

CELENT

OPPORTUNITIES FOR EMBEDDED INSURANCE PARTNERS

A Report Prepared for Swiss Re

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This is the final report of a Celent consulting project commissioned by Swiss Re. Swiss Re is making this report available to selected recipients.

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EXECUTIVE SUMMARY

This report defines embedded insurance as a digitally enabled, smart, timely, seamless offer of insurance placed within a broader digital transaction or a digital relationship for the purchase or use of a non-insurance product or service.

A broad set of firms in various industries should consider becoming an Embedded Insurance Partner (EIP) with insurance or reinsurance companies. Becoming an EIP can provide value for the firm's customers and for the firm itself. There are many types of EIPs.

This report contains case studies of three EIPs: Porch (serving homeowners), Intuit QuickBooks (serving small businesses), and GM OnStar Insurance (serving automobile owners). It also includes other examples of EIPs.

The report concludes with the next steps that a firm interested in becoming an EIP should consider.

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INTRODUCTION

Historically, individuals and small businesses could buy auto insurance, homeowners insurance, and small business insurance in only a few ways: typically through agents, brokers, or directly through an insurance company.

A **new way** to buy insurance is emerging: responding to an embedded, digitally enabled, smart, timely, seamless offer of insurance within a broader digital transaction, or a digital relationship that occurs within the purchase or use of a non-insurance product or service.

This **new way** creates opportunities for non-insurance businesses to participate in the property/casualty industry as Embedded Insurance Partners (EIPs).

These opportunities allow EIPs to:

- Participate either in a narrow or broad range of insurance functions and processes.
- Offer insurance products that enable either long or short duration relationships with customers and policyholders.

Three Examples of Embedded Insurance Partners

1. Experian, one of the three leading US credit score providers, has identified Consumer Services as its fastest-growing segment in North America. People visiting the Experian website to see their credit scores can also click through to the Experian Savings Center. In the Savings Center, visitors are offered several ways to save, including switching home or auto insurers, consolidating credit card balances, getting personal loans, and refinancing a mortgage. In general, these offers are from independent third parties that compensate Experian. In November 2021, Experian acquired Gabi, a digital insurance agency, for \$320 million. This acquisition will deepen and broaden Experian's role as an Embedded Insurance Partner.

2. DealerPolicy, an insurtech startup, has created an automobile insurance marketplace designed to be integrated into the process of buying a vehicle from an automobile dealer. In addition to selling cars, automobile dealers commonly have an F&I office that offers buyers loans and certain types of protection plans. (These protection plans, e.g., extended warranties, may or may not be legally defined as insurance.)

In many cases, the F&I office does **not** offer buyers traditional automobile insurance (i.e., liability, collision, etc.). This is the potential sales opportunity that DealerPolicy's MarketPlace enables. MarketPlace's technology connects the people buying the car and sitting in the F&I office with a network of insurers (such as Progressive, Travelers, and Nationwide) via licensed agents in real time. This type of embedded insurance offer seems to be working well, at least from the perspective of DealerPolicy's venture capital investors, who in August 2021 funded a \$110 million Series C round led by Goldman Sachs' Growth Equity Asset Management business.

3. When people purchase IKEA furniture for their home or apartment, they become qualified prospects for homeowners or renters insurance. Swiss Re's iptiQ business unit is a digital platform and white-label insurance provider designed to enable non-insurance companies to embed offers of property/casualty insurance to their customers. In August 2020, IKEA Switzerland and iptiQ launched HEMSÄKER, a home insurance offering. [IKEA's Swiss website](#) offers a simple method for applying for home insurance online. The offer also notes that members of the IKEA Family Club receive a benefit for each year without a claim. This provides a win-win for IKEA (a reward for being in the IKEA Family Club) and for the insurers issuing HEMSÄKER policies (fewer claims improving the underwriting margin).

A DEEPER DIVE INTO EMBEDDED INSURANCE

Embedded insurance shares these key characteristics

Making offers that are...

Digitally enabled

- The offers are made and can be accepted (or declined) within a digital interaction.
- These interactions can occur on mobile phones, tablets, and computers, using mobile apps, websites, voice assistants, chatbots, etc.

Timely

- The offers are made when the prospective customer is buying or using the EIP's product or service.
- Examples might include an offer of homeowners insurance during the process of buying a home or an offer of a workers compensation insurance policy when a small business is hiring its first employees.

Smart

- The offers fill an actual need for protection.
- Examples might include offering an umbrella policy to a person with a very expensive home or offering product liability insurance to an individual selling on Amazon.

