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# B2B2C insurance

## How to (re)organize for the new ways to play

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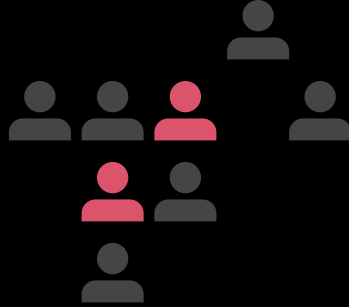
# Introduction



B2B2C insurance is the activity of distributing Life and P&C policies through non-insurance intermediaries. Such activity is nothing new to insurers who have been successfully selling insurance policies through other financial institutions –mainly retail banks and wealth managers – for years. Insurers have also been offering policies through affinity groups (e.g., car dealerships), and more and more companies are currently looking to participate in partnerships with non-financial institutions.

The B2B2C distribution model has, however, shown rapid evolution in the last years and is gaining the attention of an increasing number of players operating both inside and outside of the insurance industry. Banks, utilities, e-commerce, retailers and others (e.g., professional associations) are showing interest in proposing insurance coverages to their customers or members, in order to differentiate their value propositions and increase margins. In this context, “digital attackers” are occupying a white space currently not fully served by traditional companies. For example, a Belgian fintech has developed a unique embedded insurance solution for a leading challenger bank that the large part of traditional insurers would not have been able to achieve: by subscribing to each of banks’ plans – plus, premium, metal – the customer automatically activates insurance coverages for travel, purchases, events, etc. While such business opportunities were mostly concepts some years ago, this way of distributing policies is by far showing one of the fastest growth in the market and becoming more common for customers.

The opportunity of being present at the “right moment of need” and often side by side with a brand that is trusted by a large client base is becoming increasingly attractive to traditional insurers aiming to overcome many of the barriers that have stalled the penetration of insurance products so far. Furthermore, these B2B2C distribution models offer the opportunity to insure groups of customers with strong commonalities of insurance needs, and hence render the underwriting more efficient and cost effective.

This article is a guide for industry practitioners who want to consider the opportunity, understand its relevance to their businesses and, possibly, design a strategy to develop or re-organize their approach to B2B2C.

# B2B2C insurance – A channel that insurers can no longer ignore

B2B2C is the answer for insurers to the necessity of evolving towards more effective business models, as different market factors push them to rethink their ways of playing in the market.

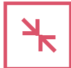
There are three aspects – among many others – that can be identified as the main rationales for insurers to embrace re-considering their own B2B2C strategies:

- The opportunity to **address the large protection gap** (estimated at $1.8 trillion in 2020 for P&C)[1] , that insurers have not been able to **effectively reduce over the years leveraging on traditional distribution channels** (brokers, agents, bancassurance, direct)
- The **need to overcome barriers of supply and demand**[2] (e.g., on the demand side: appeal, awareness, affordability, trust; on the supply side: transaction cost, limits to insurability, adverse selection/ moral hazard, etc.). If we take into consideration Natural Catastrophe insurance (often proposed by Banks whenever a mortgage is underwritten), there are huge coverage gaps all over the world. For example, nearly **half of Americans across 48 states are at risk for damage from an earthquake**, but **only 11% of American homeowners have earthquake insurance**[3].

  Even in the earthquake-prone Western U.S., only 17% of homeowners have such insurance[4].There are several reasons that many people fail to obtain earthquake insurance to protect themselves and their property: high cost and limited coverage (e.g. many insurers in California had not collected premiums for such coverages after the devastating earthquake of 1994[5] ); moreover, as earthquakes are low-frequency, high peril events, consumers typically take earthquake insurance for granted until they experience a significant earthquake. Other reasons that consumers may be hesitant to purchase earthquake coverage include confusion about what is covered in insurance agreements and misplaced hope for government assistance[6]
- **The necessity to address new customer habits**: peoples' habits will continue to evolve. For instance, **companies operating in the "sharing economy"** (e.g., crowdfunding, home sharing, car sharing, …) are expected to reach **$335 Bn of revenue worldwide** (up from $15 Bn of 2013). [7]Other relevant consumer megatrends of the developed world are the research of **physical and mental wellness**, of a more **sustainable lifestyle** and of **stimulating experiences**. [8]There is no doubt that these megatrends will impact all industries and insurance will not be an exception

