Archipelago

Fireside Interview: The Untapped PropTech Category

2021 Blueprint Conference (10/04/21-10/06/21)

Speakers:

- Hemant Shah, CEO of Archipelago
- Jackson Slavik, Former Head of Starwood Capital

Jackson Slavik:

Well, good morning, everyone. Welcome to the first session on the second day of the first conference post-COVID. My name's Jackson Slavik. My background is in institutional real estate tech. I've founded and run two innovations programs at institutional real estate owners. One, the largest multi-family in San Francisco called Veritas Investments and most recently Starwood Capital.

At Starwood Capital, we made LP investments. One of the LP investments we made was a VC firm called Zig Capital, which introduced me to Hemant here, who, for those who don't know in the room, is CEO and founder of Archipelago, which we're going to talk about a lot today. It's appropriate that we're here, with an insurance tech conference happening as well downstairs, because Hemant is the founder of a company called RMS, Risk Management Solutions, which is a catastrophe modeling company that's used by all of the big insurers and reinsurers and is actually excitingly under an acquisition process right now.

Hemant Shah:

Yeah, this is just my second gig founding Archipelago in 2018 with a property focus. It does seem appropriate to be here at this conference where in my former life I would've been downstairs at the InsureTech Connect Conference, but we're here to talk about, I think, some of the fascinating intersection between these two vast verticals. Large owners of commercial property on one hand, and the global insurance industry that insures their property, underwrites, and prices their risk. And there's a pretty powerful use case at the intersection of these two vital fundamental markets in our society.

Jackson:

Yeah, it's funny. For the real estate people in the room, as a real estate guy myself, I had not thought about insurance hardly at all in my operating experience. It did not seem like a controllable expense, and having met Hemant and learned about Archipelago over the last

year-plus, it's a pretty compelling use case for people that aren't focused on it, which is why we titled this as the Untapped Propech Category. It's really going to be something that everyone needs to have their finger on for the rest of their career, actually.

Hemant:

Well, one of the things that is fun about our backstory is that when we were introduced via Zig Capital, which is one of the investors in Archipelago—great partners of ours—and Jackson and I were talking on the telephone, our Zoom call, we realized that we're also neighbors in San Francisco. So I think our first meeting was literally you lived pretty much down the street from me, and we took a walk into Bosepark in San Francisco. You were fostering a pit bull at the time. And so it was a wonderful COVID meeting to sit on a park bench in a lovely San Francisco park, taking care of your dog and talking PropTech and InsureTech and the opportunities for synergizing those two use cases.

Jackson:

Yeah. Some people baked sourdough, and I fostered dogs during COVID. That was my thing. Okay. But getting started, I think everyone's probably aware that you can submit questions here. We get them on the screen. So if anyone has anything that they'd like to jump in on, happy to take those questions, or we can save it at the end, too, whatever you're interested in.

But first off, for the people in the room that are just getting a sense for Archipelago now, maybe you've heard of it. Maybe haven't, but maybe Hemant, you can give a quick background or a little product run down some scale, just a quick introduction.

Hemant:

Sure. So start with just our general coordinates. As an early-stage venture-backed company, we raised our Series B round led by scale venture partners. In the spring of this year, we've raised about $55 million of venture financing through our seed, A and B, to accelerate our go-to-market strategy. We're based in San Francisco, like a lot of companies in the tech space, although we're a natively distributed organization. So there's about 120 odd people in the Archipelago team worldwide. We have footprints in San Francisco, New York, and London, but it's really a distributed organization. And we just came out of stealth last August. And we all know that there's a lot of hype in early-stage tech startups. And part of our culture is our milestone for coming out of stealth mode. It was not like let's get around to writing a press release, or when can we actually build a website or do a prototype, or a demo, or celebrate a first customer

meeting. Our milestone for stealth, which we were in for over 18 months, was let's actually define and build the Archipelago platform.

