LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 109-MATTHEW WONG

Welcome to the Lend Academy podcast, Episode No. 109. This is your host, Peter Renton, Co-Founder of LendIt and Founder of Lend Academy.

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Peter Renton: Today on the show, we are covering a topic we've never really covered before, insurtech, otherwise known as insurance technology. There are many parallels between Insurtech and online lending, both have very entrenched incumbents, there's a lot of entrepreneurial activity with startups in the space taking on these incumbents and providing a better user experience, particularly to the younger generation.

So I wanted to get an expert on the show so I'm delighted to welcome Matthew Wong. He is a Senior Research Analyst at CB Insights and he has been covering insurtech for some time; he's got one of the most widely read newsletters on the subject and I wanted to get him on the show to talk about what is insurtech, why is it really coming into prominence so much in the last year, what areas of insurance that these startups are focused on, what VCs are looking for, who are some of the interesting players and what is really the outlook for the insurtech space. It was a fascinating show, I hope you enjoy it.

Welcome to the podcast, Matt!

Matthew Wong: Thank you for having me, Peter.

Peter: Okay, so I like to get these things started by giving the listeners a little bit of background about yourself, tell us what you've done over your career to-date.

Matthew: Great, so I started in journalism actually doing a bit of reporting on tech and venture capital and startups for a few publications including Dow Jones and Inc. During that process I had come across a few reports from a little company called CB Insights looking at certain markets whether that was seed funding or education technology, which provided some great context into obviously the reporting I was doing, but also spurred a deeper interest in me regarding where markets were going within different areas of technology from a broader context.

In reporting you're typically writing about a company which raised, for example, a Series A funding and there might be sort of five other articles about the same funding, but I was interested in the ability to use data and see how that could sort of lend a hand into analyzing maybe where that company who just raised funding fit into the ecosystem more broadly where their solutions or what they were trying to solve fit in. I've been at CB Insights for now several years, and I help lead a research team here, I help sort of manage our financial services technology practice and I also help manage a newsletter around everything covering insurance tech innovation. I've been doing that since fall of 2015 and now that newsletter reaches about 18,000 subscribers, mostly people involved in the industry itself as well as investors and startups.

Peter: I'll be sure to link to that in the show notes as well. So explain to us what CB Insights does, what is the business model for CB Insights?

Matthew: CB Insights is a data company, we're a SaaS company, we sell a data and analytics platform. Basically, what we do is we track the private markets globally. We do that by in part algorithmically sort of gathering a lot of data, whether that's around investments, tracking press releases, SEC filings, investor websites, but also sort of about any type of metric we can gain on startups themselves.

So we're looking at hiring data or sort of social metrics and sentiment...in terms of technology, patents and others so we're taking this sort of corpus of data, putting it into one platform and giving people the ability to analyze it. In terms of our customer base, we primarily serve corporations, major corporations, whether those are innovation groups or venture teams, strategy functions and a smaller base of ours would be sort of venture investors as well as service providers like law firms, hedge funds, management consultants and others.

Peter: Okay, so then you talked about your newsletter now it has become obviously very popular, how did you first become involved in insurtech?

Matthew: Sure, and by no means am I an expert in this space, this is something that...in 2015, at CB Insights we do a lot of content, we do a lot of research here and fintech has been obviously been a big focus for a long time as you guys know at LendIt. I think as we were thinking about sort of different offerings, we wanted to start verticalizing some of the newsletters that we put out and some of the content we put out and when we looked at financial services, innovation, or technology, more broadly from a number of perspectives, whether that was where venture funding was going, whether that's what people were talking about, where startup formation was happening.

We started to see a little bit of a shift and this was 2015 or so and I think it was for a number of reasons. Insurance was one area where there had been some companies already, you know, Metromile, for example, there was by that point quite a few insurance aggregators who were also operating and insurance innovation has been going for a long time even back to the dot com days. There were a plethora of insurance startups that for the most part now cease to exist, but this startup formation in this space has been going for a while, but I think there were a number of things that I think more recently have changed which helped enable this growth now today that we see in insurance innovation.

I can list some of those, but I think one was just…I think the insurance industry itself, there are some headwinds which are certainly impacting it. One is obviously the interest rate environment which affects income for a lot of insurers. Because of that, it spurs a lot of insurance carriers to be more open or willing to different pilots, to different experiments working with startups and finding ways to really refine their distribution channels.

