Plug into Paysafe:

Putting the insurance industry back in safe hands

The role of payments in digital transformation

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How the insurance world is changing

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We have seen so much change in how businesses need to operate over the past two years, across sectors and geographies. And insurance has been no different. For decades the pace of change in insurance has lagged behind comparable industries including financial services, meaning this period of rapid shift to new ways of thinking is causing major upheaval in the sector.

Here are some of the factors we see having the greatest impact on insurers trying to overhaul their operations:

a. Digital transformation requires significant IT upgrades

The archaic IT infrastructures that many of the industry's largest firms are built upon are simply no longer fit for purpose. And this problem is only getting worse as the industry consolidates; insurers that have grown through acquisition have too often failed to address lingering IT issues resulting from mergers, meaning that they are still running multiple siloed, potentially even redundant digital platforms. These are pushing IT costs through the roof, and at the same time are the root of a tremendous drag on user experience.

Transformation to a digital-first strategy is now critical, particularly in the post-COVID-19 era, which is why we are seeing so many insurers rapidly fast-track their overhaul plans. According to research conducted by KPMG[1], 85% of insurers have sharply accelerated their digitalisation of operations and the creation of a next-generation operating model this year, and 78% said that they had sharply accelerated the creation of a seamless digital customer experience.

b. The impact of COVID-19

As with almost every industry, the most significant impact on business operations for insurers in the last 18 months has been the pandemic, but the consequences of COVID-19 on the sector has been more extreme than most. Profits have taken a severe hit as both claims skyrocketed and investments dived. Take Lloyd's of London as an example, whose pre-tax profit fell from £2.5bn in 2019 to a £900m loss in 2020, with claims predicted to exceed £6bn. COVID-19 related losses in 2020 were £3.4bn[2].

But policies and products have also needed to change in the wake of the pandemic to accurately reflect how people's lives have changed. For example, consumers are spending more time and money at home, but less time using their car. Demand for health and life insurance is also changing, as is the health industry generally, and again insurers will need to demonstrate greater levels of flexibility[3]. Overall we are seeing a huge demand for more flexible insurance products that traditional insurance providers simply are not positioned to service.

1 https://home.kpmg/xx/en/home/insights/2020/11/the-covid-19-catalyst-insurers-race-to-digitize.html

2 https://www.ft.com/content/75ce339e-2586-46fd-ae96-1c3e2df24875

3 https://www2.deloitte.com/ie/en/pages/covid-19/articles/impact-COVID-19-insurance-industry.html

c. More young people want insurance

In some instances, insurance customers are also now skewing to younger age demographics, and again COVID-19 is playing a role here. For example, although the percentage of Americans who have life insurance has fallen each of the last six years as Millennials wait until later in life to buy a policy, 45% of Millennials say the pandemic means they are now more likely to buy life insurance, compared to 33% of Generation X and 15% of Baby Boomers[4]. In addition to now wanting traditional insurance products, younger consumers are also increasingly searching for insurance for emerging technology, meaning we are seeing a growth of speciality insurance markets such as drones[5] and eScooters[6] with a young customer base. Insurers have resorted to using unusual marketing tactics[7] to attract these younger consumers, but also need to rethink their digital services in line with the expectations and experiences of these demographics.

d. Traditional incumbents are increasingly concerned about Insurtech

More nimble, disruptive insurance products having been challenging traditional insurers for years. But time is running out for traditional insurance companies to compete on customer experience and operational efficiency before their market share is taken by fresher, more agile competitors. Sector disruptors can offer more seamless, transparent, and tailored services to customers who are increasingly less attracted to insurers with legacy systems that rely predominantly on brand recognition and trust to generate new business.

45%

of Millennials say the pandemic means they are more likely to buy life insurance

4 https://www.limra.com/siteassets/newsroom/help-protect-our-families/1105_covid-drives-li-awareness-infographic_032221_final-002.pdf

5 https://www.researchandmarkets.com/reports/5304866/drone-insurance-global-market-report-2021-covid?utm_source=BW&utm medium=PressRelease&utm_code=xg5h2q&utm_campaign=1572823+-+Drone+Insurance+Global+Market+Report+2021&utm_exec=chdo54prd

6 https://www.insurancetimes.co.uk/news/government-needs-to-put-some-rules-in-place-for-e-scooter-use-weightmans/1437473.article

