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EMBEDDED INSURANCE REPORT

Leveraging Transaction Data To Expand
Coverage In A Digital-First Market

The Embedded Insurance Report: Leveraging Transaction Data To Expand Coverage In A Digital-First Market examines new models for broadening insurance protection. The report, a collaboration with Cover Genius, is based on a survey of 3,551 United States consumers.

JUNE 2021

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ACKNOWLEDGMENT

The Embedded Insurance Report was done in collaboration with Cover Genius, and PYMNTS is grateful for the company's support and insight. [PYMNTS.com](https://pymnts.com) retains full editorial control over the following findings, methodology and data analysis.



INTRODUCTION

Context is often key in insurance decisions. Experiencing a significant event, such as having a child, buying a home or investing in a work of art, tends to heighten an individual's awareness of potential risks. It can be easy to neglect getting coverage without direct and seamless routes to obtaining it and then later find oneself in a regrettable situation if a loss occurs.

Digital technology has opened up new avenues for obtaining insurance within the context of major life events and purchasing decisions, and the events of the past year have greatly accelerated the adoption of such channels. This raises important questions: What are the best ways to reach prospective insurance customers amid this unprecedented digital shift, and which institutions are best positioned to do so?

PYMNTS set out to examine these and other questions in *The Embedded Insurance Report: Leveraging Transaction Data To Expand Coverage In A Digital-First Market*. We specifically explore the potential of a new insurance model that provides consumers with tailored offers from their banks based on their transaction data — what we call embedded offers. These embedded offers would be responsive to major events

and purchases that could give rise to a need for protection.

Our research reveals that consumers would be remarkably receptive to these offers from their banks, which could enhance banks' value among customers in return. One cohort stands out for their interest in bank-embedded offers: digital bank customers, a group that has already shown itself to be unattached to traditional financial institutions (FIs) and uniquely driven by seamless online experiences.

Digital bank customers are more likely than others to have coverage to protect against a wide range of risks, including common insurance types like auto and home, and their interest level in bank-embedded offers is nearly twice that of other consumers. We also examine the potential for transaction-based insurance offers appropriate for customer segments that rely on traditional insurance channels, such as carriers and brokers.

The report is based on a census-balanced survey of 3,551 United States consumers conducted in March. This is what we learned.

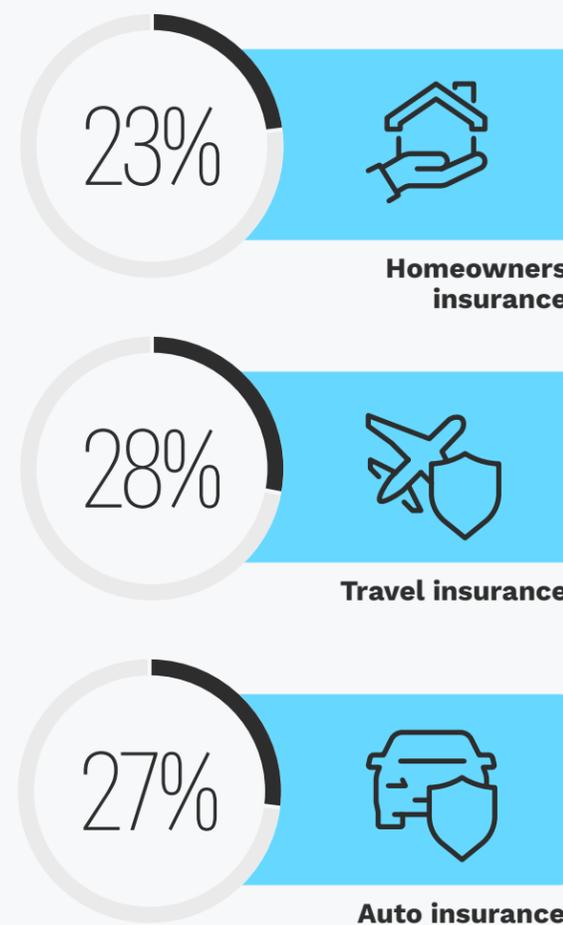
KEY FINDINGS

Seventy percent of digital customers would be highly interested in receiving bank-embedded insurance offers based on their transaction data, as would 44 percent of traditional bank customers.

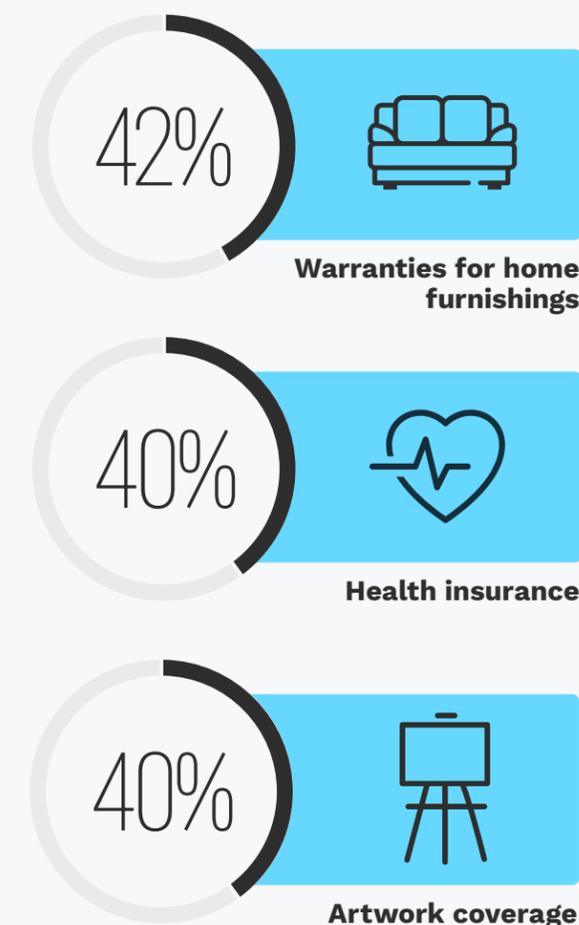
Our research uncovers a keen interest among consumers for contextual insurance offers. Forty-five percent of consumers say they would be “very” or “extremely” interested in having their primary FIs present them with insurance coverage options based on their transaction histories for at least one type of coverage among 13 different categories. This tracks with the interest level among customers whose primary accounts are with brick-and-mortar banks: 44 percent. Those who primarily do their banking via digital banks are far more likely to find these embedded services compelling, as 70 percent are highly interested in at least one form of coverage.

Embedded insurance offers are most compelling in situations in which the potential risk of financial loss is high, such as for purchases of big-ticket investments, such as vehicles or property. Twenty-eight percent of traditional bank customers and 41 percent of digital bank ones would be highly interested in bank-embedded homeowner’s insurance offers based on their transaction histories. Twenty-seven percent of traditional bank customers would be highly interested in embedded auto insurance offers, as would 44 percent of digital ones. The breakdown is 24 percent and 43 percent, respectively, for warranties on expensive personal electronics.