The other thing is if you think about insurance as an industry, you know, typically there's very few touch points with your insurance carrier. You sign up for a policy and typically the next time you do that is when you are either renewing or paying a claim. So there's these few touch points mean there's a lot less customer loyalty and the ability now with a lot of the technology startups now to really refine that customer experience. You know, a few other things that I think is one, the insurance industry, for example, you can make the argument that some of the products aren't really resonating with demographic and psychographic profiles of today's buyers. You look at life insurance policies, for example, so by year, it has significantly declined over the last 30 years and for insurance carriers their ability to innovate their products also takes a long time.

There's been some studies that have been put out...RGA which is the Reinsurrance Group of America, put a great study out recently looking at how long it takes insurers to create a new product and you know, it's quite a long time and it also suffers from gaps in sort of go to market and the satisfaction within even their own sort of base of people who are selling those policies...it's interesting to see a lot of these things I think percolating now over time and obviously the other one is just datasets that are now readily available that didn't exist five/ten years ago.

You think about, for example, in the P&C Industry, geospatial imagery which now there's a number of providers who provide that data, but the ability to use that and maybe directly integrate that into an area like homeowners' insurance...these are all sort of exciting developments now so that combination of data, industry specific things and then more sort of things related to insurance whether that's lack of engagement, sort of changing buyer profiles…this is all stirring up this opportunity I think for startups to come in and really change where we see the insurance industry going.

Peter: I watched your LendIt presentation just a few days ago again. You talked about the declining insurance...for life insurance and others...I'm just curious, so I'd like your personal opinion actually, do you think this is really a demographic shift with the millennials just not really focused on insurance or do you think it's more of the insurance companies not providing products that millennials want or the younger generation want or is it a combination?

Matthew: I think insurance is a fundamentally important product, whatever age group you're in. By nature, some insurance products are obviously required as well. I think what's changed is that as we saw in lending, insurance companies have sort of...you can make the argument that insurance companies have taken the ball off of some of the individual products that for millennials today…one, are used to these different customer experiences and two, there hasn't been as much attention on providing those customer experiences for some of these products that maybe today's generation now demands.

And this is isn't just for individual consumers, we can make the argument that the small business segment, for example, as it pertains to commercial insurance is a major opportunity today for insurance innovation where companies who are maybe three to five people, and you can define small business differently, but that opportunity for commercial insurance and the ability to maybe turn that into a much more seamless process. It's a difficult problem, you know, there's a number of questions that you need to ask a small business before you can properly underwrite them, but that is an opportunity to see what happened with auto insurance now with GEICO, for example, and other carriers and Progressive as well.

What happened there is a similar opportunity now we've seen in small commercial so I think there's a number of different things, but I would say, yeah, I think just based on what we've seen in financial innovation and other categories outside of insurance, we're seeing that now move over the last few years, a lot more companies, a lot more attention on bringing back customer experience, bringing a better product experience. In some cases that does involve changing some of the underlying product, you know, underwriting with some of these new data sources, that being a fundamental part of that new customer experience not necessarily just moving things online.

Peter: Sure, much has been said about how hot insurtech is right now. The lending space was really hot in 2014/2015 and then it certainly cooled off from a VC or a funding perspective and insurtech has really taken off over the last 12 to 18 months, what do you see when you're looking at the deals being done, the VCs that have invested into the insurtech space...what do you think they're looking for when it comes to investing in these insurtech startups?

Matthew: Sure, so insurance obviously is a very broad industry and within insurance there's a lot of different lines of business where you're seeing insurance investment crop up. So, for example, we've seen more recently...maybe a few years ago, we saw a lot of innovation start in the health insurance space so obviously the Affordable Care Act was a big shift in the health insurance experience and out of that we saw a lot of new companies, whether those were sort of new consumer/employer brokerage models, or whether those were even new carriers like Oscar Insurance. So there was quite a bit of startup formation that came directly out of that.

More recently, I think the opportunity and where VCs are looking are areas like life insurance where there already has been very few startups looking to tackle sort of a massive industry like life insurance. We've seen a number of companies look to innovate also within the P&C industry and a lot of venture investment interested in companies that are providing new insurance products within maybe the homeowners' experience or the renters' insurance experience. We've also seen a big focus as I mentioned on the commercial side of things. So the whole notion of whether we'll see a major shift in small commercial insurance...you know, it's still to be determined how much of a role startups will play in that.

