

Gopi Rangan Final Version

Speaker1: [00:00:04.80] This is the Investor Connect podcast program, I'm Hall Martin and the host of the show in which we interview angel investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Interested in learning more about investing in startups, launching a new startup need to raise funding. The Startup Funding Espresso is a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso. You can learn about startup funding to subscribe, go to invest, connect again and put your email into the up box. Hello, this is Hall Martin with Investor Day. We're here with Gopi Rangan, founding partner at Shaw Ventures. Shaw Ventures is a Silicon Valley based venture capital firm, investing with the mission to enable peace of mind. The main area of focus are precede in seed stage startups and insurance, aging care, mental health, wealth management and related sectors Gopi,. Thank you for joining us.

Speaker2: [00:01:00.93] Thank you very much. Thank you for inviting me.

Speaker1: [00:01:03.09] Right. So what was your background before launching? Sure Ventures. What did you do before this?

Speaker2: [00:01:07.50] I've been in the Silicon Valley for twenty plus years. I started my career as an engineer. I switched to venture capital about ten, twelve years ago. I was a hardware engineer, software engineer, built products. And that experience has been enormously helpful to me as a venture capital investor and in venture capital. I spent many years in a corporate venture capital that was a great way to learn how venture capital works and work with some amazing entrepreneurs. I got really very, very lucky to work with some brilliant entrepreneurs. And there were two IPOs that came out of my venture capital investments in the past. One of one of them was a desktop and I lot company, Internet of Things company, and another one is Coinbase, which went IPO just recently. I'm very excited to build share ventures and with all this background, I feel like my twenty plus years of experience has lined me up for today so I can launch our ventures and build it for the next 20, 30 years.

Speaker1: [00:02:01.38] So what excites you about your ventures now?

Speaker2: [00:02:03.69] I'm very excited to things on one thing. I'm very excited to see how venture capital as an industry is evolving. There is room for new emerging managers to come through and build firms. And I think we're going to reflect on this period of time and look at it and say that was the golden period for venture capital. I think we're hitting on something that's revolutionary. There's lots of opportunities for new VCs to build firms. I'm very excited to see that trend and supporting my vision. The second part is my focus on in short, when I started your ventures, Shore Ventures was one of the first to ensure tech VC firms. And today there are a few more. I'm hoping for more VCs to focus on this sector. I thought that initial tech was going to be big and it's going to grow fast. It's been bigger and faster in the past five, six years. The growth has been enormous. That attracts a lot of very thoughtful entrepreneurs to come to this space. I make investments with a mission to enable peace of mind that really becomes the front and center of front and center. Of all my decisions at Schroder Ventures.

Speaker1: [00:03:10.62] That's great, where you see a lot of startups and you see a lot of investors in this sector. What's your advice for people running startups in this sector? What do you tell them to do before they launch that business?

Speaker2: [00:03:21.42] This is all of this is about entrepreneurs and founders. My my advice to entrepreneurs is that you would look for a niche market where you can build a billion dollar business. The beauty is that in insurance you have many niches and even a small nation insurance gives you an opportunity to build a billion dollar business. And that naturally fits the venture capital business model so that that's the invitation to all entrepreneurs to consider focusing on the insurance sector. The second is avoid too common mistakes that people make. One is that they trivialize the complexity of insurance. It's an industry that's riddled with regulations and there are some good regulations. There are some bad regulations. Things have to change. I recognize that. But you've got to have respect for regulations. And the other end of the spectrum, I see people making mistakes where they get scared, they feel like this. All of these old school legacy systems need to be changed. And I can build something in my garage just like how it happened in other industries. And that's also not going to happen. So neither get too scared with regulation, nor do you feel so arrogant that you can beat all the regulations and build something without respect. So the answer is somewhere in the middle. So those are my two cents to the entrepreneurs looking at this space.

Speaker1: [00:04:43.05] Then on the other side of that table, what's your advice for people investing in this space? What do you tell them to do before they write that check?

