Muenchener Rueckversicherungs-Gesellschaft AG - Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Interview conducted on January 12, 2023

Topics

Insurtech, Small Business Insurance, Underwriting, Actuarial Data, Partnerships, Risk Evaluation, Innovation, Freelancer Market

Summary

A Tegus Client speaks with a former Chief Urbanisation & Cloud Officer at Vaudoise Assurances about the insurtech space, including the emerging segment of freelancer insurance being targeted by startups and more aggressive dedicated MGA. They also discuss challenges in underwriting professional disability for freelancers and micro businesses on the life side. The expert notes that Swiss Re granting MGA license to Insify to underwrite micro and freelancer disability insurance is a common practice to test the market in a limited and controlled risk manner. The potential for startups to disrupt the insurance industry through the use of additional data points is discussed, with the expert believing that it is unlikely that traditional insurance companies will disrupt the industry due to their focus on short- and medium-term profitability. The expert expects that the next wave of insurance startups will focus on commercial insurance and SMEs, with additional services such as monitoring of risk through digital twins and the Internet of Things playing a role.

Expert Details

Former Head of Strategic Tech Partnerships at Swiss Reinsurance Company Ltd, leaving in February 2022. Expert can speak comfortably about the overall market (GL and Disability) in Europe and is familiar with Luko, Insify, and Stoik.

Professor of Practice at H-FARM College.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances. The expert and is responsible for managing, supervising the entire cloud computing environment and its operations. Assists an organization to harness the power, productivity, and efficiency of a suite of cloud computing solutions and services.

Prior to Vaudoise Assurances, the expert was Head of Strategic Tech Partnerships at Swiss Reinsurance Company Ltd, leaving in February 2022. The expert was responsible for the ownership of strategic partnership agenda, screening of potential new partners and for portfolio optimization, alignment of Business, Information, Application, and Technology architecture to business strategy, and operating model report to Reinsurance P&C CIO.

Q: Can you speak to the small business commercial insurance (general liability and disability) for European markets?
A: I can discuss comfortably the overall market (GL and Disability) in Europe.

Q: Can you speak to growth, underwriting, product, and/or technology within the small business commercial insurance landscape?
A: I can speak about growth, key underwriting trends/challenges, products, and technology (mostly development towards product tech-enabled).

Q: Can you speak to MGA licensing, especially for freelancer coverage in Europe?
A: I have good knowledge on MGA licensing and trends in Europe, I am familiar and knowledgable with

freelancer coverage but not a specialist.

Q: Please rate your familiarity with the following companies (with 5 being the highest): Luko, Insify, Superscript, Clark, and Stoik
A: 5, 4, 1 , 3, 5

Tegus Client
Hello. I appreciate you making the time to speak with us today about the digital small business insurance platforms industry. I'd love to talk about just to understand the difference between life and P&C because I'm more familiar with P&C, and then go into underwriting distribution and kind of wrap up with a conversation about the insurtech space broadly and what we saw from IPOs and what we expect to see differently in the future. So just to give you an overview of kind of where we want to take this. But I think what's most helpful, is if you could start with your background in insurance broadly and maybe with small business insurance and working with insurtech players.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
Yes, I spent, roughly speaking, 32 years into insurance. I would say 17 probably mostly spent into general insurance and credit insurance, other 15 in the reinsurance space. During the reinsurance space, I spent between five and seven years developing technologies and products for typical insurtech or large insurers into the new type of markets that were coming out of the new needs, so let's call it, of customer engagement as well as risk costing and definition.

Into this space, I was approaching also a lot of work together with this insurtech typically, where sometimes we were partnering, sometimes we were consulted, sometimes we were actively working together in order to develop the products. So most of my knowledge of that market come from. For the part of the SME in general, I had also a long exposure to corporate solutions, whether Hannover or Swiss Re, which is working in general companies with a special dedication to the part of SME for the development of new products.

Tegus Client
Got it. Super helpful. And just to make sure you're familiar with players like Insify, Superscript, Stoïk or some of these newer challengers?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
Yes. We taught them. I worked together.