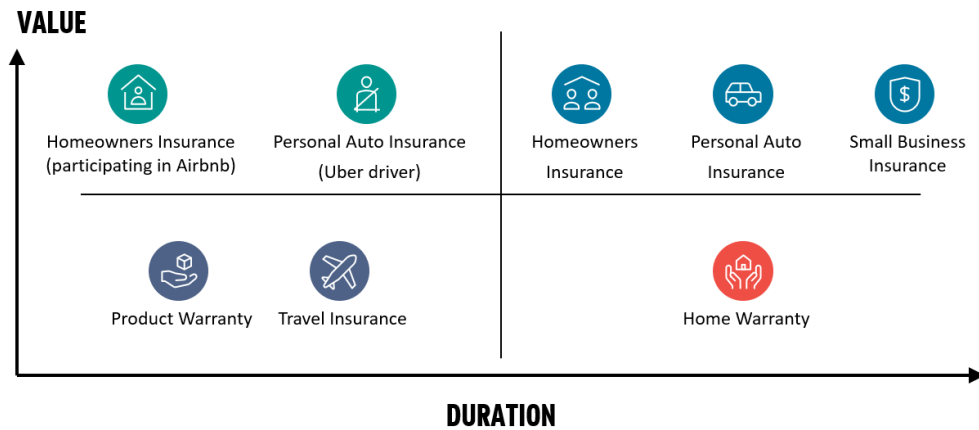
Seamless

- The offers are presented in ways that are easy to understand and easy to purchase. This can sometimes be a challenge since many consumer and business insurance products are relatively complicated and nonintuitive. In addition, a purely digital purchase does not involve access to a human agent or advisor (although providing such nondigital access is an option).
- Examples: The best examples are provided by insurers who sell directly to consumers and small businesses, for example, [Progressive](#) for auto insurance or [NEXT](#) for small business insurance.

For certain kinds of insurance...

- The offers can provide protection for more important assets over longer periods of time or for less important assets over shorter periods of time.

Figure 1: Value and Duration for Various Types of Insurance



Source: Celent

...that occur within a digital transaction for the purchase or use of non-insurance products or services from the Embedded Insurance Partner...

- This could take place in the context of a once-and-done purchase with a low likelihood of additional purchases from the same vendor, such as an African wildlife safari.

...or within a digital relationship, created by the purchase of a good or service that is used over an extended period.

- A purchase with a significant likelihood of usage over time or additional follow-on purchases, such as a new or used car, a home, or an accounting system for a small business could build this kind of relationship.

HOW LARGE AN OPPORTUNITY DOES EMBEDDED INSURANCE REPRESENT?

Potential growth of the embedded insurance market will come from two sources

Celent believes that the amount of insurance distributed by EIPs will grow over the next several years. This growth will come from two sources:

1. Shifting premium from established distribution channels to EIP distribution channels.
2. New premium for policies reducing under-insured and uninsured exposures, also known as reduction of the protection gap (explained below).

The first component is probably the larger. The distinguishing characteristics of embedded insurance described above (timely, smart, seamless, occurring in the context of an existing relationship, etc.) have the potential to move policies and premiums away from agents, brokers, and direct channels to embedded channels. In addition, an EIP will typically have experience-based and/or data-based knowledge of the policyholder and the risks that are being insured (house, car, business, etc.) that enable insurance offers that are more valuable or less costly.

The protection gap in the United States

In recent years various insurance commentators have discussed the protection gap. The simplest definition, provided by Swiss Re, is that the protection gap is the difference between protection that is needed and protection that is available.¹ A few examples will help to clarify the concept.

A significant amount of insurance is a required purchase. In the US, states set requirements for minimal automobile coverage. Lenders for homes and commercial property insist that the borrowers have adequate property insurance. Other types of insurance, while not required, will be seen as necessary by nearly all prospective buyers—e.g., few businesses in a litigious society will forego liability insurance. However, the amount of insurance that is legally required (or seen as necessary) may fall short of the amount that is commensurate with the buyer's risk exposures. For example, a professional who owns a home would be foolish to have an auto policy with only the minimum legally required liability limits (for example, \$15,000 for death or injury to one person) or to have a homeowner's policy with a liability limit of only \$100,000. The protection gap for this professional could be at least several

¹ Swiss Re Institute, Sigma, Resilience Index 2021, June 2021, p. 8

hundred thousand dollars each for his auto liability exposure and for his homeowner’s exposure.

