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Insurance Practice

Why Asian insurers are ideally positioned for embedded market gains

Supportive regulations, intensifying competition, digital-savvy consumers, and a coverage gap have created favorable conditions for Asian insurers to consider embedded-insurance opportunities.

This article is a collaborative effort by Prem Dadlani, Vikas Gour, Alex Kimura, Bernhard Kotanko, Sumit Popli, and Sujin Saj, representing views from McKinsey's Insurance Practice and McKinsey Digital.

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Asia's insurance market has reached an inflection point due to the emergence of embedded insurance. Embedded insurance will fuel the next wave of growth and drive further penetration in Asian insurance markets. Consider that funding for insurtechs in the embedded-insurance space increased by 36 percent per year from 2019 to 2021.[1] Likewise, venture capitalist (VC) funding in Asian insurtech start-ups increased tenfold between 2017 and 2021, when it totaled $2.7 billion.[2]

Digital payments disrupted the banking industry, propelling banks into competing in a new space and helping them realize an uptick in payment revenue of about 80 percent.[3] Embedded insurance is likewise redefining insurance business models and intensifying competition in the insurance space. In the embedded-insurance model, insurance is tied to a core noninsurance product and targets that product's customers at various stages in their journey.

Insurers in Asia could be poised to realize significant benefits from participating in the embedded-insurance space. And accessing new customer segments through fully integrated partnerships with noninsurers can help insurers add value. Indeed, insurtechs are leading innovation and helping redefine how life, health, and property and casualty (P&C) propositions are distributed. Against the backdrop of rapidly evolving insurance offerings are several conditions favorable to digitalization: 95 percent of Asian consumers are digitally inclined[4]; Asian government regulations are increasingly paving the path for digitalization of the insurance industry; and the Asian population is experiencing a sizable coverage gap that embedded-insurance products can help fill.[5]

Closing the Asian life insurance protection and savings gap could generate additional gross written premiums (GWP) in excess of $292 billion per year.[6] Embedded insurance will likely be an increasingly prevalent component of Asian insurers' distribution mix. In this article, we'll explore some of the benefits and types of embedded-insurance opportunities available to incumbent Asian insurers, as well as the ins and outs of embedded versus traditional distribution and the key capabilities insurers need to support an advantageous entry into the embedded space.

Why embedded? Improved customer experience and new revenue potential

By 2030, embedded insurance in Asia is expected to grow to become a $270 billion market in terms of GWP, according to McKinsey analysis. Through product innovation and deeper integration with channel partners, 66 percent of this growth is projected to come from GWP transferred from traditional channels, such as agency and bancassurance, to embedded channels.[7]

How does embedded insurance work? Embedded-insurance channels are created by integrating complementary insurance products into a personalized, relevant, and seamless digital customer journey focused on when and where insurance is needed by customers (Exhibit 1). Embedded insurance, unlike traditional insurance, is tied directly to a core noninsurance product and targets that product's customers. The more integrated into the sales journey the embedded product is, the more focused its targeting and the more complementary it becomes to the core product.

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[1] Based on McKinsey analysis of 413 companies identified as insurtechs as of December 2022. Of the 413 companies, 110 offer at least one product or service enabling embedded insurance.
[2] Ibid.
[3] *The 2020 McKinsey Global Payments Report*, McKinsey, October 2020.
[4] Sonia Barquin, Eric Buntoro, Vinayak HV, and Ignes Pricillia, "Emerging markets leap forward in digital banking innovation and adoption," McKinsey, September 23, 2021.
[5] *Closing Asia's mortality protection gap*, Swiss Re Institute, July 2020.
[6] Ibid.
[7] Based on McKinsey analysis of McKinsey Global Insurance Pools data.

Exhibit 1

Embedded insurance integrates complementary products into a highly targeted digital customer journey.

		Embedded insurance		
	Incidental placement	**Adjacent placement**	**Add-on proposition**	**Bundled offering**
Types of product integration	Insurance is a stand-alone product category in a digital marketplace	Insurance is available as a related offering complementing the core product	Insurance is an add-on to the core product available before point of sale	Insurance is bundled to complete the value proposition of the core product
Integration in core sales journey	Insurance sales journey is separate from core product sales journey	Insurance sales journey is separate from core product sales journey	Insurance integrated before point of sale in the core product's sales journey	Insurance bundled at the point of sale in the core product's sales journey

Complementary relationship with core product

Customer targeting

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Three dimensions are helpful in illustrating the differences between embedded and traditional insurance channels: the context of the insurance purchase, insurance product integration with customer journeys, and the point of sale for insurance products.

