

Q&A

Interview with Isaac Espinoza Managing Director of Root Reinsurance Company, Ltd.

We're starting the New Year with a focus on new technology in insurance. For this issue's Q&A Conyers Coverage sat down with Isaac Espinoza, Managing Director of Root Reinsurance Company, Ltd. the captive reinsurer of Root, Inc., the leading mobile-first insurance carrier and the largest P&C InsurTech firm in the U.S., for a discussion on the state of the industry, why he feels that the term "InsurTech" may become obsolete, and why the Cayman Islands is a great place for established InsurTech companies to set up a captive reinsurer.

Conyers Coverage: We understand that you had a circuitous path to working in the insurance industry. Can you tell us a bit about it and your career to-date?

Isaac Espinoza: My career path has been anything but typical, but I wouldn't have it any other way. I started out studying to be an engineer and working on a computer science degree focused on data mining, machine learning, and artificial intelligence. In today's job market that is one of the hottest degrees you can have, but the Dotcom bubble burst while I was going to school in California so there was less demand for engineers than there had been previously. I found myself applying for internships and full-time roles in a market that simply wasn't hiring. Given the heavy Maths base of my degree, I started the process of getting credentialed as an actuary.

Fortunately, you don't need a degree in Actuarial science to be an actuary, you get credentialed by passing exams. After I passed my first exam, I had several internship offers where I took a position at Farmers Insurance and following graduation, started working at a company called Fireman's Fund, a subsidiary of Germany-based insurance giant, Allianz. During my time there I became qualified as a Fellow of the Casualty Actuarial Society, and became intrigued by the reinsurance industry.

Conyers Coverage: What about the reinsurance industry appealed to you?

Isaac Espinoza: Reinsurance is much more open-ended than P&C insurance. The agreements you make are more customised and it's also a heavier relationship business. When people talk about reinsurers they often refer to how technical they are, but it's also very business-oriented and relationship-based. When I look at a reinsurer compared to an insurer, the main difference is the number of people involved – you still deal with big transactions but it's really cool to be part of a smaller deal team.

Conyers Coverage: What brought you to the Cayman Islands?

Isaac Espinoza: I was considering a move to Bermuda as it was known as the place to be for reinsurance, but after honeymooning in the Cayman Islands and meeting the President of Greenlight Re at the time, I ended up interviewing for a role at Greenlight and was with the company for more than 12 years.

I had many roles at Greenlight Re and was able to work side by side on exciting projects with all of the executives at the company. With the recent InsurTech boom I helped to set up Greenlight Re Innovations which was a strategic investment unit that worked like a venture capital firm embedded in a reinsurance company.

While I was in this role, the company invested in a dozen InsurTech companies and we were able to support them from an early stage. At Greenlight we had significant in-house expertise in actuarial, underwriting and finance so we were able to help them with the traditional (re)insurance know-how and it was exciting for me because I was able to participate in the entrepreneur experience without the financial risk of being self-employed.

Conyers Coverage: How did you end up at Root?

Isaac Espinoza: Root was looking for someone to manage their reinsurance programme and though I had been slightly removed from reinsurance while I was working on the venture side, I saw an exciting opportunity to join one of the largest InsurTech companies in the world and build their reinsurance programme and structure it in a way that I thought was ideal. Root is a 1,000+ person company that has the agility of a start-up, and I lead our reinsurance effort here and am also involved with the actuarial group.

In my role as Managing Director of Root Reinsurance Company, Ltd. I also get to play a big part in the strategy and new initiatives we've launched. At Root although we have a fairly large team, at the end of the day it often comes down to personal relationships and one-on-one negotiations to ultimately secure deals that can involve many millions of dollars of impact. I have met several great partners over the years and I really enjoy the relationship building aspect of my job.

Conyers Coverage: Insurance is often seen as a very conservative industry, but several InsurTech companies are using technology to create efficiencies in the insurance value chain. Can you tell us a bit about how Root is disrupting that industry?

Isaac Espinoza: Many of the major players in the insurance market in the US have been there for decades and the selling point for these companies was previously about their consistency – not much is going to change and they would always be around to pay your claim. The negative aspect to this is that if you don't change and adapt to the newest technology and customer expectations then you become less efficient, and if the technology is there to utilise then you should definitely be using it to enhance the experience.

Now there's a difference between being reckless and risky and being adverse to new technology. The traditional insurance industry has received a lot of criticism that their efforts have not been significant enough to try using new technologies. For incumbents, sometimes it's difficult to evolve if everything has been set up in a certain way for a long period of time. When you think about massive legacy systems in huge operations it's often difficult to move those operations forward.

Root is going after the auto insurance market in a different way, and a lot of it is the result of the timing of what technology is available.

Smart phones are ubiquitous and come standard with a lot of sensors included like a GPS or an accelerometer and a gyroscope that are used for navigation or playing videogames, but, these sensors are also very valuable if you're trying to assess how someone drives.

While traditionally rating for auto insurance is based on putting people of similar risk into the same bucket using variables like gender, age, occupation, credit score and where you live, but the reality is that what they are ultimately trying to capture is how risky you are as a driver so they know how much to charge you.

Instead of rating people in groups, Root uses the sensors that come standard in a phone to capture an abundance of data that gives us a much better measure of the risk of a specific individual as opposed to a group. We can measure if they are speeding, if they are braking hard, if they are not turning properly or if they are driving recklessly or texting and driving. These are all factors that make you riskier than someone who is driving the proper speed, making proper turns, and not looking at their phone while driving.

