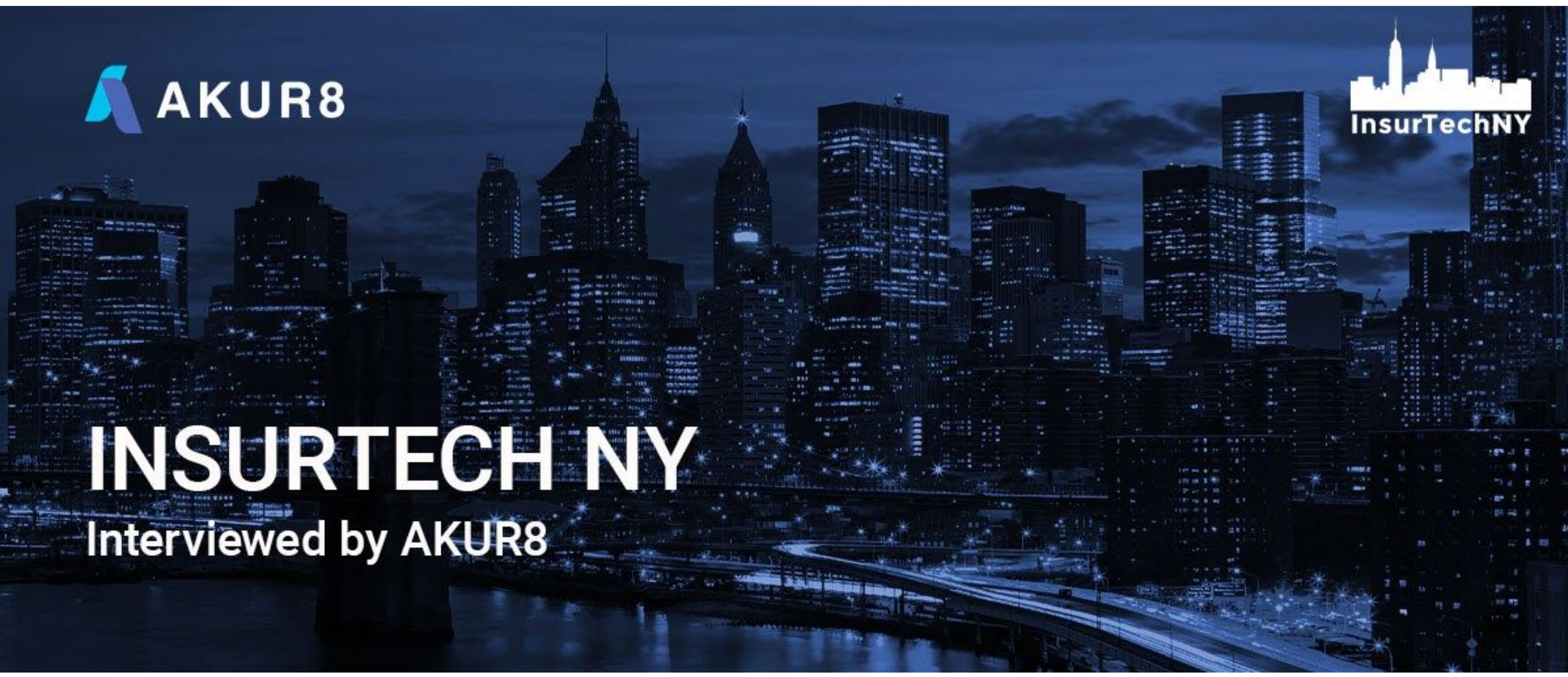

INSURTECH NY INTERVIEWED BY AKUR8

We recently interviewed David Gritz and Tony Lew, co-founders of InsurTech NY, to get their perspective on the American insurtech industry, the differences between the East and West Coast markets, the value artificial intelligence and machine learning, and what should a B2B insurtech know before launching its services in the U.S. Enjoy!

MOMENTUM OF INSURTECHS

What type of new players do you see emerging in the NY insurance landscape?
Speaking specifically about the New York insurtech area, there has been a solid movement of insurtechs, across several lines of business.