Speaker2: [00:04:49.29] I've seen a lot of new types of investors coming into the space and many VCs old school work that's also taking interest in the space. I spend a lot of time telling them that. What? Works in other industries, like the metrics that you use for MVP minimum viable product and the metrics you use to measure recurring revenue, monthly recurring revenue, annual recurring revenue, the metrics that you use for product market fit, all of those things pretty much do not apply in this space. There's a whole set of new metrics and you have to adapt to where the world is for this sector. That's a mindset that most people do not possess and they try to impose filters and frameworks that exist in other industries and apply to this sector. And that doesn't often work. So my request to all investors looking at this space to be open minded and look at the industry in a very fresh set of eyes.

Speaker1: [00:05:44.03] Let's talk about the state of investing in this space. How do you see the industry evolving from here?

Speaker2: [00:05:48.80] Yeah, this is a pretty loaded question here, so I'm going to take a few minutes to respond. The first thing is innovation happens when there is a dearth of investment in that sector. So let's see if that that is true in the insurance industry. It's the backbone of the economy. Collective global growth in premiums of all insurance companies is about six trillion dollars, and insurance companies collectively manage another five trillion dollars of assets. So this is not close to a total of about 15 percent of GDP of the world. This is the backbone of the economy. It touches people's lives at highs and lows at a time when you have an important moment in your life, when you buy a house, when you get married, when you have a child. All of those type of events. And also when you have troubles in your life, when you have illness, when you get into an accident, when you lose something, that's when insurance touches people's lives. So when you combine the macro economic scale and the ground level realities of how insurance impacts people's lives, that creates a huge opportunity. Now, if you look at innovation that has happened in the space, it is very, very little. Many of the products and services have existed the same way for decades. This industry is stuck in Stone Age, we need

innovation. If you look at the R&D spend of the top 10, top 20 insurance companies, it's almost negligible. It's less than one percent. So that creates a huge opportunity for startups.

Speaker2: [00:07:19.65] So that's the first big trend. And the second trend that I see is investments from venture capital investors into this space. Over the past five to 10 years, there's about twenty five billion dollars of venture capital funding into 300, 400 startups in the initial tech space. Sounds big, but if you look at fintech as a whole, this is a fraction of fintech. I expect that in the next 10 to 20 years. The focus on Intertek will be so big and there will be opportunities for many, many more startups to build solution in the initial tech space. I think that fintech itself hasn't really reached its peak and ensure tech is barely started right now. So it's about 10 to 15 years behind FinTech. I expect this trend to grow much bigger, much faster. The last trend, the third trend is number of venture capital firms. According to National Venture Capital Association, there's about 160 billion dollars of venture capital funding overall across all industries in the US. And that investment, I think, is going to substantially increase in the next five to 10 years. The number of VC firms are about two thousand today. And there are so many new types of VC firms, not just new VC firms with new types of VC firms. That is going to change the landscape of venture capital and create lots of new opportunities. And that means that this whole asset class is going to transform. So I'm really excited about all of these three trends.

Speaker1: [00:08:48.25] So the next five years, you think the biggest changes are going to be more venture capital coming into the entire tech space and that's going to spur innovation, is that correct? Yes, great. Looking forward to it. Let's talk about your investment thesis. What exactly is it and what's your criteria for looking at startups in this space?

Speaker2: [00:09:06.46] So I, I do not have an investment thesis. I have a general focus. And I think investment thesis is a flawed strategy in venture capital. Venture capital is about looking for black swans ideas that don't exist today. This follows a power locker where very few outcomes dominate the the overall result of this asset class. So in that space, when you invest as a venture capital investor, or at least I do, I don't really look for a specific thesis. If you want to find good opportunities in venture capital, you have to be open minded and you cannot go in with a biased mind, with a certain set of trends or a certain set of patterns that you're looking for. So I try to remind myself that I need to have a beginner's mindset and have a fresh thinking every meeting, every startup that I talk to. So with that perspective in mind, then I'm able to

help the entrepreneur think about possibilities then they may not have thought about. And that I like that conversation. So I don't really have an investment thesis that says, well, I'm looking for X, Y and Z. I have some general themes for it. But I'm I'm waiting to be educated by entrepreneurs on how the world should be.