[1] Mapfre GIP 2020
[2] Strategy& elaboration on "The Geneva Association – Root Causes of Global insurance protection gaps"
[3] United States Geological Survey (USGS)
[4] Poll by the Insurance Information Institute
[5] The Global Insurance Protection Gap - Assessment and Recommendations
[6] National Association of Insurance Commissioners - Earthquake insurance (10/14/2021)
[7] PwC Report: Sharing or paring? Growth of the sharing economy
[8] Mintel Global consumer trends 2030

Furthermore, **there are several factors enabling B2B2C business for insurers:**



**Endogenous factors**, such as the **fragmentation of the insurance value chain**, is making it possible for digital attackers to capture B2B2C opportunities more effectively. Thanks to such fragmentation, players such as MGAs or brokers can focus on product development and distribution, leaving all complex core insurance operations and risks (e.g., capital requirements, asset management) to insurers and reinsurers.

**Exogenous factors**, such as:

- **The appetite of a growing number of sectors** and **companies** (from SME to large corporates) to **include insurance products** in their value proposition
- **The rise of new technologies** (e.g. APIs, software architectures based on microservices, …) making **IT integrations** between **partners both more efficient and effective**

Furthermore, B2B2C, if properly addresses, can also represent a **"triple win" opportunity for all the actors involved:**

**Customers**, as they can benefit from a "one-stop-shop" experience, possibly from a brand they trust

**Partners**, as they can benefit from additional revenue streams, increase customer loyalty, differentiate against competitors and provide an enhanced value proposition

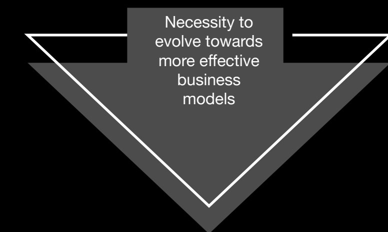
**Insurers**, as they can seize new opportunities, be in "pole position" to cover emerging customer needs and benefit from image/ trustworthiness of partners' brand

**Rationales for insurers to embrace B2B2C**

Significant protection gap

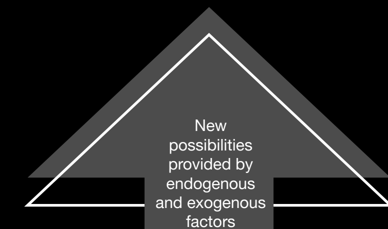
Relevant barriers for supply and demand

New customer habits




**B2B2C Insurance**

Propose/distribute insurance solutions through business partners, either as complementary add-ons to their core value proposition or as new components




**Factors enabling B2B2C**

Fragmentation of Insurance value chain

Appetite of other industries to embed insurance products in their offering

New technologies (e.g. API, microservices, ...)

B2B2C B

# B2B2C has interesting growth perspectives for the next years

B2B2C insurance is a sizable business, with interesting growth perspectives for the future. For example **Bancassurance**, the most relevant B2B2C channel (valued $1.2 Trillion worldwide[9]), is expected to grow consistently in the next years (+6% CAGR from 2020 to 2026), driven by three main factors: 1) ageing population in the developed world, with the need of life insurance and pension plans; 2) the increasing capability of insurers to deliver the insurance offering more effectively (e.g. making personalized recommendation based on purchasing patterns); 3) the economic growth of developing countries; it is also showing a rebound, for instance in the UK with banks reentering the market after the withdrawals following earlier regulatory changes; or in SME insurance (e.g., in regions such as Latin America and southern Europe).

**Car dealers** channel has also become more and more relevant through the years. In Italy, for example, Other Motor and Assistance policies for private cars went from almost 0 in 2009 to approximately €1 Bn GWP[10] in 2020, with car dealers currently gaining 1% of their revenue from insurance policies and up to 10-20% of their EBITDA[11].

In the UK, besides an increased scrutiny from regulatory bodies, the penetration of total GWP distributed through car dealers has increased from 2% in 2012 to 2.6% in 2017[12]. **Annex businesses**, consisting mostly of extended warranties and electronic device protection, is valued $121 Bn globally and expected to grow to $170 Bn in 2027 (7.4% CAGR)[13], due to the increase of value of electronic devices, growth of the number of devices sold and increasing penetration of insurance policies sold to protect the devices.

**Travel policies business**, valued $19 Bn globally will see a significant growth in the long run, reaching $39 Bn in 2027[14], due to more restrictive regulations (e.g. making it mandatory while applying for a visa) and to an increased awareness of customers, after COVID-19 outbreak.

