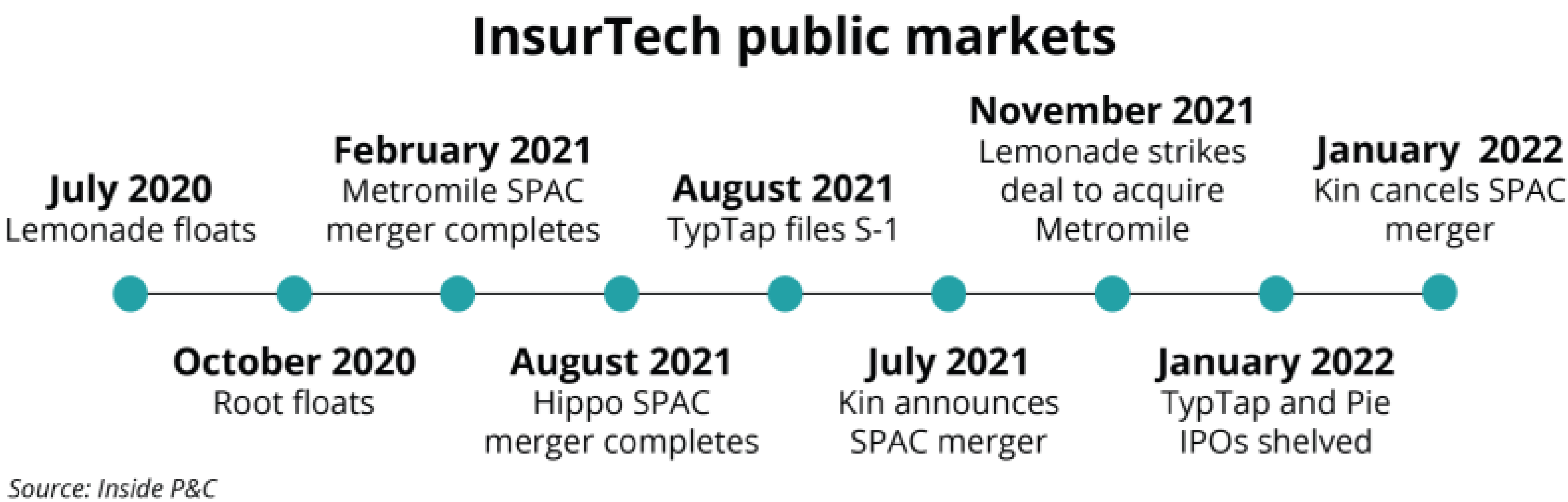
The first generation of public InsurTechs struggled because they organized their business models and stories around raising cheap capital, which pushed them to seek growth at all costs, Ian Gutterman told *Inside P&C*.

The long-time insurance investor, now the CEO of early-stage InsurTech start-up Informed, said that InsurTech 2.0 must be about building franchises that offer customers a genuinely unique proposition.

"With these earlier InsurTechs, there was a conflict between what you would do to create a good long-term insurance business and the pressures that private investors were putting on them," Gutterman, also a prominent InsurTech blogger, said. "And that was largely because the investors didn't understand how insurance worked, and treated them too much like typical growth companies."

After Lemonade's early success in the public markets, the cohort of listed InsurTechs has traded abysmally, with a number trading around ~90% down at their nadir and a loss of confidence that they will be able to raise fresh capital to fund themselves. In recent weeks a string of InsurTechs that had been slated to go public have pulled their deals due to the rout.



Gutterman said that the principals of these InsurTech businesses were put in a challenging position by the bubble that formed, with a temptation to seek to "treble their valuation" and use the capital to "clean their business up down the road".

Instead of resisting money from investors that didn't understand the insurance sector, some of these entrepreneurs "got caught up in the frenzy, and found it hard to say no".

This dynamic created a class of businesses, memorably characterized by Gutterman on his blog IansBNR, as hares – referencing Aesop's fable of the Tortoise and the Hare.

