance as a concept is nothing new. For years, tourists have routinely added travel insurance when purchasing airfare, while consumers have added warranty coverage when buying major appliances. What's likely to change rapidly is the volume of insurance premiums for major lines built into another type of third-party transaction, with potentially vast implications for both legacy providers and intermediaries. Including auto or homeowners' insurance—with the sale of a vehicle or residence—for example, would bypass traditional sellers such as insurance agents, upend direct-to-consumer sales from insurers, or even exclude legacy carriers altogether.

One way to avoid disintermediation is for traditional insurers to consider collaborating with noninsurance product and service providers to integrate the sale of their coverages into the initial transaction process. In other words, they can follow the adage: "If you can't beat them, join them."

First movers may enjoy significant competitive advantages in what could quickly become a game of musical chairs. To avoid being left without a seat in the embedded market, insurers should be actively seeking potential alliances with an embedded partner—or at least consider how they might compete against carriers that do join forces with a product or service provider.

# Auto insurance could see the greatest disruption with embedded sales



Out of all the insurance coverages being sold to individual consumers and business owners, those with the most to lose or gain from a boost in embedded sales are likely in the auto insurance industry. US personal auto insurers wrote US$267 billion in premiums in 2022,[3] accounting for nearly two-thirds of the personal lines segment and one-third of all P&C direct premiums written.[4]

Such sales make up the majority of the books of business of many national brand insurers, with 68% of the industry's auto premiums coming through direct-to-consumer sales or handled by their exclusive agents.[5] Independent agents account for 32% of the market, with auto insurance being their biggest single volume generator, averaging 18% of their total book of business.[6] Embedded sales would bypass these traditional channels and instead filter volume through auto dealers and manufacturer websites.

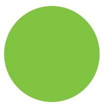
If as much as a fifth of personal auto insurance is embedded in vehicle sales by 2030, the source of many of those premium dollars for carriers may simply be swapped from current distribution outlets to auto dealers. However, legacy insurers themselves could be left out of the loop if auto manufacturers start up their own embedded underwriting operations.

Selling insurance at the time a vehicle is purchased is already more the rule than the exception in some countries, such as India.[7] But while the concept may still be relatively new in the United States, there are already multiple test drives underway.

Tesla was one of the early entrants with its 2019 launch of Tesla Insurance, offering policies for certain models in a growing number of states priced according to how drivers perform on the road as monitored by the vehicle's sensors.[8] Other auto manufacturers have followed suit, including Ford Insure, which is partnering with Nationwide Insurance.[9]

Meanwhile, Root Insurance, an InsurTech startup, is working with Carvana to embed its auto coverage along with the sale of used vehicles. Together, they are integrating the entire transaction—from quote to payment—within the platform's checkout process, with customer information prefilled so that a buyer may skip data entry and jump directly to customizing coverage.[10]

"Talking to consumers at the time when they really need insurance—like when they're purchasing a vehicle—is a lot better customer experience than being bombarded with advertisements to try to get somebody to a website [that describes] a product they're not very excited about in the first place," according to Root Chief Executive Officer Alex Timm.[11]



# Potential obstacles to embedded sales

The road to widescale embedded finance in general likely faces several possible speed bumps, particularly from a regulatory perspective, since the consumer business hosting the embedded transaction "will, in effect, deliver the financial service to the customer … [and] will have significant control and influence over the customer digital experience," according to a recent Deloitte UK report.[12] The result will likely be a shared-responsibility model when it comes to compliance in areas such as data protection, privacy, and consumer complaints, the UK report noted.[13]

For example, auto dealers offering coverage as part of their embedded insurance sales pitch will likely have to be trained and licensed as insurance agents in each state.[14] In addition, insurance regulators may raise questions about transparency in how embedded coverage is priced, as well as whether customers may feel any pressure to buy insurance from the auto dealer to get the best deal on their vehicle.

Maintaining alliances and partnerships could pose other practical challenges, such as the following scenarios:

- What if a customer is dissatisfied with how their claim is handled by the insurer whose policy was embedded in the vehicle's sale? Will that reflect badly on the auto manufacturer?

- What if the customer buys or already has an additional vehicle from another auto maker? Will embedding insurance in the second vehicle's sale keep buyers from getting the discounts and service convenience provided to those bundling coverage for multiple cars?