Context of the insurance purchase. The traditional journey to finalize an insurance purchase is lengthy and involves multiple steps. Embedded insurance uses additional data points related to the customer to shorten the journey. And embedded-insurance channels offer targeted insurance products that complement the core business product. For example, one Chinese digital-health program offers health insurance as an additional product for its customers.

Insurance product integration with customer journeys. Embedded-insurance products are highly integrated into customers' digital journeys, which creates a more seamless experience. Ride-hailing platforms, for example, offer passengers the option of adding ride protection coverage when booking their ride.

Point of sale for insurance products. Embedded insurance allows insurance products to be made available when the need for coverage arises. For example, Shopee Thailand offers customers the option to purchase accidental damage insurance for their newly acquired items with a single click. This considerably lowers the barrier to purchasing insurance protection.

Insurers can realize many benefits from embedded insurance. As mentioned, insurers could derive significant revenue from new customer segments accessed via channel partners. And processing times, conversion rates, and customer satisfaction could improve—potentially significantly—by providing customers with moment-of-need insurance products that complement those of channel partners.

Why now? An environment ripe for embedded insurance to thrive

In recent years, four key shifts in Asia's insurance landscape have coincided to engender auspicious conditions under which to pursue embedded insurance as a business model: regulatory support, vigorous competition, tech-centric consumers, and an emerging protection gap.

Regulatory support for digitalization

Some regulators and government institutions in Asia have long recognized the potential utility of a digital ecosystem to boost insurance availability. The impact of digital insurance was also magnified by the need for alternatives to in-person interactions during the COVID-19 pandemic.

More Asian regulators have begun developing road maps and frameworks to encourage the digitalization of insurance platforms and services. Bank Negara Malaysia (BNM), for example, plans to release a new licensing framework to facilitate the entry of digital insurers and takaful operators (DITOs) with the aim of focusing on serving underinsured market segments.[8]

Competitive pressure

In Asia, an increasing number of players are using embedded insurance to create their own ecosystems along the insurance value chain. Insurers in Asia have, for example, started exploring the embedded-insurance space through strategic partnerships and owned ventures. A leading Southeast Asian insurer created an insurance-as-a-service (IaaS) API platform to link insurers and noninsurance retailers, enabling expansion into new customer segments and markets through embedded-insurance propositions.

And new insurtech players, such as Cover Genius and Igloo, are emerging and bypassing incumbents to launch in-house service offerings ranging from insurance distribution to claims processing. Cover Genius gained significant traction among insurtech start-ups providing buy-manage-claim offerings within digital customer journeys. The company now owns insurance licenses in 60 countries and has strong partnerships in online travel and ride-hailing services.

The emergence on the insurance scene of noninsurance players such as Tesla is adding to the market pressure on incumbents. Tesla launched its new car-insurance product in late 2019,[9] offering comprehensive coverage and claim management services for Tesla owners in select US states. In 2020, investors estimated that Tesla's insurance business could be worth $30 billion, due, in part, to greater customer access and the ability to provide insurance offerings that are more seamlessly embedded than those of incumbent insurers.[10]

Digital-focused consumers

In 2021, 95 percent of Asian consumers used digital channels, according to McKinsey analysis[11]; this indicated a shift in preference for digital platforms over analog options. And active digital consumers are 37 percent more likely than the average consumer to purchase nonlife insurance products from digital platforms.

Reaching more underserved and uninsured consumers

Asian consumers are experiencing a significant mortality protection gap, which was estimated at $83 trillion in 2019.[12] This is a result of low life insurance penetration in Asian countries other than Singapore and Japan (Exhibit 2). Measured by GWP as a percentage of per-capita GDP, average life insurance penetration in Asian markets other than Singapore, Taiwan, and Japan is 2.5 times lower

