



**NATIONAL MEETING
SUMMER / CHICAGO**

Technology, Innovation, and InsurTech (H) Working Group

August 13, 2024

1. Consider Adoption of its Aug. 29, 2023, Minutes

Attachment A

–Director Eric Dunning (NE)

Draft: 9/19/23

Innovation in Technology and Regulation (H) Working Group
Virtual Meeting
August 29, 2023

The Innovation in Technology and Regulation (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met August 29, 2023. The following Working Group members participated: Jason Lapham, Chair (CO); Dana Popish Severinghaus and C.J. Metcalf, Co-Vice Chairs (IL); Matt Walsh, Co-Vice Chair (OH); Sarah Bailey (AK); Erick Wright (AL); Letty Hardee (AR); Lucy Jabourian (CA); Anthony Francini (CT); Dana Sheppard (DC); Tim Li (DE); Travis Grassel (IA); Weston Trexler (ID); Rachel M. Davison (MA); Sandra Darby (ME); Chad Arnold (MI); Cynthia Amann (MO); Colton Schulz (ND); Connie Van Slyke (NE); Cass Brulotte (NM); Brian Fjeldheim (OR); Eric Lowe (VA); Ned Gaines (WA); Rebecca Rebholz and Timothy Cornelius (WI); and Juanita Wimmer (WV).

1. Adopted its April 27 Meeting Minutes

Gaines made a motion, seconded by Grassel, to adopt the Working Group's April 27 minutes (*see NAIC Proceedings – Summer 2023, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Two*). The motion passed unanimously.

2. Heard Updates from Global Insurance Accelerator and InsurTech NY

Lapham opened the next agenda item first discussing the initial intention of the working group. He said that the working group initially intended to launch an InsurTech Forum at the NAIC's Insurance Summit. The working group commissioned a volunteer group to design the program which was later opened to InsurTech companies. However, the program did not receive enough interest to proceed as planned. Instead, the working group decided to pivot meeting with InsurTech groups to learn about what they are doing and with the working group later revisiting its own programming ideas.

Lapham next thanked the volunteers who helped design the initial forum idea which were: Matt Walsh of Ohio, CJ Metcalf of Illinois, Shannen Louge of Pennsylvania, Chad Arnold of Michigan, Kory Boone of Maryland, Chris Aufenthie formerly of North Dakota, Gary Sullivan of the American Property Casualty Insurance Association, Chanda Brady formerly of the American Council of Life Insurers.

Lapham next welcomed the speakers for the call, Dan Israel of the Global Insurance Accelerator (GIA) and David Gritz of InsurTech NY (ITNY). Israel and Gritz started by introducing themselves and discussing the programming that each organization offered with both running programs that assist startups in the process of working through the business life cycle from concept to connecting with expert resources and sources of capital.

Lapham asked Israel and Gritz about trends among InsurTechs with Gritz talked about life insurance companies increasingly providing wellness programs and running into issues regarding the rules limiting factors that can be considered related to life insurance policies. Gritz said that startups occasionally struggle to propose or explain their ideas given their lack of experience working with regulators. Gritz said that proactive engagement with InsurTechs can help InsurTechs understand regulatory expectations. Israel discussed the diligent search requirement needed for surplus line writers to offer certain coverages which can be challenging for InsurTechs to complete in a way that meets regulator expectations. Regulators setting clear expectations for InsurTechs could be beneficial to aid in addressing that difficulty.

Lapham next asked about roadblocks with Israel pointing to the lack of access to data to allow InsurTechs to prove their ideas given that many carriers are reluctant to share their data. Gritz agreed that access to data was a challenge and specifically addressed claims data can make it difficult to determine the profitability of new products or ideas. Both Gritz and Israel discussed access to capital being a new challenge with Israel noting that reinsurers have grown conservative in the current business cycle.

Lapham next asked about what regulators can do to support InsurTechs noting that there is a learning curve to have the proper discussions. Israel noted that the GIA has a really great relationship with the Iowa Insurance Division who meet with the founders involved in the GIA's programs and help the founders receive questions they may not have otherwise considered. Israel said that regulators need to show up and provide a good message letting InsurTechs know they want to see their products but that they want those products to be brought in a way that preserves the protection of policyholders. ITNY tries to facilitate panels to allow founders to hear from regulators. Israel and Gritz encouraged regulators to get involved and learn about what the InsurTech community can offer and to learn about how technology is being used in other industries to understand the potential for value in the insurance industry.

Lapham next asked if there were any aspects of InsurTechs that were often misunderstood. Israel noted that many InsurTech founders don't come from the insurance industry and therefore at times struggle to bring good ideas to life. Therefore the GIA tries to help the InsurTech community understand the highly regulated space they are entering. Gritz noted that time matters more to InsurTechs. Waiting an extra month can be a really significant event to InsurTechs that could result in a founder not taking a salary for a month. Additionally, many InsurTechs are not risk bearing entities with many wanting to play a role as a producer or underwriter. He also suggested that regulators take a wholistic view of InsurTechs including consideration of their reinsurance stack as opposed to narrowly focusing on their capital at the legal entity level.

Lapham next asked about success stories as well as examples of InsurTechs that were unsuccessful. Gritz talked about InsurTechs who have written policies for less than a year that could be adjusted as the # of employees in a company fluctuates but that run into difficulties where such a product is prohibited. At times, InsurTechs have been able to engage with regulators to articulate why rules should be changed and have had some success. One other idea that hasn't succeeded has been related to direct to consumer life insurance sales where some companies have found that although it is possible to innovate, there remains an important need for people to be involved in helping consumers navigate their choices. Israel talked about InsurTechs being successful in cyber insurance helping companies understand their cyber risk exposure leading to customized cyber insurance coverage. Another unsuccessful idea was the use of telematics which are still used but hasn't solved enough of a problem for consumers to lead to meaningful adoption.

Lapham closed the discussion with a question about examples of InsurTechs and regulators working together. Israel and Gritz talked about positive experiences with state and international regulators. Grassel noted that the Iowa Insurance Division continues to learn from its engagement with regulators and noted the importance of relations to help drive InsurTechs forward. Lapham agreed that conversations are important and can help regulators appreciate the constraints InsurTechs operate under.

Brulotte asked how regulators and InsurTechs can balance competing objectives with regulators trying to protect consumers and InsurTechs trying to derive profit. Israel noted that mentoring groups such as his try to bring in mentors that represent all aspects of the insurance life cycle. If InsurTechs reduce expenses for carriers that can likely lead to benefit for consumers. He noted that InsurTechs can also help improve the service provided. Gritz noted that InsurTechs may help find areas where new products are needed to help address underserved markets and can help innovate leading to beneficial pricing changes.

Having no further business, the Innovation in Technology and Regulation (H) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/H CMTE/Fall 2023/WG_ITR/Minutes-ITRWG082923.docx

2. Hear a Presentation from McKinsey & Company on InsurTech Trends and Developments

Attachment B

–Jason Ralph (McKinsey & Company)

Insurtech trends and developments ... what is next?