- What about those who bundle auto coverage with their homeowners' insurance purchases in return for a premium discount—a very popular option in the current US market?[15]

Another potential risk of embedded insurance is that it might weaken direct consumer relationships with a carrier, with buyers opting for solutions embedded in the platforms of their preferred e-commerce, product, or service provider, rather than the insurer. Ultimately, such ecosystem relationships could become a more significant factor than the breadth of an insurer's products or services in winning consumer loyalty.

These are just some of the challenges that may surface for insurers. But given the huge growth potential of the embedded market, "playing it safe" by not engaging early on could end up being the riskiest move of all.

## INSURERS COULD LEARN FROM EXAMPLES IN EMBEDDED BANKING AND PAYMENTS

Insurers keen on experimenting with embedded coverage should look at how banks, payment firms, and fintechs have been doing in this space. Embedded finance has already taken root and even achieved significant scale in banking and payments—with the latter becoming particularly prevalent in e-commerce and service transactions, such as ride-shares. According to JPMorgan Chase, embedded payments accounted for over US$1 trillion in global payment volumes in 2022.[16]

In addition, embedded finance could facilitate short-term credit advances to merchants and offer greater insight into customer behavior and trends to spur development of new products and services. It should also integrate with business or accounting software, allowing users to access banking capabilities with a single click.

As financial transactions become more digital, and elements of the Internet of Things are incorporated into more properties and devices—such as appliances, wearables, homes, and commercial buildings—the potential for embedded finance, including insurance, is likely to expand meaningfully. These capabilities could enhance customer experience and convenience by seamlessly integrating financial services into everyday transactions.

A similar trend is evident in lending at the point-of-sale through buy-now-pay-later offerings. Banks can also supplement shopping experiences with personal financial-management tools or integrate credit options into health care apps. In addition, embedded finance could grow to become more relational, covering not just a single purchase, but multiple transactions over time. For example, in the future, prospective homeowners may rely on a single platform—served by financial institutions—to obtain a mortgage, buy insurance, and manage household expenses.

# Endnotes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# About the authors

**Kelly Cusick**
kcusick@deloitte.com

Kelly Cusick is a managing director in Deloitte Consulting LLP's Actuarial & Insurance Solutions practice, focused on the innovation of underwriting and product management capabilities in the Property and Casualty Insurance marketplace. As an actuary with experience across a variety of commercial and specialty lines of business, she works with clients to develop and implement competitive strategies for insurance product management and underwriting, leveraging emerging technologies and data sources, analytical decision-making approaches, and improved business processes.

**Michelle Canaan**
mcanaan@deloitte.com

Michelle Canaan is the insurance research leader in the Deloitte Center for Financial Services. As a subject matter specialist for the insurance industry, she produces thoughtware on current and future trends, including strategies and solutions for our clients. Several papers most recently authored are, "Life and annuity insurers consider the path less travelled: Core system modernization becoming table stakes" and "Long live the independent agency channel: Adapting to become P&C personal lines carrier of choice."

**Val Srinivas, PhD**
vsrinivas@deloitte.com

Val Srinivas is the Banking and Capital Markets research leader at the Deloitte Center for Financial Services. He leads the development of our thought leadership initiatives in the industry, coordinating our various research efforts and helping to differentiate Deloitte in the marketplace. He has more than 20 years of experience in research and marketing strategy.

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## Industry leadership

**Monica O'Reilly**
US Financial Services Industry leader | Principal | Deloitte and Touche LLP
+1 415 783 5780 | monoreilly@deloitte.com

Monica O'Reilly leads the US Financial Services Industry group focused on the banking, capital markets, insurance, investment management, and real estate sectors.

**Karl Hersch**
US Insurance Industry leader | Principal | Deloitte and Touche LLP
+1 908 377 6365 | khersch@deloitte.com

Karl Hersh is Deloitte's US Insurance Leader responsible for leading the firm's overall insurance sector strategy, bringing the firm's practice areas together to serve Deloitte's portfolio of insurance clients.

## The Deloitte Center for Financial Services

**Jim Eckenrode**
Managing director | The Deloitte Center for Financial Services
+1 617 585 4877 | jeckenrode@deloitte.com

Jim Eckenrode is managing director of the Deloitte Center for Financial Services, responsible for developing and executing Deloitte's financial services research while providing insights to leading financial institutions on business and technology strategy.

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