Bank-embedded insurance options that are uniquely compelling to traditional bank customers:



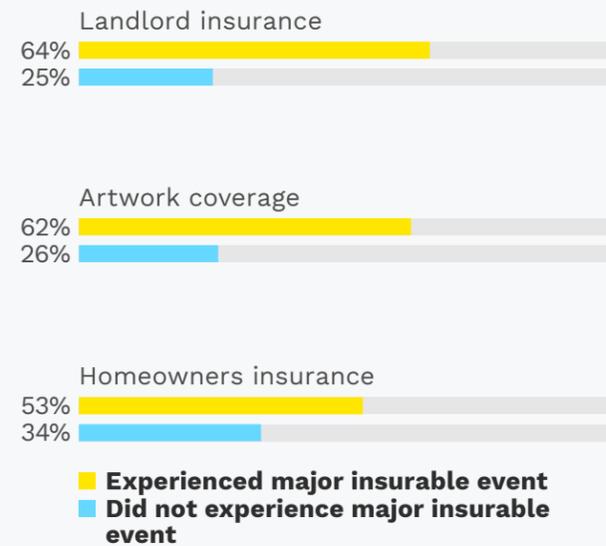
Bank-embedded insurance options that are uniquely compelling to digital bank customers:



Consumers who recently made major purchases or experienced relevant life events are, in many cases, more than two times more interested in corresponding bank-embedded offers than those who have not.

Our research reveals the role that context plays in consumers' insurance decisions. Consumers who have recently undertaken major activities or made major purchases would be considerably more likely to value receiving bank offers for corresponding types of coverage. Sixty-four percent of property owners who started receiving rent payments over the past 12 months would be "very" or "extremely" interested in prompts for landlords insurance, for example — nearly three times the share for those who did not receive such payments. This context-driven dynamic is also found with more common types of insurance, such as homeowners insurance: 53 percent of those who recently purchased a home would be highly interested in bank coverage offers — close to double the level of interest among those who did not.

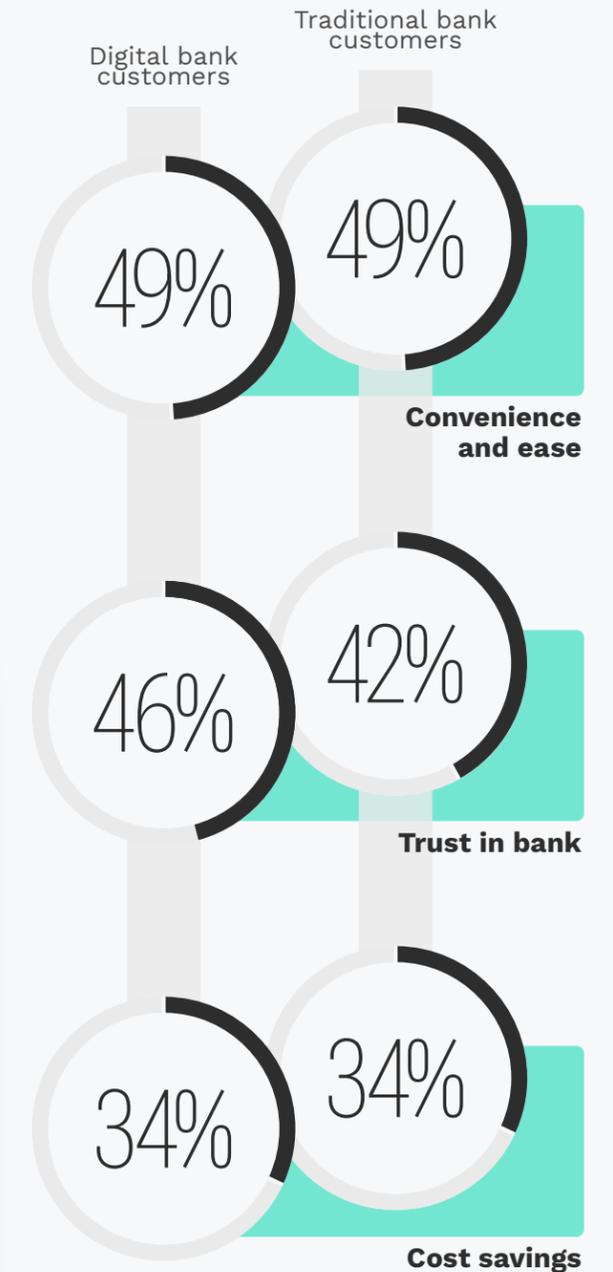
Share of consumers very or extremely interested in select forms of coverage:



Convenience and trust drive consumer interest in transaction-based offers.

Convenience is the top reason consumers would be interested in embedded insurance offers and was cited by 49 percent. Other factors are also important, however — especially for digital bank customers. Forty-six percent of this group say trust in their institutions to protect their data would be a motivating factor, as it is an important consideration when it comes to allowing access to personal financial information. Cost savings is a less popular consideration, cited by 34 percent of consumers.

