

# Will on-demand insurance become mainstream?

**The past two years have seen the rise of a new trend in insurance: on-demand coverage. Challenger insurers like Trov, Cuvva and Slice allow customers to use a mobile app to purchase as-needed insurance for personal belongings, home and travel insurance, and by-the-mile car insurance. This means customers only pay for insurance when the asset is actually in use and ‘at risk’.**

While some form of usage-based insurance has been around for years, on-demand insurance still only represents below 1% of the global insurance market. This market has now started taking shape, however, with several challengers attracting hefty investments. Sure raised \$8 million in a series A round<sup>1</sup>, and Trov raised \$45 million in series D funding<sup>2</sup> to support its entrance to the U.S. market. With 93% of millennials in the U.S. saying they are willing to buy usage-based insurance as long as prices don't go up,<sup>3</sup> it is only a matter of time before on-demand insurance becomes the mainstream way of selling insurance products.

Or is it? The global non-life insurance premium exceeds \$2000 billion.<sup>4</sup> While a range of new entrants are slowly building their customer appeal, their revenue figures have so far been low. Something special is required to move on-demand from a ‘niche’ offering to the ‘mainstream’ form of insurance, representing more than 50% of the market.

In fact, three core beliefs will need to hold true for the mainstream market to switch to on-demand.

## **On-demand insurance needs to suit the majority of customers’ needs**

For many customers, on-demand insurance is an appealing proposition, providing convenience through an attractive customer interface, and offering flexibility of cover. Customers can feel confident that they have the protection they need, while only paying when that coverage is actually required.

Sensors and other telematics devices, combined with powerful machine learning algorithms, are already making the process more compelling than ever before. What needs to be understood, however, is the number of customers likely to gravitate to this model and whether they could form the majority. While ‘as-needed’ coverage is convenient and available at a better price, the per-item or per-use rates would be significantly higher than an annual policy for those with wider needs, or for those whose usage behaviours indicate higher risk profiles.

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As a result, regular travellers, high-mileage drivers, and others could end up not only paying more but needing to deal with the burden of ‘insurance management’. On-demand insurance will definitely offer better value for many customers but will also mean higher costs for others. Although it would arguably lead to fairer risk distribution, it could also lead to some existing customers avoiding the switch to ‘on-demand’ or ‘usage-based’ through a fear of revealing their poor risk profiles and becoming ‘uninsurable’.

<sup>1</sup> <https://venturebeat.com/2017/06/14/insurance-startup-sure-raises-8-million/>

<sup>2</sup> <https://venturebeat.com/2017/04/06/on-demand-insurance-platform-trov-raises-45-million-ahead-of-u-s-and-global-expansion/>

<sup>3</sup> <http://www.mitchell.com/portals/0/assets/industry-trends/itr-vol-16-no-4-fall-2016-apd.pdf>

<sup>4</sup> <http://reports.swissre.com/2016/financial-report/financial-year/market-environment/primary-non-life.html#>

## On-demand insurers need to get noticed

On-demand insurers and InsurTech companies in general have had plenty of press coverage over the last couple of years. Fuelled by the expectations of the upcoming insurance market disruption, they have attracted positive attention from investors and potential customers alike.

Yet the on-demand model will need to convince customers to switch away from using online aggregators to downloading an app from an unproven provider offering a new model. This conversion will not be easy, although, as demonstrated by iTunes, Netflix and many other players across industries, it is not impossible.

Lack of widespread customer awareness therefore presents a key barrier to on-demand's adoption and mainstream success. On-demand insurance will not succeed in the wider market if customers aren't aware of its existence or don't understand how it works. Word of mouth, social media, and other marketing techniques can help increase awareness, but conventional advertising is likely to be a key part of any insurer's marketing strategy—and the experience of price comparison websites suggests that this wouldn't be cheap. Investment in marketing, particularly in costly advertising is, therefore, critical to breaking into the mainstream.

## The financial model needs to work for insurers

For on-demand insurance to go mainstream, the economics of the model have to work for the insurer. The typical model is quite simple – the per-use rate is higher than it would be in case of an annual policy, giving the insurer a higher profit margin. On the other hand, if not frequently used, the overall price would be substantially lower than for an annual policy.

From the insurer's perspective, there are a few challenges. Firstly, there is the increased risk exposure. With the ability to turn insurance coverage on and off as required, some customers may be incentivised to exploit the on demand-model, only switching on their insurance when they want to make a claim, creating fraud risks. Insurers can, however, increasingly use technology and novel business models, such as Lemonade's no-underwriting-profit approach, to mitigate this.

Secondly, premiums for coverage used only occasionally mean that the customer is paying less overall. Per unit of premium, the insurer may need to reserve more capital than they would require for an incumbent product to cover the additional risk factors, which could reduce the profit further. There is then the question of scale: how many insurers can design and run a full insurance business based on a model with lower premium size, higher risks and lower overall profit?

## Disruption on the horizon?

How will this all play out? If we define 'going mainstream' as 'taking close to 50% of the market', we do not expect that to happen over the next 5 years. It is possible that some of the new on-demand providers will become successful in specific product lines or geographies, but it will probably take more time to shake the status quo of the aggregator and broker-dominated personal lines market and the more sophisticated and conservative commercial insurance market.

Incumbents will no doubt react to these trends, albeit sometimes half-heartedly due to scepticism about the economics of the model and the expected challenges of transitioning from legacy systems, processes and people. These conversions will require both time and financial investments, suggesting that mainstream insurers may struggle to adapt, handing an advantage to their digital challenger counterparts. Challenger insurers are likely to more quickly iterate their product offerings and test market readiness, allowing them to create more superior, robust on-demand options. It's possible that incumbents will seek to replicate this model by setting up their on-demand offerings in spin-offs outside the core business.

This year, for example, the CEO of Progressive Insurance wrote to investors to say that usage-based insurance will become the primary means of automotive underwriting in the future, and indicated that the company is taking steps to adapt. MetLife also launched a mobile app to support a new usage-based insurance program. At the same time, digital insurers are continuing to grow and expand their customer base, with multiple companies announcing plans for U.S. and even global expansion.

While we may not see on-demand insurance becoming the default offering for all insurance types in the next few years, it will become an increasingly important insurance model. We can expect challengers to grow notable market shares in their chosen lines of business, and, therefore, to not only provide a healthy return on investment for their investors but also create a springboard for even more significant impact in later years.

## Contact details

**Paul Merrey**  
**Partner**  
**Global Strategy Group**  
KPMG in the UK  
paul.merrey@kpmg.co.uk  
+44 20 76945276

**Arturs Kokins**  
**Director**  
**Global Strategy Group**  
KPMG in the UK  
arturs.kokins@kpmg.co.uk  
+44 20 73113398