Jason Ralph

Chicago, August 13th, 2024



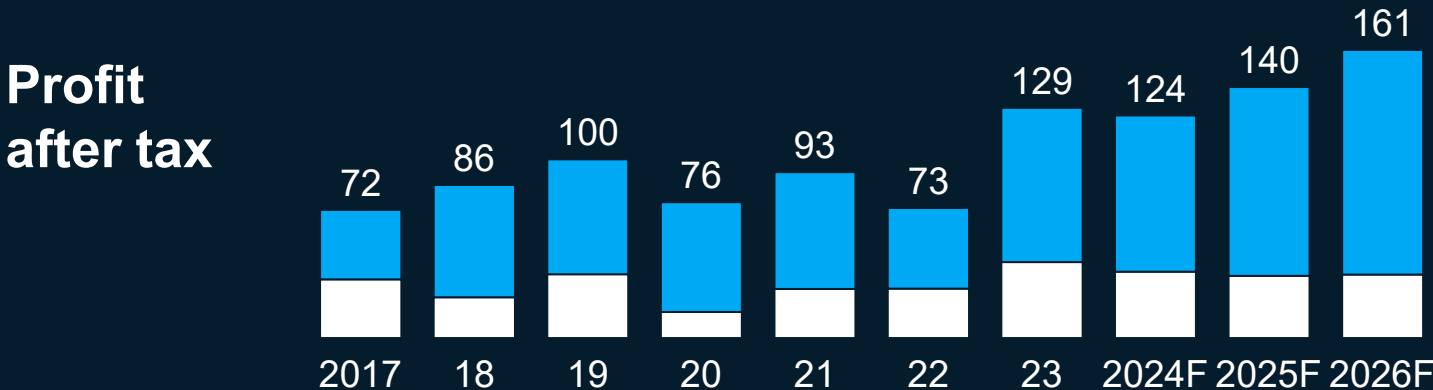
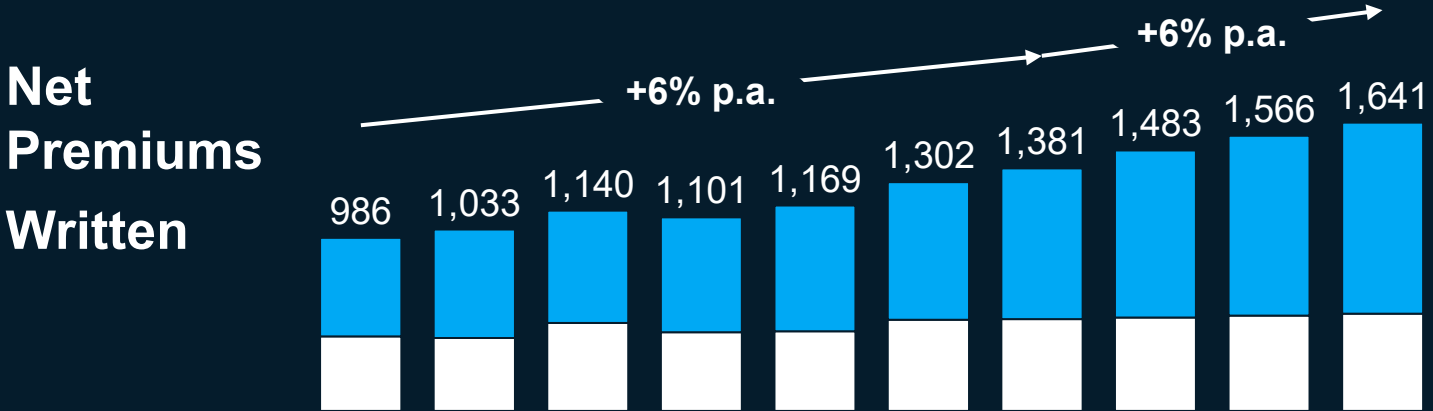
An aerial photograph of the ocean with several parallel white-capped waves moving from the top left towards the bottom right. The water is a deep, dark blue, and the sky is a lighter, hazy blue.

The State of Insurance and Insurtechs

Insurance is a large, stable & profitable industry

US Insurance
USD billions

■ P&C ■ Life¹

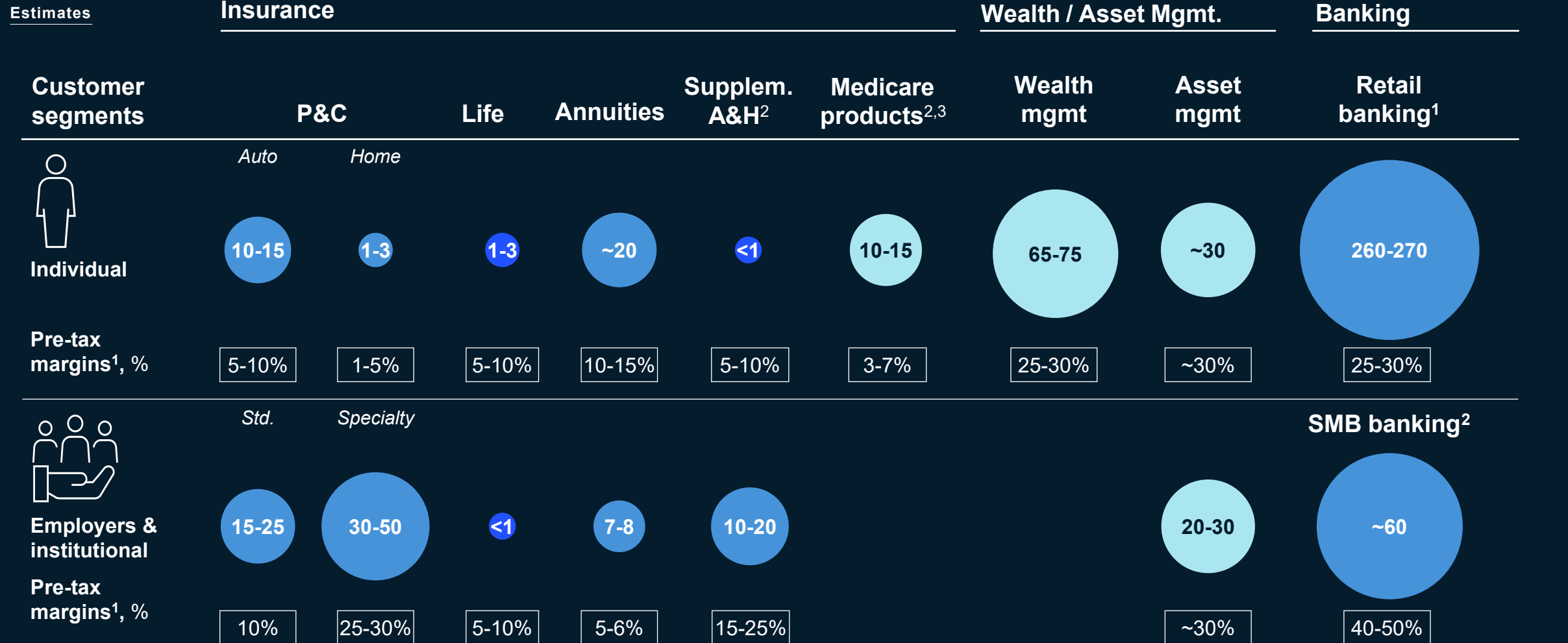


1. Excludes A&H

Insurance in the broader financial services landscape

US profit pools for product segments¹, \$B

Capital intensity ■ High ■ Medium ■ Low



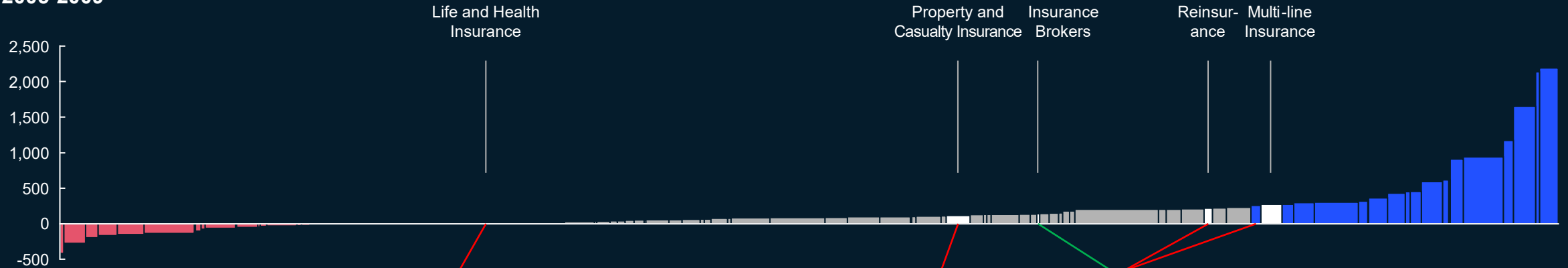
1. 1. Typical margins – not specific to 2022; 2. Does not include investment returns; 3. Group benefits not separated – accounts for 5-10% of profit pool 4. Includes non-banks (e.g., mortgage providers) and revenues from lending products plus investment income 5. Includes revenues from lending, SMB credit cards, deposits, cash management, and merchant services

