



## STUDENT OF THE INDUSTRY PARTING SHOT

### Lemonade Goes National: Where Credit Scores Count

By Paul Buse, President of Big I Advantage®

Recently, my email lit up with the news of Lemonade Insurance going national. Lemonade is the "FinTech" insurer with a new way of thinking. It launched in September with a campaign of "peer to peer" insurance and themes like "Killer Prices...A Big Heart." If my email and insurance blogs are any indication, skepticism abounds on Lemonade's peer-to-peer and other claims.

But what does concrete industry information tell us about this upstart?

Well, it is early to get much data on premiums and losses. The most recent data available for Lemonade is based on only a few weeks at the end of Q3. Being students, we had to look, right? Did you know you can download an insurer's filings directly from the [NAIC Store](#)? For September 30, 2016, it shows about \$30,000 in direct written premium in New York and about \$5 million equity. It also shows a holding company structure where there is the Lemonade Insurance Company subsidiary but also a wholly owned insurance agency, Lemonade Insurance Agency, LLC, and apparently a subsidiary in Israel. An insurance agency subsidiary?

Curiosity now piqued for more concrete information, I went to get their rate filing from New York Insurance Department. What I see there is a relatively heavy reliance on credit scores in rating. Much more so than the average insurer. If you shop at Lemonade and you have a poor credit score you will pay almost three times as much as someone with excellent credit score (see below:  $1.740 \div 0.602 = 2.89$ ). The average increase as determined by Quadrant Information Services is 37% higher in New York. Lemonade also is a fairly aggressive in surcharging "Eligible Losses." In a three-year period just one loss would increase premiums from 17.4% more to 29.5% depending on your credit score. The table below is from their rate filing.



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**Tier Definitions:**

**NEW BUSINESS**

TrueRisk Property Score Range <sup>1</sup>	Pure Premium Relativity	Initial Tier
300 - 440	1.740	8
442 - 521	1.344	7
522 - 576	1.127	6
577 - 635	1.022	5
636 - 681	0.899	4
682 - 734	0.810	3
735 - 763	0.707	2
764 - 900	0.602	1

  

# of Eligible Losses in Prior 3 Years	Competitor Factor <sup>2</sup>	Adjustment to Initial Tier
0	1.00	Tier + 0
1	1.20	Tier + 1
2 or more	1.30 - 1.50	Tier + 2

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Source: Lemonade Insurance Company, Form/Rate/Rule Filing (Date Submitted: 09/15/2016, Disposition Date 09/19/2016), "Actuarial Memorandum", Exhibit SUPP-1

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