Embedded insurance... an opportunity that cannot be ignored

By Gisela Budler, issued by Milpark Education

7 Oct 2022

Consumers can now get more competitively priced, pertinent and personalised insurance when and where they need it most, thanks to embedded insurance.

Embedded insurance is the real-time integration of consumer insurance protection or coverage into the process of purchasing an already-available good or service. This pairing with goods or services at the point of sale has been hailed as the answer to increasing underserved consumers' access to insurance coverage.

Embedded insurance

The sale of extended warranty plans for cars, and the purchase of cellphone insurance when buying a phone on a contract, are two examples of sizable marketplaces. Embedded insurance is now developing, from straightforward gadget protection and warranty goods to more intricate vehicle insurance coverages and is anticipated to continue to expand into other types of insurance.

A commercial argument can be made for organisations to further investigate market strategies, by looking at our global competitors. Understanding what works and adapting it to the demands of South African consumers will be the key to real success.

Embedded insurance strongly depends on an insurer's capacity to integrate technology like artificial intelligence (AI) to enhance underwriting, process automation tools to automate the ingest of third-party data sets, and rules engines that will determine when and how much to settle claims.

According to some industry analysts, embedded insurance in the United States (US) alone could account for over $700 billion in GWP, by 2030.

Risks for insurers

By their very nature, the products are likely to be simplified, as the insurer is not going to be able to ask the prospect any questions, and underwriters will need to rely on third-party data sources to determine the risk and set the pricing.

Some practical examples of a risk posed by third-party data sources collecting information would be whether the limit of indemnity has been explained to the client, what the conditions are for the replacement or repairs, or whether a previous claims history has been disclosed.
Another risk to customers and insurers alike, is the advice given to clients at the conclusion of the sale. The first amount payable is often increased to discourage smaller claims from an underlying policy, but the customer may not be able to absorb themselves, resulting in an item remaining unrepaired and an unhappy client. This needs to be clearly explained to the client.

A logical place to start

In a country where there are 11 official languages, a market exercise to understand the languages mostly spoken by our citizens would be a logical place to start with product development. Seeing as simplicity in this market is key, offering a client information in their mother tongue, and in a plain-language format, could be one way to offer a simpler solution.
There is, however, a moral obligation for us, as intermediaries and insurers, to offer cover that adheres to the six outcomes of Treating Customers Fairly (TCF), our underpinning philosophy (FSCA, 2022):

1. Customers are confident that they are dealing with a firm that is developing products to treat them fairly;
2. Products and services sold to them are unique to their needs and take their circumstances into account;
3. Questions are asked to see if there is not a risk of dual insurance present;
4. Customers are given plain language information on what is covered or not and are easily able to submit claims, ask questions about their cover, or cancel their policies; and
5. Digital channels are integrated for ease of business (e.g. per WhatsApp or SMS).

Truly embedded insurance has just started to emerge and has the potential to grow into a trillion-rand market (Thormählen, 2021). To remain relevant, and considering the broad scope available, this is certainly not an opportunity that can be ignored.

Sources:

FSCA (Financial Sector Conduct Authority). 2022. Treating Customers Fairly. [Online] Available from: https://www.fsca.co.za/Regulatory%20Frameworks/Pages/Treating-customers-fairly.aspx [Accessed: 2022-09-15].
psKINETIC. 2021. Is Embedded Insurance Too Difficult A Problem To Solve For Traditional Insurers? [Online] Available from: https://pskinetic.com/psinsights/blogs/is-embedded-insurance-too-difficult-a-problem-to-solve-for-traditional-insurers/ [Accessed: 2022-09-15].
Thormählen, T. 2021. Embedded Insurance: Becoming seamlessly protected. [Online] Available from Munich RE: https://www.munichre.com/topics-online/en/digitalisation/embedded-insurance-becoming-seamlessly-protected.html [Accessed: 2022-09-15].

ABOUT THE AUTHOR

Gisela Budler CFP® is lecturer: School of Financial Planning and Insurance

Milpark Education

Milpark Education was established in 1997, becoming one of the first private providers of higher management education in South Africa. Milpark services the higher education needs of various corporate entities as well as public students, through the qualification offerings of four schools: the School of Professional Accounting (incorporating CA Connect), the Business School; the School of Commerce; and the School of Financial Services. It currently offers 23 accredited programmes in higher education.

Profile | News | Contact | Twitter | Facebook | RSS Feed