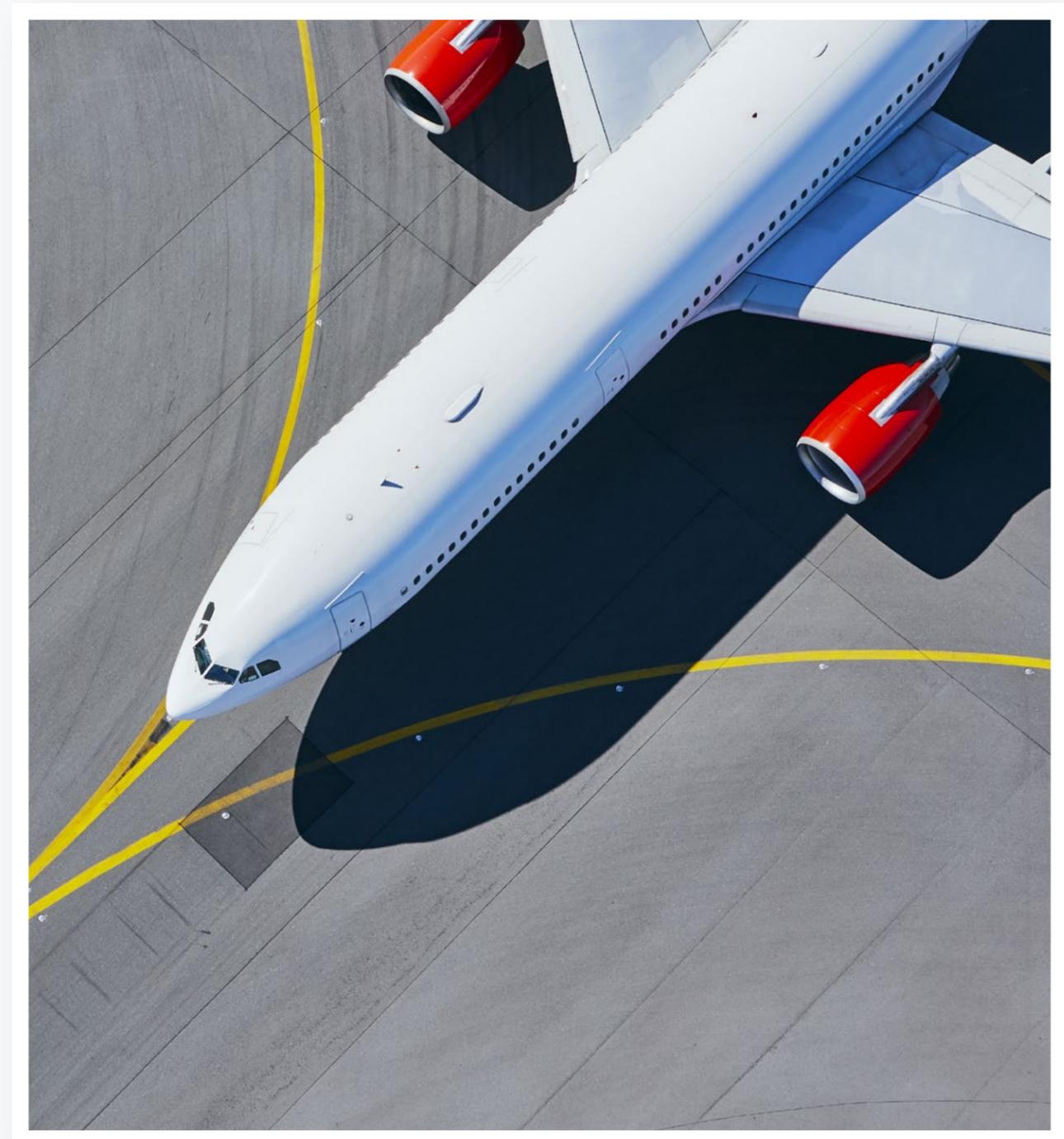
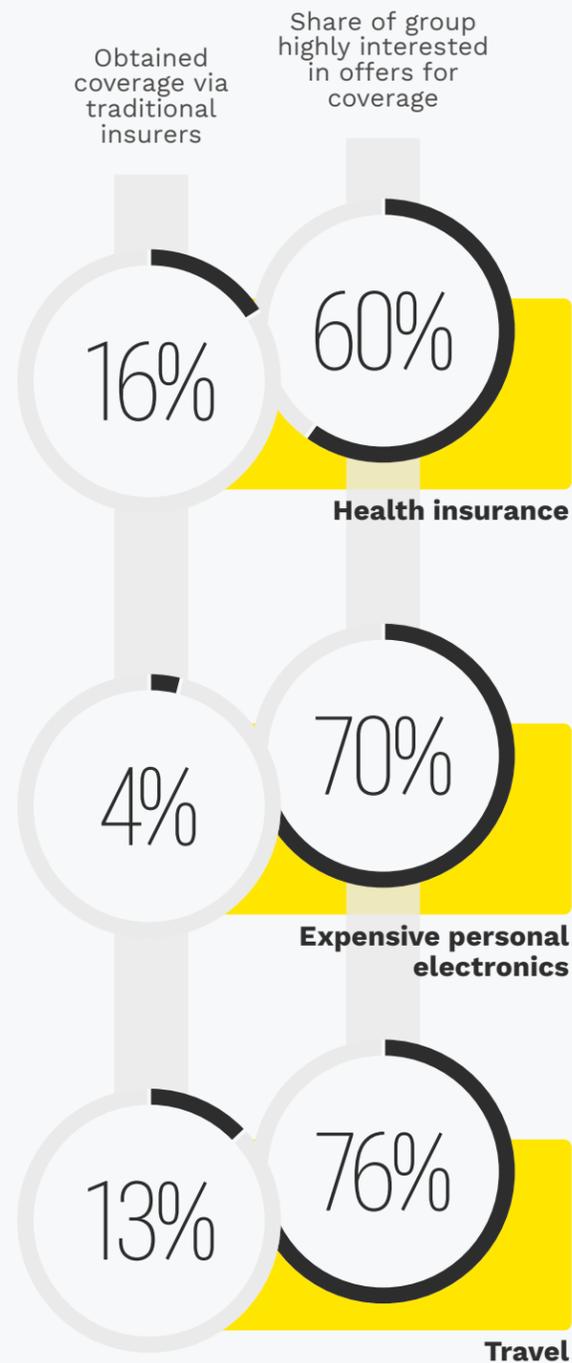
Bank-embedded insurance options that are uniquely compelling to traditional bank customers:



Embedded insurance offers could help bridge coverage gaps left by traditional insurance providers.

Consumers who rely on traditional insurers — insurance carriers and brokers — are less likely to have coverage for a broader range of risks. Just 4 percent of these consumers obtained extended warranties on expensive electronics through traditional channels, and only 13 percent got travel insurance in this way, for example. These consumers are especially interested in bank-embedded offers precisely for these purposes, however. Seventy percent of those who obtained extended warranties on expensive electronics through traditional channels would be highly interested in bank coverage options, and 76 percent say the same for travel insurance.

This dynamic is not confined to less common types of coverage: 60 percent of those who have obtained life and health coverage through traditional providers would be highly interested in bank-embedded offers for these categories. This is approximately three times the level of interest consumers overall have for bank-embedded offers for health and life insurance.





THE TRENDS TRANSFORMING THE INSURANCE MARKET

The past year has disrupted consumers' lives in profound ways, but consumers have continued to make major, life-changing decisions, including starting families, buying homes and cars, and adopting pets — and they have sought coverage to protect against potential risks.

Our research shows 62 percent of consumers experienced major events or made significant purchases over the past 12 months — and 41 percent obtained insurance to cover them. Our data indicates that the pandemic affected purchasing patterns, as consumers were more focused

on improving their home environments, for example. The most common significant purchases were of expensive home furnishings, which 22 percent of consumers reported making, personal electronics (20 percent) and vehicles (19 percent). Buying or adopting animals was also a common activity — 15 percent of consumers reported doing so — while just 7 percent reported traveling internationally.

Our research shows that an average of two-thirds of consumers who made insurable purchases or experienced the aforementioned life events obtained

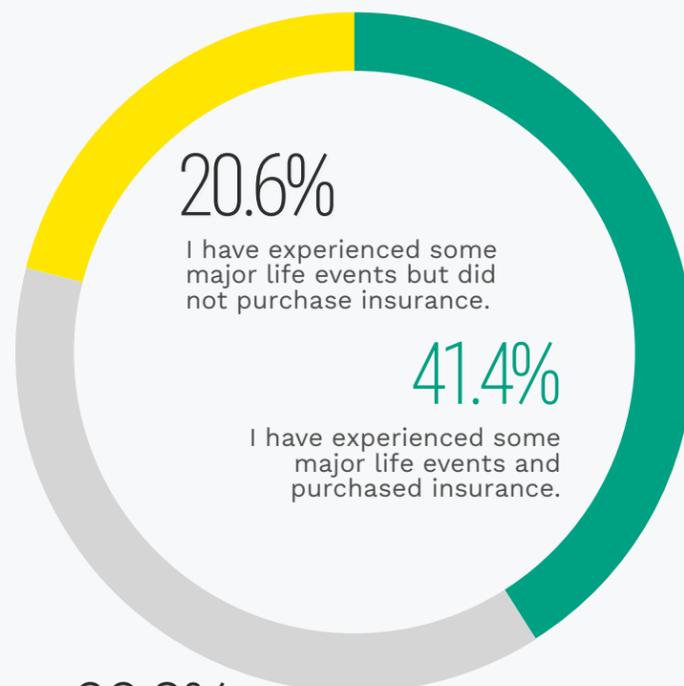
insurance, but this is a somewhat deceptive figure. The actual rate of insurance varies considerably across categories, from nearly 90 percent in the cases of homeowners and auto insurance, which are often statutory requirements, to 41 percent in the case of pet insurance.