Let's validate it with a cohort of foundational customers in the large commercial property space. Let's actually exercise that use case through a full cycle of adoption. And let's launch if, and only if we can demonstrate that we've created real ROI impact for a cohort of top-tier owners and have them vouch for us rather than us talking about ourselves. So we came out of stealth in August. It was on the back of successful implementations with several large commercial property owners, such as Prologis, which is the leading owner of logistics real estate in the world, with over a hundred billion of assets under management. That's the kind of profile of customer we work with. So before diving into the details, it's just a bit about the coordinates of the firm, and we're now going to market. One of the key metrics we track at Archipelago, and I'll get into the use case in a minute, Jackson, is when we launched, we had about $400 billion of total insured value of property data on our platform.

> **And in the last year, it's increased by over a factor of 10x to over $5 trillion of unique property value on the platform, across many, many top tier property owners, looking to digitize their risk data, understand with the drivers of their exposure and risk, and then drive improved insurance outcomes by sharing and permissions access to those high-quality data sets via the Archipelago platform across their syndicated commercial insurance property programs in the global insurance market.**

So think of this as a two-sided platform with large owners of real assets on one side digitizing and connecting their data about their properties, having a system of record where that critical risk information lives, and being able to do the analytics on their exposures. And then connect via Archipelago with their syndicated programs of insureds worldwide, who need to consume that high-quality data in under underwriting price, the risk. So we're really straddling these two worlds in a pretty innovative, unique way. Hence, a lot of my colleagues are running up and down the escalator between the PropTech Conference here at blueprint and downstairs at the InsureTech Connect Conference.

Jackson:

I was struck and have been since talking about the company about how close the venn diagram is between insurance and real estate. It's just not something that, consider me the dark, I appreciated enough. And I don't think there were really outlets the reasons too, before a company like Archipelago, which is why we're here.

Hemant:

Yeah. One of the things that really struck me. So, as you mentioned, the prior company that I founded as a grad student at Stanford, RMS, we built over many years the world's leading catastrophe risk modeling firm from scratch, created the category, led it, and built a company with over 1,400 people serving hundreds of insurance companies. But when I was serving the insurance industry prior to Archipelago, we were aware of large property owners because they were the customers of the insurance industry. But we tended to sit, and our models and analytics tended to sit behind the underwriting teams and the risk management teams of the insurance companies. And the end customer of the industry, the buyers of insurance were abstractions. They were data sets that would come in and we'd power the modeling to understand the risk of those entities.

And it's been real eye-opening, just like you're getting to know the insurance market a bit. It's been a little bit like Alice in Wonderland going into the upstream world of the actual owners of risk. And you realize how vast this ecosystem is of large commercial owners of property across multiple asset classes, owners of multiple ownership structures. Not just institutional owners of property, but large corporations who have very large portfolios of properties that they operate their businesses out of. And these are the actual owners of the risk. They manage their property across the life cycle of its existence. They buy these properties, they improve these properties, they value add these properties, they maintain these properties, they lease these properties, and yes, they insure these properties. So, going upstream to ground our proposition, even though we're focused on the risk and insurance use case, with the use case and the imperatives of the owner's needs for better data to make better decisions about risk. And then with them, travel into the insurance industry to share and permission that data really flips the script from looking at this world from the vantage point of an insurance company to looking at this world from the vantage point of an owner of the assets that increasingly needs to manage the risk, ensure these assets and is not very satisfied with the insurance markets general approach to underwriting and pricing their risks.

Jackson:

Coming from a tech person, seeing it from the inside, it's pretty clear that the entire industry has held together with duct tape and clipboards. There are just no good tools out there.

Maybe to make it tangible, we can talk about the risk manager stakeholder within the owner operator? And so you can talk maybe about how they view their insurance buying programs and how they deal with brokers and insurers and reinsures.

Hemant:

Yeah. So one of the key elements of our understanding of this use case is that it is a multi-sided interaction between multiple personas across a risk and insurance ecosystem. The core persona that we've gotten to know very well over the last couple of years at Archipelago is, as you mentioned, the risk manager of the large owner of commercial property. A couple of other key personas, which I'll also touch on, are the insurance broker, who represents that buyer of insurance, and then the myriad insurance underwriters across multiple insurance companies that all share in the risk that's syndicated across multiple balance sheets. Because some of these owners are very large and no one insurer can take all the risk. But back to the risk manager persona. It's a very compelling persona, a compelling team and they have increasing responsibility.