[9] EIS Group
[10] Strategy& estimation
[11] Nobis insurance observatory
[12] Insurance Europe, Finaccord
[13] Allied Market Research
[14] Allied Market Research

# Different players are upping the game and are aggressively addressing the B2B2C insurance opportunity

Currently, there are different players trying to address the opportunities of B2B2C insurance.
Not only traditional full-stack insurers, but reinsurers, managing general agents (MGAs) and digital attackers (e.g. neobrokers, …) are also building stronger positions.

**Reinsurers**, pushed by the long-term threats of their business (e.g., low interest rates, systemic risks, …), are combining insurtech investments with reinsurance contracts and JVs (e.g., SwissRe with IptiQ and Movinx)

**Traditional full-stack insurers**, that in some cases have developed global business units (e.g., AXA Partners, Allianz Partners, Covéa) and/ or legal entities with full P&L responsibility with distinct MGA/ risk carrier solutions. Often, such business units have strong global capabilities for managing large RFPs and mainly focus on large deals

**Digital attackers**, that include **MGAs** (e.g. Trov, Oyster, Qover), brokers (e.g. Simpleinsurance, Next) and newborn start-ups or scale ups with a license to operate as risk carriers (e.g., Wakam, iptiQ). Such players **focus on business/ IT agility and strong technological capabilities,** often **leveraging on different value propositions** (e.g. product factory, white label products/ platform, direct/ intermediated distribution, …). A leading digital attacker, for example, operates through different business models: product factory for innovative solutions, carrier for other MGAs and provider of white label insurance solutions

# There are three main models available to insurers to develop their B2B2C businesses

There is no unique way to operate in the B2B2C arena. In fact, based on companies' objectives, business context, capabilities and client needs, insurers can leverage a broad variety of models.

For example, an insurer that aims to propose third-party liability insurance for the delivery-people of a food delivery service would need a specific temporary insurance product with instant underwriting, to allow occasional workers to be covered only for the time they allocate to the activity. On the other hand, an insurer who wants to target professionals (e.g., lawyers, doctors) would not need such timeliness, but it will rather be focused on building a specialized offering and distribute it through a network of partners that have strong relationships with such groups of professionals.
Each model – which are defined below – can be identified by intersecting two main dimensions:

## 01. Level of integration between insurers' and partners' customer journey, which can be:

**Not integrated**: insurance underwriting process is completely segregated from non-insurance journey (e.g. a lawyer, after registering to a trade association, is directed to an affiliated broker/insurer to underwrite a third party liability insurance; a customer of a pay-tv uses a discount voucher provided by the company to buy a Motor policy of a primary insurer)

**Partial integration**: the insurance underwriting process takes place entirely or partially during the non-insurance purchase, yet the journey is not seamlessly integrated (e.g. purchase of a credit protection policy or a home insurance policy after the underwriting of a home mortgage)

**Seamless integration**: the underwriting of the insurance policy happens seamlessly with the non-insurance purchase, with the insurance customer journey almost indistinguishable from the non-insurance journey (e.g., underwriting of an extended warranty for a television purchase through an e-commerce)