Speaker1: [00:10:22.69] That's great. Can you talk about a few startups that you do find interesting?

Speaker2: [00:10:26.65] Certainly. I've made about 19 investments so far as of today as of this interview. I've been getting recorded. And they are about half of them are in the Silicon Valley and half of them are in in the US. But other cities let me pull up a few names and I can talk to you about it. My investments are broadly in two buckets. One is a set of companies that focus on insurance itself. Insurance as a product that creates a safety net for people, gives them access to solutions that typically don't exist. It's an inefficient economy. These could be auto insurance companies like mine. I invested in another company called Decent. It's a health insurance company. I also invest in another bucket and that would be on technology focused on the infrastructure for legacy industries like insurance. So I invested in a company called High Marle. They build a conversational platform for modernizing the infrastructure of insurance. I invested in Blitz. They focus on equipment manufacturing companies to provide better field service solutions. And these are the two main buckets of investments that I make, either direct insurance companies or technology for legacy infrastructure.

Speaker1: [00:11:40.45] Right. So you see a lot of challenges out there in the marketplace today. What are the challenges your startups face in launching in the insurance tech space?

Speaker2: [00:11:51.01] There are unique challenges that startups in the tech sectors face. And I noticed that in my own portfolio companies, in addition to all the standard challenges of fundraising, building teams and various other things like that, the challenges that specifically ensure that companies face are that they don't have an educated market that understands how insurance works so often. It takes entrepreneurs a lot of effort, enormous amount of fortitude to educate regulators, educate employees, educate investors and educate customers one state at a time, very often because the rules in one state do not apply in other states. So that's a lot of effort on the part of the entrepreneur. And some entrepreneurs find this surprising. Only after

they start building the business, they realize how hard it is. So that's something that catches many entrepreneurs off guard and then they realize that this is a long haul. So that's that's a very. Common theme that I've seen across many, many of my startups and the other theme that I see is the effort it takes to sell one insurance product. It's the same effort it takes to sell thousand insurance products. There is a lot of time and effort involved in investing in the early days of building the product to get to the point where the first product policy can be sold and getting to the second and the third and the fourth and the hundred and a thousand policy is a lot easier from there. And that's very different from other companies. It's not like a SaaS company where you have one customer and then suddenly you need to ramp up on sales to get to the second customer. Sometimes the features change and sometimes you have to fix a whole bunch of bugs. That's not the case in insurance. All the infrastructure and all the pricing and all the policy binding processes, the claims infrastructure, all of those things are typically built in by the time the first policy sold. Those are two major challenges that are different compared to other startups.

Speaker1: [00:13:49.82] And then where are the challenges the investor faces in this space that's unique from others?

Speaker2: [00:13:55.28] I want to come back to the comment I made a little earlier. The two common mistakes that I see investors make, and I've seen this even with some very large, successful VC funds and all the way through angel investors, the first mistake they make is that they get too scared. They do not want to touch this industry because it's just riddled with regulations. And that's a mistake. Regulations exist for a good reason, and some of the regulations perhaps need to change. But that's also the opportunity. The second mistake they make is the typical Silicon Valley bravado that says, well, we are two people in a garage. We will write software code, just like how Airbnb became successful without ever having to talk to a hotel company. And we would do the same. That's not going to happen in insurance. So those are the two major challenges that investors face in this space. They either get too scared or they take it too lightly. And then they realize that, OK, this is too hard of a problem to solve. So the answer somewhere in the middle, you've got to respect regulations. And also at the same time, you have to push through the innovation cycles.

Speaker1: [00:15:01.79] Great. Well, inside ensure tech, there's many subsectors and applications. If you had to pick one or two of those that you think are good and many opportunities for investors to pursue. What do you put at the top of the list?