Tegus Client
Yes. Great. So maybe where we can start is just maybe freelancer insurance as a segment, is that an attractive segment to like incumbent insurance companies? And if so, are the larger players going after it? Why, why not?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
So first of all, it's an emerging segment, as you were pointing out. So this means that typically, it's not something that large insurers really grow into because typically, you don't have the basic requirement for a large insurer, which is a history of results from a client perspective from behavior of the risk in order to have a solid pricing.

So typically, what would happen into this type of scenario and it is already happening, is that there will be the insurtech, the new start-ups or more aggressive dedicated MGA that will sound basically the market. The insurers will play typically the role of the back end for underwriting.

It can be from insurance or it can be from the insurance to get, basically, the knowledge of the market and to see if this segment will develop into, I'll call it, a fully-fledged segment worth of a direct, let's say, work. Or otherwise, they will stay just lateral providing capacity or even withdrawing from that.

Tegus Client
Got it. Yes. That makes sense. And what's kind of your thesis on this segment today?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
So it's clearly coming out and not as a fade, meaning, something that was just happening. Clearly, there were two, three coincidental factors that the pandemic, some changes into the economic model, the advent of technology that was made impossible to remotize a lot of type of work. So this category of freelance, first of all, has become much wider and probably needs even more definitions now.

So freelancer is a very generic term, which does not reflect currently the demands of the market. So I start to see, for example, insurers are starting to reason about this kind of a new type of permanent or semi-permanent or long-term setup where you even don't have a stable basis, for example. And these are the huge implications for insurance.

Most of the insurance into this space are related to property. For example, working from home. What about if your home is not just one home? What if you are roaming across different places in different times? So I would say that the scenario is interesting, but is also very liquid at the moment, even in terms of definition. So that's why you see also certain immaturity of the products.

Most of the products tend just to extend existing coverages. I saw, for example, I mean in the companies you were mentioning, there were several that are basically extending home insurance, just enroll that to include some elements of this freelancing or remote working situations. But by far, they are not, I'll call it, designed from the ground.

Just to give you an example. There is a company, I think it's in Holland, which is much built from the ground around the idea of gig workers. So clearly, they are really developing and they are growing up at quite an interesting rate. I think they passed one million subscribers. They are present in Holland and in other couple of countries. And probably it's the kind of signal that the amount of people or the amount of clients that potentially can be served with these type of solutions is now starting to become more material, and probably this will trigger the interest of the big SPI.

Tegus Client
Are there certain players that you think are doing this better than others of doing ground up versus just extending existing lines?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
To be honest, which anyway, I have to say, start anyway from, of course, as many as possible existing coverages. I didn't see really too many really jumping into the complete novelty of the segment. So most of them, in reality, address, for example, the interaction part, so the customer experience. And this is typically also the MGA approach where, of course, they don't own the underwriting.

So they take care that the experience is frictionless. The part, more than, I'll call it, the structure of the products because if the structure of the product is too new or is still complicated, it will be difficult to underwrite the traditional method of capacity allocation and so on.

Tegus Client
Yes. I mean, we've gotten to know Insify, which is also in Holland, and I believe they work with Swiss Re.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
So Insify, I think, it's backed by Munich Re. So we had a conversation because I remember them. But my knowledge was that they were going to be backed by Munich Re. Sometimes they have also double coverage, which is perfectly possible. Their main partner seems to be Munich Re, but I'm not up to date with the latest developments.

Tegus Client

Right. Do you oversee a professional disability line? Like life insurance underwriting professional disability for freelancers.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes. That is a big line of development. The problem is the actuary of calculations behind it. So clearly, it is a type of product that everybody would like to have. So the problem is that there is not yet enough material in order to really make it available on a very large basis. So it's much more resembling a traditional life and death coverage with all the prime accounts, which typically do not fit very, very, very well to the dynamic nature of this type of professionals.

So that's one of the dimensions that the insurance needs to address. So typically life and death works on very long engagement, which, of course, need to cover the type of risks which are implied by that. So professional disability or things like that do not work well when you have coverages, which are kind of on-demand or similar to that.