Other protection gaps could be quite large. For example, natural catastrophes (e.g., earthquakes or floods) can destroy a home or render it uninhabitable. There could also be substantial protection gaps for health care expenses. Swiss Re estimates the 2020 North America natural catastrophe protection gap to be \$60 billion and the gap for stressful out-of-pocket healthcare expenses to be \$99 billion.²

Table 1 illustrates a simple model that can be used to make high and low estimates of the growth of total premium distributed by EIPs. The starting point in the model is the amount of property/casualty insurance net premiums written in 2020 in the United States: \$650 billion.³ The model illustrates the total amount of premium that might be distributed by EIPs a few years from now by providing a low end and a high end of a plausible range for the two sources of EIP-distributed premium.⁴

Table 1: A Model to Illustrate the Potential Premiums Distributed by EIPs

	Low End of Range		High End of Range	
	Percent	Net Premium Written	Percent	Net Premium Written
Shift in Existing Premium to Distribution by EIPs	2%	\$13 bn	6%	\$39 bn
Increase in New Premium by Reducing Under-Insured and Uninsured Risk Exposures	1%	\$6.5 bn	3%	\$19.5 bn

Source: Celent

² Swiss Re Institute, op. cit., p. 8 and p. 13.

³ : <https://www.verisk.com/siteassets/media/downloads/insuranceresultsreport2020fullyear.pdf>

⁴ In all probability the total U.S. property/casualty net premiums written will grow in the years following 2020; if so, the potential premium distributed by EIP in those succeeding years would be correspondingly larger.




WHO CAN BE AN EMBEDDED INSURANCE PARTNER?



The short answer is that firms in a broad range of industries could become Embedded Insurance Partners (EIPs).

Figure 2 provides examples of EIPs for several important types of insurance products: homeowners and renters insurance, automobile insurance, and small business insurance (encompassing several insurance products, such as commercial property insurance, commercial automobile insurance, workers compensation, etc.).

Figure 2: Examples of Embedded Insurance Customers and Partners

Types of Customers	Examples of Potential Embedded Insurance Partners
<p data-bbox="431 953 724 978">Homeowners and Renters</p> 	<p data-bbox="768 953 1052 978">Mortgage lenders/brokers</p> <p data-bbox="768 993 919 1018">Homebuilders</p> <p data-bbox="768 1033 1081 1058">Large rental property owners</p> <p data-bbox="768 1073 914 1098">Security firms</p> <p data-bbox="768 1113 1029 1138">Telecom and cable firms</p> <p data-bbox="768 1152 1029 1178">Home services providers</p>
<p data-bbox="431 1188 704 1247">Automobile Owners and Lessees</p> 	<p data-bbox="768 1188 1060 1213">Automotive manufacturers</p> <p data-bbox="768 1228 1133 1253">National/regional new car dealers</p> <p data-bbox="768 1268 1097 1293">Automobile leasing companies</p> <p data-bbox="768 1308 1040 1333">National used car dealers</p>
<p data-bbox="431 1398 634 1457">Small and Midsize Businesses</p> 	<p data-bbox="768 1398 1084 1423">Banks and finance companies</p> <p data-bbox="768 1438 1081 1463">Commercial property owners</p> <p data-bbox="768 1478 1167 1503">Business equipment sellers or lessors</p> <p data-bbox="768 1518 1029 1543">Payroll service providers</p> <p data-bbox="768 1558 1097 1583">Accounting solutions providers</p> <p data-bbox="768 1598 946 1623">Accounting firms</p> <p data-bbox="768 1638 1240 1663">Financial and operational systems providers</p> <p data-bbox="768 1677 914 1703">Security firms</p> <p data-bbox="768 1717 1114 1743">Advertising and marketing firms</p> <p data-bbox="768 1757 919 1782">Telecom firms</p>

Source: Celent

Businesses that are more likely to become successful Embedded Insurance Partners share three key characteristics

1. Providing a product or service that is highly valued by consumer customers or is essential to the successful operation of business customers
2. Having long-term relationships
3. Possessing data and information about their customers' use of the provided products and services and about the customers themselves which can be used to create attractive insurance offers

WHY BECOME AN EMBEDDED INSURANCE PARTNER?



Because it can provide value to the EIP’s customers and prospects...

Table 2: Value Provided by Embedded Insurance to Customers and Prospects

Value	Method
Convenient source of insurance	Digitally enabled, smart, timely, and seamless embedded insurance offers.
Trusted source of insurance	A positive relationship with the EIP provides comfort and assurance for the purchase of a somewhat complex but vitally important product.
Fill insurance/protection gaps	The EIP’s continuing digital relationship with its customers offers opportunities to identify and meet unrealized needs, e.g., umbrella policies or protection for artwork and collectibles.
Being made whole after a loss	This is the fundamental purpose of insurance: restoring the policyholders to their status before the loss, quickly and fairly.
Reduce size of loss	When notified of a loss, insurers provide services to reduce the length and severity of the policyholder’s loss.
Avoid or reduce losses	Connected homes, connected cars, and connected worksites can sometimes change behavior or ameliorate dangerous conditions so losses do not occur or are less extensive.