## 02. Type of insurance offering

**Legacy**: traditional insurance coverages such as Motor, Home, Life insurance

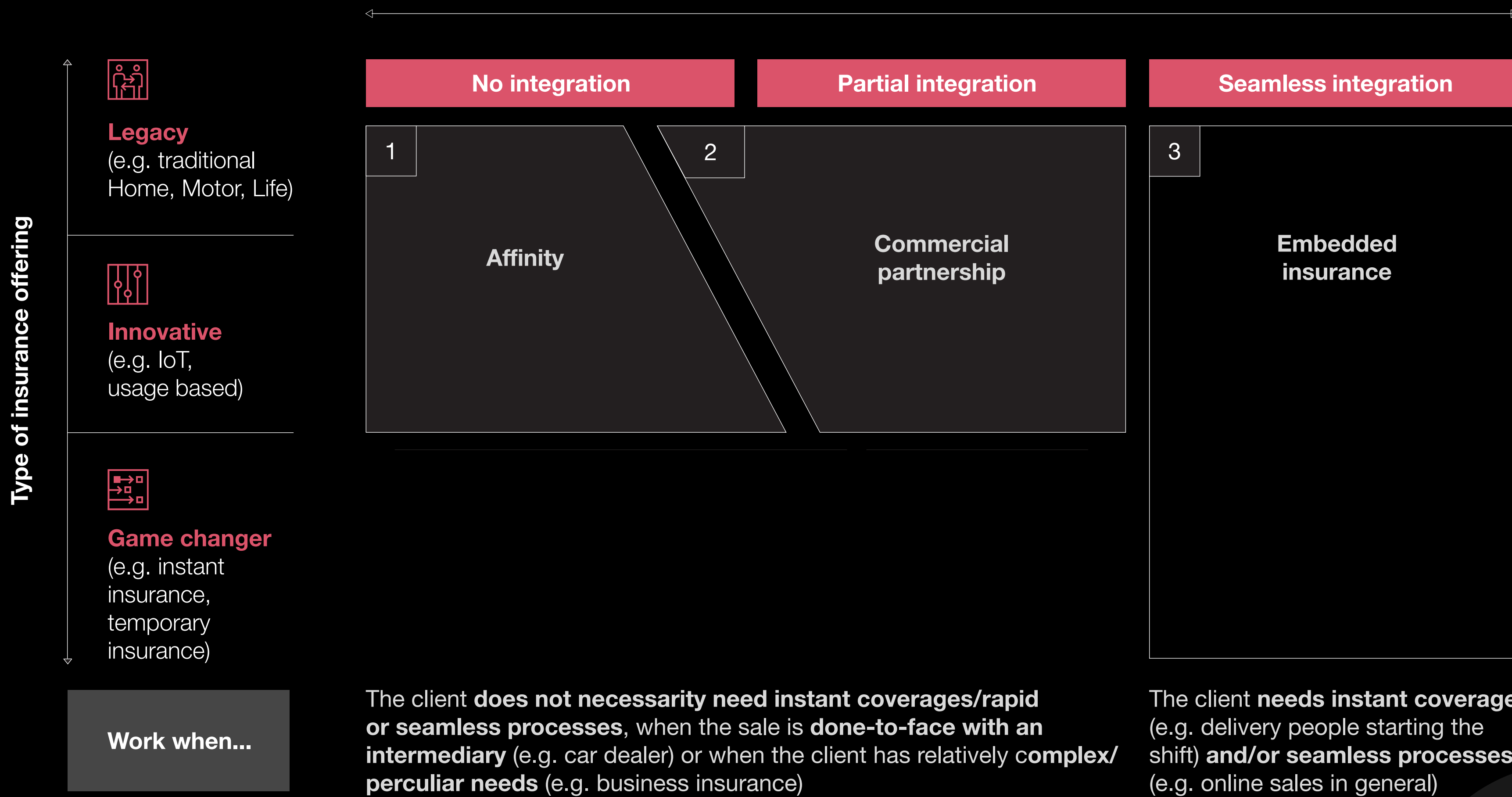
**Innovative**: traditional offering enriched by innovative elements (e.g. IoT devices, usage-based insurance[15], …)

**Game changer**: instant insurance, temporary insurance[16], and/ or coverages related to new or peculiar needs (e.g. insurance which covers individuals against bad weather conditions during a holiday or an event)

[15] Policies which adapt the premium based on insurers' behaviors (e.g. Pay how you drive) or traditional policies that can be suspended whenever the Clients do not need them, but stay in force perpetually or are renewed yearly (e.g. suspension of a Motor policy for 3 months if the client does not use the Car)

[16] Policy that stays in force only for a limited timeframe (e.g. TPL when using an e-scooter sharing service)

# Level of integration betw




The client **does not necessarity need instant coverages/rapid or seamless processes**, when the sale is **done-to-face with an intermediary** (e.g. car dealer) or when the client has relatively **complex/ perculiar needs** (e.g. business insurance)

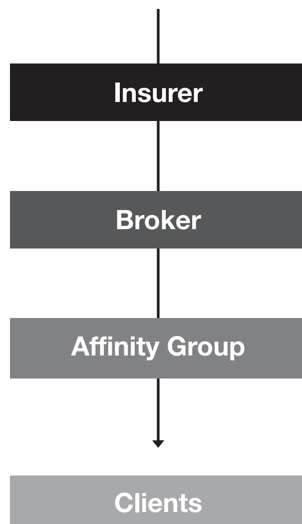
The client **needs instant coverage** (e.g. delivery people starting the shift) **and/or seamless processes** (e.g. online sales in general)