Speaker2: [00:15:13.19] The first wave of venture tech we saw were mainly focused on distribution. This happened in 2000, so I started investing in the space in 2014. I made my first initial tech investment around the time a few months after Secoya invested in lemonade. That kind of was a pivotal moment for venture tech when everybody else started focusing on the space. When I started investing, I noticed that many startups, very smart entrepreneurs, they would bring what was already working in other industries like e-commerce, retail and other spaces where digital processes for acquiring customers was well-established. And they would take that and apply it to insurance. And it was a lot easier to get that low hanging fruit. But now I think the world has evolved to the second phase where they are building solutions that are born in the digital world, products and services that have apps and APIs and websites which are built with that infrastructure and without any encumbrances from the old legacy infrastructure. So that is revolutionary. A lot of new business models and a lot of ways of managing data and moving data from one place to the other that that has not been happening in the insurance sector.

Speaker2: [00:16:27.65] The next wave I see is how data analytics works. How can we use artificial intelligence? How can we use machine learning? How can we use deep learning platforms? How can we use advanced infrastructure, both hardware and software, to build new solutions that don't exist today, like cyber insurance, smart home solutions? I'll give you an example of one on my portfolio companies called Kangaroo. They have a product called Ports Protection Plan. So if your package that was ordered online when you buy something is delivered on at your port and it gets stolen, you can buy insurance. These are very innovative, creative solutions. What it does in the end for people is that it gives you peace of mind. You can go off and live your life and let insurance take care of all the liabilities. And when insurance goes in the background and when insurance becomes embedded in your lifestyle, you don't really think about buying or selling insurance. That's not something that you actively want to pursue. And that wave is just beginning and I expect to see more and more of that in the future.

Speaker1: [00:17:31.61] Great. When the last few nights that we have here, what else should we cover that we haven't?

Speaker2: [00:17:34.91] We should talk about my podcast.

Speaker1: [00:17:36.77] Oh, tell us more. What was it called and what do you focus on?

Speaker2: [00:17:40.52] I started the podcast a few months ago. I invite venture capital investors and ask them questions about how they make decisions. And the reason why I started this podcast was that I wanted to help entrepreneurs understand. I wanted to demystify. Process, how angel investors and venture capital investors think I want those opinions to be out in the open. And the reason why that's important is that we need more diversity in the entrepreneurial ecosystem. People who come from privilege, who have an existing network of venture capital, investors and angel investors, they know how to prepare before they go to meet one of these investors. So those early believers think very differently. They are very excited about ambitious entrepreneurs. They like to support them. But how do you find them and how do you prepare before you go to meet them? And that's the question I wanted to answer. And the more the very common thing that we hear from entrepreneurs is that fundraising is a pain. It's very difficult. It's tedious, and it's a black box and they don't understand it. So I want to demystify that. And I wanted to help entrepreneurs access information and bridge that information gap. And the way I do that is by asking questions to venture capital investors and angel investors. I publish a 30 minute episode once a week and ask candid questions about how do you make decisions? What do you ask? How do you meet these entrepreneurs? What gets you excited? What are some pet peeves you have? And they give answers. Many of the investors, many of the guests I bring on board are quiet. They are powerful people. They make very influential decisions, but they lay low. So these are people that we need to hear. Their voices are not heard. And with that, I want to build a library of information that would be useful for entrepreneurs. It's been working quite well and I've heard lots of positive feedback from entrepreneurs. The name of the podcast is The Sureshot Entrepreneurship. You can find it on all your podcast distribution platforms.

Speaker1: [00:19:43.65] Well, that's a great way to look that up. How best your listeners get back in touch with you, though.

Speaker2: [00:19:47.82] The best way is to go to my website. Short adventures w w w dot shoulder ventures. Please take a look at our portfolio and the philosophy with which we invest. Please get in touch with us and let me know when you have an idea and I would love to hear you and support your journey right now.

Speaker1: [00:20:03.90] I want to thank you for joining us today and sharing this information with our listeners and hope to have you back for a follow up soon.

Speaker2: [00:20:09.75] Absolutely. I would love it. Thank you very much for the opportunity.

Speaker3: [00:20:15.21] Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug. Paul Martin is the director of investor Canek, which is a 523 non-profit dedicated to the education of investors for early stage funding, all opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.