So their core responsibility, the risk manager, is to ensure that the portfolio of owned and operated assets in the owner is adequately insured and there's cost-effective coverage on the insured exposure in the event that there's an incident or a claim, there's recovery and compensation on all those assets. Many of the large commercial property owners have dedicated risk management teams. Sometimes they are quite significant because they're dealing with insurance issues on hundreds and thousands of properties and even $100 billion+ of asset-earned management. And these risk managers are responsible for understanding the underlying risks to the property, ensuring that the insurance strategies are well-formulated, and then ensuring that the policies are executed in the marketplace to cover those risks. And they know and they live in this world of duct tape where gathering the critical information to understand the underlying risk of the exposures and then provide the insurance markets with the data that's needed.

It's like a treasure hunt. They're running around their organizations, the data and silos in different parts of the owners enterprise.

> **A lot of the critical data about the assets is locked up in documents and spreadsheets and photographs. And it's a pretty laborious and time-consuming process to stay on top of these portfolios because these portfolios are pretty dynamic. They're not static, they evolve. There's acquisitions, there's divestitures, the properties are being managed. They're being improved.**
>
> **They're being retrofitted, they're being enhanced. The roofs are being inspected. And so at any given point in time, there's a lot of dynamic**

changes to the underlying portfolios that are hard to stay on top of. So these risk managers spend a lot of time chasing down information, emailing requests to the asset management teams, the due diligence teams, the property management teams, and it's a challenge for them.

If it was easy, it would be an easy problem to solve. But chasing down all this information, imagine your risk management team, your portfolio may have tens of billions of assets, hundreds and thousands of properties. And you got to keep on top of an accurate registry of all of those assets and all the detailed information that characterizes their risk. This is not just tracking the aggregate values. It's about going property by property. Having a detailed set of information that describes how the properties were built, how they're managed to maintain, what's happening in the buildings, what's happening around the buildings, what's the latest improvements to the buildings and it's a challenge. And so they spend a lot of time gathering this information and then don't get me started when that information is emailed by their insurance brokers, like emailed 2021 emails of spreadsheets and more spreadsheets and more PDFs that get emailed to dozens and dozens of insurance markets each which have dozens of people underwriting and pricing these risks.

It's a complete pain chain of information. A lot of entropy and a lot of room for improvement. And at the heart of what we're doing is we're essentially digitizing this stream of information to create an efficient way for the owners to gather, integrate, and have an up-to-date, high-quality system of record for their risk data. And then be able to share those high-quality data sets in an efficient way with their syndicated panels of insurers who need that data to underwrite and price the risk. So, I tell you war stories about what the data's like and the challenges, but it's a real pain chain and there's a real opportunity to deliver a lot of ROI by making that a much more digital, efficient, trusted process.

Jackson:

I was struck when I first met him and learned about Archipelago about how much of the strategies really a data science strategy simply put with an insurance use case behind it. So maybe I mean, you can speak to sort of go to the end results.

What kind of outcomes are we trying to solve for? And then back that up into how the product gets us there.

Hemant:

Yeah. And I'd also like to come back to one of the things that really struck me, if I can turn the tables around. When we first met you talked about, as you started to understand the Archipelago use case, this light bulb went off in your eyes and you said, “This is about accelerating a zero to one data signing strategy on a concrete use case called risk and insurance that could also fuel other use cases in the real estate enterprise”. I'd love to come back to that as well. But in terms of impact, this is a very concrete use case. Every single commercial property owner has to ensure their properties each and every year. It's like a Groundhog Day process of pain and challenges and creating impact on this use case creates real ROI for the owners and the risk management teams. Not in a theoretical way, not in a field of dreams way, but by delivering on this and it can be implemented in a few short weeks, you can create real ROI.

And the ROI that we're seeing is in three simple categories. One is by making it far more efficient for the owners and their risk management teams to collect the critical data and maintain the critical data that they need in order to ensure their properties. It's a laborious process. It's a time-consuming process. It's a costly process.

> **So right out of the gates, we create ROI by making it more efficient for those owners and the risk management teams to gather and maintain the critical risk data they need to support the risk and insurance programs, one. Second, we create a real ROI by empowering their insurance brokers—who are a key part of this ecosystem—to more effectively market those insurance programs to the global insurance industry.**

One of the things that's not maybe that well understood if you're not in the insurance market, but when large owners go to secure insurance, they're competing for high-quality capacity with other large owners to get large top-tier insurers to underwrite and quote the risk.

