

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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LIZ BOWYER: Hi Kelly.

KELLY GALANIS: Hi Liz.

LIZ BOWYER: You cover fintech companies across a range of sectors. We've seen a lot of activity recently in the insurance industry when it comes to technology or what's called insurtech. Tell us what you're seeing there.

KELLY GALANIS: Agree. This has been a very active year for insurtech with multiple landmark IPOs, a tremendous amount of private capital flowing into the sector. And even some strategic M & A which has typically been episodic. But when you take a step back, it's actually not too hard to understand why investors are attracted to the insurance market. It's massive. At \$5 trillion globally, it's one of the few remaining places where technology can be used to disrupt how things are done across the entire value chain, whether or not it's from acquisition to underwriting or administration, it's one really ripe area.

Also, this is not a winner takes all market. And on top of that, it's so diversified with many different business lines, products, geographies. So, all of these dynamics are creating opportunities for both the incumbents in insurtechs to take share.

LIZ BOWYER: So Kelly, there are many sectors of insurance: life, auto, home, and many more. But what are some of the common themes that you see across the industry when it comes to embracing technology?

KELLY GALANIS: It's a good question. These sectors are all evolving in many different ways. And some are being impacted by the macro environment. Some are seeing tailwinds. But what's common is that the insurtechs are using modern technology, think AI, ML, IOT, low code, combined with much broader data sets to manage nearly all aspects of their business. This gives them an

advantage in customer acquisition, in product development, underwriting, and many other areas.

But we're also seeing across all these sectors more insurtechs focused on the back end and core systems. These are what I call the enablers: cloud-based software and data analytics companies that provide underwriting tools, claims, broad management and policy admin.

LIZ BOWYER: And when you dig deeper into some of the specific sectors of the insurance industry, what are some of the challenges that you see?

KELLY GALANIS: I think one of the reasons why insurtech has become a thing is because incumbents, for decades, didn't really focus on customer-centricity. What I mean is engagement through digital channels or pricing on a more granular, individualized level. So, if you take P & C, insurtechs are taking customer-centricity many steps forward. So, just a few years ago they focused on front end distribution. But today we have an entire new class of full stack direct models. These are insurtechs that own and control the entire experience; engaging with customers or businesses from on-boarding to claims and admin, using mostly digital channels. But similar to the traditional players, they're also underwriting policies using their own licenses and capital.

The life sector, though, I think has been a bit slower in adopting some of the newer technologies. Carriers are still trying to address the manual process of buying and selling insurance. So, from this there's been a rise in direct-to-consumer platforms. And for the agents, we're seeing more tools that leverage data science and AI to qualify leads to allow them to personalized engagement with prospective customers.

And one last point I'd make is that there's been a big focus on accelerating and automating the underwriting process. But this is very hard. And incumbents in insurtechs are investing a lot in this area.

LIZ BOWYER: So, what's an example?

KELLY GALANIS: In life insurance, we're seeing a greater use of alternative data sources to develop a customer's health profile, which I think over time could potentially replace a blood draw. In auto, while telematics has been around for a while, we're now seeing some companies understand telematics as the primary

underwriting tool. This creates an opportunity to remove certain demographic and customer variables from the underwriting process. And in home and small commercial, we're seeing folks use IOT to understand the condition of the interior and exterior of the home or business.

LIZ BOWYER: So, insurance has traditionally been sold by agents. How will insurtech change that?

KELLY GALANIS: The answer here differs across the various sub-sectors of insurance. But what is clear is that the internet, particularly over the last decade, created a real market share shift to direct to consumer and direct to small business models. So, we know online customer acquisition channels are here to stay. But what's exciting is that insurtechs are now taking this one step further by focusing on mobile-first acquisition and mobile-first distribution capabilities. This is allowing them to stay well ahead of incumbents when it comes to a more customer-centric engagement model.

LIZ BOWYER: So Kelly, from your seat in investment banking, how is the evolution of insurtech playing out in the capital markets?

KELLY GALANIS: In just the last year the insurtech sector globally raised more than \$7 billion in investments from VCs and other institutions. Incumbents themselves are also doing minority investments from their own corporate VC funds. This is one way for them to leverage the power of their customer base and brand, while also investing in technology. And for the insurtechs, this is a great way for them to form commercial and distribution partnerships. And as we've been saying, insurtechs have been growing and scaling very fast as they fill a void that incumbents have not yet addressed. And now we're seeing some of these companies pursue IPOs and really creating significant value for their own shareholders. I think also we'll see more M & A activity over time, including some private to private transactions.

LIZ BOWYER: So finally, Kelly, when it comes to the future of insurtech, what are some of the areas where you'll be focused in the months and years ahead?

KELLY GALANIS: In the near term, insurtechs that can show a real improvement in customer acquisition costs and retention, I think, will be ahead. On the customer acquisition front, we're going to see more strategic partnerships and strategic

integrations with both incumbent carriers, as well as non-insurance players. This is going to be one way for insurtechs to improve the level of customer acquisition costs.

On the retention front, I think companies that figure out how to create a best of breed, almost a rebundled offering, will be the first to solve the retention question. Regardless, I think the future of the insurance industry is not going to be decided just by the insurtechs alone. There will always be room for incumbents and insurtechs to work together; as I mentioned earlier: the capital, the brand, the customer base that incumbents bring to the table is a true moat. But this is a truly exciting time for insurtech. And I think we've just scratched the surface.

LIZ BOWYER: Thanks, Kelly.

KELLY GALANIS: Thanks, Liz.

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