| Business model | Definition | Business rationales | Applications | Examples |
| --- | --- | --- | --- | --- |
| 1. **Affinity model** | Model through which an insurer serves groups of people that share common interests, goals and hence similar insurance needs; through a tailored value proposition distributed via formal or informal associations. In such partnerships, there is usually no integration between the insurer and organization in terms of the purchase journey, but often rather a simple referral from the organization to the insurer or broker.<br>The rewards from such collaboration for the affinity organizations can vary from a country to another, based on national trends and specific regulations. | Effectively address unserved/ high-potential niches | • Insurance coverage for professionals (e.g. lawyers, doctors, …), fine arts collectors, military personnel, students, … | • A large global broker (backed by a set of insurers) offers a tailored package for international students (health, travel, third party liability, …), promoted through collaborations with primary international campuses (e.g. INSEAD, …) |
| 2. **Commercial partnership** | Commercial agreement through which the insurer distributes its products through a partner and, in exchange, provides a commission or a fee. The purchase journey can be partially integrated between insurance and non-insurance purchase (e.g. bancassurance model) or not integrated (e.g. discount vouchers distributed through not insurance partners) | Drive incremental business leveraging on standard offering | • Traditional bancassurance model<br>• Motor policies distributed through Car Dealers<br>• Travel policies distributed through travel agencies<br>• Discounts/ vouchers proposed by non-insurance partners | • A leading insurer provides tailored discounts on Motor policies for clients of an Italian broadcaster<br>• A leading insurer has partnered with an automotive company for offering 'Other Motor' guarantees through its car dealers network |
| 3. **Embedded insurance** | The embedded insurance model bundles insurance coverages within the purchase of a product or service in a way that either the underwriting journey of the policy is almost indistinguishable from the purchase itself, or the insurance coverage is natively included in the product/ service | Address new clients' and partners' needs | • Online sales<br>• Instant and temporary insurance | • A leading marketplace offers extended warranties for consumer electronics purchased in its online shop<br>• A Belgian fintech and a leading digital attacker offer instant and temporary third-party liability insurance to the riders of a leading delivery food company |

Each of the previously identified business models can be activated by the same insurer, though each one has its own rationales and is completely self-standing.

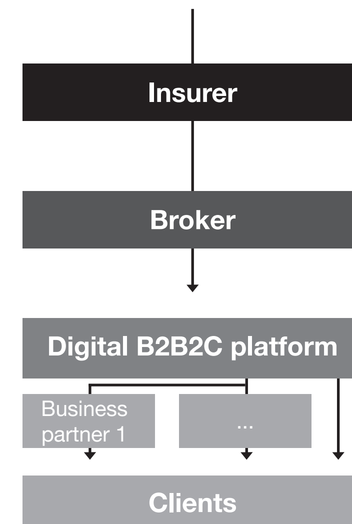
Ecosystem models, which are increasingly gaining the attention of the insurance industry, have not been included in this framework – although, if an insurer was participating in an ecosystem, it would qualify as a possible additional B2B2C model. However, if an ecosystem offering is not seamlessly integrated with the insurance offering, such model qualifies as an “Embedded insurance model”, whereas if the ecosystem provides a seamless integration, this model qualifies as a “partnership”. Ecosystems led by insurers (e.g., John Hancock’s Vitality, Figo Pet insurance, …) are not included the previous framework, as they do not qualify as a B2B2C model, but rather as B2C model in which the insurer acts as distributor for non-insurance offerings.

1 **Affinity**




2 **Commercial partnership**

3 **Embedded insurance**



# Embedded insurance: a game for agile, fast-paced and technological organizations

Embedded insurance appears to be the new buzzword in the industry, as many new insurtechs are popping-up in the market, generating considerable resonance for several reasons:

**Strong growth rates**: the few players currently present in the market have grown considerably in the last years. For example a leading digital attacker, thanks to its innovative approach to B2B2C has grown at a 30%+ CAGR from 2015 to 2020, with "Gig-economy" coverages going from almost 0 in 2018 to >€50 Mln in 2020. Furthermore, the Company is showing positive underwriting results, with a combined ratio < 98% in 2019 and a positive net profit from 2015 (€1 Mln) to 2019 (>€9 Mln)[17]. Another global digital attacker experienced a robust GWP growth trajectory up to >$300Mln from 2017 to 2020 (83% CAGR). The number of distributors more than tripled, going from 12 to 40 in the same period of time[18]