The benefits space has gained quite a lot of traction. Two startups illustrate that trend: Nava and Nayya - it's funny that they kind of have similar names.

- Nava is focusing on modernizing the benefits business, selling solutions to small and medium sized companies. In their first year of business, they raised $20m! Not many startups are able to raise this type of money at this early stage. It's an extreme outlier. We're definitely looking forward to tracking their progress.
- Nayya is a more technology-driven kind of solution in that same area. They help people choose the right benefit within their benefit programs. They were part of the ERA accelerator and recently launched their product.

If we talk about the startups that we have worked with directly: one of the top companies in our global InsurTech competition is Agilius. They recently moved from Israel to the U.S., working in the New York market. They focus on the landlord policies, which is a relatively underserved area within the U.S. It's actually something I have experienced as a landlord: it's hard to find a policy that matches exactly what you need. Most are designed either for large commercial property owners or individuals, but not someone who owns a multi-unit property. We are excited to continue to see them develop.

In the auto space, there are a few startups in our accelerator. We have a company called Stable Insurance. They are focusing primarily on fleets and also on Uber/Lyft type of drivers. Another one quite similar to them is Inshur. They expanded from the UK to New York in the last few years. They are a very good example of a European-based insurer that moved to the U.S. and started gaining substantial traction. We will definitely be watching the traction between Inshur and Stable Insurance, but there is room in the market for both of them for sure.

Then, of course, we have the bigger, well-known insurtechs: Lemonade, Oscar, and Policygenius. Policygenius expanded from the traditional lines into life. They are acting more as a marketplace: instead of becoming a full-stack insurer, like Oscar and Lemonade, they are placing policies. Marketplaces can be very effective. We have seen a lot more marketplaces and quoting platforms on the West Coast, with companies like Next Insurance and CoverHound for example.

There is going to be more movement from what we see in terms of the most successful insurtechs becoming full-stack carriers. During our recent event, we had three full-stack insurers - Metromile, States Title, Hippo. In telling the story of their evolution, they shared that one of the key elements that allowed them to break out was finding the right reinsurer and then making the decision ultimately to become a full-stack insurer. So we think the next crop of unicorns will be full-stack insurers-- but there is definitely room for marketplaces like Policygenius as well.

Do you see them becoming direct competitors of 'legacy' insurance carriers?

A lot of the most successful insurtechs are focusing on how they can partner with the existing carriers and brokers. It takes a lot of energy to go out and become a full-stack carrier, or even to compete directly.

The way the U.S. marketplace is set up makes it difficult to sell in different states immediately. So it's easier for the insurtechs to partner with the carriers to get their licenses and to sell their policies, before they ultimately create their own policies. Or to find a fronting carrier that is going to put their name on the front of the policies and take some of the risk.

On top of this evolving B2C landscape, how are B2B insurtech companies impacting the industry?

At first, a lot of B2B insurtechs that were created failed to properly match the needs of the carriers. When they reached the MVP stage, they could not find enough carriers to reach critical mass.

There are 3 strong areas within B2B insurtechs where we are seeing a substantial amount of traction:

- **Enabling distribution**: platforms that can simplify the process of selling insurance policies and make it easier to collect, aggregate and use data.

  Fenris Digital, a member of our accelerator, provides alternative data for property and life policies. You can personalize policies and offer pre-filled forms. Other examples of data enrichment in the field of small business insurance are Planck, one of the winners of our competition, as well as Data Cubes, Carpe Data and Terrene Labs.

- **Helping with the underwriting process itself**: either because you have additional sources of information or because the underwriters' work is reduced with some of the tedious things they are doing being replaced with machine learning or artificial intelligence.

  NeuralMetrics, part of our accelerator, is focusing on workers' comp insurance. For the European audience that is not familiar with workers' comp insurance, it is a U.S. government mandated form of disability insurance. Every company has to purchase it for their employees. Then, if someone gets injured at work, they are covered through the policy.

