# Agenda

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# What is Lemonade?

## !! An Insurance Company !!

- Founded April 2015

- Traded on the NYSE as LMND

- Fully Licensed & Regulated

- 5 Products Offered

- Lemonade's Secret?

  - **AI**

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# Industry Timeline / The Problem

# Timeline

## A Shortened History of Insurance

**1890s**

- First automobile insurance policy issued in Dayton, Ohio → 1897

**1920 - 1945**

- Birth of the first insurance companies: State Farm, Allstate, Geico, & Progressive → 1920s - 1930s
- Agents/MGAs used as representatives
- Supreme Court issues ruling to begin federally regulating the insurance industry → 1944
- McCarran-Ferguson Act returns oversight back to the state level → 1945

**1980 - 2000s**

- Applied Systems, an insurance technology & software company → 1980
- Internet is born → 1983
- Entrepreneurs began digitizing MGAs → ~2000
- First P2P lending platforms emerge → 2006
- Financial Crisis → 2008

**2010 → InsurTech takes off!**

- Venture capitalists finally give InsurTech a chance
- Technologies like Artificial Intelligence (AI), algorithms, robo-advice, Blockchain & smart contracts begin to seriously develop

**2020 - Present**

- COVID-19 Pandemic
- Funding and profits boom → 2021

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# The Evolution of Insurance & Insurtech