Source: LIMRA Workplace surveys for Life, Disability, Dental, Supplemental A&H; LIMRA Individual Annuity Survey; Insurance regulatory data for Individual Life, Group Annuity, and Individual A&H; McKinsey Wealth & Asset Management Practice, McKinsey Insurance Practice, McKinsey Banking Practice, McKinsey Retirement Practice, McKinsey Global Institute

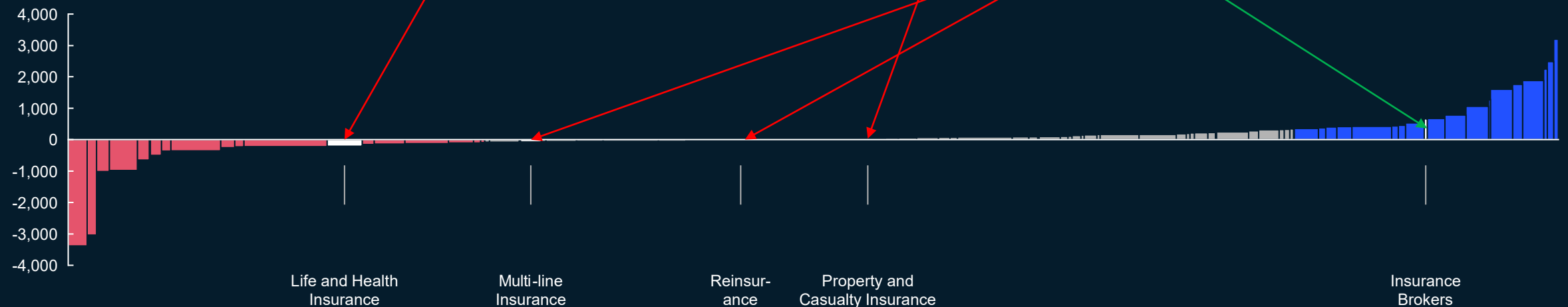
However, insurance barely earns its cost of capital – with negative economic profit and eroding positioning in recent years

Economic profit earned by an average company in 96 industries¹, \$ Millions

2005-2009



2015-2019



1. Based on the 2,689 largest companies globally where sufficient data is available; incl. financial institutions and private companies; excl. real estate and REITS

What? Four archetypes in insurtech

InsurTech

The headliners: B2C startups, now household consumer brands, looking to disrupt and transform how insurance is bought and priced

Future? Will reshape revenue pools and customer expectations
Economics around customer acquisition and loss ratios are critical for success

insurtech

The lesser knowns: Consumers may never hear of them, but these utilities enable a better insurance ecosystem (e.g., applications, claims processing)

Future? Providing more competition in each of the verticals
Winners will drive differentiated experiences and leverage data & analytics

Insurtech

The incumbents: Traditional insurers aiming to be digitally forward investing in the space through VC arms and selective acquisitions

Future? Couple bright spots of providers willing to invest in new innovations to complement their business model

insureTech

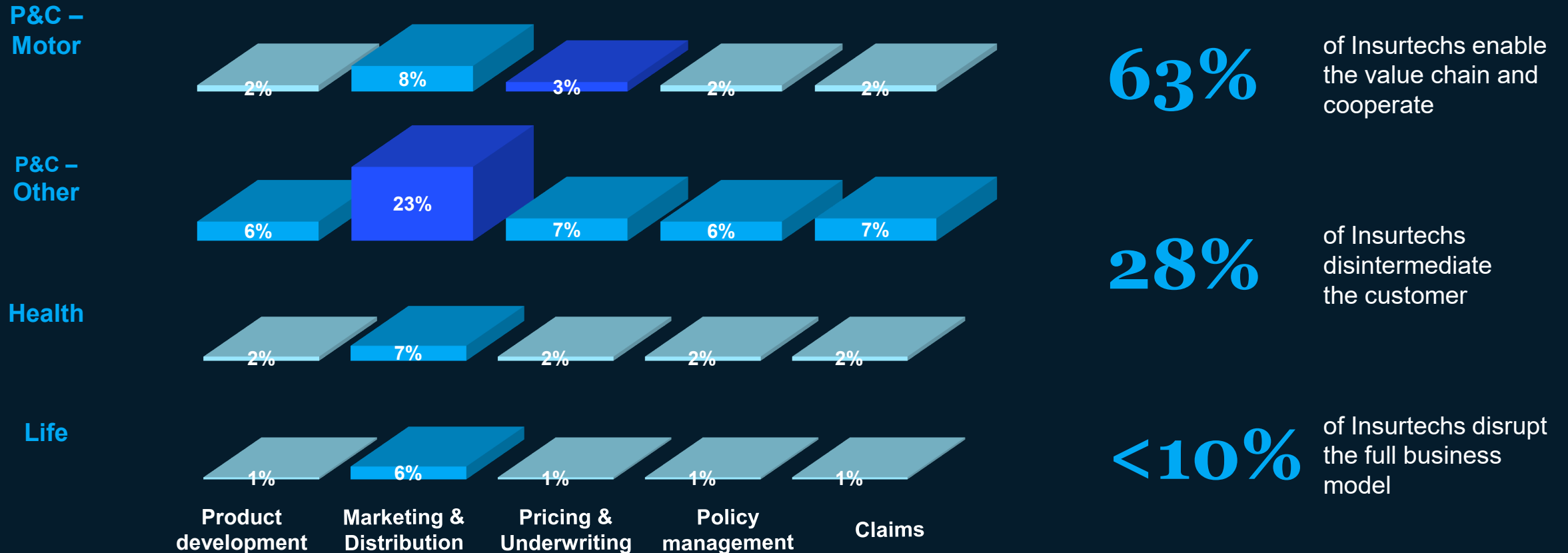
The platforms: Tech giants now essential to consumers' everyday life (e.g., shopping, social, search, mobile) making a move into insurance

Future? Cautious presence given complexity of insurance and high advertising revenue from the vertical
Likely focus on enablement and partnerships

Where? 53% of insurtechs have been focusing on distribution in P&C – primarily to enable the value chain

McKinsey Insurtech Landscape, # of insurtechs as % of database total¹

Global data



Note: Overlaps exist as some InsurTechs provide solutions for multiple P&C sub-products and operate across multiple value chain components

1. ~2300 profiles in the InsurTech database, as of 2022

2. Including accident, fire and property, liability and other P&C insurance

Source: McKinsey Global Insurance Pools - InsurTech database

How? The insurtech space is rapidly evolving along these key trends



Product innovation and convergence

- **New insurance value propositions** reward for avoiding risks (e.g., rewarding safe driving and absence of claims)
- **Embedded insurance** reaches customers seamlessly, at the right time (e.g., ancillary services/partners offering insurance to their customers)
- **Novel combinations of product offerings** for previously divergent products (e.g., insurance and wealth, multiple small commercial risks)
- **Use of ML models based** on CLTV and elasticity modelling complements traditional UW models and rules; incorporation of external data



Focus on multi-channel seamless customer experience

- Consumers and businesses **shift towards digital**, accelerated by COVID
- **Integration of remote and agent-supported** channels critical due to high-product complexity
- **Continuous, cross-device experiences** for purchase, service, and claims journeys