It's a very hard market right now, which means that there's a lot of demand for insurance coverage relative to the supply of insurance capital. And as a result, owners are competing for capacity.

And on Archipelago, the brokers are able to more effectively market the owners, data-driven differentiation, the discipline that they have around understanding their asset. And they can use Archipelago to access new insurance markets and move their customer, the owner, to the top of the pile in the underwriting process and secure a preference position in the syndication. And that really helps market the program. So we create impact there.

And the third way is that insurers and I spent a career advising and powering insurers and their underwriting process. It's a very painful process for them when each and every single one of the submissions they get comes in in the wild with an email with spreadsheets and documents.And they have whole teams of people that literally have to comb through this unstructured data, this loosely structured data, this inconsistent data. And as a result, they're very skeptical of the data. They don't know if it's valid. They spend a lot of time just trying to basically reassure themselves it's accurate. And on Archipelago—with these high-quality data sets, well structured, easily accessed—they trust the data more, and they unlock a confidence dividend. So we see insurers providing more competitive pricing in terms to those placements powered by Archipelago because they trust the data, which is the lifeblood of how they need to underwrite and price the risk.

And they can strip out some of the conservative factors that they typically put in to accommodate the inevitable surprises they have on most data sets and most owners when they underwrite their risk. So we make it more efficient for the owners. We make it more compelling for the brokers to market, and we unlock a confidence in the insurers that it accrues back to not only the insurers but back to the owners as well. So it's a virtuous circle of value added across this ecosystem. And the feedback loops are very compelling and happy to chat about that as well. But it's a pretty powerful network effect.

Jackson:

Sure. Well, my next question is going to be, how are the brokers reacting to this new environment? Because you could feel that they're kind of maybe in the middle, maybe they feel a little nervous. Maybe they feel empowered. What's that experience been like for them?

Hemant:

I mean, I've worked in the insurance vertical a long time. I have a deep respect and a healthy appreciation for the role, the large insurance brokers play in this process. I mean, this is the antithesis of me showing up with a hoodie and a couple of PhDs and sockless shoes and just saying, "Hey, we're going to make this market more efficient. What role do the brokers play? We're going to..." No, I mean, these are very complex syndications. These brokers provide value-added services that are customers. They're stood by both the underwriters and the owner's risk management teams. And so we go make it very clear that every single one of our customers has a top tier insurance broker by definition, those insurance brokers have a key role to place in accessing capacity for their clients.

And we empower the brokers to be a first-class persona in the Archipelago ecosystem by empowering them to configure the virtual deal rooms. Describe the key differentiations of the insured's exposures, configure the marketing messages to the insurance, and sending out the links—powering them to be more differentiated in how they market.

So we are making it abundantly clear to the brokers that we see them as a key participant in this ecosystem and that Archipelago understands the role they play, empowers a use case for them as well to differentiate their ability to market and secure high-quality insurance capacity for their top tier owners. So we collaborate very effectively with the insurance brokers. Hundreds of insurance brokers have experienced Archipelago, even though we launched just last August, and a couple thousand insurance underwriters. So we're actually striping across this ecosystem of owners, their risk management teams with their internal stakeholders, the brokers, and then all the insurance underwriters who underwrite the risk.

Jackson:

It's fantastic. It's important to get everyone on the same platform on the same page, so to speak.

Hemant:

Yeah, well I think it's important in these deep vertical markets and interconnected B2B ecosystems too. A lot of tech tends to oversimplify the interdependency of these human relationships in these complex markets. And so one of the things that we've just made incumbent in our culture at Archipelago is to respect the personas of the people in this marketplace. If this was an easy problem to solve, it would've been solved a long time ago. There's a lot of good reasons why it's challenging to collect data if you're a risk manager at a large owner. It's a lot of good reasons why it's challenging to make effect, price and underwrite the risk of your lead underwriter.

