Rethinking the Target Market for the Insurance Revolution

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The Key Takeaways:

1. Startups in insurance can *create* consumers or *find* existing ones. The latter has fewer uncertainties than the former in general.

2. The best target market for the insurance revolution is the residual (aka shared or involuntary) insurance market, such as the FAIR Plan (the most common name), Beach and Windstorm Plans for hurricanes, plus two state-run insurance companies in Florida and Louisiana.

3. The estimated total policies in the residual insurance market are 6 million in the US, according to the non-profit First Street Foundation.

4. The perhaps more reliable figures from the Property Insurance Plans Service Office (PIPSO) say that in 2022, the total FAIR Plans in the nation had 2,279,376 policies for both homes (2,244,317 policies, $\sim 99\%$) and commercial (35,059 policies, $\sim 1\%$), plus Beach and Windstorm programs with 506,941 policies, also divided into homes (487,599 policies) and commercial (19,342 policies).

5. Adding FAIR and Beach plans we have **2,786,317** policies in 2022, including 2,731,916 policies for home (98%) and 54,401 policies (2%) for commercials.

6. The direct premium written (i.e., total amount of premiums received during a specific period, without considering reinsurance) at around **$6 billion**, of which FAIR Plan is **$4.95 billion, (**$\sim 82\%$**)** and **$1 billion, (**$\sim 18\%$**)** from beach and windstorm plan (the figures for 2023 can be substantially larger.)

7. We can begin from 375,000 FAIR Plan policies in California at the end of 2023, which include both habitation and commercial policies. This is far better than our original plan of working on all commercial insurance, as these policies for sure exist.

8. The biggest advantage to working with consumers in the residual insurance market is that nobody likes it. Existing consumers have seen the "necessity" to leave it as soon as possible and to return to the private insurance market. RisX can work with these people to reach the goal and prove its value.

9. The biggest lesson from the AllDone unicorn startup in San Francisco is to reduce reliance on money-fueled speed and switch to differentiation induced speed.

10. How the future is shaped and unfolded is never completely sure, not only because unforeseen circumstances are inevitable but more importantly because visionary startups actively shape the future by realizing their own unique vision — not someone else's. They also control the mode and speed at which the future unfolds.

11. Entrepreneurs can learn many lessons from the 2023 movie "Air" on the Air Jordan line of basketball shoes, a revolutionary product breaking many industrial protocols.

1 My “Aha” Moment

My thesis of “keeping your mind ready and new ideas will come any moment” is proven on myself: I had an “Aha” or an epiphany moment while reading the interesting report written by Benjamin Shestakofsky on the magazine *Spectrum*, published by the Institute of Electrical and Electronics Engineers (IEEE), with an eye-catching title “The Messy Reality Behind a Silicon Valley Unicorn,” and a subtitle “A VC-backed startup’s push for growth left little time for actual engineering” for a San Francisco based unicorn startup.

For those unfamiliar with startup terminologies, a “unicorn” is any startup valued at over $1 billion.

This story reads like an insider’s account of a brand-new company pressured by investors for explosive growth.

Not everyone has the patience or proclivity to finish reading it. But for me, it is a godsend and offers a fascinating as well as intriguing glimpse into a startup called “AllDone,” which aspires to become the “Amazon for local services.” What particularly piques my interest is AllDone’s development of a digital platform connecting buyers and sellers of local services ranging from house cleaners and plumbers to math tutors and everything in between across the United States.

Its domain of businesses differs from RisX, but the core concept of a digital platform or marketplace linking the service supply and demand sides is remarkably close to ours. The experiences of AllDone can obviously provide priceless, actionable lessons for RisX.

2 Two Ways to Get High Speed

Let me begin by quoting the words from AllDone’s president, in an all-staff email, which tells us a lot about the current competitive landscape in the eyes of the startup:

"We know what the future of local services is. But we're not the only people that know this is the future. And, more importantly, there's lots of people—smart, scrappy, and well-funded people—building our vision. Someone is going to do it. And it looks like it's going to happen soon. **We just have to finish building faster than anyone else and we will win.**" (Emphasis added).