Automation of manual processes along the value chain

- Digitization targets **reducing paper-based processes** and reliance on re-keying information
- Push to **simplify experience across multiple stakeholders** (e.g., carriers, agents, repair shops) and **lines of business** (e.g., personal, commercial)
- Stronger intent to **move away from multiple legacy systems** (especially in Tier 1/2 with 'best of breed approach') to **end-to-end platform** with Tier 3/4 carriers

Insurtech companies are addressing these trends by either partnering with insurers to accelerate their business or by building a new consumer brand themselves

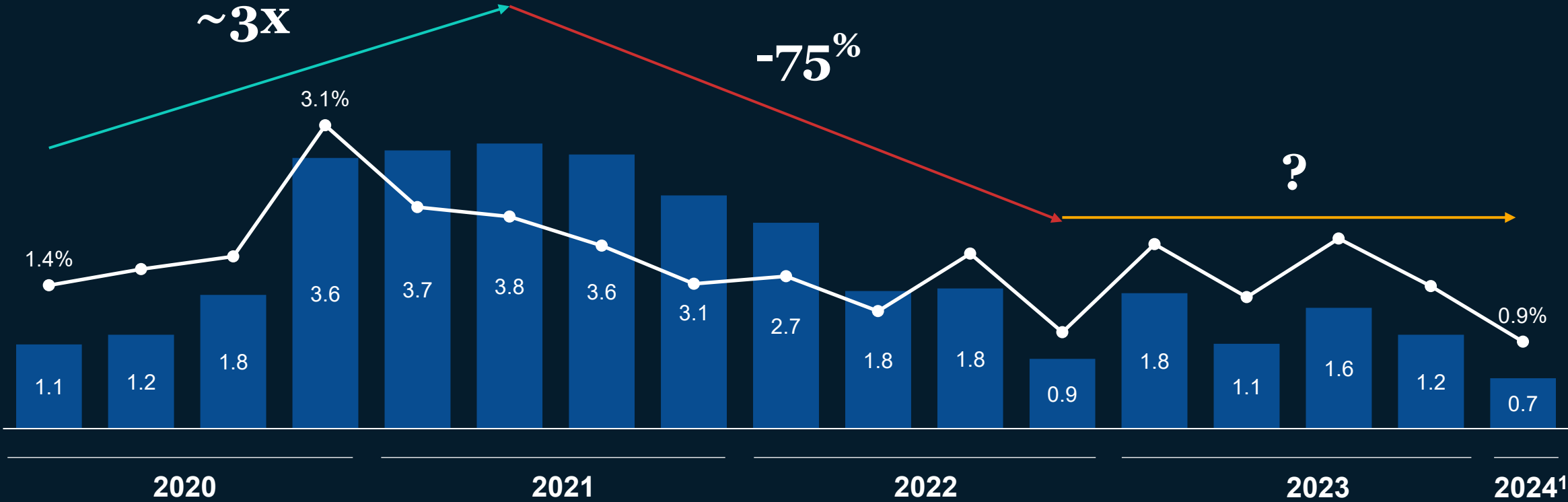
Today's funding and valuation environment



VC investments in last 12 months were at **-75%** vs. 2021 ...

Insurtech VC invested capital, by quarter, USD Bn

—●— % of total capital invested
 ■ Total invested capital

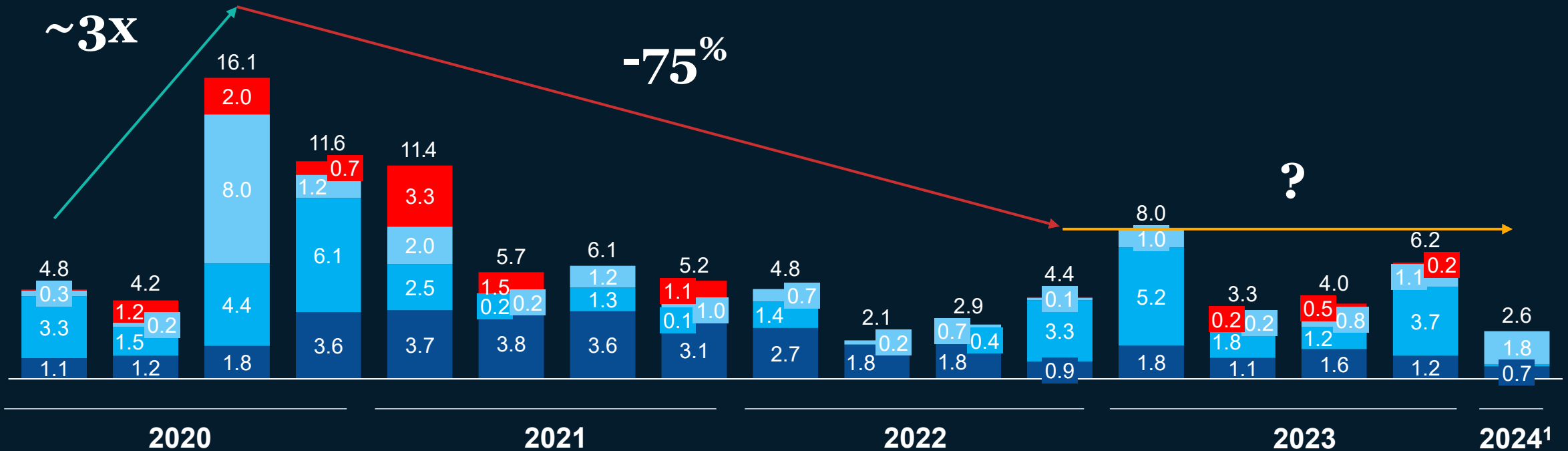
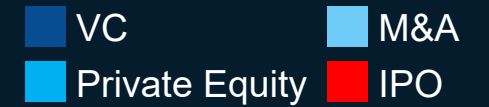