It's not because you don't get the plotline or you're not sophisticated. The data is a mess and it's very complicated to deal with. And so by respecting these personas, we spent a lot of time with the risk management teams, with their upstream constituents, walking the properties pre-COVID, getting to know where the data comes from the property managers, the facilities managers, the asset management teams, the due diligence teams, empowering the risk manager to understand their own ecosystem and where the data lives that's inside of their own enterprise that can power better insurance outcomes

working with them, coaching them, supporting them to be able to access those data sets via Archipelago from those stakeholders.

And then working deeply with the broker personas and the underwriter personas to explain, educate and inform them, and understand how they work and slip our use case into their patterns of behavior— this creates a mutuality of buy-in across the ecosystem and starts these flywheel turning of reinforcing feedback loops between the owners and buyers, the brokers, and the underwriters via this platform.

Jackson:

Yeah, well taken strictly as a data science program, which I think a lot of companies could view Archipelago as potentially, I was struck with how quickly you could get from zero to one. I mean, I think it's a common problem. Nobody really likes to talk about it, but owners don't really know what they own. They don't know what the thing is made of. They don't know how many units are and how many square feet are in there, what the actual parameters of the property are.

And so we have a couple of great questions here that speak to this, one is how do you incentivize owners to share data? The other is can data be enhanced by IOT devices, providing real-time performance data. And I think they both speak to sort of the incentives in the process for uploading a portfolio or a single asset onto the platform from the owner's perspective. Could you speak a little bit to the actual process of what these silos look like and how you actually get to the data and then how long it takes and what you actually deliver to the owner before you even talk about insurance outcomes just as a data science?

Hemant:

Yeah, I think as you noted when we first met, a lot of PropTech propositions can sort of feel like data science experiments and owners are wary of embarking on fishing expeditions and kind of field of dreams initiatives where perhaps there's a valuable use case that we just collected all the data. This is the antithesis of this. There is a concrete use case risk management teams at owners need to buy insurance.

And each and every year they need critical data in order to support those placements because the underwriters and the insurers need that data to underwrite and price the risk. And it's challenging to collect that information. And so we just make it very easy for those owners to source the data from a number of structured and unstructured sources. And this is not magic.

It doesn't happen overnight, but we're now able to onboard very large portfolios in days and weeks.

> **So this is not a two-year project of running around as a treasure hunt. We just recently onboarded and empowered a very large placement for a customer of ours with over $100 billion of assets under management and thousands of properties; the process to onboard the data sets and get the portfolio data staged and ready to support their insurance renewal took weeks and delivered impact within months and a quantifiable ROI on that whole process, end to end, inside of a year for one of the largest owners of commercial property in the world. And this is extraordinary because a lot of these projects not only fail to deliver ROI but sometimes it takes a long time to get there.**

And with this particular use case, because it is an annual process with quarterly updates and with a known need for data that's hard to get, we can create this connection and deliver impact pretty quickly. And also you mentioned the question about sharing data.

Jackson:

Yeah. How do you incentivize and share data?

Hemant:

Yeah. Well, one of the things that's pretty remarkable about this risk and insurance use case is that it inherently cuts across companies with trading relationships. So many use cases are driving data to drive better decisions within the four wall context, no pun intended, of a particular persona and a use case inside of the enterprise. The risk and insurance use case is inherently powering a two-sided marketplace that requires the sharing of information between the counterparties to support the transaction. So at the heart of the DNA of this use case is that owners know that they need to share data with their brokers and insurers in order to get coverage on their risks because that data needs to be provided for the underwriters to underwrite and price the risk. So there's already a wellspring of appreciation that my data is not just something that I need to consume.

I need to make it accessible to other people on the other side of this transaction so that they can understand and price my risk. So really building on that pattern of understanding by connecting parties around high-quality data sets rather than sending the data and

spreadsheets, linking the ecosystem to the data as a shared system of truth. And then from there it's just a very natural next step to work with our clients to... And they value this to say, not only do you have my data, you have other data's, we've got trillions of dollars of insured value of data sets. And while we deeply respect and preserve the confidentiality of individual information about an individual property, that's not our data. That's our client's data. That's Prologis's data, that's Blackstone's data, that's Brookfield's data, but the aggregations of insight on the data, the patterns on the data, how do these properties perform with these roofs?

That's aggregate insight on the system of data, which is another layer of value that we're now able to unlock for both the owners.