This is one of the key ways in which digital bank customers stand out in our research. Those with primary accounts at digital banks are considerably more likely to have obtained coverage for circumstances beyond car insurance for a new vehicle or property-based coverage than those with accounts at traditional banks. Digital bank customers were more likely to get insurance in 10 out of 13 coverage categories. Seventy-one percent of digital bank customers who purchased expensive electronics obtained extended warranties for them, for example, while just half of traditional bank account holders did the same. The only categories in which traditional bank customers were more likely to have obtained coverage are life insurance, health insurance and renters insurance.

Our research suggests that digital bank customers' technology-forward approach corresponds with both greater exposure to coverage opportunities and more openness to them. They are thus, in many ways, getting more comprehensive coverage than consumers who may be every bit as financially responsible and risk-averse — if not more so.

FIGURE 1:
Insurance-triggering activities/purchases

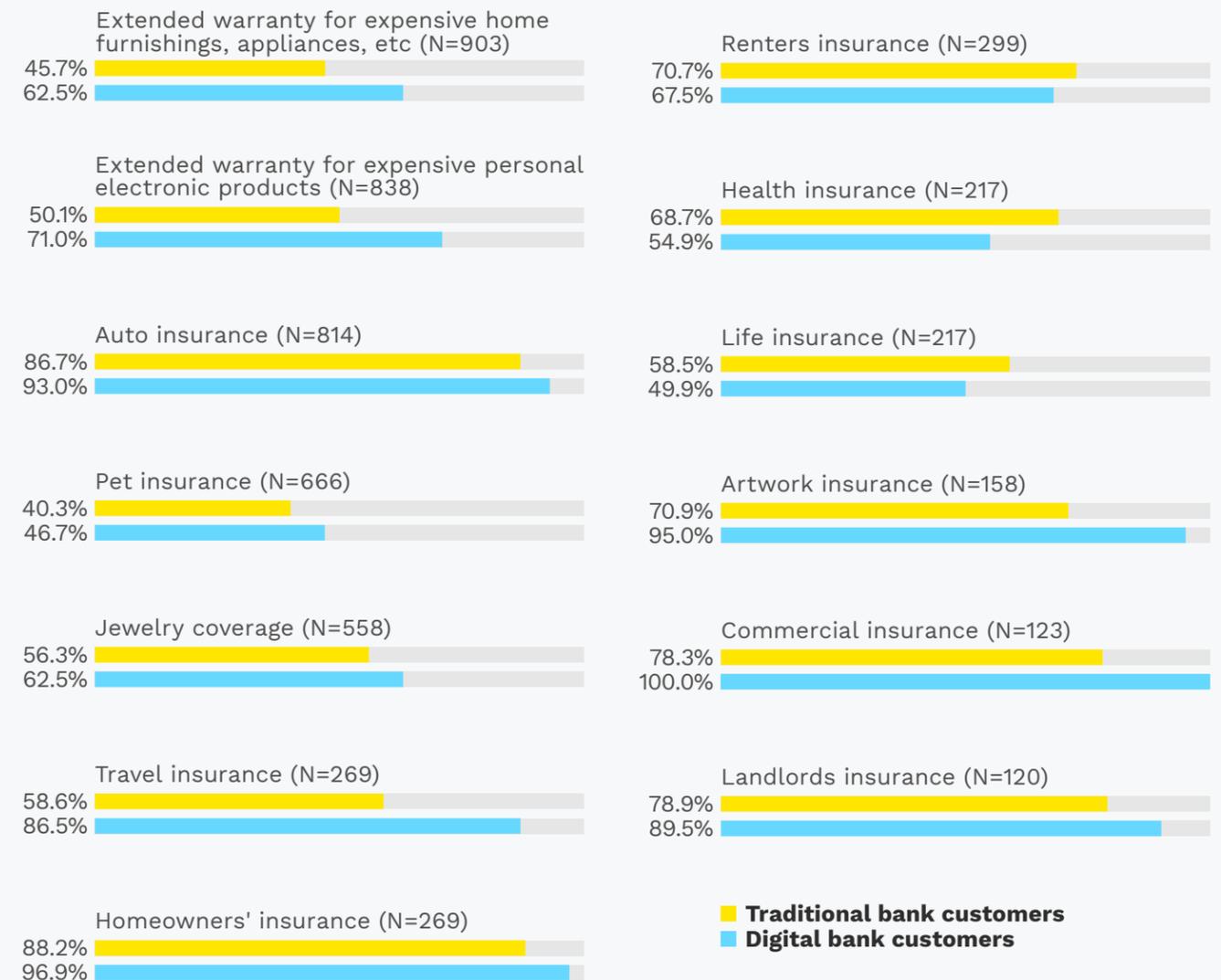
Distribution of respondents based on experience of insurable activities/purchases



Source: PYMNTS.com | Cover Genius
Embedded Insurance Report

FIGURE 2:
Insurance coverage rates, by event categories

Share of digital and traditional bank customers who obtained coverage for select events



Source: PYMNTS.com | Cover Genius
Embedded Insurance Report



BANKS AS A DIGITAL BRIDGE TO EXPANDED COVERAGE

Banks can occupy a special place in today's crowded insurance landscape. They have a trusted relationship with their customers and visibility into their financial lives. Consumers' spending habits and transaction history track to life events, providing banks with unique visibility and insight to provide offerings to improve their customers' financial health and deepen loyalty.

There is a clear opportunity for banks, with their customers' consent, to leverage this information to embed insurance offers tailored to their customers' needs. Our survey gauged interest in these types of services, and we asked respondents about their willingness to receive purchase protection offers from their primary bank using their purchasing history.

45%
of consumers on average would be highly interested in at least one of 13 types of bank-embedded insurance offers.