Tegus Client

Yes. Okay. So I'm less familiar, when we speak about the small business insurance space, we, as freelancer, we are including both, general life.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Okay. So far, yes, you need to probably split that at certain point between the two because the SME clearly have a different maturity level in terms of coverage. They typically also face, I'll call it, the insurer with a different profile in terms of long term, what could be the lifetime value of the customer under which you can calculate certain type of coverages and assume certain type of risk, which is completely different than a freelancer or at least a generic freelancer. So that's why I was saying, I mean, it's clear that from a technical standpoint, that could be accumulated as coverages. But from a pure business practice perspective, there are nearly two different business lines at all.

Tegus Client

Right. Okay. Small businesses and freelancers. What about small businesses with one to three employees? Micro businesses, would you say they're fairly similar to freelancers?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

To an extent, exactly. They resemble a lot the struggle from an insurance perspective of the freelancer.

Tegus Client

Okay. So I would say, for the purpose of this call, we're focused on the micro businesses and freelancers. For that segment, then we're also focused on both P&C underwriting for general liability and professional indemnity, and then also life underwriting for professional disability. I would say we're less familiar with the life side. You were saying that it's hard on the life side to underwrite professional disability for this segment.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

So probably is that there is much less appetite from the reinsurance perspective. Of course, there is a demand from the market, but this demand needs to be coupled with a solid actuarial coverage, which currently there is not. So clearly, I mean life and death is much more inflexible as a product than P&C.

So clearly, with P&C, you can have even spot coverage, whatever type now of flexibility basically you can imagine. This is not something you can really do for life and health, especially for those coverages, which are not health related. So health could still come to a certain level of flexibility.

But once you start to cover certain things of life or health turned towards life, that becomes really an issue because otherwise, your balance sheet will become really red. It's very difficult to structure a product on a very transient type of activity as a freelance and giving you coverage, which potentially can extend for your lifetime or for years.

Tegus Client
Okay. So our understanding is that Swiss Re has granted MGA license to Insify to underwrite micro and freelancer disability insurance. Does that surprise you? Do you think that that's an extension of other existing lifelines? Or what do you think the strategy there is?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
No, it's not a surprise at all. The strategy is to test the market in a limited and controlled risk manner. So typically, you want to deploy a certain capital risk, expose it to certain trends of the market to look at how it performs, get back the metrics and decide if you stay or you go into that area. So this is what you do, and this is common practice. It's not just the Swiss Re, it's Munich Re, it's Hannover Re, it's whoever, AXA, Allianz as well.

So when they want to test the water, I mean, they don't know really the depth or the breadth of the risk. They probably can estimate the demand, but the demand in insurance is not honestly a guarantee of success. It could be the opposite. If there is no existing coverage, sometimes there is a good reason. So you have to be very careful and the variety of metrics that you need in order to be profitable.

Tegus Client
And if life insurance takes decades to see the true claims cost, how do you test that?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
See you don't. Meaning, at the moment, it's a great question in reality. I would call it the question in life and health. So currently, there are a few companies that are trying to work on these forward-looking models. So everything today is priced. I do not know how much you are familiar with this part, but everything is priced backward looking.

So as you were saying, I look at the last 10, 15 years, even 20 years in life and health, you can look even beyond. And you establish the transfer, the markets, the ratio and the cost factors. And with that, you underwrite for the next 10 years. Of course, this is true if certain factors do not change dramatically.

And currently, the problem is the speed of change of the life factors, the life defining factors, be it changes into the ability to cure certain diseases, be it changing in the lifestyle, be it, of course, the negative events on a catastrophic level and so on. So clearly, this is the part where two, three companies are really working on the fundamental, so trying to get out with a model where you can be forward-looking.

So this means I can solve that problem that you were mentioning and trying to price things not for what happened in the past, but for this very likely to happen in the next near future. But we are not yet there. So I mean Swiss Re was experimenting two, three things on forward-looking pricing. But we are far away at the moment, at least in the knowledge of everybody in the market from any type of applicability to market.

Tegus Client
And who are those two or three companies that are working on the fundamentals?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
I mean, clearly, the big bakers, the Swiss Re, the Hannover Re. There are also probably two, three research and development space. So just to give you the size of the challenge, there are also a couple of not even companies. They are really start-ups, they're very, very small. Where there is a know-how to think about risk models, we are using quantum computing in order to solve the big issue on the calculations. There's a lot, but it's also a very hard nut to crack, honestly.