Clearly, speed is first thing and everything on his mind. And if he is right — if everyone has the same vision of the future — then those who are better funded will have a better chance of finishing faster. This is how a "game of speed" quickly turns into a "game of money," pure and simple.

But a true entrepreneur can do better than being driven around by money. Yes, money does matter, and yes, entrepreneurs should respect and appreciate investors' concerns. It's just that entrepreneurs can bring something unique to the table, something that produces value that money alone won't buy.

While it's tempting to believe that the future is predetermined and everybody knows that, how the future is really shaped and unfolded is never completely sure, not only because unforeseen circumstances are inevitable but more importantly because visionary startups actively shape the future by realizing their own unique vision — not someone else's. They also control the mode and speed at which the future unfolds.

To be sure, being the first movers has its advantage. Consider the cases of "Kleenex" and "Xerox," two household names that are now synonymous for entire lines of products.

In the AllDone case, I can imagine other startups building similar platforms to connect buyers and sellers. But here comes the big mistake by some startups: They thought the only way to beat competitors was through money fueled speed that allows them to "get there first."

While scale matters and money can accelerate it, I happen to believe there are numerous other ways, big or small, to gain high speed.

Just when one believes all products are the same, consumers see a different story. Ask them why they pick one brand but not another, they will tell you many teeny-tiny things that you never noticed, or never thought would matter. But that's how market differentiation works it best.

A good example is from the 2016 movie "The Founder," in which Ray Kroc had purposely kept the name "McDonald's" from the founding brothers as he believed the name was very American or had a familiar ring to American consumers: simple, easy to remember, and evoked a sense of comfort and tradition.

We have two types of speed: "Homogeneous speed" vs "Heterogeneous speed." The former works, in its extreme version, when startups and firms look at each other and "copy and paste" each other. The only thing that separate them apart is who has more money to burn for achieving a brutally higher speed.

The latter on the other works through building something unique and, most crucially, fits customers' preferences best. They fight battles defined by themselves, rather than being dragged into someone else's battle.

Heterogeneous speed comes from playing the game of differentiation. Its beauty is to rely less on money than on vision and strategy, and it lasts longer.

3 Inspirations by the Movie "Air"

If you don't believe in the power of customer centered differentiation, I strongly encourage you to watch the 2023 movie "Air," which is so inspiring that I watched it twice (and multiple times on some scenes). It is not about a startup but shows genuine entrepreneurial spirit in marketing, innovation, breaking protocol, customer focus, and differentiation that is nothing less than you would expect from a first class, full-blown startup.

Entrepreneurship is more about who you are than what you do. To put it more accurately, it is who you are that controls what you do.

According to this Wikipedia page, the movie Air is “based on true events about the origin of Air Jordan, a basketball shoeline, of which a Nike employee seeks to strike a business deal with rookie player Michael Jordan.”

Nike today is so powerful in sportswear that it is hard to even imagine that back in the 1980s (1984 to be accurate), Nike was way behind Converse and Adidas in the market.

Of course, innovation inspired market shifts are what make the US a great country.

According to Gemini, “In the early 1980s, Converse held a commanding lead in the basketball shoe market, with... a market share around 54%... Adidas ... was around 29%.” While Nike (initially called “Blue Ribbon Sports” according to this post) only had around 17% as shown at the beginning of the film.

It’s funny that in the movie, according to the Nike executive Howard White (played by Chris Tucker), the most famous Nike slogan, “Just do it!” was originally the last words by a convicted criminal before execution. This anecdote highlights how the meaning and impact of words can vary dramatically depending on the context.

Anyway, the movie, directed by Ben Affleck and starring Matt Damon, does a great job depicting how a latecomer in the basketball shoe market refuses to accept the status quo and made a bunch of right moves that eventually landed in $162 million in first year sales from Air Jordan line alone, and $4 billion annually after that. Nike eventually bought Converse in 2003.