Source: Celent

...and value to the EIP itself.

Table 3: Embedded Insurance Value Provided to the EIP

Value	Method
Improving retention	Providing insurance adds another dimension to the EIP’s relationship with its customer. As the number of dimensions in the relationship grows, the relationship will become stickier.

Improving lifetime value	Sticky, multidimensional relationships will have longer durations and (with correct pricing) higher profits over time.
Monetizing customer data to make better insurance offers	EIPs will generally have data regarding the house, car, or business that is to be insured. This data will often enable smarter, more timely, and more accurately priced insurance offers.
Monetizing insurance data to maintain and expand the EIP's relationships with its customers	With appropriate permissions, the EIP can gain insights into customers' loss history, risk and safety preferences, and so forth. Some of these insights could enable the EIP to tailor its offers to these customers.

Source: Celent

HOW TO BECOME AN EIP: CREATE A MODEL, PICK YOUR CAPABILITIES

Start with the insurance stack

The insurance stack is the set of capabilities necessary to create, sell, and deliver an insurance product. The insurance stack shown in Figure 3 represents the complete set of capabilities that an EIP **might** perform.

Figure 3: The Insurance Stack

CAPABILITIES	DEFINITION
Marketing and Distribution	Choose target policyholders Manage the channels to reach those customers
Pricing and Product Mgmt.	Define and manage product attributes Create pricing algorithms
Underwriting	Provide price and terms to prospective customers Issue (or decline to issue) policies
Policy Service and Billing	Manage changes in policies Bill premiums and process payments
Claims Management	Receive and evaluate reports of losses Determine and pay correct amount due to claimants
Data and Analytics	Access and analyze data for pricing, underwriting, and claims Use analyses to make better operational decisions
Compliance and Reporting	Meet state and national requirements for each process Submit reports to states and other entities
Technology	Provide software, infrastructure to support operations Enable corporate strategies
Capital & Risk Management	Maintain adequate capital to support book of business Manage operational and other risks

Source: Celent

An EIP could choose to provide all of the capabilities itself, thereby becoming an insurance company. However, many EIPs will take a more incremental and limited approach through a two-part process:

1. Choosing which capabilities it wishes to provide.

2. Deciding to provide those capabilities by engaging external providers or by building the capabilities internally.

There are many external providers that can supply the insurance stack capabilities.

There are several types of providers for each capability, and typically multiple firms offer each capability. (See the Appendix for definitions of each type of external provider.)

Figure 4: External Providers of Capabilities

CAPABILITIES	EXTERNAL PROVIDERS
Marketing and Distribution	Insurers, insurtechs, brokers, agencies, Managing General Agents (MGAs), online exchanges, price comparison websites
Pricing and Product Mgmt.	Actuarial firms, insurers, insurtechs, MGAs, reinsurers (e.g. Swiss Re), bureaus
Underwriting	Insurers, insurtechs, MGAs, Business Process Outsourcers (BPOs)
Policy Service and Billing	Insurers, insurtechs, MGAs, BPOs
Claims Management	Insurers, insurtechs, MGAs, BPOs, Third Party Administrators (TPAs)
Data and Analytics	Actuarial firms, consultants, Insurtechs, reinsurers, consultants
Compliance and Reporting	Actuarial firms, consultants
Technology	Software providers, cloud providers, Insurance Technology Outsourcers (ITOs)
Capital & Risk Management	Reinsurers (capital management), actuarial firms and consultants (analysis)

Source: Celent

In operational terms, each of these capabilities has to be integrated into the workflows and systems of both:

- The EIP
- The insurer(s) providing the products

Two recent technology trends have made these integrations relatively easy to design and maintain. These trends are the increasing maturity of APIs (protocols for exchanging information or requests) and the decomposition of large software programs into collections of much smaller bits of software code called microservices, which are designed to accomplish a limited set of tasks.

An EIP has several options for how it could participate in the insurance stack.

There are multiple ways to be an EIP. An EIP can mix and match almost any of the insurance stack capabilities. It can acquire its capabilities through various combinations of building or buying.

Here are three examples of ways to be an EIP.

Option one: As a **marketing partner**, accessing three insurance stack capabilities.

Figure 5: EIP Capabilities for a Marketing Partner



Source: Celent

This is one of the least complex EIP options, making it a good first step. There are two variations: being a lead generator or becoming a licensed insurance agency.