1. Data as of Q1 2024

Source: PitchBook

... this picture doesn't change when including other sources of financing

Total invested capital by investment source, by quarter, USD Bn



1. Data as of Q1 2024

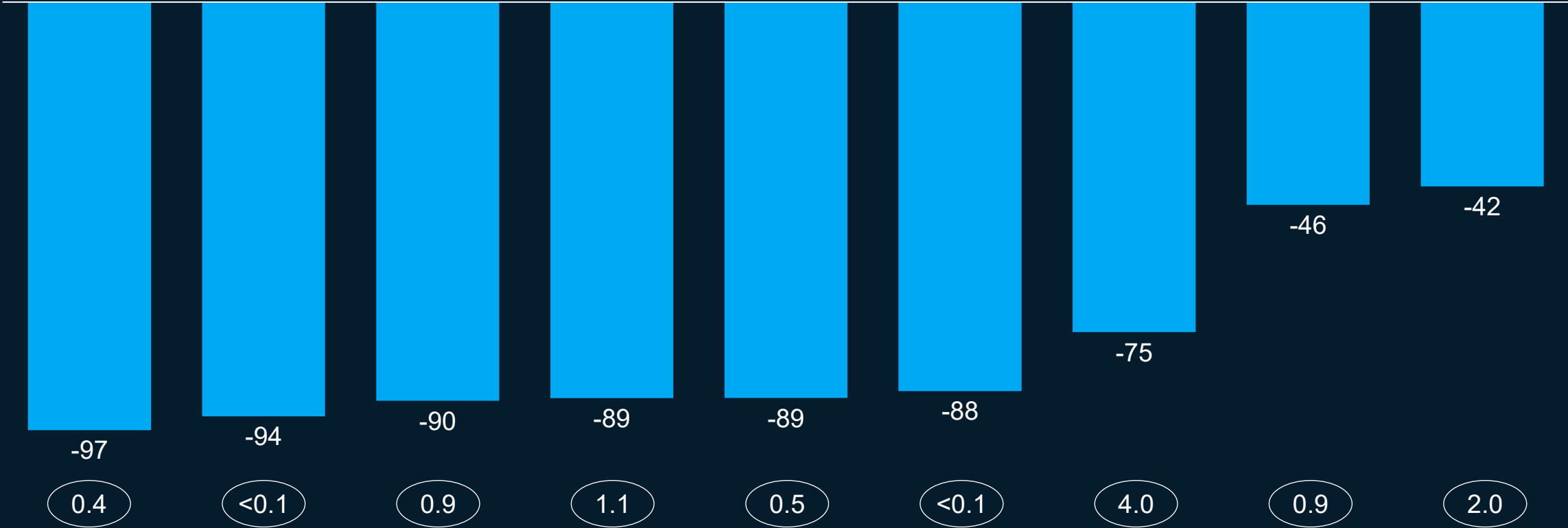
Source: PitchBook

In 2024, market valuations for insurtechs have declined from all-time highs

Valuation relative to all time high

Percent as of August 6th, 2024

xx Latest valuation (market cap as of August 6th, 2024), USD Billion

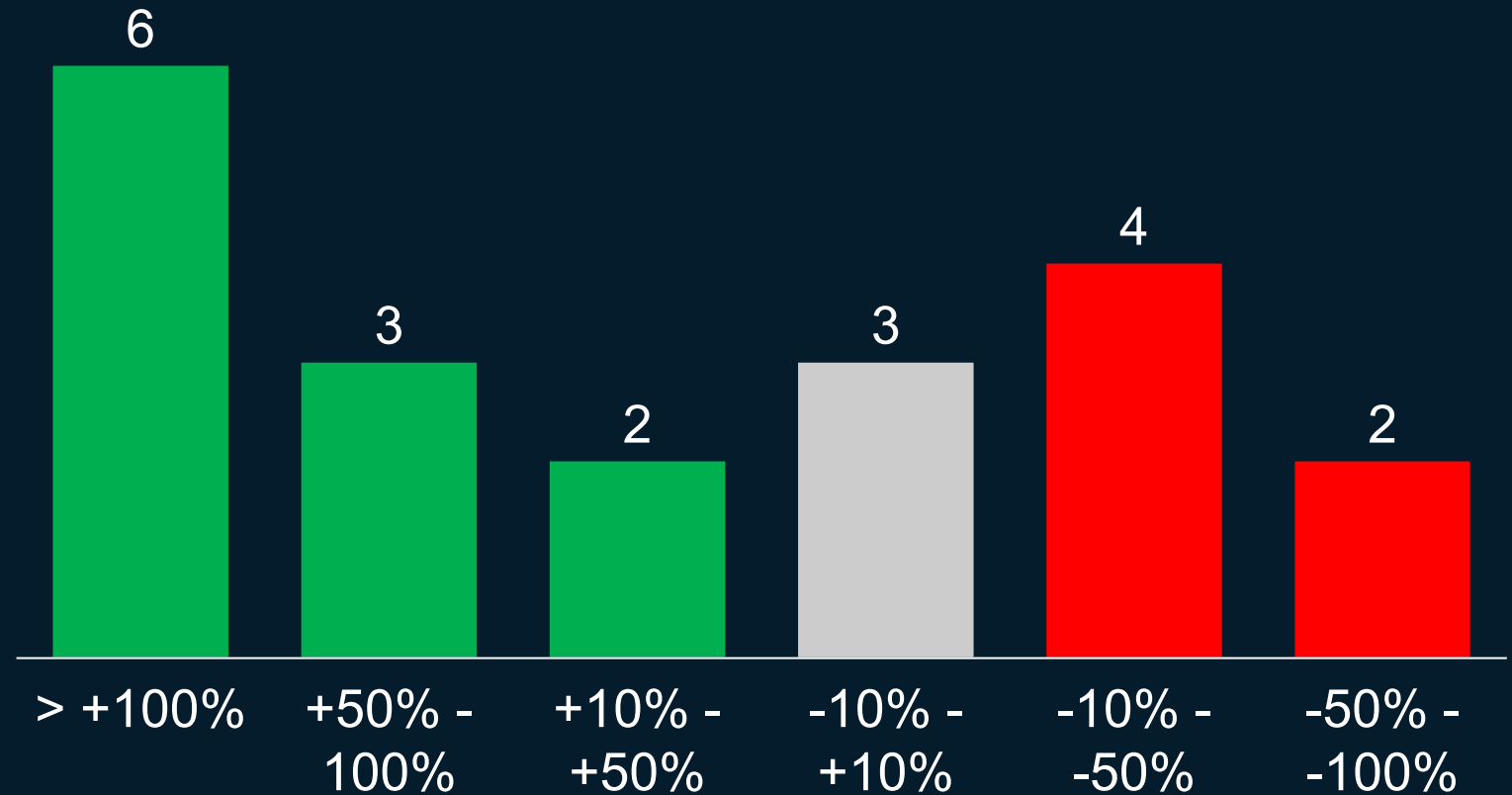


However, some Insurtechs are enjoying capital markets rebounds

of Insurtechs¹ by stock market performance between 1st June 2023 and 1st June 2024

In 2020-22, twenty Insurtechs IPOed.

After much struggling, majority inverted their past negative trend over last 12 months ...



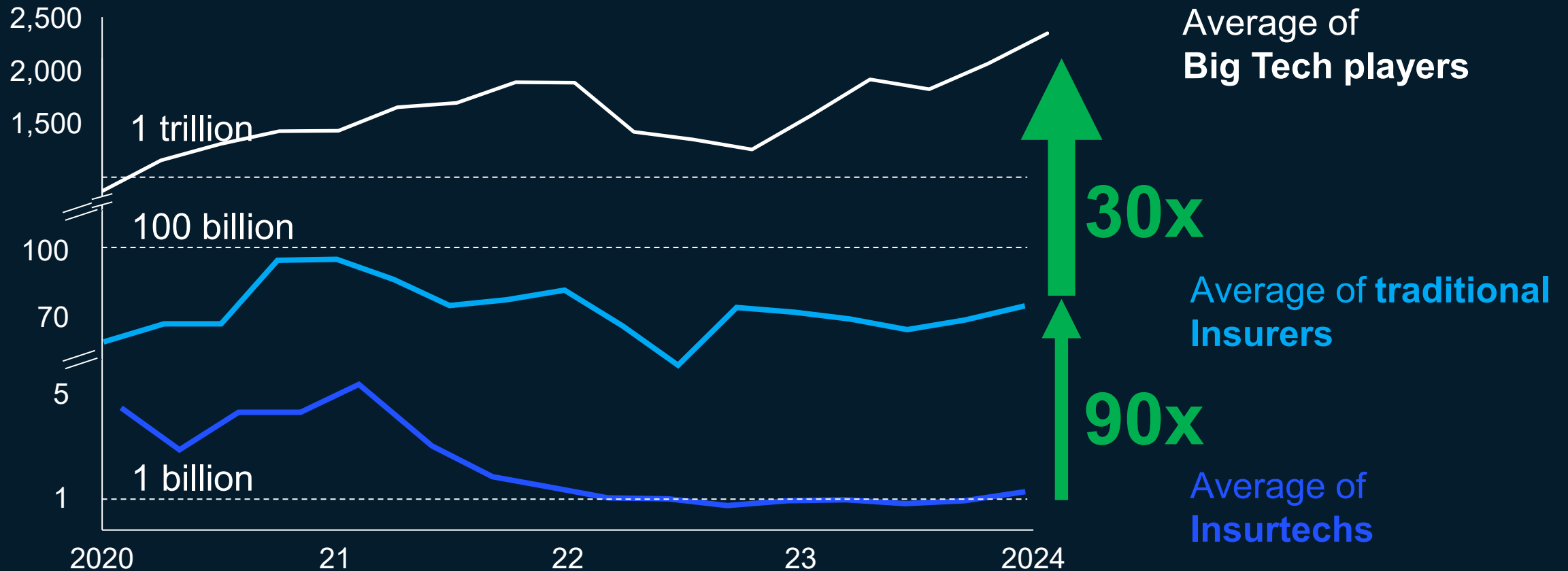
1. Among those which IPOed between 2020 and 2022