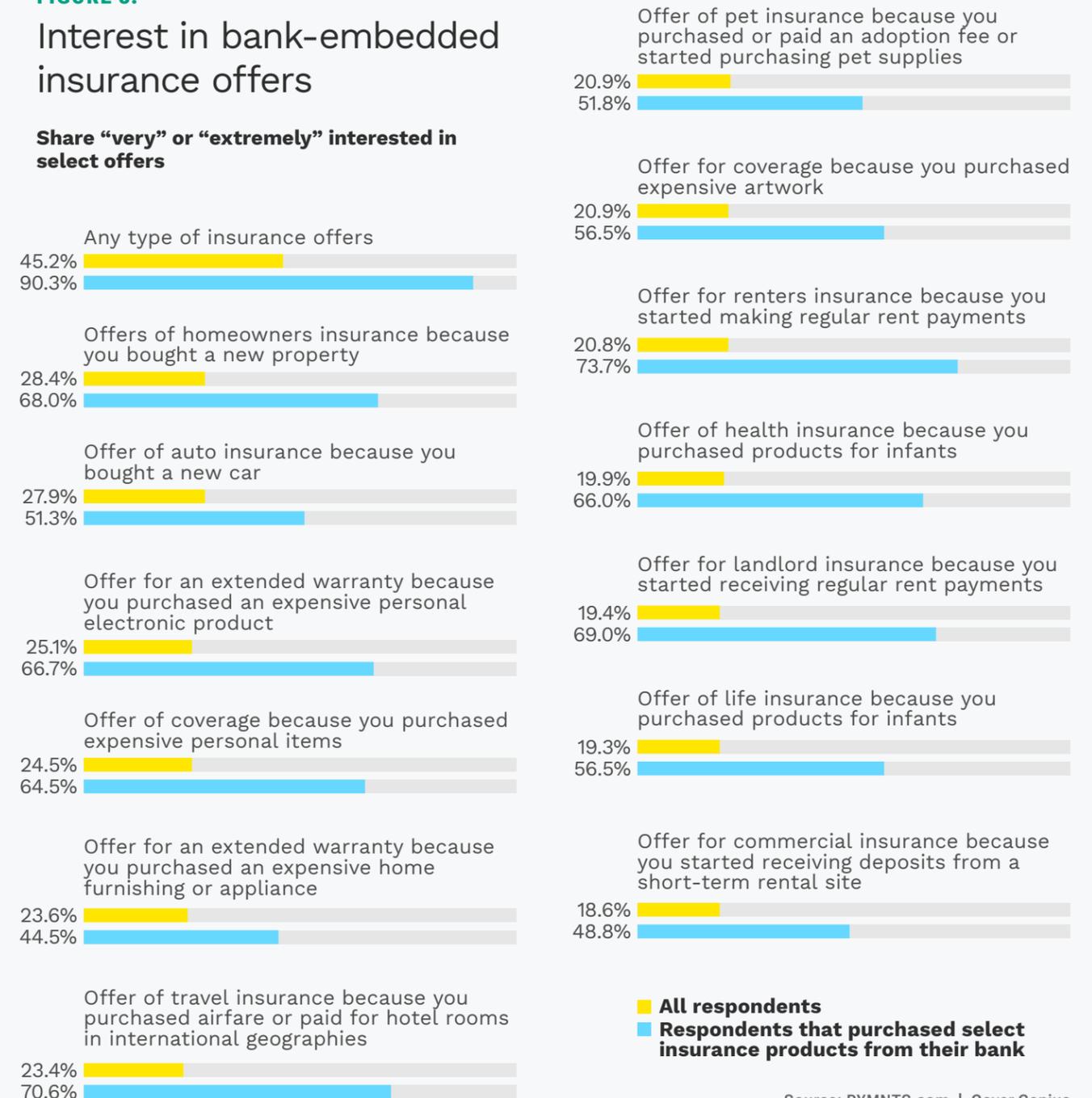
Our findings show that 45 percent of consumers on average would be “very” or “extremely” interested in one of 13 types of these bank-embedded insurance offers, but the interest level increases dramatically for customers who already get insurance from their banks. Twenty-eight percent of consumers would be highly interested in homeowners insurance offers generated from transactional data, and the same share expressed interest in auto insurance. The level of interest increases two to three times among those who already get insurance from their banks, however, depending on the category of insurance offered. This suggests that the trust inherent in consumers’ existing bank relationships can be a force multiplier when it comes to fielding insurance offers.

These broad levels of interest in bank-based offers pale in comparison to the enthusiasm among digital bank customers. This group is 1.6 times more likely than consumers overall to be “very” or “extremely” interested in such offers. Seventy percent would be highly interested in one of the 13 types of offers, and more than 40 percent would be interested in each of the most popular coverage categories, such as auto insurance (44 percent) and home insurance (41 percent) as well as warranties on expensive electronics (43 percent), furnishings (42 percent) and personal items (42 percent).

It bears noting that using digital payment tools such as Apple Pay and Google Pay also tends to magnify interest in embedded offers, even among traditional bank customers.

FIGURE 3:
Interest in bank-embedded insurance offers

Share “very” or “extremely” interested in select offers



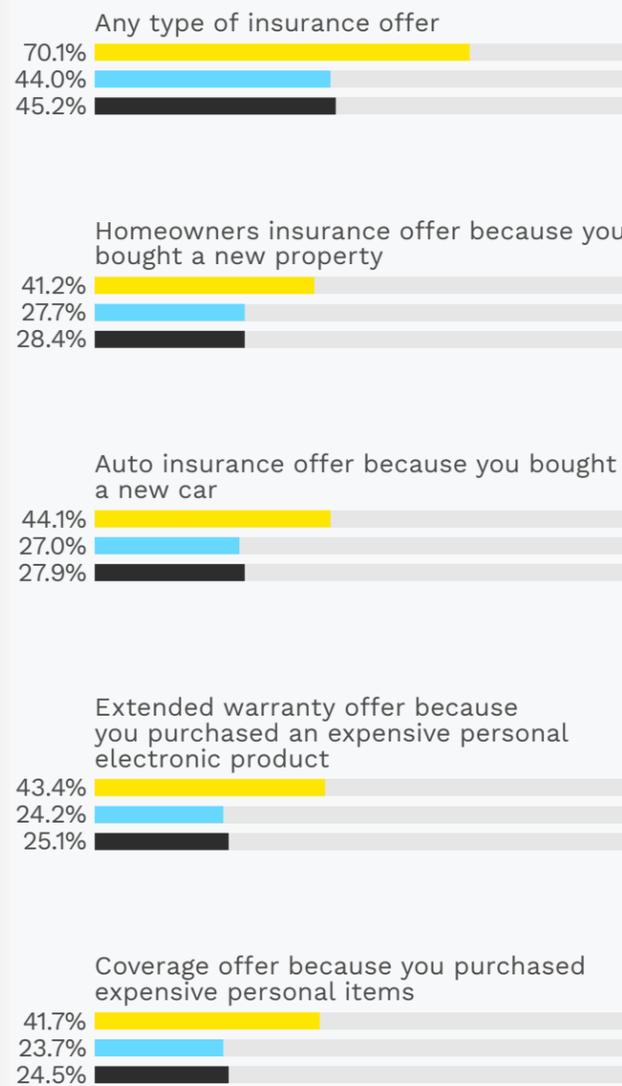
■ All respondents
■ Respondents that purchased select insurance products from their bank

Source: PYMNTS.com | Cover Genius
Embedded Insurance Report



FIGURE 4:
Interest in bank-embedded insurance offers, by bank type

Share “very” or “extremely” interested in coverage offers for select categories, digital versus traditional bank customers