I especially like what Sonny Vaccaro (played by Matt Damon) did in the movie: First, about 20 minutes into the movie, he was doing his homework watching videotapes of basketball games to identify the great potential in an 18-year-old rookie player Michael Jordan. Once he set his eyes on Jordan, he urged the Nike leadership to place the entire budget of $250,000 on Jordan alone, rather than splitting the money among three players. By then, he already came up with the idea of establishing an entire product line for Jordan, something no one has done before. This is how differentiation works in real life.

In his witty words, Jordan "does not wear the shoes, he IS the shoes!"

All these ideas despite that Jordan was a big fan of Adidas and made himself painfully clear that he won't wear nor sponsor Nike.

But Vaccaro won't take "no" for an answer and is willing to go extra miles (literally) until he reaches his goal. Instead of calling Jordan's parents, he just flew to North Carolina, bypassed Jordan's agent and violated the industrial or professional norm, to meet and talk to the mother Deloris (played by Viola Davis, who was hand-picked by Michael Jordan himself according to the above Wikipedia page).

Deloris makes the meeting easy by being friendly to the self-invited visitor and asking questions to get the conversation started (I love that and see it as a sign of self-confidence, which Deloris certainly has). But Vaccaro also does a good job by looking into Deloris's eyes and simply tells her the only reason he comes to North Carolina is that he believes in her son, and he believes Jordan is different, and she might be the only person on the face of the earth who knows that. Those words are very hard for a mom to resist and reject.

That meeting also highlights why it is Nike but not Adidas nor Converse that ends up signing a multi-year contract with Michael Jordan. Vaccaro did his homework and knew that Converse was working with several basketball stars, including names like Magic Johnson, who were more famous than Jordan back then.

Vaccaro made a smart move to suggest that Deloris ask Converse how her son will stand out. She did follow the advice, and the response from Converse was simply wrong: They basically said it would be Jordan's honor to be treated similarly like Magic Johnson.

Adidas on the other hand has "all leather" shoes, so they naturally emphasize the shoe quality in meeting the Jordans. That strategy can only go so far because humans are *emotional* and *social* animals. It is never the shoes themselves, but how they make people feel and how others see the wearer that matters the most — and Vaccaro knows that all along.

Willing to work around Jordan and to build an entire product line named after Jordan, this is how Nike sets itself apart from the much stronger competitors — even when Adidas promised more to Jordan ($250,000 to match Nike's offer, but adding a red Mercedes-Benz 380SL, Michael Jordan's dream car.)

The phone conversation between Vaccaro and Jordan's agent David Falk (played by Chris Messina) after Vaccaro visited North Carolina is hilariously funny that I cannot stop laughing every time I watch it.

Vaccaro had his best impromptu speech during the face-to-face meeting with the Jordans. He surprised everyone by asking the Marketing VP of Nike to stop the slide show and to turn the lights back on. He then urged Michael Jordan to forget about money — "You will make tons of money!" — but focus on being "eternity." He continued by speaking his mind all the time: Shoes are just shoes, it's the people who wear them that make the difference.

That is how excellent and exceptional marketing should be done: You center on your clients, never on yourself, and you raise a higher goal your clients will find attractive and excited about, and you then work with them to achieve the goal.

I have been focusing on Vaccaro, but the truth is that the whole Nike team, from employees to CEO (played by Ben Affleck, who also directed the movie), made their individual and collective contributions to the win. For example, Peter Moore (played by Matthew Maher) did an excellent design work with the Nike insole and also came up with the famous “Jumpman” logo based on Michael Jordan.

Speaking of logos, Americans have many first-class automobile logos, perhaps with Chevrolet being in the second class. Most German logos are first class, perhaps except Volkswagen. Japanese autos logos are first class, but not Mazda & Suzuki. My least favorite logo is Hyundai, and the new Kia logo, which looks like “KN,” is not much better. The French are famous for having classy taste, but the logo for Citroën is not that pretty. Finally, I have yet to find a single first-class car logo from China.