Tegus Client
Yes. But the potential is huge. So the larger players like Swiss Re are investing in the space via partnerships with small tech companies, including like purely tech in underwriting using quantum computing, and then also on the MGAs to go out and collect the data. Are there any players on the MGA side within professional disability that stand out to you?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Not that I'm aware, not at that level. The MGA are much more focusing on making it easier for the customer, the journey and the relationship, the service in part. I mean there is a lot of friction into that space that if you remove it, you already gain quite a substantial market share. So clearly, this is a much easier, honestly, take in terms of how much the default is and how much the reward is. So that's where the market currently is really focusing on a lot.

Tegus Client

So it's on the acquisition and making it easy for the customer?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes, exactly. Let's call it the customer experience at large, be it in the acquisition phase or for example, in the client phase. So a lot of companies are focusing on a couple of those that you were mentioning. For example, are trying to work into getting as much data as possible so that you don't have to input these or declare these, so it's more about smoothening the journey and the experience of the user at every step, more than redefining the way the risk is really calculated.

Tegus Client

Yes. So if we are evaluating the performance of an early-stage MGA underwriting professional disability, your general sense is that if they have one to two years of claims data, how can you evaluate the underwriting performance?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

So normally, the MGA rely on the backing of the insurer for that? If you got the insurer which gives the green light and also the basis for the calculation also because typically, most of the pricing is done on the insurance side. So it's the insurer, which really underwrites the risk that, at the end of the day, determine the price, especially in life and health is totally like this.

Tegus Client

I'll use the example of Insify again because I know they have an MGA license from Swiss Re on professional disability. What are the performance metrics that you would track a partner like that again? What would you expect from the pricing? And yes, I guess, how would you evaluate their performance versus others?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

I mean, of course, in reality it's not that complex because in reality they look really at, I'll call it, core performance metrics in the combined ratio, in the technical performance ratio. This is where you want to look at how much in the book is sticking to the planned performance or not. So there is not really, I would call it, too much of complicated signs because the complicated signs was before in the determination of the Q of the expected performance of that book.

Tegus Client

I guess, like you were saying before, as the startup, the insurers and reinsurers use this to get to know a certain market and certain performance, characteristics will take a while to happen. They will put a limit, I guess, on how much these companies can grow before they have the real understanding of the performance.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

That's absolutely correct. So all these agreements, I was not entering into the agreements, but all these agreements, I remember also, I was part of the agreements to back up Lemonade, for example. So clearly, there were a certain number of grading in terms of the pricing in respect to the performance of the book and the stop loss at a certain point.

So clearly, you allocate a certain capital as an insurer, and you say, okay, this capital is allocated and you already factor in probably a bad performance. So clearly, we were doing that which is the cost of acquisition of that information. So the bad performance of the book is typically when it's done in an environment, which is relatively new, is the compensation for the information you're going to acquire.

Tegus Client

Would they sort of, on a yearly basis, say, this year, you're allowed to grow to this kind of size? Or the initial agreement, would it have already kind of in it what size they would be allowed to grow to?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

So typically, there are kind of sizes, chunks, in reality, are ranges, which are managed at a different cost of capital and with a stop loss, exactly, to really stop. And of course, typically, this is projected on a multi-year basis. So everybody knows that, clearly, all these things do not work really on a short term. At the same time, there are also sometimes exit conditions if certain triggers are completely broken down.

Tegus Client

Yes. And that would all be in the initial agreement? Or it's more like a Board that every month, they will tell you, "Hey, this is what's allowed?"

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

So typically, that's not monthly. It's, let's say, annual or 6 months the shortest because typically, a monthly information in insurance doesn't tell you that much because clearly the insurance cycle is at least one year. And below that, you are sub analyzing just the segment. So if you want to look at the performance of the portfolio in its entirety without any skew into the distribution and so on. So you need to wait the annual delivery.

