

Lloyds of London - CEO at Pathpoint

Interview conducted on February 01, 2023

Topics

Insurance Technology, Cyber Liability Insurance, Pathpoint, Retail Agents, Commercial Insurance Distribution, Carrier Partnerships, Competitive Threats

Summary

A Tegus Client spoke with the CEO of Pathpoint, a digital wholesale insurance intermediary, to learn about insurance technology solutions and the fast-growing segments underneath the broader insurance umbrella. Pathpoint serves as a wholesaler for general liability, property insurance, and cyber liability insurance for small businesses. The conversation covered definitions of excess and surplus lines, general liability, professional liability, and cyber liability, as well as Pathpoint's revenue model and carrier partnerships. The CEO noted that while the insurance industry is digitizing, it can still be difficult to integrate with carriers, and that Pathpoint is the appointed broker by the carrier, responsible for paying taxes and fees and filing policies with states. The CEO also discussed the difficulty of winning and expanding with retail agencies and the importance of relationships, especially with smaller accounts. The CEO expressed concern about competitors creating similar portals and the risk of large retail brokerages moving books of business in-house, but does not think that the wholesaler will go away from a market structure perspective given the prevalence of independent agents in the country.

Expert Details

CEO at Pathpoint. Expert can speak to the insurance technology space as an expert in the industry.

CEO at Pathpoint. Pathpoint is a digital wholesale insurance business. Expert is responsible for thinking about how to push forward digital distribution in commercial insurance. Prior to being CEO, expert served as COO overseeing Product, Technology, Operations, and Finance.

Tegus Client

Hello. Thank you for taking the time to speak with me today about insurance technology solutions. Specifically, we would like to know more about the fast-growing segments underneath the broader insurance umbrella, and cyber has kind of piqued our interest which sounds that's part of what you do at Pathpoint. So, to start off, could you please give us a quick overview of your background and Pathpoint?

CEO at Pathpoint

Sure. I'm the CEO of Pathpoint, which is a digital wholesale insurance intermediary. We sit between retail insurance agents and excess and surplus lines insurance carriers as an intermediary. For your standard insurance agent, 80% of their book of business, commercial book of business, they're probably doing with direct appointments with standard market carriers, maybe 10%, 15%, 20% of their book, and they're placing through a wholesale broker.

That can be excess and surplus lines of business, so a business that's not regulated in the standard market or they might be just using a wholesaler to access a carrier appointment they might not have, like a cyber carrier that's writing cyber admitted, but they don't appoint 30,000 retail agents, they rely on wholesalers for distribution.

So, Pathpoint serves as a wholesaler, we're licensed, all our revenue is generated off commission and fees, but we obviously take a very digital-first approach. Traditional wholesalers are the production model, brokers are manually submitting accounts, quoting accounts, and it's pretty arduous. Certainly, at the small premium end of the market as well, a lot of agents are losing money on accounts they're placing through wholesalers

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that are under \$15,000 in premium. They're only doing it of a necessity to retain the whole clients' portfolio of business.

Pathpoint sits in that area. We do predominantly general liability and property insurance, but about 10% of our business, maybe a little less, is cyber liability insurance specifically for small businesses. So insured limits under \$5 million, accountants, insurance brokerages, small businesses, web design companies, and restaurants, we have appointments with cyber carriers, both traditional and insurtech ones.

Tegus Client

From a definitional perspective, we hear about E&S, professional liability, can you help us segment that? What falls underneath those umbrellas?

CEO at Pathpoint

Yes. Let's start with E&S, which stands for excess and surplus lines. That is about \$90 billion of commercial insurance premium written in the excess and surplus lines market. That's how carriers are filing policy forms and rates with the state regulatory agencies. So, if they want to make a change, they need to refile their products.

The U.S. regulatory system created the excess and surplus lines market, where you don't need to refile pricing changes or policy wording changes. But to access that product in that market, you need to go through a licensed surplus lines broker. So there's an additional level of intermediation to protect consumers from unnecessarily going to this market where carriers can change rates overnight.

I don't know off the top of my head, AM Best would have data on this or just even googling up but 10 or 15 years ago, E&S market was under \$30 billion of premium. In 2022, I think it was \$85 billion, \$90 billion of premium written in the excess and surplus lines market. That number also includes Lloyd's of London, which is an insurance marketplace in London that's it is all surplus lines insurance and that's about USD 35 billion of premium. So maybe 1/3 of the U.S. market is written into Lloyd's.