Potential paths for Insurtechs in the future



Top 5 Insurtechs vs. top 5 traditional Insurers vs. top 5 Big Techs

Market cap of Insurtechs vs. traditional Insurers vs. Big Techs¹, USD Bn



1. Selected panel of the largest Big Techs and Insurtechs globally

Inspiration for Insurtechs from Multi-Trillion Big Techs

Big Techs aggregated financials

Age of the company, years

30-40 yrs

Good things take time

**Avg. revenue CAGR,
2018-2023**

+17%

*After 35 years from inception,
able to >2x revenues in 5 yrs*

**Avg. net income margin,
2023**

+24%

*Incomparable profitability vs.
peers in respective sectors...*

**Expected EPS growth,
2023 vs. 2024 proj.**

>20%

*...and still expectations for
sky-high future growth*

Shaping new and emerging markets – three examples

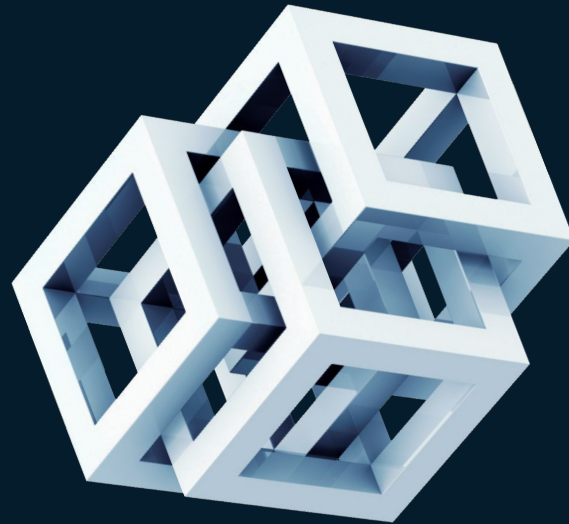


Health and longevity

Increased longevity

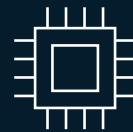
Healthcare costs

Chronic diseases



Climate change

Losses due to Nat Cats



Cyber

Frequency and severity of attacks

Key questions

Inclusion and “insurability” ?

Risk capital availability ?

Ecosystems to enrich traditional offer ?

Predict and prevent?

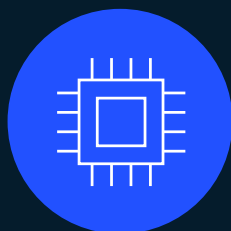
Shaping new capabilities – three examples



Collaborating instead of disrupting – where it matters



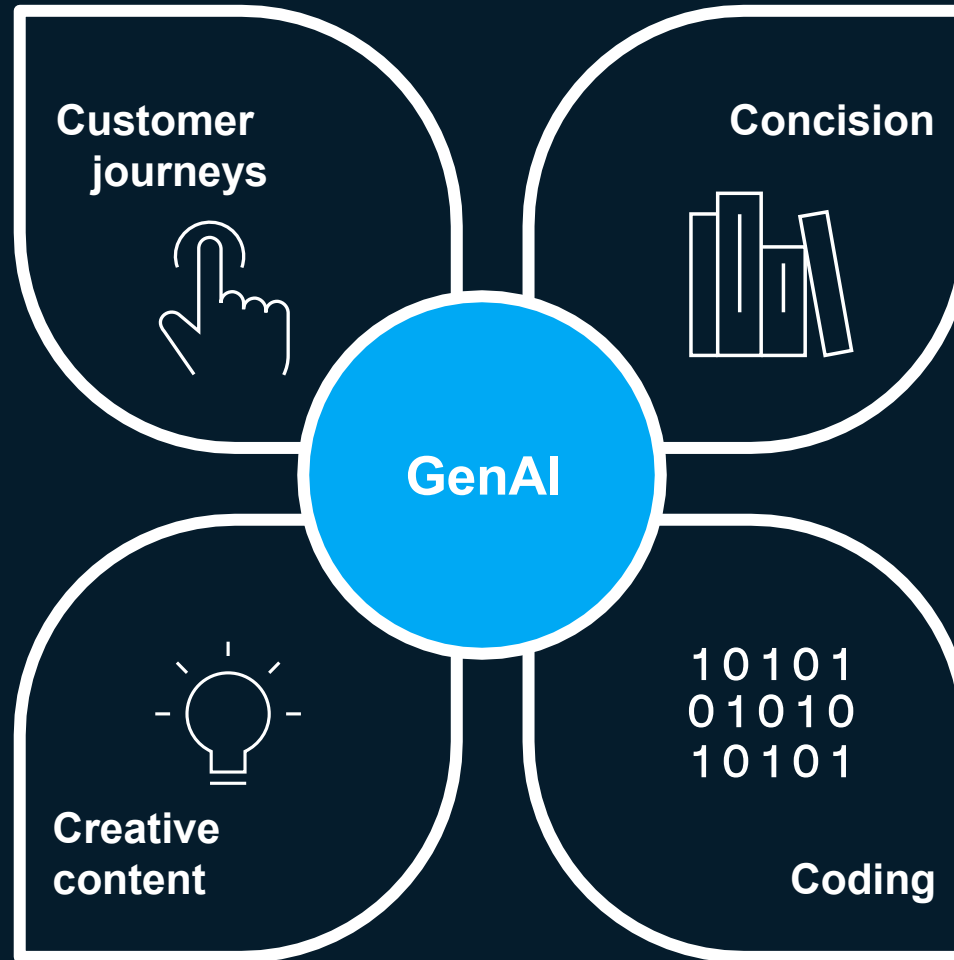
Company health and resiliency



(Gen)AI as necessary but not sufficient ingredient

Across industries, we see four “Cs” of value creation within GenAI

- Customer service chatbots, recommenders, task automation etc.



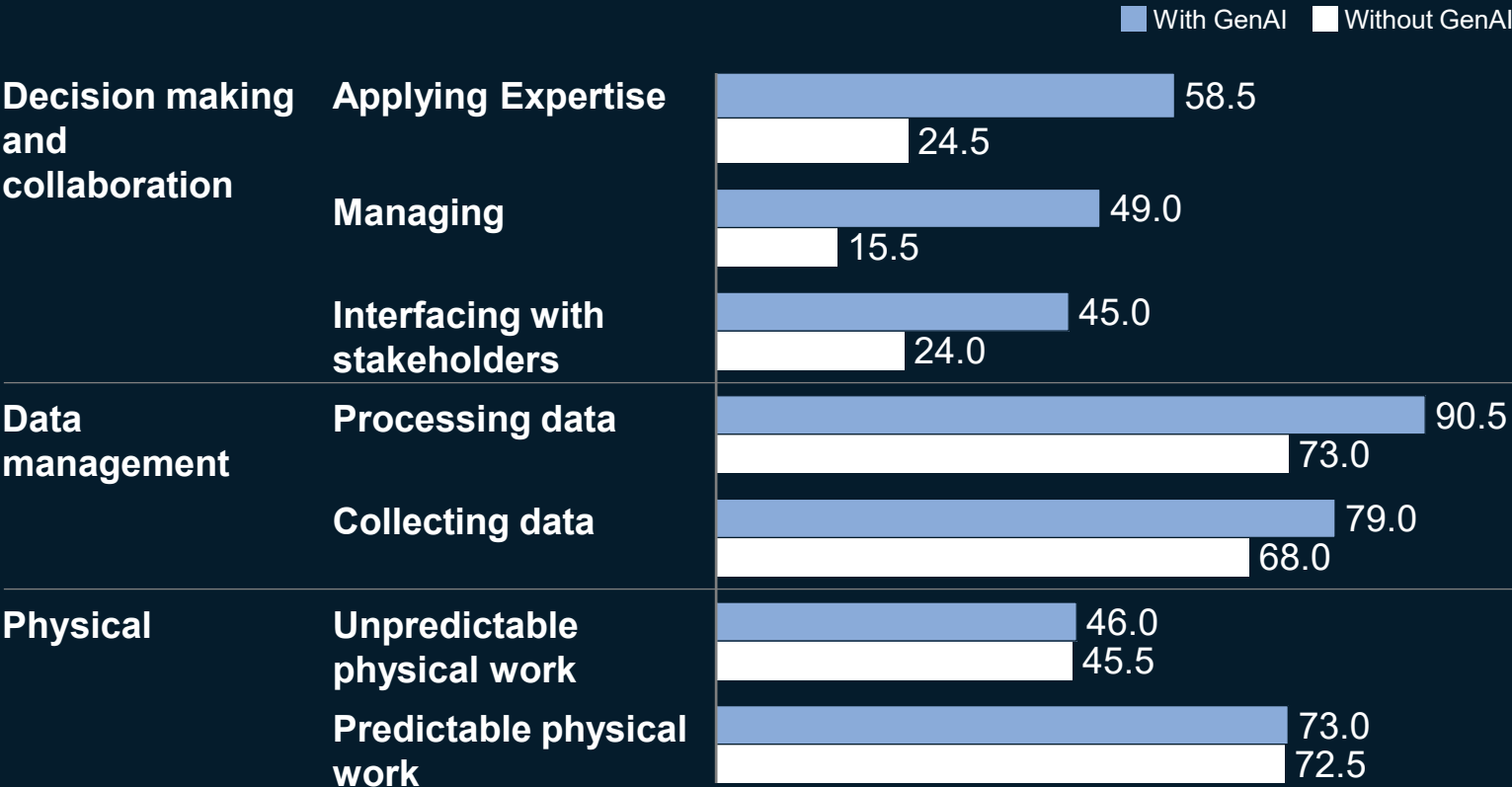
- Ability to summarize massive amounts of information and draw insights. Creating research reports, pitch decks, sentiment analysis, instruction manuals, acting as a “virtual SME”