**Attraction of considerable investments**: Extend, a US insurtech specialized on embedded insurance, has recently raised $260Mln Series C investment[19], with $1.6 Bn valuation; Qover has raised $ 25 Mln Series B round in 2021, with a total funding raised of $43 Mln[20]. Several other insurtechs focused on B2B2C are attracting tens of millions of investments each (e.g. FintechOS: $60 Mln round in 04/2021[21], Boost: $20 Mln round in 05/2021[22], Coherent: $14 Mln round in 11/20[23])

**Relevant success cases, with primary international companies**: just to name a few, Wakam and Qover worked with Deliveroo for developing temporary/instant TPL insurance aimed at delivery people; Wakam developed a mechanical breakdown insurance for new vehicles for Yamaha; Qover collaborated with Revolut to embed insurance coverages in its subscription plans (purchase protection, refund protection and ticket cancellation), iptiQ developed a home insurance solution for IKEA

Such resonance is currently stimulating the interest of traditional "full stack" insurers, which are asking themselves if and how they can compete in the embedded insurance arena and how they can seize this opportunity before it is too late. While much of the hype is currently on technology (which is certainly critical for enabling such business), there are several other factors that appear as relevant.

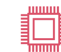
[17] Company's annual report/ SFCR
[18] Company's annual report/ SFCR
[19] Crunchbase
[20] Company's website
[21] Company's website
[22] Life Insurance International
[23] Crunchbase

A glance to the most prominent insurtechs specialized in embedded insurance highlight the following critical success factors to operate successfully in such market:

**Business and organizational agility**: many companies that can effectively embed innovative insurance products in their offering operate online or within the gig-economy. Such players are often subject to a fast and continuous evolution (of the business model, of the offering, of the regulations, …), hence all actors involved in the value chain are expected to operate with the same agility. In this picture, Insurers are no exception: they should be able to work at the same pace of their B2B partners, which in practice means to be able to interface with international, young, highly technological, fast paced organizations. This is even more important if insurers have to support start-ups: since one of their main priorities is to quickly reach the break even point, insurers will have to contribute to reduce such time. For example, Wakam was able to develop products for Zego (UK innovative broker) in a matter of weeks, unlike from some traditional insurers were not able to provide a viable product in more than a year. Such rapidity was crucial for Zego to decrease timing to start distributing products and reach the break-even point

**Scalability**: a scalable technology platform and business model is crucial for companies to timely size market opportunities and address small and mid-sized distributors. Wakam, for example, developed an "insurance as a service" platform, through which distributors can autonomously configure their policy and embed the product in their offering, leveraging Wakam's API portal. Such technology is crucial to allow Wakam to address small and mid-sized B2B2 partners, for which the cost-to-serve could be too high with a traditional model

**Willingness to take risks and to experiment** as many businesses that are looking to embed insurance products do not have a long history and are continuously evolving (e.g. gig-economy start-ups and scale-ups), players that want to approach embedded insurance must have a different attitude towards product pricing. For example, covering an e-scooter owner for third party liability will guarantee very little amount of historical data compared to traditional motor insurance. For this reason, insurers should be able to build pricing models and underwriting processes based on limited amount of data, hence approaching this exercise with a "learning by doing" attitude and taking calculated risks

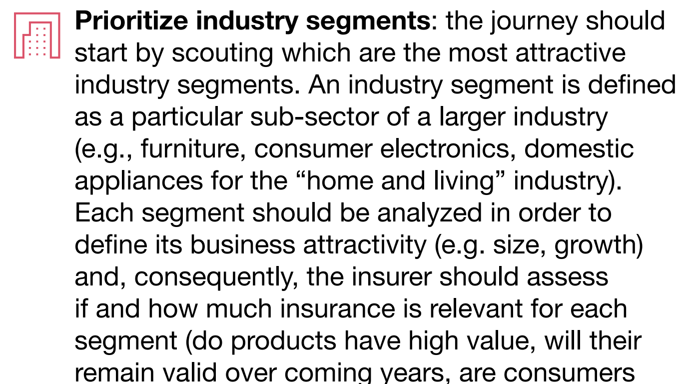


**Strong technological capabilities**: finally, being able to build, manage and maintain technological enablers for B2B2C represents one of the key requirements that are necessary to effectively compete in the embedded insurance market. For a traditional Insurance company, the paradigm has always been to outsource IT in order to focus on core insurance processes, while for many of the success stories mentioned above (Wakam, Qover, iptiQ, …), one of the companies' focus is strongly on IT, while some core insurance processes are often totally or partially outsourced (e.g. distribution, claims, ..)