7 https://finance.yahoo.com/news/life-insurance-companies-weird-sell-150000232.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAK5wi3zzjiZnr2pMKJ-z022GwBkAXU90W_bFZK7uogzbrtMrnCiqJTQxma5p0nimOnuA0r7rsv7Vzw44-tOCwomfgPjbns6WeuFOn1ZjKz7aHADLhvv_f89IKf8J0xCtc9fCuvyLdB6vjYZ2v1kgMOzV8vPbQ2hqiqgCzc4fUV

44%

of all consumers are planning to focus their spending online in the future

53%

of consumers would now no longer tolerate a bad online checkout experience or shop with the business again in the future

e. Consumers are migrating to digital products and services generally

A further consequence of the pandemic is an impact on overall consumer behaviour. Global lockdowns and partial closures of stores has resulted in a huge shift away from the traditional shopping for goods and services to digital. And consumers aren't only moving online but remaining loyal to the brands they know; alongside embracing of eCommerce they're also more prepared to shop around online, including making digital payments to businesses they aren't personally familiar with in a way that they were not prepared to previously. Consumer experience is also much more relevant; shoppers are more aware of best-in-practice digital products and less tolerant of businesses that do not provide it.

We have been tracking how consumers have been affected by the 'new normal' throughout the pandemic, and publishing our research. Our latest report *Lost in Transaction: Consumer payment trends 2021*[8] paints a clear picture of the permanent shift we've seen to consumers preferring digital commerce, with 44% of all consumers planning to focus their spending online and more than half (53%) saying that they would now no longer tolerate a bad online checkout experience or shop with that business again in the future.

Of course, these factors overlap and combine to create a single story of an industry in extreme flux. Our view is that we have seen a decade of evolution place in the past 12 months, fuelled by the need for insurers to finally address their legacy platform issues and accelerated by COVID-19 and its impact on customer behaviour.

The size of the challenge for insurance businesses appears seismic, but the good news is that there are sector experts to support the industry as it undertakes the transition.

8 https://www.paysafe.com/en/blog/lost-in-transaction-consumer-payment-trends-2021/

The role of payments in transforming insurance

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One element that will be crucial for businesses to get right if they're going to compete moving forward is their payment experience. This is because the checkout, and potential pay outs, are the closest point of interaction between the customer and the insurer, and customer expectations have dramatically changed in this area.

Working with the right payments partner to overhaul legacy payment processes is going to be essential for insurers to meet customer expectations and compete with their new wave of disruptive competitors. We see a number of ways a specialised payments provider can add value and deliver a competitive advantage in the current landscape to compete with dynamic Insurtech:

Maximising revenues means competitive advantage

For any business, optimising the checkout is critical for winning and keeping customers. And often this is where payments can provide the most significant competitive advantage for those that understand the value that partnering with the right payments provider can bring.

This is true for the insurance sector as well. In addition to needing to offer customers the best payments experience in line with heightened expectations, the industry has a number of specialised issues that need to be addressed in order to transform how insurers accept customer payments.

There are several ways that payments can be a differentiator for insurers that will have a major impact on revenues:

- ### Minimise failed recurring payments
  The vast majority of payments to insurers come in the form of recurring payments i.e. the customer agrees to a subscription or billing cycle and payments are taken directly at regular intervals. And there can be several reasons why these payments suddenly fail. In fact, failed transactions, also known as passive churn, can account for up to 30% of all lost customers for businesses that rely on recurring payments for billing.

  Most payments providers offer basic account updater services (if customers' bank cards expire or a new card replaces an old one the merchant has on file to take their recurring payment), but the most specialised gateways and acquirers for industries such as insurance **partner with experts** in recovering failed transactions to offer customers a best-in-class solution.

- ## Reduce declined transactions and cart abandonment

There is nothing more frustrating for any business than bringing a potential new customer all the way to the checkout, only to lose the customer at the final hurdle. Typically that can happen one of two ways; the customer abandons the 'cart' at the checkout, or they attempt to make the payment and the transaction is declined by their card issuer. Experiencing a high percentage of either or both issues can have a crippling impact on revenues (just a single percentage point can mean leaving billions in revenue on the table), so addressing both is essential for a successful transition to a digital-first service.