> **So they understand the drivers of exposure of risk, not only within the context of their portfolio, but the markets insight on that data, which gives them more actual information on how they can understand and make decisions about managing their risk, but also gives them more transparency on the insurance industry, underwrites and prices their risk, which again, makes them more empowered. So, we're seeing a lot of encouragement because the incentives are to drive more transparency with a compelling ROI against higher insurance outcomes.**

Our clients are encouraging us to aggregate the data across the owners, as well as sharing it between the buyers of insurance and the underwriters who need that data to underwrite the insurance.

Jackson:

So, it's not really an incentivization problem on the owner's behalf. I mean, they're dying to get the data into your hands. They just need help.

Hemant:

Yeah. Well, it's about creating a flywheel. So, to earn the right for a large property owner to onboard their data onto Archipelago, we need to create immediate, concrete, and tangible ROI. This is not a fishing expedition—share your data and, eventually, something good will happen. We can walk into a risk management team and say, “We understand you have a pain point around insurance; insurance costs have been rising double-digit annually for years. You know you're competing for top-tier coverage from lead insurers and you know this data matters. We can help you gather, validate, enrich, and share that

dramatically, more efficiently, and we can deliver ROI.” Great. That's how we earn the right for them to say, "Yes. I will onboard my data under your platform. You'll deliver value as a result, not two years later, but within one insurance cycle”.

And that earns us the right to platform the data. And then they see as we aggregate the data, “Oh, you can benchmark me. You can give me insight on the aggregations of this information. Not just across my portfolio, but others with similar assets to mine.” That's valuable insight as well, but that is a second-order benefit that we earn because we deliver value with the first-order benefit around the insurance renewal cycle. And I think as I've thought about how these data aggregation and ecosystem play, I think it's easy to think you have to move quickly and skip steps.

A lot of these things, it's about establishing the flywheel and in some ways going slowly to go quickly and to earn the trust and deliver the impact to source the data that then creates the anti-seeding conditions for the next stage and the next stage and the next stage. And run that marathon in hundred-meter sprints, collecting, aggregating, creating more and more values to go. But it's grounded in this core use case with a concrete pain point with a tangible ROI that is earning Archipelago the right to onboard these data sets. And you know, within one year of launch already for five, I think, I'm looking at, I think we're close to $6 trillion of property across hundreds of thousands of unique assets already within just a few months.

Jackson:

Well, in the cadence of the insurance renewal process lends itself to it being hard to get off Archipelago once you're on it.

Hemant:

Well, it's an annual process and off Archipelago it's like Groundhog Day. Every year we hear this from the owners and the risk management teams, it's as if we're looking at this portfolio again for the first time. We hear that from the brokers and insurers. I’ve been on this risk for seven years but annually renewing every year. It's like, I'm looking at this risk for the first time. And by connecting all the data on Archipelago you make it far more effective for me to just get to the decisions. But yes, it's an annual cycle on the large programs there's need for periodic updates within the policy year. So it's not just a once-a-year cycle. It's a continuous cycle of updating and maintaining the portfolio, driving inside about the risk, sharing those views more dynamically with the insurance markets who value more frequent understandings of how the risk is evolving inside the policy here.

And, over time, there'll be more innovations that are unlocked by this digital connection, which is that insurance markets can start innovating more. Instead of just providing a static insurance policy, they can start to create more innovation around the form of coverage. How does it attach digital triggers that would unlock more coverage? How do we automate the provision of value-added services and products to our customers, reacting to digital signals as our customer's portfolios are changing? The insurance industry is frustrated by the status quo as well. They don't like this Groundhog Day approach where every year they get a bunch of spreadsheets, they provide a quote and then they show up again next year. They want to create more value-added connections with their customers throughout the policy or as well. And we're already starting to see those use cases get enabled on Archipelago as well.

Jackson:

A hundred percent. Well, it's an exciting time in a completely untapped area as far as most of the real estate industry is concerned. I mean, we could go on for hours and hours, but we're getting the hook. My name is Jackson. Hemant Shah from Archipelago. If anybody has any questions or wants to talk to anyone, there are many team members from Archipelago and we'll be right outside of the hallway for anybody that wants to chat. Thank you for coming this morning.

Hemant:

Okay. Thanks.