■ Digital-only bank customers
■ Traditional bank customers
■ Entire sample

Source: PYMNTS.com | Cover Genius
Embedded Insurance Report

THE CONTEXTUAL FACTOR

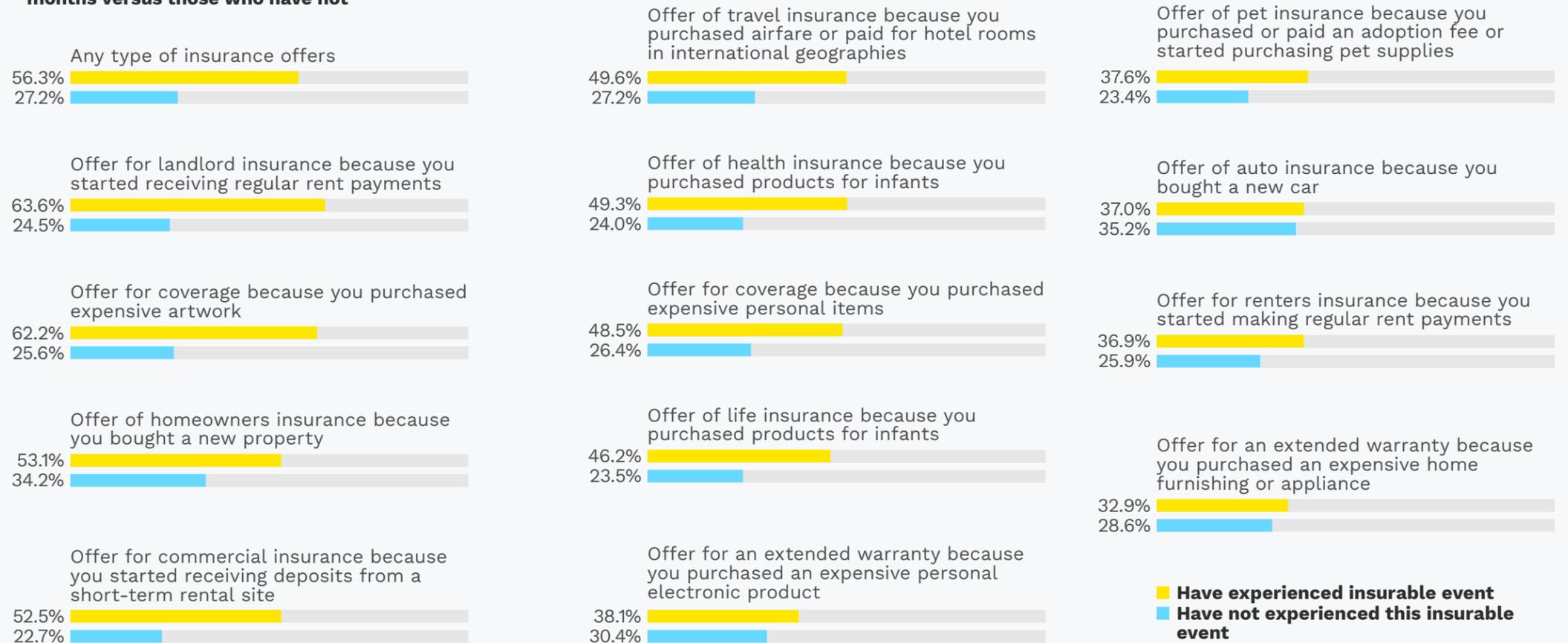
Decisions around insurance are often inherently contextual. Consumers typically wouldn't consider landlords insurance until they take ownership of a rental property, for example. Our research shows experiencing a precipitating event greatly magnifies interest in related insurance coverage. Consumers who recently purchased relevant goods or experienced such major events are more than twice as likely to be highly interested in coverage than those who have not — and the gaps between these groups are especially wide for certain types of coverage.

More than 60 percent of those who started receiving rent payments over the past 12 months would be highly interested in bank-based offers for landlords insurance, for example — close to three times as many as those who were not in this situation during this time frame. We found similar patterns for warranties on major purchases and homeowners, commercial and travel insurance. Fifty-three percent of those who recently purchased homes would be highly interested in bank-based offers, for example — more than 1.6 times the share of those who have not recently had this experience.

FIGURE 5:

The experience factor in bank-embedded insurance offers

Share “very” or “extremely” interested in offers for select categories, those who experienced insurable events over the past 12 months versus those who have not



Source: PYMNTS.com | Cover Genius Embedded Insurance Report

MATTERS OF TRUST

Convenience is understandably the primary reason respondents found bank-embedded insurance offers appealing. Forty-nine percent of consumers who are at least somewhat interested in such offers consider them an easy and convenient way to get coverage. There is another key attraction that merits attention, however: trust, which is especially important for digital bank customers. Forty-six percent of this group would trust their banks to protect their data — a vital consideration when it comes to consumers’ transaction histories.

FIGURE 6:
Reasons for interest in bank-embedded insurance offers

Share citing select reasons for interest, digital versus traditional bank customers



Source: PYMNTS.com | Cover Genius Embedded Insurance Report

THE GENERATIONAL FACTOR

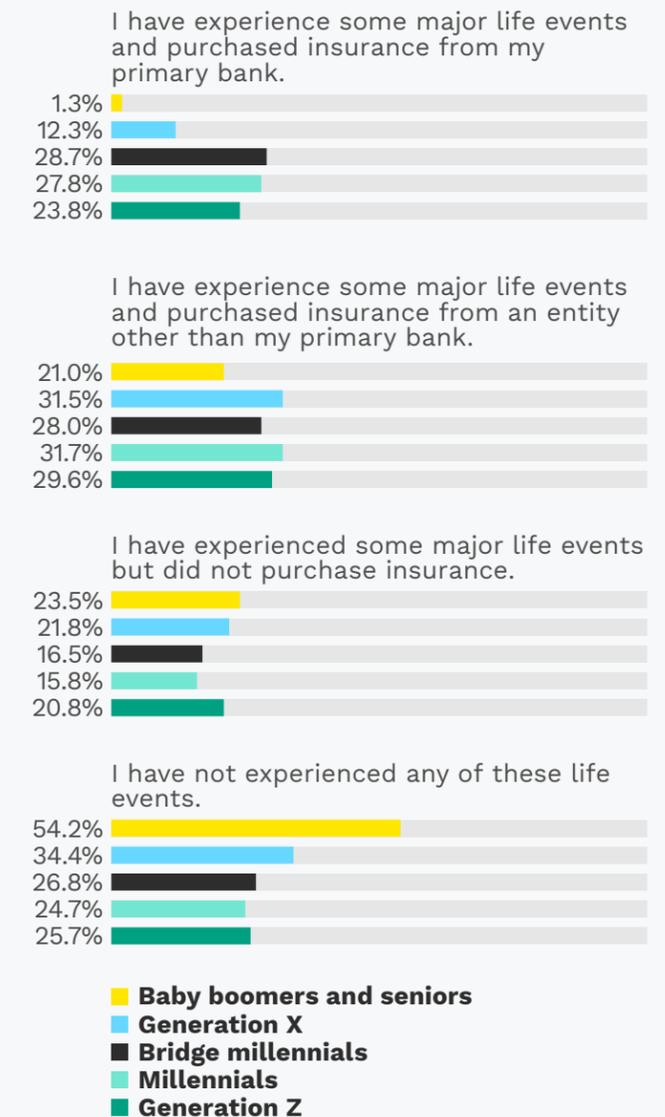
There are several likely reasons why interest in bank-embedded insurance options correlates strongly with digital bank use, starting with the fact that customers of these banks are already technologically inclined. Demographics also play a role, however: **the largest share of digital bank customers — 62 percent — are millennials**, those between 25 and 40 years old. They are thus in places in their lives where insurance has taken on new relevance. **They are more likely to be starting families, buying homes or upgrading from the furniture they found on Craigslist years ago.** These patterns are especially relevant in the case of bridge millennials, who are between the ages 33 and 42.



Our research confirms that millennials are, in a sense, leading more eventful lives than other generational groups — and they are more likely to seek protection from potential downside risks. Fifty-seven percent of bridge millennials purchased insurance over the past 12 months in response to at least one major purchase or life event — close to three times the share of baby boomers and seniors and 1.3 times the share of Gen X individuals. Millennials are also more likely than other generational groups to obtain coverage from nontraditional providers, including banks. Twenty-nine percent of bridge millennials have obtained insurance from their primary banks for at least one major purchase or event — more than 20 times the share of baby boomers and seniors and more than twice the share of Gen X consumers who did the same.