High cart abandonment is typically associated with **poor user experience**. For both first-time customers and those looking to renew policies, a clunky checkout experience can often result in moving on to the next provider. The most common reasons for cart abandonments include too many steps in the checkout process, slow payments processing or technical issues, unexpected costs inserted at the checkout, and concerns about the security of financial data. For insurers, working with a specialist payments provider that can attack these potential concerns with a best-in-class solution is critical. This includes seamless checkout capabilities, reducing the number of steps in the payment verification process via 3DS2 authentication, and having an optimised and tailored payments solution for mCommerce using biometric authentication.

Declined transactions occur when an issuer blocks the payment being processed, and this can occur for several reasons that aren't related to the customer having a lack of funds in their account e.g. sub-optimal risk management blocking legitimate transactions on the basis that they might be fraudulent. And the negative impact is not only the lack of a single sale. Three quarters of consumers put a card decline down to an error made by the merchant, and consequently 27% of consumers view the merchant in a more negative light if they experience a decline[10].

Working with a payments partner that can guarantee high authorisation rates will have a material impact on revenues as well as overall reputation and customer satisfaction.

- ## Accept more payment methods

COVID-19 has not only resulted in consumers spending more online, it has also changed the payment methods they're using. 86% of consumers recently told us[11] that they had changed the way they were making payments during COVID-19, and 38% said that they were more familiar with alternative online payment methods to credit and debit cards when making an online payment than before the pandemic. More importantly, 31% said that they were more likely to use a different payment method than a credit or debit card when making an online payment in the future.

The diversification of the payments landscape is a trend we have seen developing for years, but COVID-19 has certainly accelerated its progress. Alternative payment methods such as Google Pay and Apple Pay have rapidly grown in popularity, as have digital wallets and eCash solutions as consumers explore more seamless and secure checkout experiences.

For insurers, offering alternative payment methods to card payments is now a must; 56% of consumers only shop with online businesses where they can use their preferred payment method, making this now a key differentiator for customers when comparing competitors. And this is particularly relevant for insurers that either offer services in multiple regions already, or have ambitions to grow internationally in the future. This is because we can see regional payment trends, such as AliPay in China, iDEAL in the Netherlands, and M-Pesa in Kenya, becoming even more pronounced in the coming years.

10 https://www.pymnts.com/study/credit-card-frictions-transaction-disputes-declines-paay/
11 https://www.paysafe.com/en/blog/lost-in-transaction-consumer-payment-trends-2021/

But it is not only customers that prefer to pay with methods other than credit and debit cards that benefit from a wider range of payment options at the checkout.
Financially excluded customers are increasingly looking to make payments online; offering non-banking dependent payment methods such as eCash means the unbanked and underbanked can be legitimate target customers for insurers.

And offering alternative payment methods gives customers a second option if their card payments do fail. Without a second payment option, any customer that experiences a declined card transaction is automatically lost (in all likelihood to a competitor). Having alternative options to pay as a second preference gives the insurer the best chance of retaining the customer.

- **Rethink telephone sales**

  Another method of payment that is common to the insurance sector is taking payments over the phone. But as the sector embraces digital, insurers will have rethink what this means for this revenue source. Customers, particularly younger age demographics, are increasingly sceptical about sharing their financial data over the phone, as not only is the user experience poor but it also often raises security red flags.

  One solution that progressive insurers that rely on telephone sales are turning to is automatic messaging of links to secure digital checkouts. Once the sale has been agreed over the phone, the seller's call centre sends a unique link to the buyer via SMS, where the buyer completes the purchases digitally. This payment method not only enables insurers to offer their customers a digital-first experience, it also enables them to offer more payment methods than debit and credit cards.

Overhauling pay outs

Customers that make regular insurance payments ask for little in return from their insurance company except that their claims are processed quickly and fairly, and yet too often this isn't the case. Insurance has already developed a reputation for being among the worst industries for customer service[13], and the pandemic has severely dented that reputation.

For example, in the U.S. alone consumer airline complaints rose 568% in 2020[14], with the vast majority of complaints received relating to refunds. Many insurers still think that paying out claims via cheque will not matter to customers, who will be pleased to receive any pay out at all. But this archaic method of payment is frustrating to customers who have moved on from cheques in all other facets of their life. Some insurers are also not paying out claims in real time, instead believing that receiving funds days or even weeks after a claim has been settled is going to be acceptable to customers. This is a fantasy. Consumers want to replace their lost or damaged goods or services immediately, be it a cancelled holiday, damaged property, or pay for medical treatment. They are no longer prepared to wait for funds.