So that's why also things do not move that fast because, unfortunately, insurance in the large is still, I will call it, a nearly based type of business. And even to judge the performance, if you want to be fair with numbers, you need to wait the comprehension of the cycle in order to have the old portfolio exposure to be analyzed.

All of this, without counting that, if you're talking of, for example, P&C, P&C is known to have certain cycles, depending how the exposure of the portfolio is on a geographic level to factors which are typically related to months of the year. So clearly, the U.S. get exposure to hurricane risks in certain months; the Europe, Central Europe, to flood in a certain point and so on and so forth. So clearly, insurers know how to distribute also the view of the risk around the performance of the year. So that's why you need to have a view which is basically yearly-based, otherwise, you risk to have really a completely wrong information.

Tegus Client

So you're saying that the fundamental shift to forward-looking underwriting for disability, like, it's far away 10-plus years horizon? Or if we've reached that point with the underwriting technology, will MGA players coming to market today, be able to benefit if they already have that go-to-market captured like in the next three years?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes. So if I knew really the exact answer to this problem, I'd living in the Bahamas with a lot of money, probably it's a few years from now because clearly, the moment of the price is where you factor in the risk into the price. So of course, if you get that wrong, for example, your life and health, you get it wrong for years, so this means that the accumulated damage year-over-year is enormous. So clearly, that's why there is a super extra cushion.

So today, insurance is still priced for 95% as it was priced at 100 years ago. So an actuarial from 100 years ago, I can tell you, could do the job without too many issues. But because the model is mathematically solid, is proven, is forecastable, is predictable in the behavior, and that's been validated over time over and over. So clearly, in order to replace such kind of solid system, you need to have nearly an equally or more solid system.

So anyway, even if today we knew, let's call it, how to do it, I would bet my salary that probably the insurers would just test it for several years to verify the performance, the solidity, the ability to absorb shocks, the ability to absorb SKU data, if there are more data driven as it was in the past and so on and so forth.

Tegus Client

Got it. Okay. So some of that technology might emerge over the next few years, but it's not going to be utilized and practiced for much longer than that.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes. And you will see it's probably on some peripherical risks applied before, something where you can control the extent of the losses, the damage, short-term risks, not long term. So probably that would be the practice field and probably through specialized players. I would even say that an insurer like Swiss Re or Munich Re could even build a dedicated vehicle just in order to test the ground. If something works well, you scale it up. But if it doesn't, you just scratch it and that's it, and you forget.

Tegus Client

Basically, they would work with an MGA to start deploying the models into the market.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Typically, yes. Or you build it or you buy it or you just make an agreement. It depends really from the, I would call it, level of controller that you want over the field, but basically, any combination is okay.

Tegus Client

Right. So I mean does that logically follow that player today that is building up the distribution and the MGA relationships to go after micro and freelancers? As that technology starts to emerge, they would be kind of the first to be able to put it to use and be able to underwrite that segment?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes. I would expect probably a growing number of small players, probably also very localized. For example, it has to be understood how much is the transportability of the behavioral element of the freelancer between different cultures and different missions. So these freelancers in the U.S. are really the same thing than a freelancer into Holland or European market or a European roaming to Middle East, in Dubai or whatever.

So clearly, there is a lot. But if you look into the current coverages of the freelancers is really, I will call it, the very beginning of something because in reality, it's not yet a true small business type of coverage. It's not just a private individual offering. It's somewhat in between. But to be honest, it's not black, it's not white.

Tegus Client

Yes. That was one of my questions was about how similar the underwriting is across geographies. And maybe in comparison but like P&C versus life, what we've heard is that it's much more difficult to take your same model and apply it to a new country for life.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes. Typically, in each model, when you develop the model of pricing, typically, you try to factor in a certain number of key factors, which are influential for the development of the risk and this can be locally adaptable. So just a typical example can be in the motor. Really the way you price, I'll call it, a car in Rome is very different than in Hamburg. Clearly, because it reflects a certain level of behaviors on the road, which probably makes certain factors of the insurance more sensitive to claim in Rome than in Hamburg.

But you need to arrive at a certain maturity and knowledge of the market. So clearly, the motor industry arrived to that over 50 years of exposure of data, experience and so on. There are other sectors like the freelancer, which basically started just yesterday with no data behind and even little knowledge, even around the need itself.