- **No-code platforms**: they are used for launching new products or expanding existing products into new marketplaces quickly.

  The first B2B unicorn in NY which was recently announced is Unqork. They are not only focused on insurance (they cover other verticals), but they have been doing very well in this area. In our competition, one of the winners was a company called Protosure. They are earlier on in the process, focusing on augmenting some of the core system types of components that you would get from Guidewire or Majesco to launch products faster. We see a lot of potential with them.

We currently observe a lot of investments from VCs in insurtech companies (both B2C and B2B) as well as IPOs (Lemonade, Root): what do you think are the main drivers and how do you see this evolving in the future?

I think there are 2 main drivers.

The first one is purely from an excitement and return perspective. Insurtech is new, U.S. VCs had not really organized insurtech as its own category until 2015. It was under fintech. I think it is a hot area because of the Root IPO, the Lemonade IPO, the CoverWallet acquisition, the recent Limelight Health acquisition… All of those have really created excitement, because investors see that they can put money into an insurtech that is going to get to an exit where they can realize solid returns. Returns amplify investment.

Traditional VCs are definitely looking at the insurtech sector.

The West Coast is actually seeing more traditional VCs investing. The East Coast is more CVCs-driven, because that is where they are. Corporate VCs have an aggregated $2bn+ available in fund money. Axa Venture Partners, Munich Re Ventures, Guardian Life, CNO, Transamerica, Scor, Mass Mutual Ventures, Liberty Mutual and many more have deep pockets.

A lot of rounds are happening with a combination of both a traditional VC and a CVC, as well as private equity for some. Slice recently got their Series C investment and they had one of the largest private equity firms, like KKR, kicking in.

Are you seeing investment slow down due to Covid?

COVID has mostly affected the earlier stage startups, that are raising pre-seed and seed rounds. A lot of that money, which was coming from angels and smaller VCs, has dried up to some extent, but also moved to Series A rounds. Once startups have revenue and traction, there is money available, from both traditional VCs and CVCs.

ZOOM ON B2B INSURTECHS

According to you, what will make a VC fund invest in a B2B insurtech company? What are the key ingredients for success?

From an investment point of view, there are 3 main things that investors are looking for:

- **Revenue and market size**: a lot of them have requirements on minimum revenue - at least $1m a year - and growth potential of total market size of a billion dollars. If you have those two in combination, it is going to attract a lot of investors.
- **Having a differentiator**, whether it is technology, intellectual property or access to a unique niche market. A lot of traditional VCs on the West Coast do not care too much about IP, they care more about market growth and how quickly you can get to the market. On the East Coast, they are more looking for what type of technology advantage you have.
- **Team with a track record**: if your team has had a prior exit or comes from the traditional carriers in senior roles, that will definitely help.

Insurtechs also specifically need to make sure that the insurance side of the team exists along with the tech side of the team. A lot of insurtechs have one or the other. They have a very strong tech team but they do not know a lot about insurance. Or they have a very strong insurance team but they are missing a CTO or a solid tech team. If you just have the technology, it is going to be very hard to break into brokers and carriers, especially if your product requires an insurer to buy it. And even if you are selling policies, it is going to be very difficult to get the regulatory approvals and to get reinsurance relationships. Having both technical and insurance knowledge is essential.The startups that have both are the golden ticket for the investors.

Any advice for European B2B insurtechs expanding in the U.S.?

I would recommend three things:

- **Find a first customer in the U.S**. Ideally, an existing customer that has a US presence. For example, if you are working with Axa, it is a natural transition. That is a starting point to ensure you have revenue and can then hire a team.
- **Setup a U.S. entity**. You want to have a traditional Delaware C corp in the US. US investors in the U.S. are looking for that. It is almost a barrier if you do not have that setup, even if everything else is good
- **A team embryo.** Having an office or at least a person on the ground. You need an early first hire.

Do you have any examples of non-U.S. B2B insurtechs that managed a successful entry and raised substantial awareness?