It could be major efforts by firms like Berkshire Hathaway with what they did with GEICO or major carriers like Travelers or The Hartford or others, but regardless, that's a major opportunity to now bring that whole process to a much more seamless experience for the small commercial insurance industry which by some targets is as big as $80 billion as a market opportunity. So there's a lot of different areas of interest and I think we've seen a number of venture investors interested in those companies that will provide these new insurance products and experiences and brand essentially to consumers and small businesses.

We've also seen a lot of B2B companies receive interest as well as we've seen enabling technology become stronger. So companies who are providing new tools, whether those are in the cyber insurance space or, as I mentioned, sort of helping make sense or analyze new datasets and integrate those into insurance underwriting or claims experience. And I think not to be sort of…dismissive its just that the amount of attention that actual insurance companies and reinsurers have now played and have very quickly taken up in this space so if you look at the number of investments by insurance companies and reinsurers, it was something like maybe one or two investments as of 2012 and if you look at it now it's probably close to 30 investments a quarter. So the industry is now very interested in finding and investing strategically into both insurance technology as well as other complimentary technologies which will improve their own companies as well, whether those are in smart home technology or roadside assistance apps or other areas. So the industry itself is also investing in a lot of these companies as well.

Peter: Right, can you name some names of companies that are on your radar that you follow, that you think are interesting companies in insurtech in this country?

Matthew: Sure, if you think about selling insurance, for example, there's a number of ways to do that as a startup, you can be…and there's been startups formed in each of these so you can be a broker and broker insurance policies, you can partner with a reinsurer for example as well as maybe a carrier who has a license and take on what's called a managing general agent role where you take on much more of the experience over the value chain or you can obviously be a licensed carrier. Within those I think there's exciting companies in each of those categories. I think some the companies that are within some of those spaces would be for example Lemonade is a licensed carrier selling online to renters and homeowners...they now are I think in a few states, but that's an interesting approach because they are now able to very quickly, and more cheaper in some regards, provide renters insurance.

It's an interesting market because one, as a licensed carrier...insurance is heavily regulated...as a carrier especially to be able to move into new states is not a quick approach, it is not something that all happens overnight, but certainly if you look at some of the numbers they put out, I think as I last saw it's 14,300 policies sold. You can make the argument that the thesis that younger consumers are interested in new brands to basically buy insurance has been proven out; these new brands will make an impact over time.

It may take a long time, you know, typical venture cycle is maybe seven to eight years; insurance just by nature...maybe it'll take longer than that for some of these companies to develop into these venture scale businesses, but there are a lot of companies, a company called Ladder Life is innovating in the term life insurance space...Metromile which has been around a bit longer than maybe some of these other upstarts in the per mile space is now also a licensed carrier after acquiring a carrier and there are many others. You know, there's been quite a bit of startup formation over the last few years.

Peter: We've mainly talked about US companies, so far, the US environment…I mean, obviously insurance is very much a global industry, what are some of the other countries that you think are really doing some interesting things here when it comes to innovating in insurance?

Matthew: Sure, I've been very fascinated by the development of ZhongAn insurance which is sort of the first online insurance, an online only insurer in China. This is a company that was started in 2013, they started with an interesting product, shipping returns insurance product, that basically was meant to facilitate transaction volume on Alibaba's Taobao marketplace so providing merchants or buyers to get free shipping returns. Since then, they've really expanded their business into a number of different areas, whether that's in travel insurance, health insurance, credit insurance, a number of different areas. I think they have hundreds of products now.

Now the company is actually...in only just over three years now is looking to file to go public, but I think the real lesson from this company and why it's so interesting is that one, China as a market enables ZhongAn to do some really interesting things. So one, regulation for a fintech in China is a bit...it's obviously very different than the US where in some cases you see regulators more open to allowing some of these innovative models or sub-sectors to develop over time before enforcing what the eventual regulation will be. In the case of ZhongAn, for example, they were given an internet insurance license, a sort of a provisionary internet insurance license to be able to operate across China for a lot of their innovative products so I think that's interesting, being able to get to scale quickly.