Tegus Client

Yes. Okay. I mean you've sketched it out very well to say this freelancer bit of the market is new and emerging and sort of the capacity providers will be sort of conservative and holding back until they build up the experience. If you talk about sort of slightly larger, so the mid-sized SMB risk on liability and insurance, and ensuring sort of disability and death, do you feel that, that is sort of well understood? Or would a new provider there will still be naturally very kind of limited?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

I think that there is a space, but there is space, especially in the SME, because even today, there are a lot of unmet needs even in the market, which is more traditional of the SME. So clearly, I mean, I think there was a study from Deloitte, which was centering on the SMEs. And when you look to the, I will call it, to the needs what business owners or representative of the SME wanted to include into the coverages, there were not really anything really new, dramatically new.

But if I take just the biggest three, it was business interaction working on coverage and business property insurance in a mixed environment. So it was just variations. Or in the case of business interruption, something that crystallized the need because of the big mess, so basically after pandemics and everything else. So clearly, people were much more aware of the needs, and there are no solutions on the market, which really are good in terms of coverage for those risks.

So for me, if I look into the panorama of the insurtech, yes, technology is important. I'm a technologist, so of course, I mean, I'm probably the first one to be thrilled by that. But clearly, the other thing is how big is the level of demand? And the second question is how big is the ability of the insurance to supply the needs in a profitable way? This is where technology can make it a break it. And this is where probably you need to look into what are those companies that, I'll call it, to have a breakthrough in terms of making these trade-offs between the need and the ability of insurance to serve that need profitably.

If they can move the needle, probably you are on top of something. Even if it is an already existing need, a very long, well-known or whatever, but if it is underserved and it is perceived as a top priority from the customer demand, that's where probably the biggest interest of somebody investing so big.

Tegus Client

Yes. I mean, given you've seen so many of these new players and looked at so many of these businesses, have you seen any player, one of the newer insurtechs, that has really cracked the nut, let's say, on the underwriting side? Or would you say that majority of kind of the new age insurtech have been mostly very good at the distribution, but then on the underwriting side, they are at par in best cases with kind of the traditional players or below par because they don't have the track record, they don't have the data? And as you mentioned, kind of those models, they've been established for so long. And yes, it's hard to innovate those.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

I will try to put it down as clear as I can. So first of all, I didn't see any startup trying to innovate the underwriting side, just to be clear. And I'm saying this, it's not a judgment. It's a fact because of the, I'll call it, business model of the startups. So I mean, changing the underwriting takes really time.

It's unpredictable in terms of success. It exposes you to risks, and it is a long term of gain. I didn't see any startup where the roots of a capital investor or whatever market were compatible with any of those definitions. I worked deeply, for example, with Lemonade, and I can tell you that the part where there was zero innovation was really the underwriting side. And this was showing into the very bad loss ratio that they were showing for several years.

Now it's not good, but it's not as disastrous as it was before. So if you look into the technical performance of nearly over these startups, you will not find one single startup showing you outstanding numbers in terms of technical performance of the risk. No one is outperforming the average best performers of insurers. No one.

Tegus Client

Got it. Obviously, we go beyond kind of the typical data scope that traditional carriers would look at. We also look into a more continuous data monitoring in whatever shape or form it could be, right? I think there was this one startup who was monitoring like driving vehicles, et cetera. Do you believe it's feasible for a startup to fall off? Or is it basically you need 20 years of data, even if it's not dynamic and then you can properly price it, and maybe that some of these additional data streams can shift the needle a bit?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Yes. So I'll reply first with something that I've been told by a manager some years ago in insurance. Insurance is a business of numbers, data. If you are in a business or something else, so he was saying to me, this is religion, you go to the church. So data speaks. At the moment, everybody who is talking about other elements to be added into the definition of the risk needs to be transferred into numbers. It needs to be shown as improvement or the cure of the risk, the predictability. There are tons of technical indicators that can tell you if, for example, I don't know, the number of times that the people look at the phone is relevant or not as a predictor of something positive or negative.