The general liability, professional liability, and cyber liability are lines of business. You can think of these as product lines, basically, like cereal in a grocery store or beef. So general liability is like your trips and falls, like the cliché that it covers.

Professional liability is a product design for errors and omissions and that's another synonym for it that a professional services firm might buy. If you were an architect, you might have a professional liability policy that would cover you if a building you built had an error and you were sued for it, for example. Engineers, insurance brokers, accountants and a lot of services buy it.

Cyber liability is a relatively new by insurance standards line of business. I don't know off the top of my head, but 20 years ago, maybe 25 years ago is when some carriers started writing cyber on a monoline basis. This means they started breaking it out as its own line of business. In the last 10 years, it has become this growing market. It still hasn't eclipse something like property liability, that's massive, but it's growing very quickly. Off the top of my head, I know there are some McKinsey or BCG report that says it's going to be like \$20 billion, \$25 billion line of business by 2030 or something like that.

Tegus Client

Got it. Is there a reason why that isn't a larger portion of your business, with it being less than 10%?

CEO at Pathpoint

For our business, it's a function of our distribution and market structure a little bit. We really differentiate on GL and property because those are, from a process perspective, more challenging to place in the E&S market, more paperwork, not many people have digitized it, much more fragmented underwriting and pricing under the hood. You can think about GL for contractors as actually being 100 different products, for remodelers, roofers, plumbers, each have their own classification and underwriting considerations.

That's just like where our business is focused, and you'll see all our marketing and the way we go to market is around that. The cyber liability market is growing very quickly. There has been a lot of digital investment

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in improving the underwriting process and lots of carriers have digital cyber products that agents can quote online. Lots of wholesalers have cyber quoting platforms so it's just not a source of differentiation from us relative to the market, if that makes sense.

Tegus Client

So, from a revenue model, is it your traditional 10% wholesaler rate, plus or minus?

CEO at Pathpoint

A wholesaler will charge 20% to 30% points gross commission, and they will remit 7.5% to 12.5% of that to the retail broker, so they'll net 10-ish points as you point out, and that would be the percentage of the premium that they would book as net retained revenue depending on how they do their accounting, but it definitely varies.

Tegus Client

It does. Why do you go that route instead of just selling software to the retail agent and enabling them to go the rep?

CEO at Pathpoint

My opinion is that it's very difficult to sell software to retail agents. They will buy their agency management systems, but that's an incredibly consolidated and competitive market between Applied and Vertafore. Brokers and agencies are not going to have big budgets for software necessarily, certainly not the smaller ones. They're running pretty lean, the roll-ups that are being done by private equity firms are going to be very EBITDA minded.

So obviously, software can play a role, but it has to directly impact the bottom line and the sales cycle into them is very difficult. Selling into wholesalers and MGAs, you just have customer concentricity risk. There's just not that many of them that would buy software. We thought the better option was to be part of the value chain but that's an opinion that we took as a business.

Tegus Client

Roughly how many carriers do you work with today?

CEO at Pathpoint

This is on our website, so it's publicly available. We work with about a dozen carriers.

Tegus Client

Is that all through direct integration on this quoting platform that you have?

CEO at Pathpoint

That is all through direct integration which is atypical for the industry. Most wholesalers would work with dozens, if not hundreds of markets and do the vast majority of it manually, meaning like e-mailing submissions back and forth.

Tegus Client

I traditionally don't view insurance carriers as being tech savvy, has that been difficult to integrate with them?

CEO at Pathpoint

That's definitely a cliché. The insurance industry digitized after the banking industry and E&S is digitizing after the commercial insurance industry. It certainly is difficult in that you have to work with what they have but as long as you find the right partners, there are ways to make it work. There are E&S carriers that have been building and are building more digital infrastructure for digital distribution or just more efficient internal operations, too. The short answer to your question is, yes, it's not like banking where APIs are table stakes

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these days, it's still being rolled out.

Tegus Client

Got it. We've come across some sort of in and around the more focus on the cyber quoting space. Do you have any thoughts on kind of grouping three buckets like Sayata, which is more kind of tech-driven; then there's a ProWriters or a Limit, which feels pretty similar to you, but maybe more focused on cyber; and then Amlin, which has their own technology foothold. Any constituents there?