Specialist payments providers in the insurance sector are partnering with schemes such as VISA Direct to ensure that customer claims meet their expectations. According to an Accenture report[15] 58% of customers that are dissatisfied with their insurance claims think the pay out takes longer than it should, with VISA Direct payments are made in real time on the day that the claim is approved direct to their debit card. This huge step-change away from cheques in the post is a game changer for the insurance industry, and critical as they embrace a digital-first strategy.

12 https://www.prommt.com/case-studies/carrot-insurance/

13 https://www.insurancebusinessmag.com/uk/news/breaking-news/survey-finds-insurance-sector-among-the-worst-in-customer-service-74313.aspx

14 https://www.forbes.com/sites/christopherelliott/2021/02/28/airline-complaints-soared-to-a-new-high-in-2020-heres-what-it-means/?sh=52d1163e19a1

15 Accenture Global Pulse Survey, December 2018

Searching for a new payments partner: questions to ask

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For these reasons, insurers that need to address these issues may be seriously considering changing their payments partner. But finding a new gateway and acquirer extends beyond offering the functions we have already discussed.

When researching which payments provider would be the right partner for them, in addition to providing solutions to combat the payments issues they are suffering, decision makers should consider the following questions:

a: Do you have heritage as an expert in the sector?

The insurance industry is complex, and requires specific knowledge to execute operational excellence. Specialised payments providers with a proven history of delivering competitive advantage can make a huge difference to insurers.

b: Will the integration be quick and easy?

Switching payment providers can bring significant upgrades to an insurer, but if the process is time consuming, expensive, and cumbersome, much of the benefit will be erased. The industry's best payment providers enable access to all the fundamentals through a single, simple integration to an enhanced platform. This is especially true for integrating multiple payment methods; being able to offer customers the greatest possible number of payment options through a single integration is key.

c: Is your solution tailored or one-size-fits-all?

To compete with agile industry disruptors, insurers cannot rely on payments partners that are not nimble or capable of offering them a specific solution for their needs. The industry's best payments providers can also offer white glove service where required.

d: How many markets can you service?

Growing internationally into new markets will be a key business strategy for many insurers in the coming years. But this cannot be achieved without the support of a payments partner with geographic reach. This includes global banking relationships, expertise in industry regulations across many markets, the ability to process payments in multiple currencies, and offering alternative payment methods where there are regional consumer preferences.

Conclusion

Understanding the value of payments will be the difference in the battle for market share

a. The need for digital transformation is increasing

The antiquated insurance industry has been aware of its technology and payments issues for years, and has spoken often about the need to overhaul its practices. But digital transformation has been too slow, and traditional insurers are now in serious risk of becoming uncompetitive with more nimble Insurtech. And the pandemic has accelerated the shift to new ways of thinking about insurance for many consumers, making this need to evolve even more critical.

b. The key moment of interaction between insurers and their customers is payments

Understanding the seamless, digital experience customers now demand from services such as insurance is the most important element of the digital transformation process. And this means rethinking how customers both pay and receive pay outs, as these are the two interactions where consumers are showing their frustrations with traditional insurers. Payments is also an area where disruptors excel, exacerbating the competitive advantage of those that overhaul their payments in the right way further.

c. Payments companies that specialise in the insurance industry will separate the winners and losers

The insurance sector has some specific issues that mean a one-size-fits-all approach to evolving digital payments will not be successful. Insurers that are committed to revamping their payments functions must partner with experts in the space to maximise the value that can be generated by a leading payments experience.

To find our more about Paysafe's expertise in the insurance industry, and the work that we have done to help insurers with their digital transformation efforts, contact us today.

About Paysafe Group

Paysafe Limited (“Paysafe”) (NYSE:PSFE) (PSFE.WS) is a leading specialised payments platform. Its core purpose is to enable businesses and consumers to connect and transact seamlessly through industry-leading capabilities in payment processing, digital wallet, and online cash solutions. With over 20 years of online payment experience, an annualised transactional volume of US $100 billion in 2020, and approximately 3,400 employees located in 12+ global locations, Paysafe connects businesses and consumers across 70 payment types in over 40 currencies around the world. Delivered through an integrated platform, Paysafe solutions are geared toward mobile-initiated transactions, real-time analytics and the convergence between brick-and-mortar and online payments.

Further information is available at

www.paysafe.com

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