Back to the movie, I should bring Deloris to the limelight, the famous mother who is also a formidable negotiator, at least in the movie. She used Vaccaro’s own words in the bargain to break the business protocol of no profit-sharing with the players. I believe in the future, college athletes will win their profit sharing rights as well.

But back to the Nike Team, the CEO plays the key role in creating and maintaining an entrepreneurship-friendly culture. Vaccaro admitted later in the movie that he won’t be hired or worked well except with Nike. Indeed, most other firms will not allow it to happen where an employee will disrupt a meeting attended by the CEO and deliver a long speech to the client, as if the CEO did not exist. But this is what happened at Nike — at least in the movie.

Such a healthy, flat organizational culture is hard to imagine in China (or most other cultures influenced by Confucianism, like Japan and Korea, not sure about European countries) right now, where even members of the Standing Committee of the Politburo will make themselves busy taking notes whenever Xi Jinping is giving a speech — rather than engaging in a peer-to-peer conversation.

But that is exactly why the US, and not China, becomes the strongest country in the world. Other countries should all learn from the best of what Americans do. I say "the best" because obviously not everything Americans do is good, right or nice. All countries have an ugly, miserable and evil side, and the US is no exception.

The key is to focus on human words and deeds, not treating a human person as the smallest unit of analysis. That means even a very sick or evil human being may have something we can learn from.

In the end, whether in movies or in real life, what ultimately strengthens a country comes down to one thing: Whoever is better at motivating and mobilizing more of its people to move the country forward will be the winner.

I say "motivating and mobilizing," which is not the same as unifying people's thoughts to rally around the same goal, no matter how noble it may sound. Marx, Lenin, Hitler, Mao and Xi all tried, or are trying, to do that, but all failed or are failing. None of these people understand social psychology well enough to know how difficult it is to unify human thinking without a dictator.

Without a doubt, some members of the society will create more problems than solutions, but laws will reduce their damages. Somewhere down the line, even they could help the society move forward because if nothing else, solving problems is how a person or a country moves forward.

4 Getting Too Comfortable with Contractors

I have talked so much (maybe too much) about the movie, now let us come back to the AllDone startup case.

According to the aforementioned Spectrum article, "While the company had enrolled 250,000 'sellers' of services, 'buyers' were submitting only about 7,000 requests for services per month."

Faced with this challenge of expanding user base quickly, the story continues by highlighting the AllDone solution: Finding software contractors in the Philippines to perform routine information-processing tasks. "Managers viewed AllDone's Filipino workforce as a crucial contributor to the company's rapid growth. It was, in the words of two executives, 'the magic behind AllDone.'"

The math seems to add up: "On average, contractors earned about $2 per hour and worked about 30 hours per week... these workers didn't receive paid vacation, sick leave, health insurance, or retirement benefits, nor did they enjoy the perks (like free food) available to workers in the San Francisco office. Contractors were also responsible for providing their own computer equipment and Internet connections."

I do not want to judge, but AllDone shows signs of getting too comfortable with the remote contractors "to imitate software algorithms, taking on functions that computers were technically capable of performing but that developers in San Francisco believed would have been too costly or time-consuming to code themselves."

5 Creating vs. Finding Existing Consumers

AllDone reminds me of the need for digital marketplaces to find, or to create, both sellers and buyers in order to grow. The challenge may not be the same with buyers and sellers. However, determining the target market is a bigger issue.

Startups essentially have two approaches for consumers: Creating vs. finding them. In general, the former is harder than the latter, because more uncertainties are involved. Creating consumers means consumers do not exist and nobody knows if they will show up. Finding consumers implies consumers exist already, you just have to find them or approach them.

That said, either approach can succeed, and sometimes creating consumers can lead to an explosive growth to a greater market than anybody ever thought about, or the size of any existing markets.