CEO at Pathpoint

Amlin is one of the three largest wholesale intermediaries by premium volume, presumably by revenue in the world so it's a traditional wholesaler. It's owned by private equity, it's not publicly traded and they'll have a brokerage division, which is doing traditional brokered products. They also have a delegated authority division that would be doing small business, more automated, but not entirely. Then they have a programs division where they're doing bespoke products as well. Amlin is a behemoth, they definitely do a lot of cyber liability. They have launched an online portal for cyber liability and a few other products adjacent to that.

Limit and ProWriters would be newer entrants, very focused on cyber. We don't run up against them much in the market because we're very focused on property and casualty. Then I'm less familiar with Sayata, I believe they are a wholesaler as well, but they might work with other wholesalers on cyber and professional lines.

Tegus Client

Got it. Are you a wholesaler or the broker of record in this value chain?

CEO at Pathpoint

We are the appointed broker by the carrier, and we're responsible for paying taxes and fees and filing policies with states. From a colloquial sense, both of the retail agents we work with own the renewals. Colloquially when someone says who's the broker of record, it's the retail agent, they're choosing to work with us. They're going to choose to renew with us but we are a regulated insurance intermediary. We have compliance and licenses and all that as well.

Tegus Client

How difficult is it to win and expand with these retail agencies? Is it relationships-driven in some instances?

CEO at Pathpoint

It is difficult but doable. To your second question, it is very "relationship-driven." Certainly, the wholesale relationship is important because the retail agent is thinking about their wholesaler as their escape hatch. So I couldn't get this done myself, I'm going to outsource it to you, take less commission on the deal and so I'm relying on you, my relationship to get this done. There can be healthy relationships, there can also be combative at times but generally, it works.

So, you do need to have trust and a track record, and these relationships can be sticky. With smaller accounts, they're going to be less sticky because the traditional retail broker is probably losing money on the small account because there's so much paperwork involved.

Smaller accounts might move a little bit more than larger accounts, but commercial insurance distribution chain is still very relationship-driven. Landing and expanding is completely a function of product set and how you're approaching the market so I don't have like a general take on that, but it is difficult to pull off.

Tegus Client

Yes. Do you worry about Amlin, CRC, Ryan, or some of the big wholesalers creating a similar portal for what you've built for general, cyber and commercial?

CEO at Pathpoint

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Yes. Ryan Specialty Group has a binding division, and they have an online portal called RT connector that is very competitive with us in terms of products and who they work with. Certainly, we worry about Amlins and CRC bringing something else in the market as well. We've had to invest heavily in technology to just reduce friction as much as possible, differentiate on self-service and set a first mover advantage that lets us to get to scale in the market so we're defensible eventually. But yes, that question is an existential question for any new entrant into the market.

Tegus Client

Is it easier for them to build it, maybe in cyber than general commercial?

CEO at Pathpoint

I believe cyber is a less fragmented product. Hundreds of different types of business are largely still underwritten the same way in cyber, whereas for general liability, that's not the case. Property is a commodity, but there are all sorts of considerations around building where it's located, when it was built, and what was it built with and these are just larger swaths of the economy, so there's more to go after as well.

Tegus Client

Got it. Are you also worried that the retail inflows get more knowledgeable in this space, then they start to go more direct to the carriers over time?

CEO at Pathpoint

To answer that, I have to take a couple of steps back. There is always a risk that large retail brokerages move books of business or practice groups that are wholesale-reliant in-house because they know that they can make more money off those businesses. The 30,000 independent insurance agents out there, even as they consolidate, new ones are being created.

We sort of think about that TAM as being at least flat, if not increasing, even if certain agents are graduating into the middle market and larger segment because new agencies are being created all the time. These agencies just don't have the footprint or the staff to be able to work across more every single product line and they're not going to know how E&S works necessarily, let alone how CAT property works.

They might, but then there's going to be somewhere else in their book that they need to rely on wholesale. So I don't think that the wholesaler is going to go away from a market structure perspective, given the prevalence of independent agents in the country. Then also, the reality is, a lot of these big top 100 brokerages, they might build internal wholesalers, but there's still a wholesaling function there, and that's still inefficient as well.

Tegus Client

Okay. Well, thank you again for taking the time to speak with us today. Goodbye.

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