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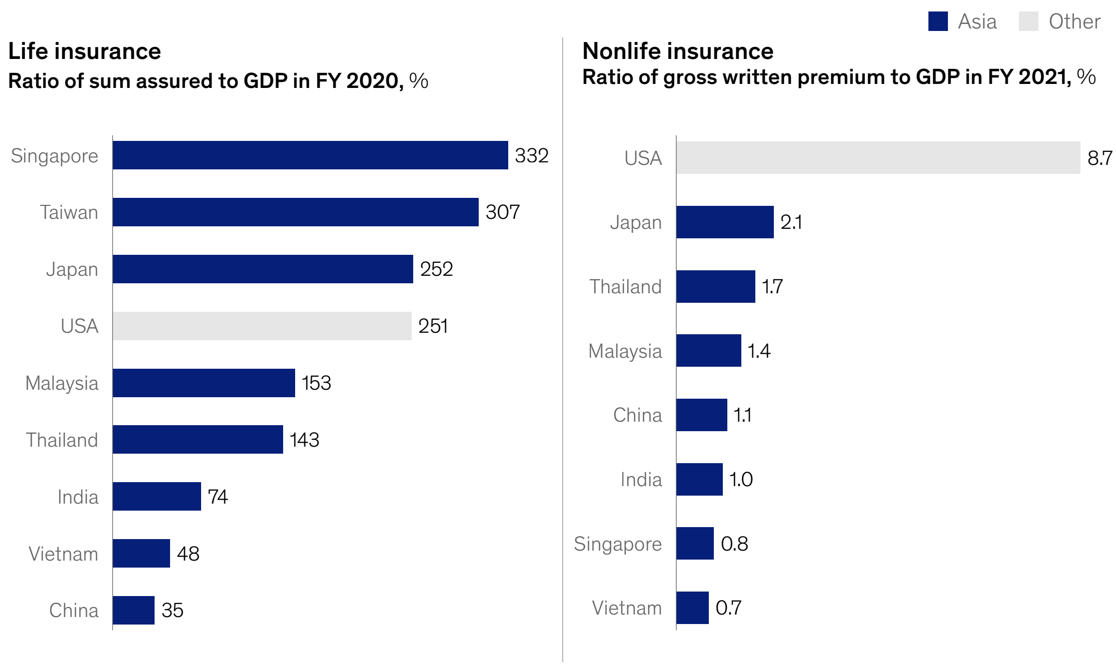
[8] *Licensing and regulatory framework for digital insurers and takaful operators*, Bank Negara Malaysia, November 25, 2022.
[9] Andreas Buelow, José González, and Almahdi Tabia, "Tesla Insurance: How much of a game changer is OEM-provided motor insurance?," Arthur D. Little, September 2022.
[10] Robert Armstrong and Oliver Ralph, "Musk moves into insurance to cut premiums for Tesla owners," *Financial Times*, September 1, 2019; Jamie Powell, "Tesla Insurance: Worth more than Aviva," *Financial Times*, August 24, 2021; "Tesla Insurance: How much," September 2022.
[11] Sonia Barquin, Eric Buntoro, Vinayak HV, and Ignes Pricillia, "Emerging markets leap forward in digital banking innovation and adoption," McKinsey, September 23, 2021.
[12] *Closing Asia's mortality protection gap*, July 2020.

Exhibit 2

Embedded-insurance options could help insurers reach more underserved and uninsured Asian consumers.



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than the average in the United States. The disparity is even more pronounced in the nonlife insurance market, where the average US penetration is seven times higher than the average in Asia. Closing the protection gap across Asian markets could yield an opportunity of more than $292 billion in additional premiums annually.[13]

Despite low penetration in the Asian insurance market, growth is expected as more of Asia's population enters the consumer class and more occupy the high-net-worth and middle-income sectors of the economy. Asian consumers' spending power is expected to grow by 20 percent per year from 2020 to 2030, according to our analysis.[14] This represents an additional $1.2 billion in consumer spending power by 2030.[15]

Embedded-insurance business models and incumbent insurers: Three options

Core competencies in product development, pricing, underwriting, claims management, and service operations make three embedded business models particularly well suited to incumbent insurers: ecosystem orchestrators, insurance in a box, and B2B software-as-a-service (SaaS) enablers (Exhibit 3).