I mean, I spent really years into this in the most extreme detail you can think about. I worked with BMW, with Marcellus, for example, on to these topics. And unfortunately, when we compare it, at least for the type of data you could collect until a couple of years ago, still the actuarial model was basically performing all in all better than other models.

And actuarial model, of course, didn't care about those elements or just taking other elements. So it was costing less in terms of maintenance, collection of data, evolution and so on, complexity of the model and performing better because at the end of the day, you need to measure the technical performance, combined ratio, loss ratio and so on. So coming to your point about, yes, there are signals that building more sophisticated risk models, you could achieve superior performance. The problem is that this is still very much a work in progress, and there are several hard doors in order to do that.

So first of all, the data needs to come from many other sources than just the insurer. It can be the car. It can be the home. It can be the workplace, it can be whatever. And this is where there is a territory of ecosystem platforms, standards, privacy regulations, which is a kind of minefield in which you have to move, and you don't know when and if the results will show up. So how many companies will really be so persistent in funding the research because basically, this is what it is at the moment. It's research and development in order to get there possibly 1 day.

I mean, I worked with Google, AWS and Microsoft on these topics, and even for their metrics, it was sometimes difficult to cope with the level of effort, continued effort, that you need in order to redesign one part of a risk model for cars or for homes or for the industry manufacturing and so on. Everybody is looking for that. It's the Holy Grail of the insurance market.

Tegus Client

Yes. Theoretically, these additional data points could lead to an improvement in loss ratio and in overall unit economics. But the problem is it takes you x number of years to get there. And you have no clue how big the impact may be even if, theoretically, you think it could be a game changer, it could turn out that it doesn't even move the needle and that the old model still holds.

I have one extension on this as a counterpoint to make sure before you can finalize that. Because what if in case, for example, here, if we talk about liability and we have established risk models that you know from bigger companies, but where working with smaller companies, it's hard to get the data that you need because it's expensive to get the data and really audit the business, et cetera, et cetera.

Is there a model where you can say, you know what, you can have an innovative way, for example, maybe logging into their accounting system, et cetera, et cetera, to bring the data that you already know you would need for underwriting. The people are not doing it because it's just too expensive to get the data.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

So this was something I was actively working on. It was called the Digital Market in Swiss Re as an initiative. And it was initially bringing together the platform owners, the Microsoft, the Google, the AWS, to aggregate ecosystems that are already using certain platforms, let's call it, so to connect the data at a much lower cost and a much bigger scale. This is an ongoing discussion.

The problem is, even for this, let's call it, this kind of highway approach. You just take instead of 20 different small straights, I have 3 big highways and I try to concentrate on those. Even that, the scale of the fort is really sizable. The reward, if I have to say, the reward is not just for insurance because in the same process, you're going to rewrite to the banking system as well. So everything around lending, everything about credit scoring, everything else, it will be rewritten.

So yes, it's a big stake. There are the big players. Probably, I would say the big tech players could be ready to write the check, probably not the insurers. The insurers are too much linked to profitability in the way they always thought about it. And from that point of view, the lever is so long in terms of return that, of course, you will find, I would call it, a moderate enthusiasm after the initial excitement, one, two years of effort.

Insurance is not used to have research and development for long effort or for long. So it's the type of business that really didn't really develop in that direction. So that's why it's also a terrible field for a startup. So if you go to why you combinate, I want to address this, but it will take 10 years and probably $500 million, I'm not sure that there will be the queue of investors putting the money down.

Tegus Client
Yes. Although we always take 10-year views, but obviously, the amount of effort and time, et cetera, is really important to us as well.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
But if you tell me that you can do it, I can bring you the people that can do that. I mean I have the people that can do the challenge, but I did not meet investors. And honestly, I understand the point of the investor. It's not that I think investors are just dumb. Of course, the investor has done his job of improving or maximizing the return on a certain capital. So clearly, if I have other options, I will take other options' point.