- A lead generator will typically direct a prospect to the website or app of an insurance company or an insurance agency. On that site or app, the prospect

is taken through an application process, leading to a quote and ultimately the issuing of an insurance policy. The referring EIP typically receives a small payment for each lead.

- A licensed insurance agency will maintain its own website, on which the prospect is led through the same steps (or is sent to an insurer’s site). The agency, and human agents working with it, are subject to the regulations of the state or states in which it operates. The EIP also has to decide with which insurers it wishes to work. Compensation to the agency is in the form of commissions.

Option two: As a **marketing, product, and risk selection partner**, which requires five insurance stack capabilities.

Figure 6: EIP Capabilities for a Marketing, Product, and Risk Selection Partner



Source: Celent

In this option, the EIP assumes certain product, pricing, and underwriting responsibilities. Doing so requires a deeper and broader range of core insurance and analytics knowledge and competencies. An EIP providing these capabilities is more likely to have significant data and analytics insights into its customers, which could inform product design, pricing algorithms, and risk selection (underwriting) decisions. In addition to receiving commissions, this type of EIP could be compensated on a fee-for-service basis (e.g., providing product or pricing advice) and/or by participating in underwriting profits.

As an example, Vivint is a seller of home security and smart home devices such as video doorbells, glass breakage sensors, water sensors, and smoke detectors. Vivint also has its own insurance agency, Vivint Warranty and Home Insurance, LLC. The agency offers its home security and smart home customers pre-negotiated insurance discounts because “A smart home equipped to deter danger and prevent damage will cost less to insure, which means [Vivint customers] qualify for unique discounts through Vivint insurance.”⁵ This implies that Vivint has shared certain data and analytic findings with these insurers to create pricing discounts.

Option three: As a **Managing General Agent (MGA) partner**, which utilizes nearly all of the insurance stack capabilities.

Figure 7: EIP Capabilities for a Managing General Agency Partner



Source: Celent

While not licensed or regulated as an insurance company, an MGA can provide a set of capabilities that approximates a full stack insurance company. MGAs may be appointed by one or more insurers or may even be owned by an insurer. Notable additional capabilities an MGA could provide include policy service and billing as well as claims management. Newer MGAs tend to outsource these functions. More established MGAs may perform these functions internally. In general, MGAs will be

⁵ <https://www.vivint.com/insurance>

compensated by a commission related to the production of agents that the MGA serves as well as by other negotiated fees for service.

Becoming an MGA has several advantages

- More control and ownership over the end-to-end customer journey
- Flexibility to design a user experience and insurance product(s) tailored to the needs of its customers
- Greater ability to choose service partners to outsource different parts of the insurance stack
- Higher potential long term valuation for the company
- Ability to reduce costs in the insurance value chain

Many MGAs choose to work with reinsurers. A large or global reinsurer can provide several types of valuable support to MGAs.

Working with a reinsurer offers four key benefits to MGAs

1. Providing white label products that an MGA can brand as its own since sourcing these white label products from an insurer (rather than a reinsurer) could lead to market conflicts
2. Enabling a broad range of products and operations in multiple (even global) locations
3. Supporting the design and development of products tailored to an EIP's customers
4. Identifying the right partners for critical capabilities such as policy administration systems, data suppliers, and insurers whose primary function is to issue policies that the MGA will distribute

CASE STUDY: PORCH'S DATA-DRIVEN JOURNEY FROM EIP TO FULL STACK INSURER

Porch has a B2B2C business model:

- Porch is the first “B.”
- Providing software to key home-related service providers is the second “B.”
- And leveraging data and analytics to facilitate selling insurance and other products to homeowners is the “C.”

In the company's 10-K filing, Porch describes itself as “a vertical software platform for the home, providing software and services to approximately 11,000 home services companies, such as home inspectors, moving companies, utility companies, home insurance, warranty companies, and others.”

The 10-K continues, “We knew that we wanted to focus on individuals making critical and high value purchase decisions at the start of their homeownership journey. We also knew that we wanted to partner with home service companies to create long-term defensible and proprietary access to these consumers....These partnerships provide Porch introductions to end customers (who are largely homebuyers or existing homeowners)....This access is unique, wide-ranging and early in the homebuying process.”⁶

Porch's first step into insurance was to create an insurance agency, Elite Insurance Group. Elite focuses on homeowners insurance and other personal lines products and is licensed in 50 states.

- Elite's embedded insurance role is that of a marketing partner, utilizing its marketing and distribution capabilities to earn commissions for placing homeowners insurance and other lines with insurers such as Progressive, Safeco, Nationwide, and Travelers.