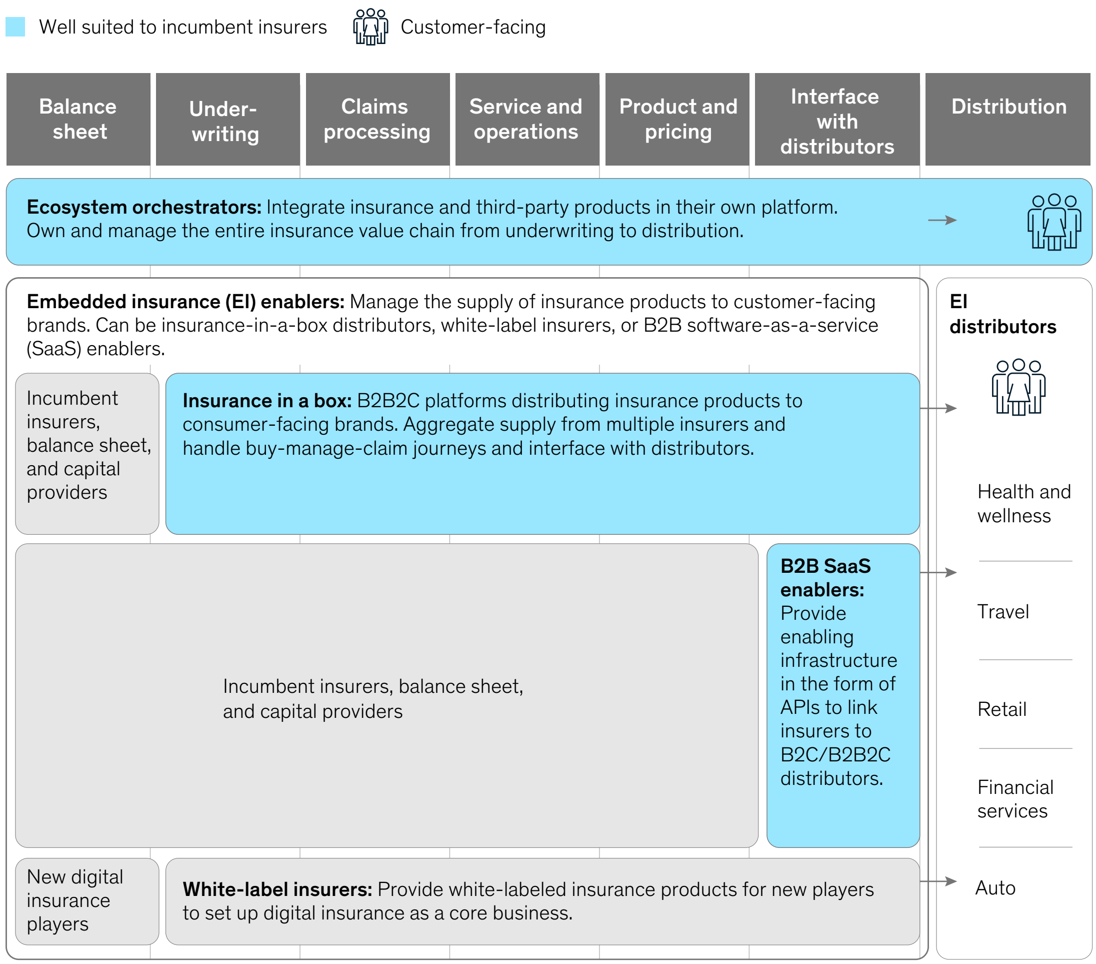
Ecosystem orchestrators

Ecosystem orchestrators integrate insurance and third-party products within their existing platform. They own and manage the entire insurance value chain, from underwriting, service operations, claims management, product development, and pricing to distribution. A leading Chinese insurer, for example, distributes insurance products through its health

[13] Ibid.
[14] Internal analysis based on data from McKinsey Global Institute and World Bank database.
[15] Ibid.

Exhibit 3

Three embedded-insurance business models are well suited to incumbent Asian insurers.



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and wellness app, which is an ecosystem of digital-health services connecting patients with healthcare providers and payers. This ecosystem serves as a gateway for the insurer to access customer data and use it to provide targeted health insurance propositions.

Insurance in a box

When B2B2C platforms distribute insurance products to consumer-facing brands, it is known as “insurance in a box.” These platforms aggregate supply from multiple insurers, conduct buy-manage-claim digital journeys, and interface with distributors. One insurtech, for example, offers plug-and-play integration that can link insurance propositions to distributors’ core offerings through customizable APIs. The insurtech’s partners include Assetinsure and Pacific International, and its distribution partners include leading e-commerce platforms.

Incumbent insurers could begin by partnering with B2B2C platforms to serve as access points for their products; meanwhile, insurers could establish connections with platforms’ networks of distributors. In the short term, customer interactions would be managed by the insurance-in-a-box player. In the longer term, insurers develop their own B2B2C platforms, similar to those developed by one Swiss insurer and by Indian insurer Acko. These platforms, along with deeper relationships with distributors, could help provide insurers with additional customer data that could be used to fine-tune tailored insurance propositions.

