



STUDENT OF THE INDUSTRY PARTING SHOT

Lemonade: "Brokers and Bureaucracy" vs. "Bots and Machine Learning"

By Paul Buse, President of Big I Advantage®

However annoying you might find the characterization of our great industry as the banal "Brokers and Bureaucracy" followed by equally clichéd "Bots and Machine Learning" you have to give Lemonade its due when one of the world's largest financial services and insurance company [joins them as an investor](#).

Last year after its September fanfare and launch, we [wrote here](#) on Lemonade's heavy reliance on credit scores and how that might not seem--let's say--all that altruistic. Their use of significant premium penalties for having a claim seemed to add to that. With that knowledge tucked away, what do the facts say about how this upstart is doing now that they are neighbors in our insurance bureaucracy?

Enter the insurance regulatory system where all insurers licensed in any state are required to report details on their operations. These filings are publicly available. Scanning an insurer's "Yellow Book" can tell you a lot and, as students, you should know that you can obtain what is probably fairly described as "extreme detail" on any insurer. The National Association of Insurance Commissions' online store "InsData" makes available nearly every insurer's annual and quarterly reports. I paid my \$25 and below are some points that might interest you.

- **Direct Written Premiums:** For all the fanfare, a relatively unimpressive premium total so far. Written premiums for 2016 were \$179,715 after the much ballyhooed start-up on 9/15/2016. At \$500 a policy (a guess), that's about 350 insureds.
- **Capital Burn Rate:** It's unfair to assess profitability of anyone so early in start-up mode, but the burn rate of capital would get my attention if I invested with premiums coming in the door at only \$1,600 per day. The burn-rate for 2016 equates to a negative Net Income of \$1,884,719. With stated capital in the "Management Discussion" of \$10,700,000 in holding company parent, Lemonade, Inc. as of 1/31/2017, they would appear to have some time to get thing started but they will have to make progress or move some more cash to the actual licensed insurer, Lemonade Insurance Company, as they show \$5,665,766 as "Surplus as Regards Policyholders."
- **Licenses:** They are now licensed in NY, IL, NC, RI and TX but have given up trying in AK, IN, KS, KY, SC, SD, UT, VT and WV. They never attempted to get licenses in DC, MS, WA and WY. Presumably they continue to pursue authorization to conduct business in the other 38 states.
- **Claims:** They have claims paid out of \$3,941 and total incurred losses, including all reserves for unknown claims and development of \$11,028. With premiums coming in at the end of the year, the earned premium is only \$24,502. That would then be a pure loss ratio of about 45%.
- **CEO/President:** The CEO and CFO of Lemonade Insurance Company are different than the public face of Lemonade and the three guys in T-shirts in the launch videos talking about their definition of peer-to-peer, flat fees, and how insurance as we know it is evil.
- **Foreign Ownership:** Ownership of this evil-avoiding insurer on our U.S. shores is actually very foreign. There is listed ownership of the parent corporation by 71.2% by individuals and limited partnerships from Cayman Islands, Israel and Great Britain. The organizational chart leaves unanswered who/what owns the remaining 28.8% of the ultimate parent. There is also an Israeli technology company (Lemonade, Ltd.) and a NY licensed insurance agency (Lemonade Insurance Agency, LLC)

Have a question or view? Feel free to share it with me at paul.buse@iiaba.net. It's hard to predict how Lemonade will do and so-called "disrupters" are seemingly everywhere. Next week, I'll share some information on an investigation we are engaged with to create the ultimate Millennial insurance product to offered exclusively to you on Big "I" Markets. Watch for that as we'll want your input.

The product and eligibility may have been revised or discontinued since the original article was written. Review the Information page for each product on Big "I" Markets for current content and instructions.