In 2021, Porch made a series of acquisitions, making it an EIP that owns a full insurance stack.

- In April 2021, Porch closed its \$100 million acquisition of Homeowners of America (HOA), which is both an insurer and an MGA. At the time of its acquisition, HOA operated primarily in six states and was licensed in 31 states. In discussing the acquisition, Porch pointed to its ability to leverage its data, technologies, and access to home buyers.⁷
 - Porch also mentioned HOA's capital-efficient reinsurance strategy. In an August earnings presentation, Porch indicated that 90% of its

⁶ Porch Inc., 2020 10-K

⁷ Porch Press Release, “Acquisition of Homeowners of America by Porch Group,” January 14, 2021

premium was ceded to reinsurers and the 10% of retained premium was itself backed by excess of loss reinsurance.⁸

- In September 2021, Porch announced two additional acquisitions: another insurer, CSE Insurance, and a home warranty company, American Home Protect (AHP), for a combined purchase price of \$93 million. CSE operates in four states (primarily California) and is licensed in an additional six. AHP has a direct selling distribution model for home warranty products in 45 states. These warranty products have a three-year term, providing recurring revenue. Porch sees its existing home services companies as a way to lower AHP's acquisition costs by means of another data/analytics play to analyze its property and appliance data.⁹
 - Reinsurance also plays a role in this acquisition. Porch indicated its intention to improve CSE's operating model by migrating it to a financial model that requires relatively little capital on the insurer's balance sheet while relying more on the financial strength of a reinsurer.¹⁰
- One last proof point on the centrality of data and analytics in Porch's EIP strategy: Porch's Insurtech CEO, hired in late 2020, was previously a senior data and analytics executive at several major insurers.

⁸ Porch Q2 2021 *Earnings Presentation*, August 16, 2021

⁹ Porch Press Release, "Porch Group Announces Two Strategic Acquisitions . . ." September 9, 2021

¹⁰ *Ibid.*

CASE STUDY: LEVERAGING INTUIT QUICKBOOKS' API TECHNOLOGY AND ARTIFICIAL INTELLIGENCE TO BECOME AN EIP FOR SMALL BUSINESS INSURANCE

Intuit provides software for personal accounting, tax preparation, credit monitoring, and small business accounting (QuickBooks). Intuit uses QuickBooks as a platform to offer its small business users a range of other services. It has recently begun to offer a broad range of insurance products to QuickBooks users.

Intuit's QuickBooks strategy is to create an ecosystem of valued products for QuickBooks customers and to make QuickBooks central to its customers' growth, thereby increasing the long-term value of those customers to Intuit.¹¹

To this end, QuickBooks has rolled out a payroll system, health benefits (via SimplyInsured), a 401(k) program (via Guideline), HR services (via Mineral, Inc.), and workers compensation insurance (provided by a digital broker AP Intego, which was subsequently acquired by NEXT Insurance). The workers compensation offering is tightly integrated with QuickBooks accounting and payroll offerings, automating premium payments (and possibly tracking the number and types of employees covered).

In late 2020 Intuit significantly expanded its small business insurance offering, branded "QuickBooks Insurance." Beyond workers compensation, it added general liability, professional liability, employment practices liability, commercial auto, cyber, and earthquake insurance. Intuit also targeted a number of specific types of businesses, including home businesses, construction and contractors, consultants, food and beverage, cleaning services, and landscapers.¹²

Intuit's role as an EIP is essentially that of a marketing partner. It has created Intuit Insurance Services Inc., an insurance agency licensed in all 50 states and the District of Columbia. Intuit Insurance Services, in turn, works with three other firms:

- Coterie is a firm that integrates its brokerage service into QuickBooks Insurance and offers similar integrations into a variety of other types of platforms, such as accounting, point of service, payroll and HR, and payment providers.
- Cover Genius is a technology firm that states that its vision is to offer protection to the customers of large online firms. It offers tools that enable a

¹¹ Intuit, *Investor Day Presentation*, September 23, 2020

¹² The QuickBooks Blog, <https://quickbooks.intuit.com/blog/whats-new/new-integrations-of-insurance-and-401k-services-on-quickbooks-platform/>

broad set of embedded insurance products (e.g., business owner policies) and other tools such as Xcover, which provides API-enabled claims and product services.

- NEXT Insurance offers a broad range of commercial insurance products to a variety of small businesses. Some of these policies are issued by NEXT in its role as an insurer. Others are issued by State National Insurance which issues policies on behalf of MGAs and certain insurers.