"With the hares, it was less about running a successful business and more about raising cheap capital," Gutterman said.

These firms were hyper-focused on delivering growth to satisfy investors, and to fuel the buzz they needed around their own stories of disruption. Traditional fundamentals are less important than the overall narrative and the terminal point, something which means a lot of cheap capital will need to be raised over time to scale.

These businesses have since run into trouble as financial markets turned against them as challenges around their cash burn, customer acquisition, and pricing came into sharper focus.

Gutterman thinks that broadly this group of early public InsurTechs will struggle to salvage any value for investors unless they can show a credible path to being cashflow positive – something he does not see at this point.

"Unless that changes, it's hard to anticipate that there will be value for the equity holders beyond selling the technology – in the way that Metromile did."

Unicorns and candy corns

Gutterman unveiled a new metaphor to talk about the next stage of InsurTech's revolution last week on his blog, contrasting unicorns and candy corns.

The candy corn company pursues empty goals like achieving a $1bn valuation that tell you nothing about whether the founders can run a successful business. "They are full of sugar and empty calories," Gutterman told ***Inside P&C***. "After the initial dopamine rush, you have a sugar crash and regret eating them in the first place."

The candy corn business is essentially a distortion of what a real unicorn should be, the Informed founder said, arguing that a genuine unicorn is a business that creates a franchise.

> *"The idea is that you have to grow up and be a real company. You can't just sell this sizzle anymore," he said.*

He continued: "The whole unicorn thing is: we have to get back to creating franchises. That's what really matters."

Gutterman argued that true insurance franchises have a unique proposition for their customers, and are rare in insurance with examples including Progressive in auto, Hagerty in classic cars and RenaissanceRe in cat.

InsurTech analogies

Candy corns	Unicorns
• Focus on achieving a market valuation • Skilled at fundraising • Obsess over top line growth • Chase the wrong customer • Rely on cheat codes to get ahead	• Focus on building a true franchise • Provide a unique customer proposition • Loyal customers • Maximize underwriting income • Produce cash

Source: Inside P&C

"It's not easy to do. It takes a long time to build a franchise, so you've really got to set out to do that. There's no instant reward."

He continued: "You've got to have the patience to do it and not be seduced by bad short-term incentives."

Gutterman said that this colors the type of capital that makes sense as early-stage investors in these businesses.

"It's more of a private equity timeframe than a VC timeframe," he observed, implying that value creation is more on a three-to-seven-year time horizon.

He also stressed that a "tech first" model was not a path to long term success.

"It can't primarily be technology," he said. "The tech is to enable the other pieces of building your franchise."

Citing Metromile's pay per mile auto product, Gutterman said that if the business is entirely based upon a technological feature then it can easily be copied by incumbents.

"This gets back to the whole premise of why you need to tie the technology to something that offers real customer value. You need to ask if you are creating a product or a business."

Gutterman believes that this is about providing solutions for customer problems that aren't available elsewhere is the foundation of a franchise.

The next generation

The entrepreneur, who is yet to formally launch the seed funding round for his US insurance agency, argued that the next generation of InsurTechs will learn something from the first that "burned and flamed out".

Drawing an analogy with mortgage insurance in the financial crisis, he pointed to the emergence of new firms like Essent that had more thoughtful business plans and more professional management teams.

“It’s probably going to be like that in InsurTech,” he said.

“But for it to work, you have to have management teams that are willing to fight that push for short-term growth.”

Questioned about investors withdrawing their support from early InsurTechs before reinsurers did, Gutterman said: “To me the paradox is that investors have the liquidity to change their mind – where reinsurers are committed.

“So you would think the reinsurers should have had a higher bar than equity markets would have.”

The investor argued that reinsurers should have asked for warrants as part of the reinsurance deals, to compensate for underwriting losses.

“If there’s going to be upside in the equity, make sure you get some of it,” he said.

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