- Marketing messages, press releases, image generation, even entire books and songs. IP concerns are holding some companies back from image applications for now, but the text-based ones are moving quickly

- Accelerating engineering productivity by more than 50% and creating breakthrough approaches to previously challenging tasks (e.g., creating emulators for legacy systems)

Operations example: Massive untapped productivity potential from (Gen)AI

Overall technical automation potential (MGI midpoint scenarios), % in 2023



Insurance historically with flat unit productivity

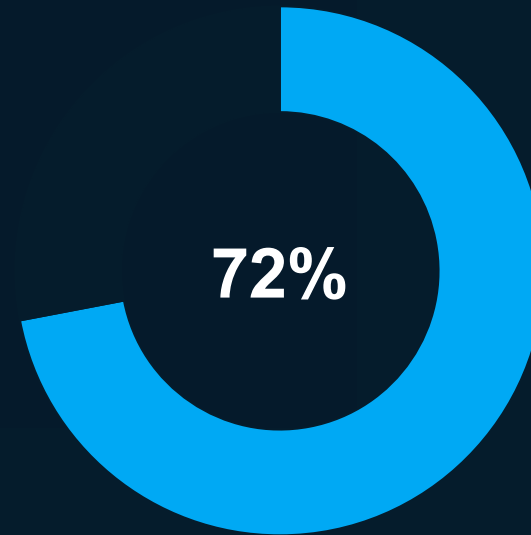
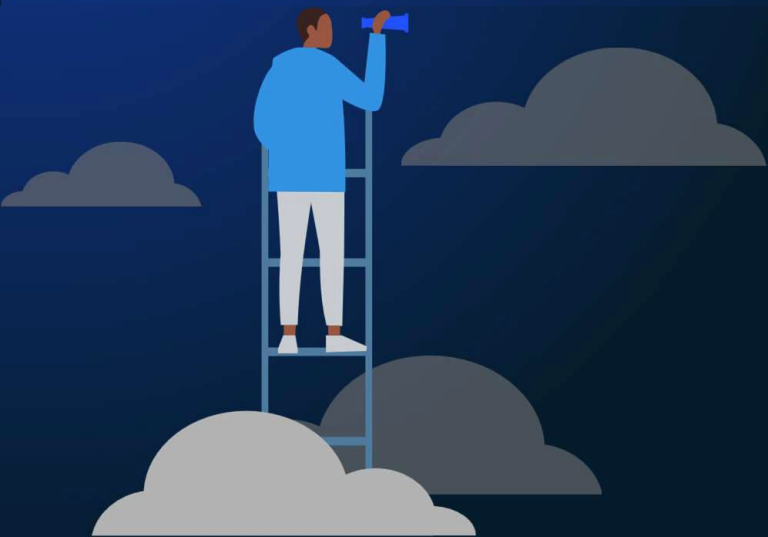
New AI-fueled productivity transformations

While most organizations focused on defining use cases for innovation and efficiency, where 'the sky is the limit'...



...it is becoming clear that for benefits at scale, data and its enablers are the limit

Among the enabling capabilities (Data, Talent and Technology), where do organizations encounter the biggest challenges?



Identifies **data management** as preventing impact at scale

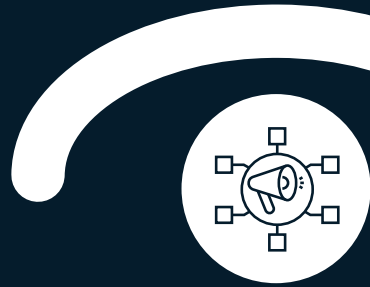
50%

Focus on addressing *gaps in talent and*

30%

Identifies **technology** as the main challenge

Potential areas for Insurtechs to add value



Sales and distribution

- **Personalized marketing content generation**, with online campaigns
- **Proactive coaching of sales agents** during phone conversations
- **Advanced Churn prediction**



Pricing and UW

- **Streamlined risk information retrieval** from large unstructured documents
- **Automated pre-filling of submission forms** based on available data



Claims

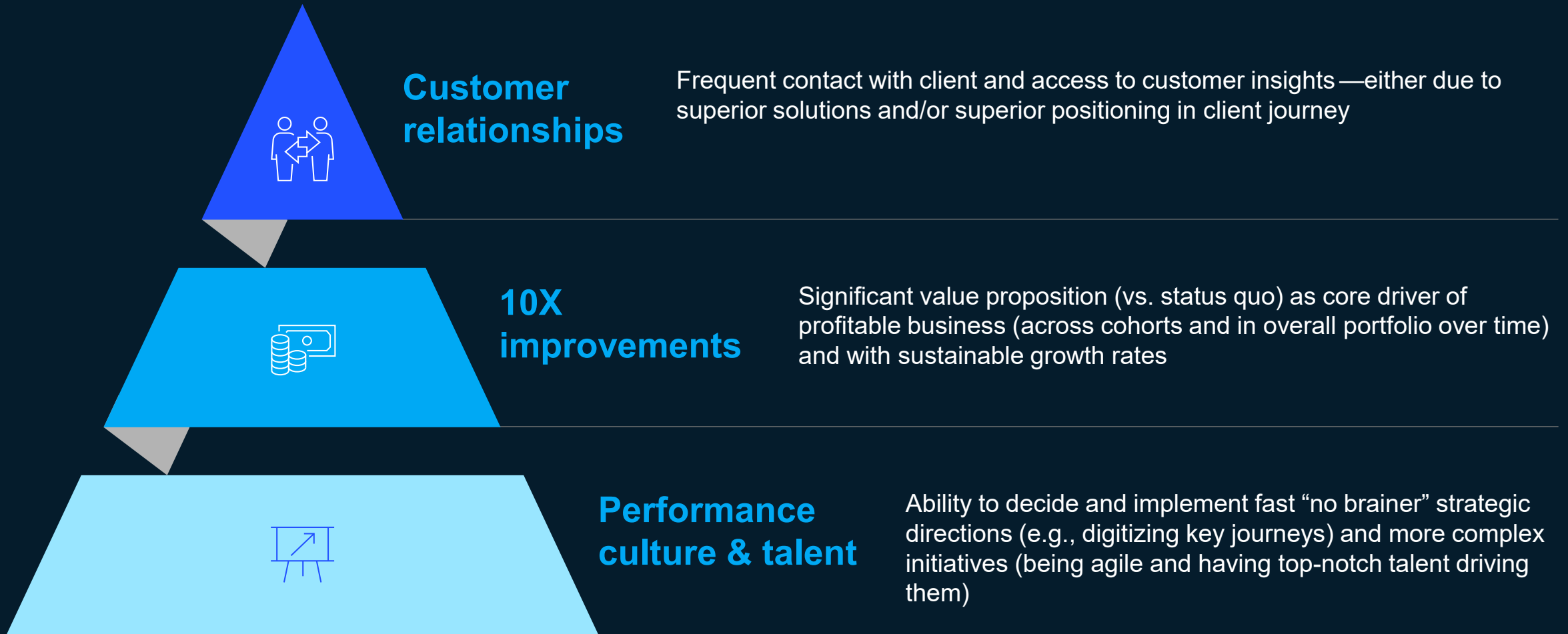
- **Guiding co-pilot for claims handlers**, recommending next steps throughout handling process