Root takes this data and does a 'test drive' where someone is driving for a period of two to four weeks with our app and we make an assessment based on their driving behaviour during that period of time and from that we give them a quote.

Although people modify their driving behaviour at first, we've found that people usually revert to their normal driving habits after a couple of days so the sample of driving behaviour we collect is a good predictor of how risky you are over the course of the policy period. Customers who are safe drivers benefit by having a lower auto insurance premium.

Conyers Coverage: Are there any nascent InsurTech companies that you are excited about?

Isaac Espinoza: There are thousands of InsurTech companies that are doing some exiting things in the space and tackling different lines of business which is really cool.

For example, there's an early-stage company, battleface that also has set up a captive in Cayman that is doing some really innovative things in travel insurance. I believe it's the first company to offer a space travel insurance product even though we're just talking about recreational space travel at the moment.

Another example would be a company like Sana Benefits that is using modern technology to go after the self-insured health space to better service small businesses that historically have been overlooked by the larger health insurers because of their size.

There are thousands of InsurTechs now that are very exciting and I'm not sure which of them will be the big winners at the end of the day, but you do already have larger ones like Root, Lemonade and Hippo that are publicly traded and known in this space.

Conyers Coverage: What challenges do you see for the InsurTech market globally?

Isaac Espinoza: As nimble and tech-modern as InsurTech companies are, they are entering an industry that has been around for a long time, and so they might not have the brand recognition, presence or historical data available to them that a more established insurer would already have.

That being said, the advantage to a lot of these InsurTech companies is not only can they catch up quickly they can potentially even surpass incumbents because they can move faster and do more concurrent experiments.

If InsurTech companies are able to grow and perform at a rapid rate and have a good operational performance in terms of their expense and loss ratio then it is a very strong sign for their potential in the future to be a major player in the space, but it's not only the InsurTech players that are facing pressure. There's also pressure on the incumbents in terms of how fast they can adapt to technology

Conyers Coverage: How do you think the Cayman Islands can capitalise on these trends you've spoken about whether it's incumbents adapting to tech or the jurisdiction attracting more InsurTech companies?

Isaac Espinoza: I think the Cayman Islands should continue to do what they are doing. As more and more companies choose to set up in Cayman, it makes the jurisdiction a marketplace that becomes even more attractive to new entrants.

When I say continue what they are doing, I mean being open to new lines of business, new products and being very curious and digging in to learn more about companies and how they are innovating. It's important to have an open mind about technology and in all of my experiences with the Cayman Islands Monetary Authority (CIMA) I have seen a huge engagement and interest level. The discipline is there as they have their responsibility as regulators to regulate the industry, but they are very engaged, supportive and flexible in terms of their openness to new innovations if it makes business sense and demonstrates good risk management.

Conyers Coverage: Why did Root decide to set up a captive reinsurer in Cayman?

Isaac Espinoza: Root has a number of entities and most of them are US-based, but we evaluated the various options out there and wanted to have a risk-taking entity as a captive reinsurer. We explored a number of jurisdictions and through that process of getting referrals, having conversations and meeting with regulators, we ultimately landed on a captive reinsurer in the Cayman Islands as the ideal set up for us and our model.

It's important to note the decision to set up in Cayman was unrelated to taxes as our company is a 953D tax paying entity. It was really more about wanting to work with a jurisdiction where the regulators wanted to understand our business more deeply and CIMA was extremely interested and involved in learning about what we are doing.

Additionally, Cayman has all the infrastructure and all the services that we need to support our business. We also landed on Cayman because there are no Solvency II requirements and as a US-based entity that's not important to us. We also appreciated the close proximity of the islands to the US.

We've been very pleased with Cayman and we have referred many other companies to establish here, some of whom we referred to work with Conyers! I imagine it's going to be a growing area for the jurisdiction because a lot of people in the InsurTech space look at Root as a leader and many of them hope to replicate many of the things we've done structurally.

Conyers Coverage: What advice would you give for other InsurTech companies considering moving to Cayman?

Isaac Espinoza: I think it's always easier to move somewhere if there are others already there, and there are providers on island that have more familiarity with the InsurTech world.

The advice I would give to them is to establish a captive when the timing is right. A lot of people start thinking about captives early on, but I would say that you need to be of a certain size and ready to provide all the things that are required to administer and run a captive. You also need to make sure that you vet who you will be working with. There are a number of qualified people on island who can provide you with services, but it's a matter of finding the right fit for your company.

Conyers Coverage: You've had experience working with our team at Conyers. In your opinion what is the most important factor a company coming to the Cayman Islands should look for in legal representation?

Isaac Espinoza: I think a lot of it comes down to experience. When working with Derek Stenson and the Conyers team he always has answers to our questions and if he doesn't immediately have the answers he knows where to find them. It's one of those things where the more people he works with and the more he learns, the more experience he has and the easier it is for each new client coming in.

Our experience with Conyers has been great and Conyers clearly has a reputation among the industry for being Top Tier. Maybe others can use Conyers as a model for client service.

To learn more about Root insurance visit joinroot.com, and to learn more about Conyers' insurance and reinsurance offerings visit <https://www.conyers.com/legal-services/insurance-reinsurance/> or reach out to the contact listed below.

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