B2B SaaS enablers

B2B SaaS enablers provide APIs to link insurers to distributors. These APIs become the interface for the insurer and distributor to interact and jointly serve the distributor’s customers. Once a policy is purchased on the distributor’s platform or app, the customer manages all policy and claim requests on the insurer’s platform or app. This differs from the insurance-in-a-box model in which the B2B2C platform partner manages all customer interactions postpurchase and coordinates in the background with the insurer.

B2B SaaS enabler partnerships could be especially well suited to insurers or distributors with technology capabilities that are less mature. Insurers with technology capacity that is more mature, on the other hand, could leverage their technology infrastructure and talent to create a new stand-alone business by developing an in-house B2B SaaS enabler.

Realizing the value from embedded insurance

Regardless of their chosen embedded-insurance model, incumbent insurers could benefit from cultivating capabilities in partnership development, digital journey design, digital-ready product development, robust data and technology, and innovative approaches to assessing customer risk profiles (Exhibit 4).

Key capabilities for incumbent insurers in the embedded space

Embedded insurance affords insurers with opportunities to grow and advance their capabilities across the value chain, as well as in front-, middle-, and back-office functions.

Partnership development. Establishing partnerships with digital platforms is an integral capability for incumbent insurers, especially when adopting the insurance-in-a-box or B2B SaaS enabler model for embedded insurance. Digital platforms with a core product offering that complements an insurer’s product portfolio are ideal. An automotive marketplace may be a better fit for a P&C insurer, for example, rather than a life insurer. Insurers define a partnership value proposition for each digital platform, which includes a revenue-sharing model, data-sharing agreements, and well-defined ownership for pre- and postpurchase customer interactions. Insurers also ascertain digital platforms’ tech readiness for integration, such as whether the digital platforms have an API layer that can connect with insurers’ tech stacks.

Digital journey design. Once a digital platform partner is selected, insurers are tasked with designing a seamless customer journey across the

Exhibit 4

Each embedded-insurance business model offers specific options and advantages for incumbent insurers.

	Embedded-insurance distributor	Embedded-insurance enablers: Insurance in a box	Embedded-insurance enablers: B2B SaaS[1] enabler	White-label insurer	Ecosystem orchestrator
Description	— Large user base — Insurance enhances core product value	— B2B2C distribution platform — Integrates insurance with consumer-facing brands	— APIs linking insurers to distributors	— New digital insurance player — Sells white-labeled, modular products as a core business	— Manages entire insurance value chain via own ecosystem
Partnerships needed	— Embedded-insurance enablers to embed offerings	— Embedded-insurance distributors for customer access — Insurers for products, underwriting, policy issuance, and claims	— Embedded-insurance distributors for customer access — Insurers for products, underwriting, policy issuance, and claims		
Customer relationship	— Full ownership — Strong brand visibility	— Claims and postsales services	— Minimal to no interaction[2]	— Full ownership	— Full ownership
Revenue potential	— Insurance sales	— Insurance sales — Commission fees — Cross-sell or upsell	— Commission fees	— White-labeled module sales	— Insurance sales — Commission fees — Cross- or upsell — Monetized data
Capabilities needed	— Customer journey adaptable to incorporate insurance proposition — Open tech systems to integrate with embedded-insurance enablers — Standard operating procedures to send customers to partner's service platforms	— Tech to support integration of insurance products with distributor's customer journey — Tech to support integration with insurer's systems	— Tech to support integration of insurance products with distributor's customer journey — Tech to support integration with insurer's systems	— Tech to support customer journeys, underwriting, and digital policy issuance and claims processing — Insurance license available for use — Modular services and products customized to new-player needs	— Tech to support customer journeys, underwriting, and digital-policy issuance and claims processing — Insurance license available for use — Customer journey adaptable to incorporate insurance proposition

[1] Software as a service.
[2] Customer manages claim directly with insurers.

purchase, manage, and claim dimensions. The level of product integration—adjacent placement, add-on proposition, or bundled offering—is the main concern when designing a purchase-focused journey. In contrast, when designing a manage-focused journey, the fundamental question is whether customers manage their policies on the digital platform, the insurer's platform, the embedded-insurance enabler's platform, or a cobranded platform. Finally, in formulating a claim-focused journey, decisions center on whether customer claims-processing interactions take place with the insurer, digital platform, or embedded-insurance enabler and on creating standard operating procedures for claims processing that govern the insurer, digital platform, and embedded-insurance enabler.

Digital-ready product development. New digital product design shifts from product-focused to customer experience–focused in an embedded-insurance business and includes designing services to support preferential underwriting, prepopulated personal information, instant policy issuance, and 24/7 customer support. Insurers redesign legacy processes, strip out complex language from policies, and increase the flexibility of their policy offerings, all in tandem with modernizing their insurance products. Having the appropriate capabilities to develop custom, modular products can help accelerate the transformation.