And then the other thing that's quite interesting that they've done is really integrate deeply into China's internet economy so they have I think over 180 partners today, those are companies like obviously Alibaba, companies like Ctrip which is a leading travel agency in China, companies like Didi in ride hailing, Xiaomi, that’s the phone maker and a number of others where their products...there's a great blog post by Alex Rampell who's a general partner at Andreessen Horowitz, it talks about inflection points for fintech companies where you find these moments in time where the product offering becomes most relevant. I think ZhongAn is a very interesting example in that they deeply integrate into these platforms so that when you're buying, for example, a plane ticket or when your phone gets cracked or when you buy something on one of Alibaba's marketplaces that offering becomes readily available and ZhongAn has really taken advantage of that and been able to establish themselves within this growth of China's internet and e-commerce economy.

Peter: I couldn't agree more, they're a fascinating company. I visited them in Shanghai, I think it was last year, and to me, they blew me away. Their use of data is so incredibly advanced and just the products that they have, all these tiny little transactions and they've got more customers I think than any Western insurance company has ever amassed and they started in 2013. It’s a fascinating story. So then I'm curious to hear what you've been seeing from the incumbent insurance companies, particularly in the US. We talked about that they are doing more investments now in startups, but are you seeing a reaction from the incumbent insurance companies to this kind of surge in innovation that's really happened in the last couple of years?

Matthew: Yeah, I think the incumbents have been very active in a number of regards so whether that's investing in startups, whether that's...even sort of building interesting developments on the products in some cases as well as even acquiring companies to lead some of these new initiatives. I'll give some examples of each. I think on the investing side, we've seen a number of new corporate venture arms establish themselves within the insurance industry. I think when we look at corporate venture across a number of industries I don't think we...insurance is probably the fastest growing area for corporate venture investment now that we've seen in terms of which industries we're seeing new corporate venture groups crop up.

So those companies are investing in a number of, as I mentioned, different [inaudible] technologies, but in some cases even some of these companies that we talk about...Lemonade, for example, has raised money from from XL Catlin as well as Allianz, we've seen a number of....Metromile is backed by Intact of Canada, a big P&C player in Canada as well as China Pacific, a P&C carrier in China so I think you see a lot of collaboration. In some cases, these investments are also paired with obviously some partnership or collaboration with these startups.

The other thing, just to mention on the investment side, I think Munich Re is quite an interesting case study in what they've done very quickly so one, they're actively investing in startups through a venture group of theirs called Munich Re HSB Ventures but they're also playing a key role for a lot of startups in the sense that they are also partnering with them to provide balance sheet capacity for a lot of the companies who are operating as sort of these managing general underwriters, they're providing Munich Re's balance sheet as part of this partnership that they're working...you know, their partnership division which I think is called Munich Re Digital Partners was started early last year and since then something like well over ten partners or fifteen partners now that they're working with startups, so moving very fast and trying to figure out where things are going, what startups are working on and in some cases both partnering and investing in those companies.

So Next Insurance, for example, is a startup in the small business insurance space, both invested in by Munich Re as well as partnered with them. So you see these developments not just sort of investment, but also a deeper collaboration in some cases.

We've also seen some M&A I think by the carriers. Travelers, for example, made a very big acquisition in the UK of a company called Simply Business, also in the small business space, the idea there being that their teams sort of aligned with where they saw this market going and potentially will bring that to the US as well as Travelers looks to develop some of their maybe more direct capabilities.

We've also seen in some cases interesting things with carriers looking to start new initiatives. Allstate for example, launched an initiative a while ago called Arity in which they're looking to provide analytics and a data product around to in some cases to other insurers as well around telematics and connected car technology. So there's a lot of things that are happening now. Some of the carriers definitely have been very engaged with the development in some cases and in some cases some have been earlier than others but some have been quite adept at navigating what's happening and trying to work very closely with what's happening on the innovation side and also the startups.

Peter: So I want to just switch gears a little bit and talk about SoFi and what they've been doing because it's been fascinating to me. They've partnered with an insurance company for life insurance offering it to their members, I'd like to get your take on that move and if you expect other fintech lending platforms like them, do you think this is going to be something that others do or do you think SoFi is a really a unique case?