**Insurance 3.0 – Digital & Embedded & Decentralized →**

**Insurance 2.0 – Digital & Embedded →**

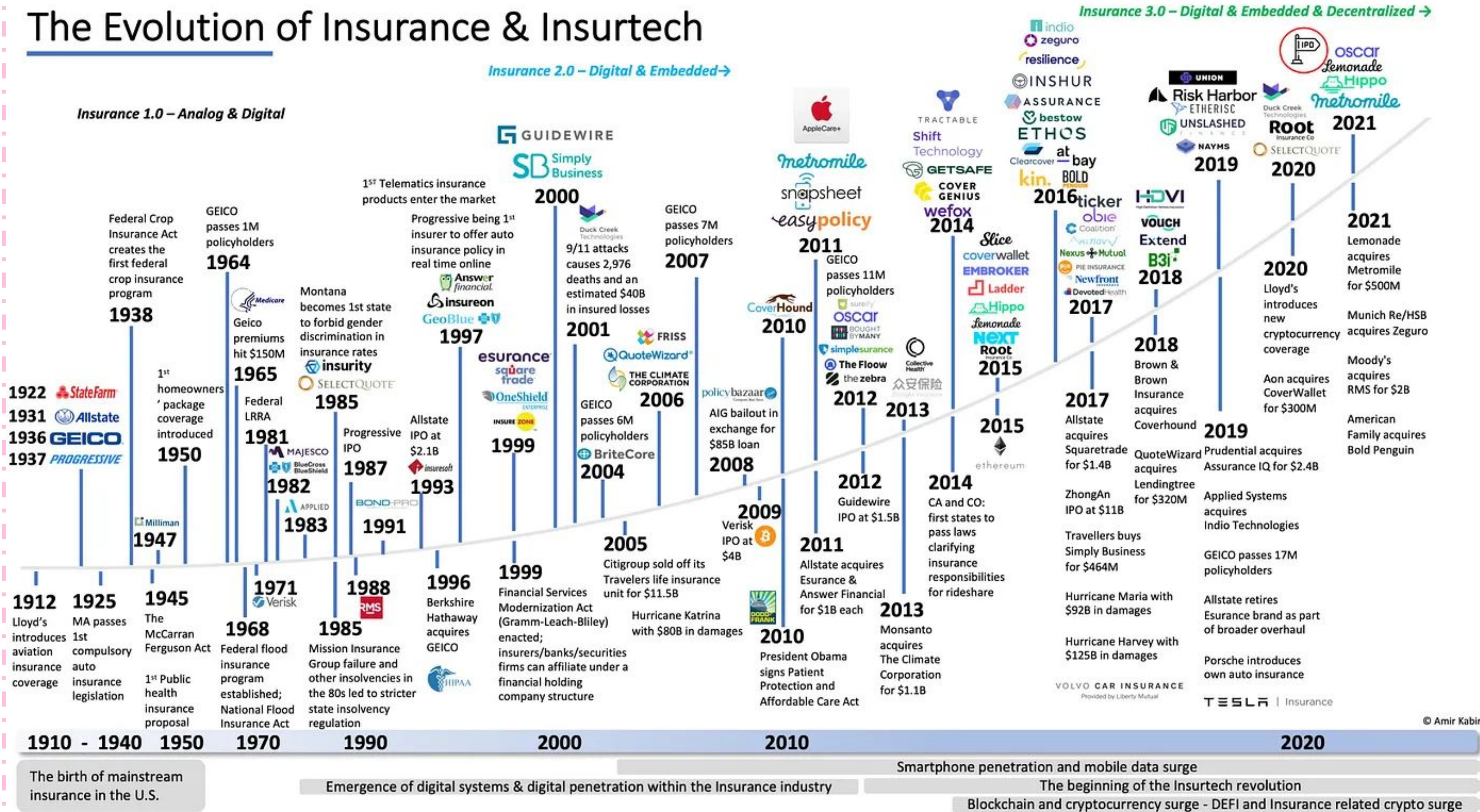**Insurance 1.0 – Analog & Digital**



© Amir Kabir

**1912** Lloyd's introduces aviation insurance coverage

**1922** State Farm
**1931** Allstate
**1936** GEICO
**1937** PROGRESSIVE

**1925** MA passes 1st compulsory auto insurance legislation

**1938** Federal Crop Insurance Act creates the first federal crop insurance program

**1945** The McCarran Ferguson Act

1st Public health insurance proposal

**1947** Milliman

**1950** 1st homeowners' package coverage introduced

**1964** GEICO passes 1M policyholders

**1965** Geico premiums hit $150M

**1968** Federal flood insurance program established; National Flood Insurance Act

**1971** Verisk

**1981** Federal LRRA

**1982** BlueCross BlueShield

**1983** APPLIED

**1985** Montana becomes 1st state to forbid gender discrimination in insurance rates / SELECTQUOTE

**1985** Mission Insurance Group failure and other insolvencies in the 80s led to stricter state insolvency regulation

**1987** Progressive IPO

**1988** RMS

**1991** BOND-PRO

**1993** insuresoft

**1996** Berkshire Hathaway acquires GEICO / HIPAA

**1997** GeoBlue

**1999** esurance / square trade / OneShield ENTERPRISE / INSURE ZONE

**1999** Financial Services Modernization Act (Gramm-Leach-Bliley) enacted; insurers/banks/securities firms can affiliate under a financial holding company structure

**1st Telematics insurance products enter the market**

Progressive being 1st insurer to offer auto insurance policy in real time online

Answer financial.
insureon
insurity

**2000** GUIDEWIRE / SB Simply Business

**2001** Duck Creek Technologies
9/11 attacks causes 2,976 deaths and an estimated $40B in insured losses

**2004** GEICO passes 6M policyholders / BriteCore

**2005** Citigroup sold off its Travelers life insurance unit for $11.5B

**2006** FRISS / QuoteWizard / THE CLIMATE CORPORATION

**2007** GEICO passes 7M policyholders

**2008** AIG bailout in exchange for $85B loan

Hurricane Katrina with $80B in damages

**2009** Verisk IPO at $4B

**2010** CoverHound / President Obama signs Patient Protection and Affordable Care Act / DODD FRANK

**2011** Metromile / snapsheet / easypolicy / GEICO passes 11M policyholders / CoverHound

**2011** Allstate acquires Esurance & Answer Financial for $1B each

**2012** Guidewire IPO at $1.5B

**2012** oscar / BOUGHT BY MANY / simplesurance / The Floow / the zebra / 众安保险 Collective Health

**2013** Monsanto acquires The Climate Corporation for $1.1B

**2014** TRACTABLE / Shift Technology / GETSAFE / COVER GENIUS / wefox

**2014** CA and CO: first states to pass laws clarifying insurance responsibilities for rideshare

**2015** Slice / coverwallet / EMBROKER / Ladder / Hippo / Lemonade / NEXT / Root Insurance Co / ethereum

**2016** indio / zeguro / resilience / INSHUR / ASSURANCE / bestow / ETHOS / Clearcover / at bay / kin / BOLD / ticker / obie / Coalition / nexus mutual / PIE INSURANCE / Newfront / DevotedHealth