As an EIP marketing partner, QuickBooks Insurance also uses artificial intelligence analytics tools to analyze the data contained in a QuickBooks user's financial records to recommend specific insurance policies.¹³

¹³ The QuickBooks Blog, *ibid*.

CASE STUDY: GM FOLLOWS ITS ONSTAR TO BECOME AN EMBEDDED INSURANCE PARTNER

OnStar is a pioneering connected car subscription service available to owners of certain GM makes and models. OnStar provides an in-vehicle cellular connection to service center reps and Emergency-Certified Advisors. These reps and advisors in turn give OnStar subscribers access to a range of emergency, crisis, roadside assistance, and other services.

OnStar has added new services over its 25-year life, which have brought it closer and closer to a role as an EIP.

One such new service is OnStar's Automatic Crash Response feature, which uses various sensors in an OnStar-equipped vehicle to detect a crash and automatically alert the OnStar reps or advisors. This feature now has an injury severity prediction capability so the appropriate first responders can be contacted quickly.¹⁴

In 2015 OnStar became the first automobile manufacturer to contribute driving and vehicle behavior data to Verisk's Telematics Data Exchange (since renamed Verisk Data Exchange).¹⁵ (Verisk is a prominent supplier of data and analytics to insurers.) Its Data Exchange is a repository of driving and vehicle behavior from multiple sources such as telematics solutions providers and insurers. This data can be analyzed to give auto insurers risk-appropriate premiums and underwriting guidelines for prospective policyholders.

OnStar also began offering a telematics program, Smart Driver, to its OnStar subscribers in late 2016.¹⁶ In general, telematics programs are offered by insurance companies to provide premium discounts to policyholders with safe driving behavior and/or low annual mileage. At the time of Smart Driver's launch, OnStar positioned it primarily as a way to help drivers improve the performance and efficiency of their

¹⁴ <https://www.onstar.com/us/en/why-onstar>

¹⁵ Verisk Press Release, <https://www.verisk.com/archived/2015/september/verisk-insurance-solutions-announces-gm-as-inaugural-auto-manufacturer-to-join-telematics-data-exchange/>

¹⁶ GMAuthority.com blog <https://gmauthority.com/blog/2016/12/buick-rolls-out-onstar-smart-driver-program>

vehicles. However, Smart Driver also included an Insurance Discounts Eligibility program, which seeks insurance discounts from certain insurers.¹⁷

OnStar's movement towards becoming an EIP reached a major milestone with a November 2020 press release announcing that General Motors intends to transform the auto insurance industry.¹⁸

Despite the press release's ambitious language, the actual launch was fairly modest. OnStar Insurance sells policies through an OnStar-owned insurance agency, OnStar Insurance Services. The policies themselves are underwritten and issued by various companies in the American Family Group.

- In terms of EIP models, OnStar Insurance launched as an EIP marketing partner.

While OnStar Insurance Services will quote auto (and homeowners) policies to any prospective policyholder, it appears to focus on OnStar subscribers. To obtain the best price and package of features, an OnStar subscriber must activate Smart Driver.¹⁹ The launch press release also described how OnStar Insurance services would be developing a digital experience with a set of features that are currently bundled in the OnStar Safety and Security package, including Automatic Crash Response and a mobile app, OnStar Guardian, which provides several OnStar services to a driver of any vehicle.²⁰ In insurance terms, these services can mitigate losses and/or provide valued non-insurance services such as towing a disabled vehicle.

Lastly, GM's longer-term plans for OnStar Insurance go well beyond operating an insurance agency (in EIP terms, being a marketing partner). The president of OnStar Insurance has over 15 years of experience in senior executive positions for two insurance companies.

- In an October 2021 press release, GM stated, ". . . OnStar Insurance [is] projected to have a potential revenue opportunity of more than \$6 billion annually by the end of the decade."²¹ In all probability, this means that OnStar Insurance is on a journey through other EIP models, such as becoming a Managing General Agency and someday becoming a full stack insurance company.

¹⁷ Ibid.

¹⁸ GM Press Release, <https://plants.gm.com/media/us/en/gm/home.detail.html/content/Pages/news/us/en/2020/nov/1118-onstar.html>

¹⁹ <https://www.onstarinsurance.com/>

²⁰ <https://www.onstar.com/us/en/plans-pricing>

²¹ GM Press Release, <https://media.gm.com/media/us/en/gm/home.detail.html/content/Pages/news/us/en/2021/oct/1006-investor.html>

ADDITIONAL EXAMPLES OF EIP INITIATIVES

Tesla Offers Auto Insurance in Texas

Towards the end of 2021, Tesla announced it was offering auto insurance to Tesla owners residing in Texas. Tesla's announcement emphasized that it was basing its premiums on each vehicle's Safety Score, as well as more conventional factors such as the Tesla model, the residence of the driver(s), and mileage. The Safety Score is based on five factors: frequency of forward collision warnings, hard braking, aggressive turning, following unsafely, and forced disengagements of Tesla's Autopilot function. Premiums are quoted by Tesla Insurance Services, a licensed agency. Tesla appears to be functioning as an EIP marketing partner using data that is uniquely generated by sensors embedded in vehicles it has manufactured.