It is easy to think that all startups will create their own consumers as they are doing “new to the world” things. But that is not necessarily true. Some startups will leverage the existing market for their new products, while others will indeed take the risk of creating new markets.

6 Why Targeting Residual Insurance Market

For months, I have been thinking of targeting the business or commercial insurance market for the insurance revolution. Like I said at the beginning, the idea then suddenly hits me when I was reading the AllDone story that we have a better market to target on: Those in the current residual insurance market, or the so-called “insurance of the last resort.”

Residual market has various names, with FAIR Plan (Fair Access to Insurance Requirements) being the most popular one, but also names like “Assigned Risk Plans,” “Beach and Windstorm Plans” mainly for hurricanes, and State-run insurance companies (e.g., Florida Citizens Property Insurance Corporation).

6.1 An Existing Market

The fundamental reason for switching the target market is that the residual market is already there loud and clear, and is growing — against the wish of almost everyone: Regulators, insurance consumers, or even insurers. Those who hate it the most are the consumers, as they must pay a much higher price with much less coverage.

But this also means the strong desire for changes. Citing Plato, consumers in the residual market have the existing “necessity” to leave it as soon as possible, and yet they are stuck there in the near future, seeing no sign of being returned to the private insurance market anytime soon, given several large insurers left the market or refused to renew policies.

This is our biggest advantage: Nobody likes residual market. Regulators hate it and want to reduce its size, consumers hate it and want to leave, and even insurers hate the risk exposure there. Nowhere else do we see such a bad situation, pointing to an urgent need for change.

This means we are likely to have the public supports and our work will be appreciated by consumers and general society.

6.2 Listen to the FAIR Plan President

According to this report, “Victoria Roach, president of the FAIR Plan Assn., told lawmakers this week that property owners even in areas with low wildfire risk were finding it difficult to keep their homes insured ... Roach said the Fair Plan set a new record last month when it added 15,000 new policyholders. The FAIR plan has about 375,000 policyholders, and the insurer’s total risk exposure was $311 billion as of December 2023.”

For those unfamiliar with insurance terms, insurers’ total risk exposure is a measure of total risks, or possibility of future losses, largely based on policy data, mainly the number of policies written and claim limits.

This post of Squareone.CA explains it well: “Risk can be rated on frequency (how likely is something to happen?) and severity (how bad will it be if it happens?).”

Of course, the tricky part is that both *frequency* and *severity* are in the future, so we must *estimate* them. This is where it can get messy, as different insurers may have different algorithms to do that.

The FAIR Plan, with a total exposure of $311 billion, apparently faces very high risk. Furthermore, this S&P Global.com post on August 2, 2023, tells us that "Between 2018 and 2021, the FAIR Plan's market share of overall residential insurance policies in California increased to 3.0% from 1.6%." I won't be surprised if this share rises to 4% now.

"'We're one of the largest writers in the state right now in terms of new business coming in,' Roach said. 'As those numbers climb, our financial stability comes more into question.'"

"Roach said homeowners and businesses are typically insured by any of the state's 118 standard insurers or 132 surplus line insurers, which specialize in high-risk insurance."

"Instead, the FAIR plan is quickly moving to be the first resort for a lot of people."

6.3 More FAIR Plan Statistics

Now, let us look at some statistics to see how big the stake is: The estimated total policies in the residual insurance market are 6 million in the US, according to non-profit First Street Foundation.

But according to the potentially more reliable figures from the Property Insurance Plans Service Office (PIPSO) in 2022, the total FAIR Plan in the nation had **2,279,376 policies** for both homes (2,244,317 policies) and commercial (35,059 policies).

On the other hand, Beach and Windstorm residual programs, mostly for hurricanes, have a total of **506,941 policies**, also divided into homes (487,599 policies) and commercial (19,342 policies).

Adding FAIR and Beach together, we have a total of **2,786,317** policies in the nation in 2022, including 2,731,916 policies for home and 54,401 policies for commercials.