FIGURE 7:
Insurance-related purchases or events, by generation

Distribution of respondents based on experience of insurable events, by age group

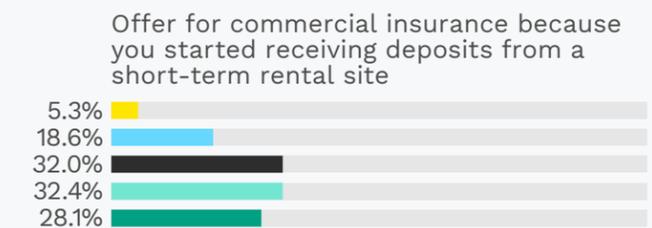
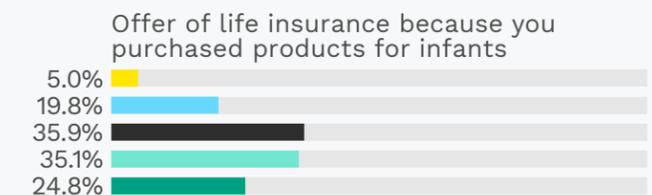
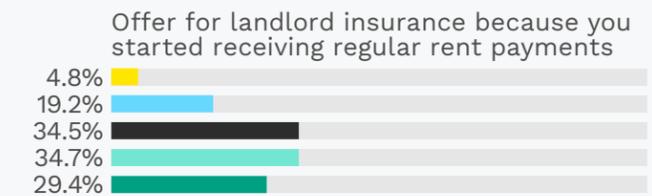
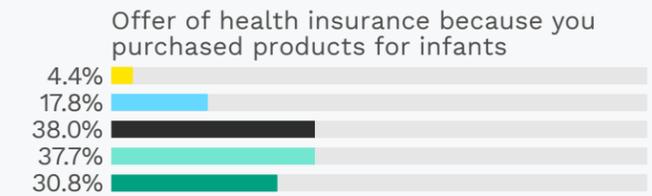
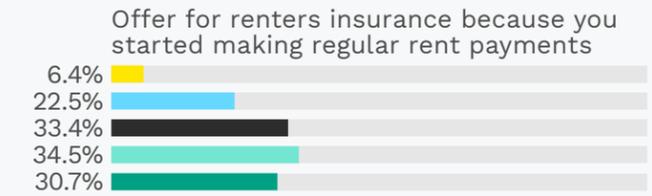
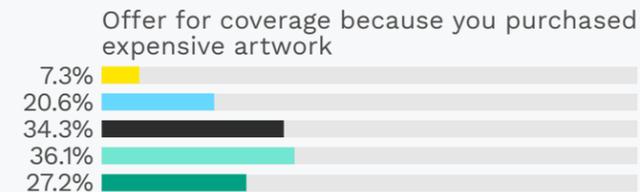
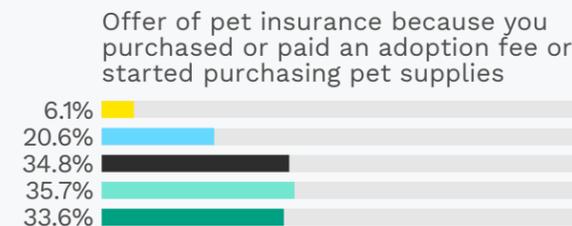
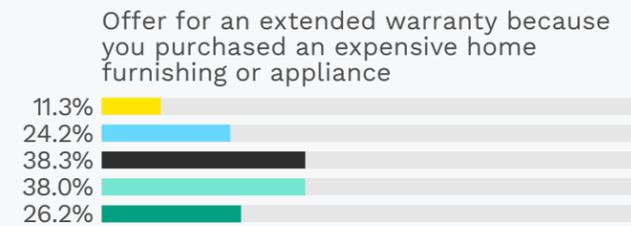
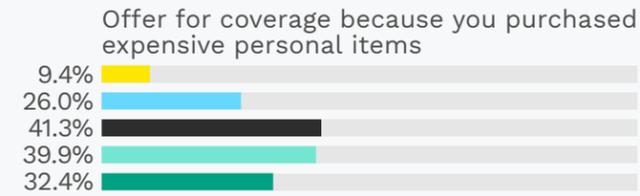
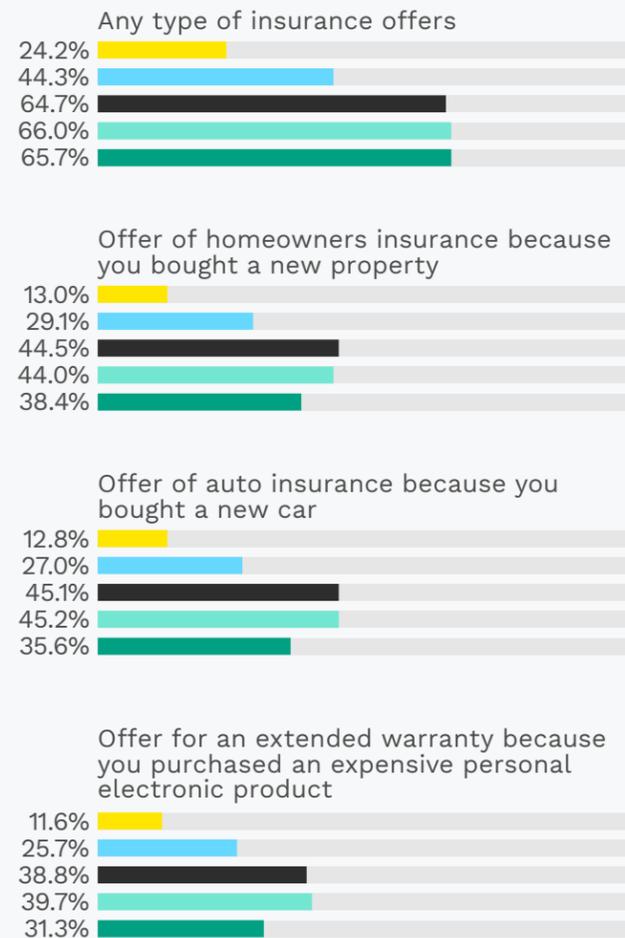


Source: PYMNTS.com | Cover Genius Embedded Insurance Report

Given their comfort with obtaining insurance from banks, it is perhaps not surprising that millennials have elevated levels of interest in bank-embedded insurance offers. Two-thirds of millennials would be “very” or “extremely” interested in one of the 13 offers — close to three times the share of baby boomers and seniors and 1.5 times the share of Gen X. These patterns prevail for every type of purchase, with at least one-third of millennials highly interested in 12 kinds of coverage. Health insurance is one of the standout categories: 38 percent of bridge millennials would be “very” or “extremely” interested in bank-embedded health insurance offers based on their transaction histories — more than twice the share of their older peers.

FIGURE 8:
Interest in bank-embedded insurance offers, by generation

Share “very” or “extremely” interested in offers for select categories, by age group



■ Baby boomers and seniors
■ Generation X
■ Bridge millennials
■ Millennials
■ Generation Z

Source: PYMNTS.com | Cover Genius Embedded Insurance Report



DEEP DIVE: BRIDGING INSURANCE GAPS

Today's insurance market offers a wide array of coverage options, but it is also large, complicated and fragmented, and our data captures this complexity. Consumers get coverage from no less than five types of providers, including carriers, brokers, banks and product manufacturers. One fact emerges clearly from our data, however: Traditional providers — insurance carriers

and brokers — are not meeting demand for coverage across the wide-ranging categories in which consumers are interested.