Operations, customer servicing, IT

- **Radical automation using (Gen)AI**
- **Use of chat bots** to streamline customer support
- **Automated legacy code conversion**

In the long-term, value at scale for Insurtechs will be driven by 3 key factors



Questions?



3. Hear an Update from the InsurTech Coalition

Attachment C

–Jennifer Crutchfield (InsurTech Coalition)

InsurTech Coalition

The voice of insurtech companies

The InsurTech Coalition is founded and driven by insurtech companies to support insurance technology

Summer 2024 Meeting | August 13, 2024

Members

 amplify


BRANCH

 boost

clearcover[®]

 Cover Whale

 indigo

Lemonade

Root
Insurance

 vouch

NEXT

InsurTech Coalition

WHAT WE SELL

Commercial Lines

- General Liability
- Errors and Omissions
- Commercial Auto
- Workers' Compensation
- Inland Marine
- Commercial Property
- Cyber
- Directors and Officers
- Employment Practices Liability
- Fiduciary
- Landlord
- HOA
- Medical Malpractice

Personal Lines

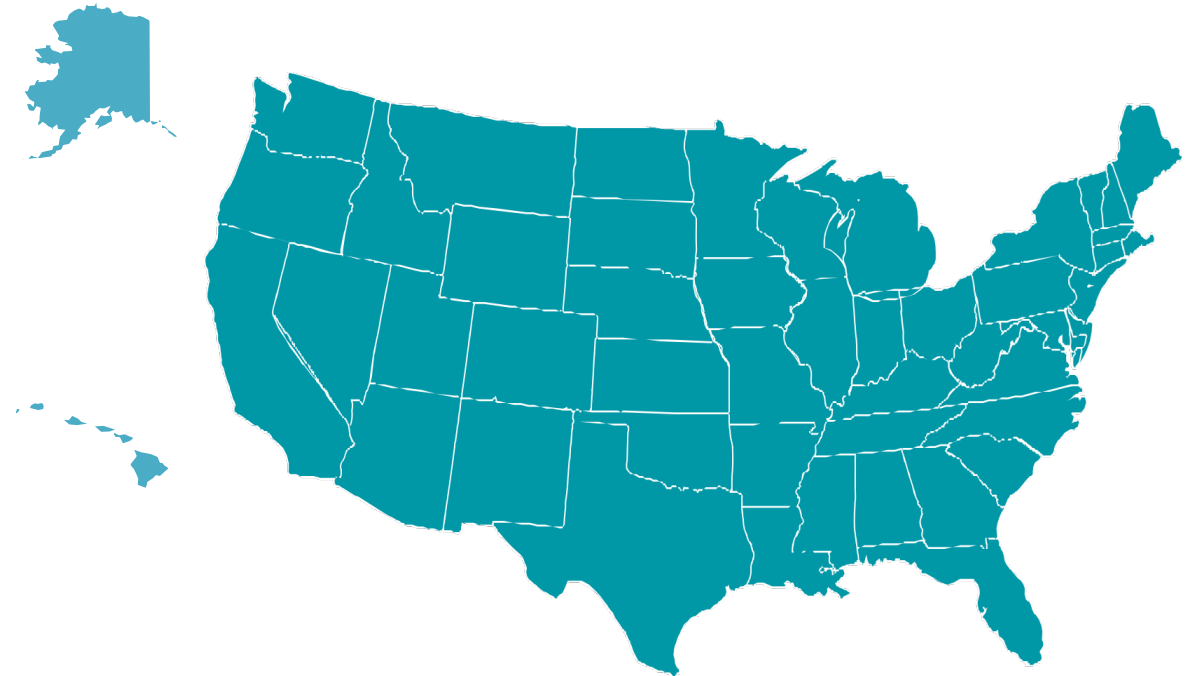
- Personal Auto
- Homeowners
- Renters
- Umbrella
- Landlord
- Flood
- Hurricane
- Fire
- Pet

Life

- Term Life
- Whole Life

WHERE WE SELL

All 50 States + DC!



Public Policy that Enables Innovation

We recognize the critical role of regulators and government officials in fostering an environment in which innovation can thrive responsibly. Our commitment includes:

- **Transparency and Education:** Partnering with regulators to craft policies that support technological advancements while safeguarding consumer interests.
- **Promoting Responsible Innovation:** Promoting ethical, transparent, and consumer empowering deployment of technology.
- **Evolving with Consumers:** Creating a collaborative ecosystem that nurtures new ideas and drives economic growth in the insurance sector and enhances consumer experience with innovative solutions.
- **Accessibility:** Ensuring that cutting-edge solutions are available to all.

Change is constant

Driving Innovation And Responsibility In Insurance

The insurance industry is experiencing a radical transformation driven by advancements in data science, computing, and customer-facing technologies. These innovations are not only reshaping how we assess risk but also enhancing the way customers interact with insurance products and services.

Our Members Will Help Push The Industry Where You Want It To Be

The Insurtech Coalition is at the forefront of this revolution. Our technology-focused companies will help get the industry towards goals that we all, regulators included, want to achieve.

How Gen Z Feels About Insurance

Complete the following sentence so that it most closely resembles how you feel: "The thought of dealing with insurance makes me feel _____."

	Total	%
Total	1,003	100%
Overwhelmed or anxious	543	54%
Old	141	14%
Responsible	384	38%
Anxious	323	32%
Frustrated	220	22%
Overwhelmed	381	38%
Grateful	182	18%
Other, please specify	2	0%
None of the above	35	3%

InsurTech Coalition Collaboration



Support Emerging
Businesses



New Business
Methods



Market
Access



Data Privacy
& Security

Insurtech Coalition: What we have done

Uniform Implementation of AI Model Bulletin

- Collaborating with states to ensure the consistent adoption and application of the AI Model Bulletin.
- Providing guidance and support to streamline implementation processes across various jurisdictions.

Cost Reduction Initiatives

- Engaging with state regulators to identify and mitigate minor expenses that disproportionately impact insurtech companies.
- Advocating for regulatory changes that reduce operational costs and promote financial sustainability without endangering consumers.

Increasing Access to Insurance

- Developing strategies and partnerships to expand access to insurance products for underserved communities.
- Leveraging technology to create affordable and accessible insurance solutions.

Powered by Member Companies

- Our initiatives and successes are driven by the dedication and expertise of our member companies.
- Balancing our coalition efforts with our members' ongoing commitments to innovation and excellence in the insurance industry.



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Insur▲Tech Coalition

Thank you.

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