This is a well-defined, sizable and motivated market with the direct premium written (i.e., total amount of premiums received from policies, without taking away any reinsurance cost) at around **$6 billion**, of which FAIR Plan is **$4.95 billion** and **$1 billion** from beach and windstorm plan (bear in mind the figures for 2023 can be substantially larger.)

6.4 Starting From California FAIR Plan

We could begin from 375,000 FAIR Plan policies in California at the end of 2023. But without knowing more detailed financial figures for 2023 other than the total number of policies, let us use publically shared 2022 statistics:

The PIPSO data say FAIR Plan had 261,421 policies in 2022 in California, including both habitation category (254,478 policies, $\sim 97\%$) and commercial category (6,943 policies, $\sim 3\%$). The total risk exposure for FAIR insurers is $209,808,071,000, which means the average risk exposure per policy is $802,568 (see above for how to get total risk exposure).

Unfortunately, we don't know the average risk exposure for the private insurance market in California (CDI has not done a good job making these statistics available or updated to the public.) However, I am willing to make a safe bet that the non-FAIR policies have a lower risk exposure due to their relatively "safer" risk profiles — if we keep in mind that people in the FAIR Plan are those with higher risks and are denied by private insurers in the first place.

The average FAIR Plan policy premium is $2,485, calculated from dividing the total direct premium written (DPW, $649,649,000) by the number of policies (261,421). Too bad there is no separate DPW by property vs commercial, otherwise we would know the average premium for a habitation policy vs a commercial policy.

That said, commercial premium is generally higher than personal lines of insurance, due to their higher risk of losses and also higher need to be protected.

This is far better than our original plan of working on all commercial insurance, as these policies we know exist.

6.5 Implications of Shifted Target Market

First, we will be better focused on homeowner policies but not concern ourselves about auto insurance at all, since FAIR Plan and other residual insurance markets do not cover autos.

This is a good thing, and here is why: the risks associated with homes are fundamentally different from those of cars. Homes, like trees, are stationary until a disaster strikes or humans demolish them. Cars on the road are constantly on the move, much like deer or other animals. This mobility makes them much more likely to collide with other objects or people. Ever wonder why homeowner insurance policies tend to cover "personal liability" for injuries to third parties occurring on the property? Because such incidents are far less frequent than car accidents.

Here's another reason why focusing on property insurance makes sense: To be focused is to be more creative and to shift to prevention. In the future, the solution for lowering homeowner risks, especially those from catastrophes, will come from unexpected sources: AI and breakneck or lightning fast computing powers.

This report on NVidia cracking weather forecasting deserves much more attention than it has received, as it brings the brighter future for humans, especially for homeowners.

The Nvidia cloud service will "generate 12.5 times higher resolution images than current numerical models 1,000x faster and 3,000x more energy efficiently, as well as correcting inaccuracies from previous models, bringing together multiple sources of information to create much more accurate and focused forecasts."

Accurately forecasting severe weather events would be a game-changer, akin to predicting the exact timing, location, and intensity of the next earthquake. This would significantly benefit insurers, policyholders, regulators, and society as a whole.

In the future, our digital platform RisX will not only sit and wait for innovators and entrepreneurs to come to us promoting their ideas, we will proactively ask for ideas and solutions based on the "necessity" of our registered users.

Focusing on residual insurance market has another advantage: This market is impactful and receives much public attention. The FAIR Plan website shows that by December 2023, the total policies in force are 339,044 ($\sim 97\%$) dwelling policies and 10,220 ($\sim 3\%$) commercial policies. If we assume that each homeowner policy involves a family of 3, we are talking about more than one million people. Similarly, if we assume each commercial entity involves just 2 people, there are 20,440 people.

A surge in applicants for the residual insurance market is newsworthy, and the same would hold true if the FAIR Plan saw a significant decrease in policyholders. The social impact can't be denied either way, but we are confident that the insurance revolution will bring positive changes to the lives of more than one million Californians.