Interview: Guidewire – The tiny start-up that conquered the world

By Saxon East 3 September 2015

Taking a Silicon Valley based start-up and turning it into one of the world's leading software providers in just 10 years, Guidewire founder Marcus Ryu beat the odds to win over doubtful insurers

Tedious, complex and a miserable slog: just some of the words staff at the New York office of consultants McKinsey used to describe the task of investigating an insurance company's claims division. Nobody wanted to touch these cases, known as closed file reviews.

Unfortunately for Marcus Ryu, who in the late 1990s was an Oxford University philosophy scholar keen to make his mark as a McKinsey business consultant, there was no choice but to accept the job.

But where his colleagues saw pain, Ryu spotted an opportunity.

"You were buried in data and paper. It was a gruelling task, joyless and miserably difficult to do," Ryu recalls.

“But it stimulated my imagination. Why would an insurance company ever need a consultancy to advise on a claims outcome? Why is it so manual? It sparked an idea that turned out to be relevant later.”

That idea eventually gave birth to Guidewire, today one of the world’s leading insurance software providers, especially in the UK where its products are must-have for many of the big players.

Aviva, Direct Line Group, Admiral, LV= and Zurich are among UK insurers that have spent millions of pounds on Guidewire software to improve claims, underwriting and documentation processing.

In his first interview with Insurance Times at Guidewire’s London office just off Cannon Street, chief executive Ryu reflects on an incredible journey, one in which he and his business partners overcame seemingly insurmountable hurdles as they started the business from scratch and went head-to-head with the software giants.

The Guidewire story begins at the turn of the millennium. Ryu was working at Ariba, a Californian firm selling procurement technology. Ryu had just witnessed the dot.com crash in which many tech start-ups with big valuations crashed and burned.

Many of those start-ups looked great on paper but lacked practical business value. Ryu, remembering his days consulting on insurance projects, vowed his company would be different. He teamed up with five partners, each with business or technology skills and, with $4m (£2.7m) venture capital funding, formed Guidewire in 2001.

Lack of innovation

Before building their software, they carried out extensive investigations, talking to at least 50 insurance firms.

“People in the industry universally despised their incumbent IT suppliers. They felt poorly served. There was no innovation, the software was expensive but didn’t really deliver any business value. It was more of an impediment than an enabler,” Ryu says.

Another discovery was that technology firms had tried to shoehorn insurance into a wider suite of financial services products, meaning there was a lack of focus on it.

Ryu and his partners agreed Guidewire would be a trailblazer, built solely for general insurance companies and designed for the internet era. But turning that great idea into a reality was less straightforward.

One issue was getting staff. Guidewire is based within half an hour's drive of Google, Facebook and Apple. Why would a prospective employee instead choose to work for a start-up dedicated to the unsexy insurance industry?

"Employees at Guidewire appreciate that insurance performs a vital social function. It's a form of social savings, it serves people in their hour of need.

"We have a video of LV= and they talk about how their [Guidewire-provided] software was relevant to their ability to respond to a catastrophe and how meaningful it is to help customers in their worst day of their lives," he says.

There was an even bigger problem than finding staff, however, that Ryu describes as "crushingly difficult" to overcome.

"One thing we underestimated was how difficult it would be to get a multi-billion dollar corporation to make a strategic bet on an unproven solution. It sounds obvious in hindsight; it's embarrassing that we didn't think about that. We said 'we are going to build a better product and people are going to buy from us because it is self-evidently superior'. It's not that simple."

So what turned the tide?

"We were able to persuade our early customers, and indeed many of our customers still believe it about us now, that by our succeeding, they can distribute that cost and effort. They can focus on how to be a great insurance company, rather than how to be a great software company," Ryu says.

"We will make every customer succeed or die trying. It is a religious principle. Our existence depends on our reputation. There is nothing we can do with skilful marketing and sales that will compensate for a bad reputation because everyone in this industry talks to each other."

Today the firm has grown to a global software provider with $260bn worth of general insurance premium depending on Guidewire products, which so far have largely focused on claims, underwriting and policy/billing.

Despite nearly 15 years at the helm of a global corporation, Ryu is as excited as ever about Guidewire's next big projects.

Customer expectations

Ryu says insurers have only just begun to scratch the surface of what data and analytics can do in both personal and commercial lines.

"Insurers have vast amounts of data generated internally, and there are also all the other data sources that are relevant to insurers – climate data, demographic data, social networking data etc. All of that can be applied in useful and relevant ways to the insurance problems, but we are at the earliest steps of the insurance industry in figuring out how to do so."

The other big issue is the way in which digitalisation has radically altered customer expectations.

"One of my favourite examples is that when we started the company in 2001 everybody used to joke about a company called Pets.com.

"It was famous for buying the most expensive Super Bowl ad in history. It was to sell cat food online. Everyone thought it was just a great joke – it burned $100m of capital and seemed just a perfect example of foolish thinking.

"And yet today, where do people buy pet food? Increasingly they buy it on Amazon."

Ahead of its time, Pets.com would become a victim of the dot.com crash.

"Something that seemed ludicrous not that many years ago has become the norm, because it has become so convenient."

Whether at 3am in their pyjamas on a mobile or at their desk during lunch, customers expect a perfect online service. Providing that level of customer service is a tricky problem

for insurers, especially considering many are lumbered with legacy IT systems. A problem right up Ryu and Guidewire's street, then.