Uber's Embedded Insurance Offers to Its Drivers

Uber, at its own cost, provides certain insurance coverage to its drivers—specifically, drivers are covered when they have their Uber app on and are available or waiting for a ride request, when they are driving to pick up a rider, and during trips. Uber also makes embedded insurance offers to its drivers that extend the Uber-paid coverage, which the drivers must purchase themselves. In one state, the embedded insurance offers are available from eight insurers, including Allstate, Farmers, Progressive, and State Farm. For example, State Farm offers several types of coverage beyond the Uber-paid coverage, including medical, emergency road service, rental reimbursement, and uninsured motorist. In effect, Uber is an EIP marketing partner for these eight insurers, although it is not clear what financial arrangements, if any, exist between Uber and the eight designated insurers.

The Amazon Insurance Accelerator

For years, Amazon has required certain sellers to maintain product liability insurance. In mid-2021, Amazon expanded the number of sellers subject to this requirement. At the same time, it announced the availability of the Amazon Insurance Accelerator, essentially a marketplace through which Amazon sellers can obtain the required insurance. Sellers access the Amazon Insurance Accelerator on Amazon Seller Central (a website that provides a broad set of services and information to Amazon's registered sellers). The Amazon Insurance Accelerator embeds insurance offers from two marketplaces (Simply Business and Bold Penguin, which offer policies from Travelers, Liberty Mutual, Chubb, and others); and from one insurer (NEXT Insurance).

NEXT STEPS FOR A PROSPECTIVE EMBEDDED INSURANCE PARTNER

Firms considering whether and how to become an Embedded Insurance Partner should follow these steps:

1. Review the types of value it can add for your current customers and prospects and for your own firm in the “Why Become an Embedded Insurance Partner?” section.
2. Evaluate to what degree these values will contribute to the achievement of your current corporate strategies and objectives.
3. Look at the EIP models in the “How to Become an EIP: Create a Model, Pick Your Capabilities” section. Decide if any of these models are a good fit for your firm as a new EIP. Gauge your appetite for building or buying the necessary capabilities.
4. Create a business case with hard and soft expenses and revenues, investments, timelines, and opportunity costs.
5. Seek expert advice all along the way from current EIPs and capability providers (such as reinsurers, actuaries, insurers, and insurtechs).

APPENDIX

Descriptions of external providers of full insurance stack capabilities:

1. Actuarial firms: provide pricing, reserving, regulatory reporting services, and possibly product design, and various analytic services
2. Agents: individuals or businesses appointed by insurers to market and sell those insurers' insurance policies
3. BPOs (Business Process Outsourcing) firms: businesses that conduct specified insurance processes—typically underwriting, policy service, or part or all of the claims process
4. Insurers: typically provide the full stack of insurance capabilities
5. Insurtech insurers: newer insurers, often using newer technology, may provide the full stack or only selected elements in the stack
6. ITO (Insurance Technology Outsourcing) firms: firms that perform some or all of the IT functions for an insurer, such as software development and maintenance, implementation of new software, cloud and infrastructure management, etc.
7. MGAs (Managing General Agents): a special type of agent that has additional delegated authority for such insurance stack elements such as underwriting, providing policy service, and adjusting claims
8. Online exchanges: websites for agents where they can enter information about potential insureds and receive quotes from multiple insurers
9. Price comparison websites: websites or apps that allow consumers and small businesses to enter information and policy parameters and get quotes (usually estimates) for a variety of personal lines and small business coverages
10. Reinsurers: a specialized type of insurance company that insures other insurance companies. A reinsurer receives premiums from its insurer customers and, in return, shares in specified portions of those insurers' losses. A reinsurer may also provide advice and other services to its insurer customers on various technical and operational issues.
11. Software/solution and data/analytics firms: firms providing various types of processing software (e.g., underwriting, policy administration, claims),

various external data sources (property data, OSHA reports, police reports, etc.), and various analytic tools (e.g., machine learning, machine vision, etc.)

12. TPAs (Third Party Administrators): firms that focus on adjusting claims

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