Tegus Client
Absolutely. My question was going to be on who is most likely then to disrupt this industry or leap here, but you kind of already gave it away. So you don't see it being done by the traditional insurance as well because they're too much focused on short- and medium-term profitability?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
I would say that probably it's going to be external. I mean the big tech players, of course, do not want to cut the legs of their bigger clients. So the last thing that Google or Microsoft would like to do is to undercut alliance, whatever, State Farm or whoever. So clearly, the market that you could possibly serve is anyway smaller than the market you could possibly lose becoming a competitor. So clearly, it should be a very complicated model where you develop something that becomes a platform and this platform could be used by everybody. So in that case, yes, it would have made sense that these type of players would jump into it because it's a very repeatable type of revenue that you can sell to basically everyone in the market.

Tegus Client
Got it. I mean, extending from that logic, the first wave of insurtech companies that IPO-ed like the Lemonade did "zero" innovating on the underwriting. Do you think that there is potential for, when the IPO market reopens, a second wave of insurance IPOs that have sure innovation that have good unit economics and do well with the public market exit? Or what you're saying is it's hard to make it work? There's not really going to be a startup there?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances
I would expect some selective marginal improvements, I'll give you a couple of examples. The property underwriting, especially in the U.S., for example, a couple of companies that started to integrate geo analytics in order to better price higher. If I'm thinking about linking also to prevention services, which can mitigate, of course, the possibility of the loss or the extent of the loss.

So probably this is an area that will benefit a lot from the data technology, new terms, a bit of new terms into the products and the different mix between just the policy of insurance and services attached. So that's probably where most of the innovation will come from because I mean, nobody will come out with, I'll call it, a purely predictive automotive policy who takes the risk, who underwrite such risk in a comfortable way without having enough knowledge of the performance of that model on a large scale, so who puts the capital at risk.

So that's why I would expect that these type of companies like the Hippos or whatever, probably we tend to bring in selected fields, in even softer parts of a certain line of business. And in certain periods, innovation with capability start to introduce some elements, for example, of predictive back in a very controlled manner. So not a breakthrough.

Tegus Client

Yes. Okay. What we've heard from others is that this next wave of large start-up players will be more on the commercial side, and that's going to be pretty different from an economic performance than some of the Hippos and Lemonades that are focused on consumers, but to you, that's still just marginal improvements.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

So for example, if you look into the SME section, there is so much to do into the really, call it, nearly the basics of the core processes from the acquisition down to the usage of the policy, down to the claim. So there is so much to do there. Of course, you can bring already a lot of innovation just by brushing up, let's call it, renewing a lot of these things.

I mean the SME is probably one of the sectors, which is in worse condition from that point of view, has been neglected for a long time, and it was relegated to a paper business through a couple of brokers. So clearly, now additional services, for example, SMEs are starting to enjoy the monitoring of the risk through digital twins and other things, which can become commercialized at a very low price in a very easy manner.

So do not require any skills on the other side and so on, but they can become predictive and predictive has a much higher value for an SME than for an individual. So the risk at stake has much higher value per unit or cost than in the individual. So clearly, this is, for example, a place where I would expect the Internet of Things to play a role. It's the perfect case for that.

Tegus Client

Interesting. We haven't really heard much about IoT.

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

In reality, I've seen two, three things moving into that space quite interestingly. And for example, it's an area also where Munich Re is investing quite a lot, more than Swiss Re, the point to that, especially with the company in the U.S., the company in the U.S. So clearly, I mean, I'm not saying that they have cracked it. But of course, this is an area if you want to grasp a value at basically marginally low cost, there is a lot into that space.

Tegus Client

Yes. If you could invest anywhere in insurance, would you invest in micro and freelancer MGA disruptors?

Former Chief Urbanisation & Cloud Officer at Vaudoise Assurances

Typically, I select those who have a very clear idea on how to make the claims right. So insurance is a business which is built on the reverse side. So if you have a good, solid idea on claims, you can build up a model around that, and you can be profitable. So clearly, if in that sector, yes, a freelancer for me is an interesting sector because it will explode due to the lifestyle trends.

But of course, I mean it has to be a product which really makes sense. Otherwise, too many products, which currently are out there, they are not really loved, honestly, by the freelancers too. So clearly, somebody coming with a slightly bit of a fresh view could be potentially a winner in a market segment that's going to explode over the next five years.

Tegus Client
Great. Thanks again for taking the time.