Just 4 percent of consumers obtained extended warranties on expensive electronics through traditional channels, for example, but 70 percent would be “very” or “extremely” interested in bank-embedded offers for such insurance. A similar dynamic is found

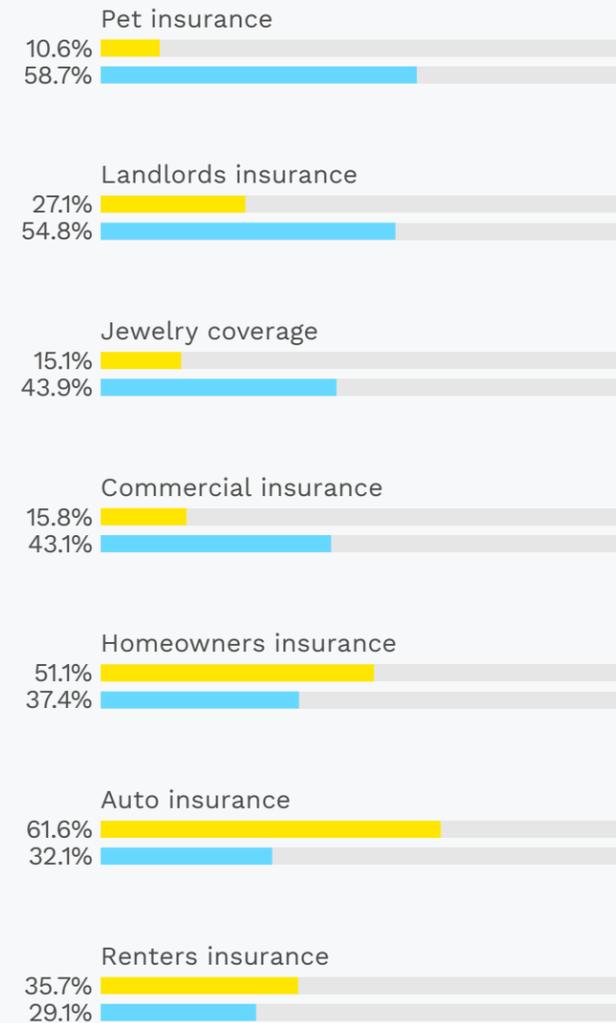
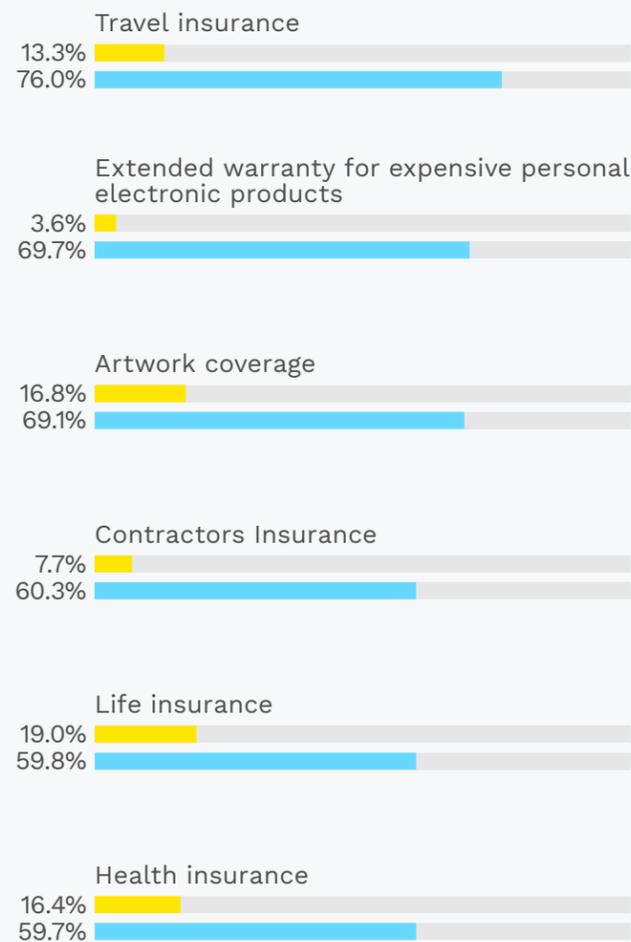
in most other insurance lines, with interest being especially high in the travel, home furnishings, pet and artwork categories. Approximately 60 percent to 70 percent of those who purchased insurance through traditional channels would be highly interested in bank-based coverage offers for these purposes.

This pattern extends to more common types of coverage, including life and health insurance: 60 percent of those who have obtained these types of policies through traditional providers would be “very” or “extremely” interested in corresponding bank-embedded offers. This is approximately three times the level of interest consumers overall have for these types of offers.

These findings suggest conventional consumers — those who tend to get insurance from traditional providers — are underinsured in many circumstances not because of lack of interest. Rather, these consumers are keenly interested in coverage across all categories, but it appears they are not being reached through conventional channels. This suggests that banks may have significant opportunities in both niche insurance lines, such as travel and pet coverage, and major ones, including in the life, health, landlords and commercial insurance categories.

FIGURE 10:
Traditional insurance customers’ interest in bank-embedded offers

Share of those who obtained coverage from insurance carriers and brokers who are “very” or “extremely” interested in offers for select categories



- Share of respondents who purchased this type of insurance product from a traditional insurance company (carrier or broker)
- Respondents who purchased an insurance product from an insurance company who would be very or extremely interested in receiving bank-embedded offers of this type of insurance product

Source: PYMNTS.com | Cover Genius
Embedded Insurance Report





CONCLUSION

Getting insurance coverage is, in many ways, an inherently contextual experience. Experiencing certain events — buying expensive jewelry or a first home, for example — brings to mind the risks that can diminish or even destroy the value of these investments. Plans to obtain insurance can easily slip from consumers' minds if offers are not present in the purchasing experience. A loss or disaster — whether in the form of theft, fire or another unanticipated event — can be a cruel reminder.

The challenge in today's insurance market is how to connect consumers to coverage when and where they need it in a marketplace that is increasingly digital. Banks enjoy a uniquely important position in this landscape. They are typically the financial institution consumers trust most in their daily lives, and they potentially have keen perspectives backed by transactional history on the significant insurable events in customers' lives. Banks are in a unique position to connect consumers to coverage options as the need arises by presenting consenting customers with embedded, relevant offers based on their transaction histories.

Bank-embedded insurance offers are a valuable opportunity for consumers, insurers and FIs. The evolving sophistication

and convenience that today's digital banking experience offers is making it easier for consumers to find and purchase the right types and levels of insurance coverage they need as they experience important milestones throughout their lives.

METHODOLOGY

The Embedded Insurance Report: Leveraging Transaction Data To Expand Coverage In A Digital-First Market is based on a census-balanced survey of 3,551 U.S. consumers conducted between March 12 and March 25. To qualify for the survey, respondents had to have primary bank accounts at national banks, credit unions, community banks or digital-only banks. The survey consisted of 20 questions concerning respondents' life events over the past 12 months, their insurance decisions in response to these events and their interest in novel embedded insurance options.

ABOUT

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EMBEDDED INSURANCE REPORT

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