Robust data and technology. Integration with digital platforms and enabling digital journeys and digital-ready products necessitates robust data-and-technology capabilities. For example, an insurer's API layer within its technology stack must be capable of integrating with its digital-platform partner's back-end technology. Data exchanged between that insurer and the digital-platform partner informs which customer-tailored insurance product (at a customized price) is presented as an option for purchase to customers interacting with the digital platform's interface. When a purchase is initiated, data flows from the digital platform to the insurer's technology stack to process and issue the policy within seconds—ideally without human intervention. Insurers with mature data and tech capabilities could especially benefit from partnering with digital platforms that could, for example, allow insurers to tailor products to maximize attachment rates and conversion rates using customer behavioral, transaction, and interaction data.

Innovative approaches to assessing customer risk profiles. The embedded-insurance model shifts the way customer data is collected. Traditionally, insurers collect customers' personal data directly before conducting a risk assessment to determine an insurance premium based on the customers' risk profiles. In the embedded-insurance model, insurers and embedded-insurance enablers have different sources of real-time transaction, interaction, and behavioral data due to customer journey touchpoints, prefilled information, and a preferential underwriting process. Greater access to customer

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data and the simplification of insurance products could affect how insurers assess customer risk profiles and could lead to an emphasis on proactive rather than reactive insurance coverage.

Strategic implications of embedded insurance: Ways of working

Insurers entering the embedded-insurance space are faced with strategic decisions regarding how to order and prioritize implementation efforts, whether to create in-house solutions or purchase third-party solutions, and how to manage stakeholder governance throughout the process.

Sequencing and prioritizing implementation efforts. Clear priorities for initiatives support the development of a clear project execution plan. Organizations often struggle to create well-defined business cases across different initiatives, such as designing data infrastructure, outlining hypothetical customer journeys, identifying partnerships, and building capabilities. These struggles are often a result of experience gaps in decision making and can lead to further complications in implementation, such as launching initiatives simultaneously rather than using an orderly, phased approach or delays at the end of a process because stakeholder alignment was not achieved at its outset.

In-house solutions versus third-party solutions. The decision between building in-house solutions or buying third-party solutions can be fraught. Ideally, assessments of target technology requirements are well-informed enough to achieve a balance between current and future business objectives. Building internal solutions can help bridge capability gaps with sufficient time to ramp up abilities to sustain the platform in the long run. The downside could be that the development process could be slower if in-house staff are not well equipped or available. Third-party solutions can, conversely, yield quicker results in the short term but could create an internal capability gap that becomes apparent when it is necessary to troubleshoot a system after vendor implementation.

Stakeholder engagement during execution. The product development process can be hindered by silos in internal business lines, IT functions, and distribution channels. In our experience, lack of communication and internal governance oversight are central obstacles to execution and often lead to project delays and cost overruns. Alternately, implementing a digital transformation with razor-sharp focus, leadership governance, and active collaboration between external and internal stakeholders for timely input, informed decision making, and efficient project planning can help support timely and successful project execution.

Asia has reached a tipping point for conditions that favor incumbent insurers' entry into the embedded-insurance space. While some Asian insurers have taken steps to integrate various embedded-insurance business models, most have yet to act on these opportunities. The landscape is exceptionally favorable for insurers to assess their business priorities, core competencies, and organizational capabilities to determine the best embedded options to explore and ultimately pursue. The sooner the transition begins, the sooner industry leaders can model how these advancements in embedded insurance will enhance insurance distribution in the years to come.

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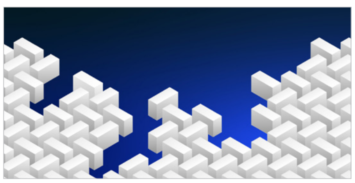

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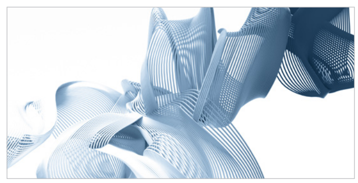
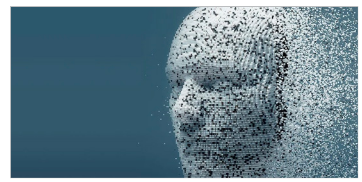


How the Asian insurance market is adapting to the future



Unlocking the potential of AI adoption in Asian insurance