Matthew: That's a great question. As you mentioned SoFi is working with a company called Protective Life, a life insurance carrier and SoFi is I think a bit of a unique case in the sense that, as I alluded to earlier, they are capturing and as you probably know better than I do, but they are capturing consumers at a very relevant point in time with student loan refinancing and have now developed quite a big mortgage book and practice there and being able to use their data to understand when maybe their consumer, their membership base meets those needs and as part of that now they've now thought about insurance. Life insurance is one where it aligns also with certain moments in time that are quite interesting to them as their membership base also....you know, one gets married or gets a home and life insurance obviously becomes more relevant there.

Protective is actually an interesting case study as well, they've developed quite a few partnerships not just with SoFi, they also I think are the main partner for life insurance for

Costco so you go to Costco and get life insurance, Protective is there. I think we will see more partnerships in fintech and in insurtech, we're already seeing some.

In Europe, for example, N26 just partnered with Clark which is an insurance startup and I think you'll see more of this, whether that's on the wealth management side where a product like robo-advisory naturally aligns with life insurance. Whether you'll see this in other areas as well...I think we'll continue to see...as we see more companies get to scale in fintech their ability to now bundle more services and we are already seeing that in some cases both in the wealth management side and the lending side. I think we'll see that continue to grow over time.

Peter: Okay, so we're almost out of time, but I want to get your thoughts on sort of the endgame or...obviously this is going to be evolving over decades, shall we say. I mean, insurance companies, they're in a very strong position in many ways. Obviously there's a lot of very, very large players and they have deep pockets and as you say they're investing in a lot of these companies, do you think that eventually all of the successful insurtech startups will be bought by one of these insurance companies?

Matthew: You know, I think it's very likely, over time, as we think about all of the insurance startup formation that's happened, that we will see M&A. We've already seen some quick acquisitions already, smaller acquisitions, but over time, yes, I would expect companies that one, provide a product and a customer experience that is more relevant to today's generation to obviously be very interesting to a lot of traditional carriers from the M&A side of things. But again, one thing that I think is different is that while interest in insurance tech really happened over time…we had a venture investor recently say that this market is actually quite overheated. I think this is a much longer term development in terms of the impact that we see from a lot of what we're talking about today.

So, as I mentioned, venture investors typically operate on maybe a seven to eight-year time scale, but insurance businesses will take...for the ones that are really looking to develop product experiences and selling insurance products that resonate, it will be for very patient entrepreneurs and this may take ten years, it may take fifteen years for them to really develop into these major brands that maybe they aspire to be. I think what that does for venture capital will be interesting as well, but over time, I think the industry is certainly...there are certainly a lot of things with the insurance industry today that a lot of what we're seeing today has been great to do and spur not just a greater discussion, but a lot of initiatives by the industry to really focus more on the core insurance experience and sort of the product as well.

So, you know, over time, I would expect to see M&A happen over time, but it will be a long time. And just to end on that with a more concrete example, we talk a lot about all the small business insurance startups that are cropping up today…if you look at a firm like Hiscox, which is a carrier in the UK but also sells small business insurance here in the US, for them to accrue $100 million premiums, it took seven or eight years and that's a carrier, a large company with all the resources to bear. So it took a long time for them and I think for startups, especially...and a lot of the startups who are looking to sell small business insurance for example today are partnered with companies like Hiscox or other carriers. It will take a long time as well for them to develop into these bigger players in the space. It's quite interesting that the industry is developing very quickly over time, a lot of new things happening, you know, every day, every week. So where this goes over the next five/ten years, I think, will be more interesting to track than maybe what's happening next week.

Peter: Right, right, we'll have to leave it there, it was a fascinating conversation, Matt. I really appreciate you coming on the show today.

Matthew: Thank you so much.

Peter: Okay, see you.

Matthew: Thanks.

Peter: So just following up from that last point that Matt made where the time it's going to take to scale these insurance startups…I mean, that's one thing that is definitely different I think than the online lending space, particularly if you look at the consumer lending space where you've had some companies like Marlette or SoFi or Avant who have really scaled very, very quickly to become some of the largest providers in the space in a matter of two, three, four years. So I think it's obviously not going to be that way in insurance, but I also think that it's an industry that is ripe for disruption, particularly when it comes to user experience and so maybe we will see as fast a change in insurance when it comes to delivering the product to the end user and that might be the area where there really is rapid change.

Anyway on that note, I will sign off. I very much appreciate your listening and I will catch you next time. Bye.

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