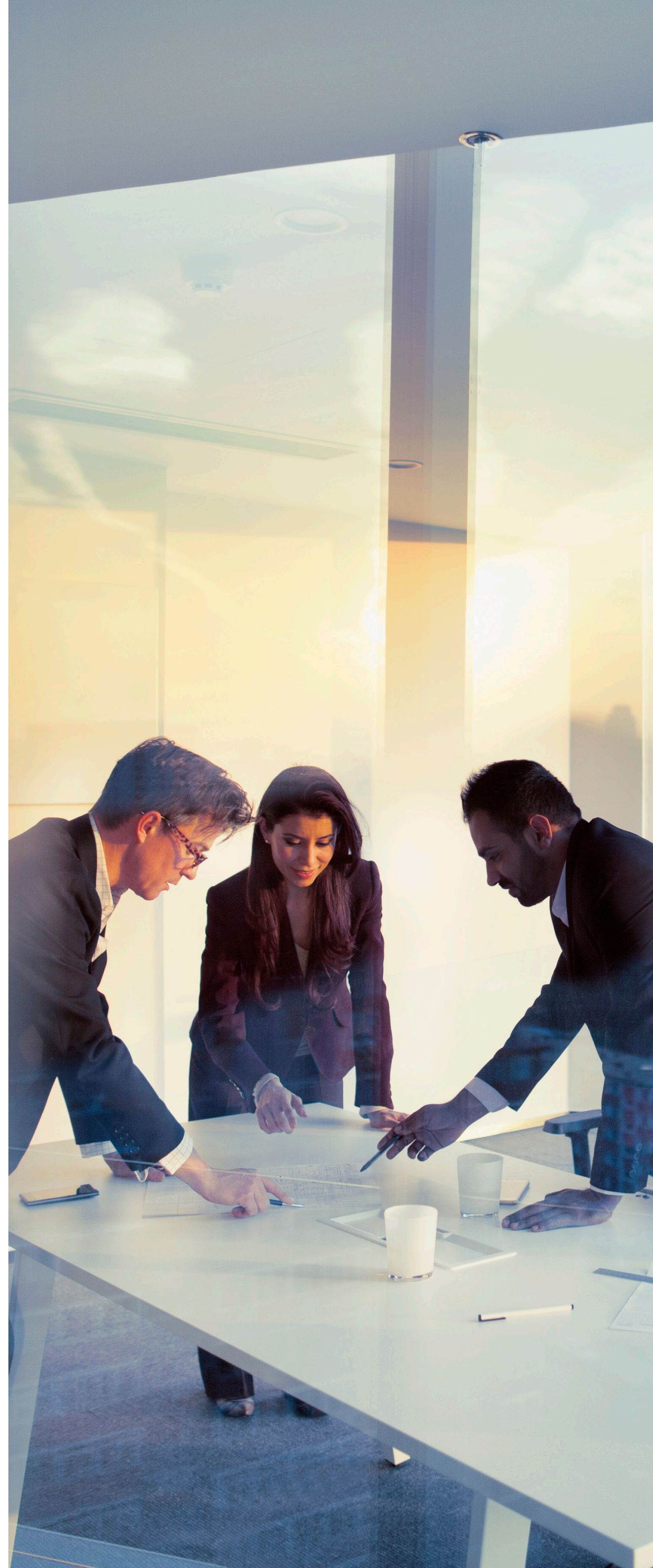
# A four-step approach to develop B2B2C

For companies who want to step-in or re-organize their B2B2C business, Strategy& has developed a framework that has the ambition to offer guidance to all those that want to embark in such a journey. Leveraging on the framework, insurers may find that they already have the needed capabilities to address segments that are particularly attractive (quick wins), while to address other segments they would need to develop specific capabilities.