We have a number of Canadian-based insurtechs like those in our accelerator, Breathe Life and Relay are two examples of insurtechs doing well in the U.S. market. They have done several things to get attention. Being part of accelerators is a way to get substantial exposure while getting a stamp of approval and meeting with carriers or brokers.

Developing thought leadership is also an effective tool, such as speaking at conferences, producing online content or webinars to raise awareness. The same goes with getting some press. Finally, getting acquainted with analysts firms definitely helps get traction.

HOW INNOVATION AND NEW TECHNOLOGIES ARE DISRUPTING THE INSURANCE INDUSTRY

What are the breakthrough innovations you've identified in the insurance sector in recent years, notably looking at the Insurtech companies participating in your accelerator batch?

From a slightly cynical perspective, a lot of the startups that are pure AI/ML have been slow to launch, mostly because the insurance sector requires extreme specificity.

AI or ML-based startups that do not have a specific product or use case usually end up in a dead-end. An example of that is Chisel. When they originally launched their company, they had a rather generic platform and struggled to get traction. They were then able to tailor their platform to a few lines of business that made them a lot more effective.

The companies focusing on AI and ML in our accelerator also illustrate the need for very specific use cases. Sorcero chose to specifically target the healthcare vertical by helping carriers better structure their data from policy and claims management to improve the predictions made in the underwriting process and they are doing well.

That is where the future of AI is going: finding very specific niche areas to solve insurers' problems.

What role do you see AI and ML powered solutions play in the insurance industry? What are the key benefits awaited from such solutions?

Using AI can be intricate but also entails lavish opportunities. Yet those opportunities might not come into play until 5 or 10 years from now.

There are 4 main areas that I would call 'low hanging fruits' for AI and ML solutions:

- **The easiest field of application for AI is in claims.** The amount of manual processes is countless in this field. Finding the initial damage that happened, figuring out if the claim was valid or not, finding out what was involved in the claim, the cost, and eventually subrogation opportunities. Those AI applications are the 'easiest', even though probably not of highest added value.
- **Underwriting and pricing are where AI and ML can bring the highest ROI.** Both in automating the pricing process to gain substantial time and in improving the predictiveness of the risks models.

  To date, processes are very manual and extremely long. Many decisions taken by underwriters are experience-based. This makes it a perfect use case for AI, though current data organization and organizational inertia can make the use of algorithms a harder task in the short term.

  The specificities of the insurance sector in terms of regulation also make it a lot more complicated to find the right applications for AI in this specific field of underwriting, given the imperative for transparency. That being said, with the right solution, the ROI potential is from far the highest of all potential AI or ML applications.

- **Policy management is a major area but it is also likely to be the hardest.** ROI potential comes from the enabled shift from people-intensive processes to fully automated ones. Chatbots or automation of internal policy processes are cases in point.
- **Finding opportunities for new products or underserved markets.** Those are probably ten-year-out types of opportunities but they have the potential to offer substantial ROI to insurance carriers.

To finish on a more personal note, how did you end up running this accelerator and be so acquainted with the insurtech sector?

I joined the first insurtech that I was part of back in 2015. It was a spin-off of an insurance company in Pennsylvania that focused on workers' comp and commercial auto insurance. They were focused in the loss control space, helping companies to reduce claims. I helped them build their product and take it to the market. Eventually, they were acquired by a reinsurance company in New Jersey.

Then, I spent some time out in Silicon Valley working for a group called the Silicon Valley Insurance Accelerator, helping them to run their programs. Through them, I connected with a ton of insurtechs and have been helping them along the way.

Tony Lew - my InsurTech NY co-founder - and I felt that the NY ecosystem was not as strong as in the San Francisco area. In Fintech events, Insurtechs were like a second-class citizen. People would think 'you're weird, you do insurance'. We thought that was not right or fair and that is why we created Insurtech NY, to bring together the community in New York and help startups from around the world to reach the local resources (brokers, investors …) to see if they can partner with them.