In practice, the idea of the framework is to start by prioritizing insurers' efforts (focusing on a shortlist of industry segments to be addressed), proceed by designing the optimal target model (along with governance capability strategy). Finally, the last step is developing a roadmap and a business plan to guide the transformation, in order to test if the reasoning done in the previous steps make sense from an operational/ financial point of view:



**Prioritize industry segments**: the journey should start by scouting which are the most attractive industry segments. An industry segment is defined as a particular sub-sector of a larger industry (e.g., furniture, consumer electronics, domestic appliances for the "home and living" industry). Each segment should be analyzed in order to define its business attractivity (e.g. size, growth) and, consequently, the insurer should assess if and how much insurance is relevant for each segment (do products have high value, will their remain valid over coming years, are consumers interested in insuring such products?). The last step is to assess the company's current readiness to serve the segment (e.g., does the company have the right products to address segments' insurance needs). The result of this analysis should be a map, in which companies should prioritize the segments to target



**Design the optimal target model to address selected segments**: for each one of the segments shortlisted, the Company should investigate demand (e.g., what are the insurance needs? Is there a latent need that is currently not addressed? …), competition, potential partners and how it can create value for the customer. After that exercise, the company should design the optimal business model to target each segment and, eventually, the insurer must merge all the different models, identifying the minimum common denominators between each one. The main idea of such exercise is to try spotting possible synergies between the different models needed to address each segment (e.g. two segments may need similar products, or are mainly sold through third-party e-commerce resellers and hence could share most of needed assets and capabilities)

**Define governance and capability strategy**: when the overall operating model is outlined, the company should define how to develop needed capabilities (e.g. make, buy, partner, …). For example, a particular segment could be attractive, but the insurer may not have all the needed capabilities to address it and the time to market to develop them internally could be too high to seize the opportunity. In such cases, the company could leverage on a partnership with a "digital attacker", or even acquire it to internalize its assets and know-how. Setting-up the right governance is also crucial, especially for large and international insurance groups. The insurer will have to define who will be responsible for B2B2C, who he/ she will report to, which capabilities will have to be "B2B2C specific" and hence governed separately from the other functions, and which will have to be shared with the other entities of the group. For international groups, it will also have to be clearly defined the degree of autonomy of each country, as well as understood which capabilities will have to be centralized and shared and which other will have to be more "country-specific" (e.g. claims management and sales could be country specific, while IT could be centralized)

**Develop roadmap and business plan**: after defining the target operating model, the company should estimate the effort and the benefits of embarking on such ventures; hence, designing a roadmap and developing a business plan will be crucial to assess financial and operational feasibility

The process described above is meant to be iterative: if during the business plan exercise the company realizes it needs higher resources than expected, the insurer can review its operating model, or decide to change (increase or reduce) the industry segments it seeks to address.

# Four points to keep in mind to succeed in B2B2C

After getting started, insurance companies must keep in mind that, as there is no optimal model for developing B2B2C, there are certainly a series of good practices to keep in mind:

1. **Partner collaboration**: the collaboration with the partner(s) must be developed with a solid foundation, clearly defined goals, roles and decision processes. Furthermore, the partnerships must be managed by dedicated accounts and be aimed at delivering value both for the end customer and the partner(s)

2. **Distribution excellence**: product distribution must be convenient, simple, and compliant with regulatory requirements (which is a condition that is not always easy to be met in every country, especially when referring to instant/ embedded insurance). As already seen, the integration between the partners does not have to be necessarily seamless, yet it does need to be flawless and frictionless both for end customers and for the partner itself. Marketing initiatives, moreover, should be defined in consultation between insurers and partners and not only left in charge to one of the two actors

3. **IT & Operations**: insurers that want to effectively approach B2B2C should have flexible, scalable and efficient IT capabilities, which are crucial to manage partners specificities, as well as product and distribution requirements. Modern IT infrastructures, adopted by "digital attackers" are based on new standards: APIs and microservices based architectures, cloud native infrastructure and new ways to manage and store data (e.g. NoSQL vs. relational database systems)

4. **Culture – i.e., behaviors and attitudes**: (re) organizing for B2B2C requires a cultural change for traditional insurers, especially if they want to step in embedded insurance. The insurer should be able to act with the needed agility, time to market, and be able to take necessary risks. Furthermore, the insurer should be able to relate with the different partners, which would involve going at their pace and speaking their language. Such capabilities cannot be built very easily and often require reviewing the governance and the organizational structure, as well as attracting new talents

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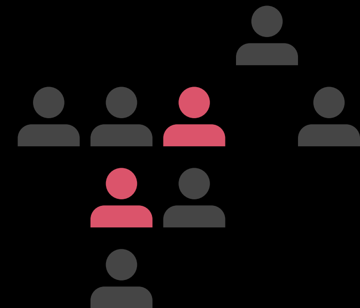

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