**2017** Allstate acquires Squaretrade for $1.4B

ZhongAn IPO at $11B

Travellers buys Simply Business for $464M

Hurricane Maria with $92B in damages

Hurricane Harvey with $125B in damages

VOLVO CAR INSURANCE Provided by Liberty Mutual

**2018** UNION / Risk Harbor / ETHERISC / UNSLASHED / NAYMS / HDVI / VOUCH / Extend / B3i

**2018** Brown & Brown Insurance acquires Coverhound

**2019** Root Insurance Co / SELECTQUOTE

**2019** Prudential acquires Assurance IQ for $2.4B

Applied Systems acquires Indio Technologies

GEICO passes 17M policyholders

Allstate retires Esurance brand as part of broader overhaul

Porsche introduces own auto insurance

TESLA | Insurance

**2020** Duck Creek Technologies

**2020** Lloyd's introduces new cryptocurrency coverage

Aon acquires CoverWallet for $300M

QuoteWizard acquires Lendingtree for $320M

**2021** oscar / Lemonade / Hippo / metromile

**2021** Lemonade acquires Metromile for $500M

Munich Re/HSB acquires Zeguro

Moody's acquires RMS for $2B

American Family acquires Bold Penguin

AppleCare+

**1910 - 1940 | 1950 | 1970 | 1990 | 2000 | 2010 | 2020**

The birth of mainstream insurance in the U.S.

Emergence of digital systems & digital penetration within the Insurance industry

Smartphone penetration and mobile data surge

The beginning of the Insurtech revolution

Blockchain and cryptocurrency surge - DEFI and Insurance related crypto surge

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# The Problem(s)

## Capacity

- Expanded Capabilities
  - Speed
  - Processing
  - Analyzing

## Convenience & Connectivity

- Automated Experience
- 24/7 Customer Service
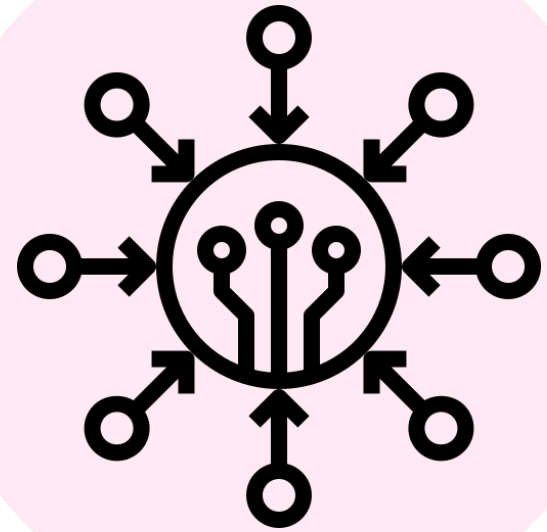- Personalized Experience
- Short Application Process

## Trust

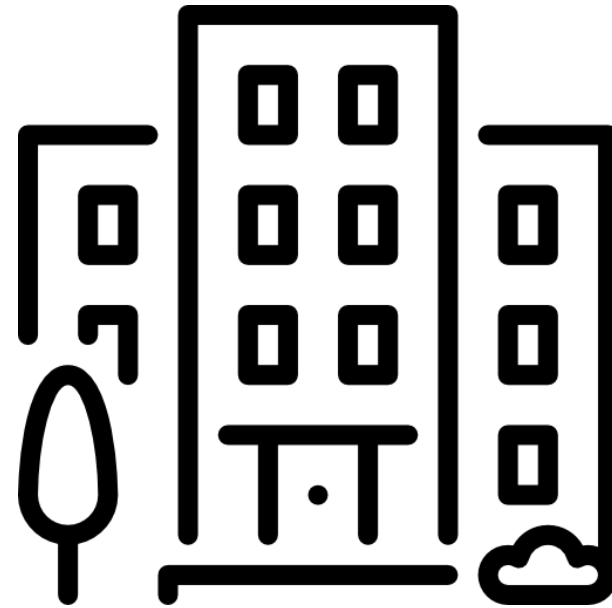- Transparency
- Reliability
- Lack of Bias

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# How FinTech Innovation Has Changed Traditional Finance

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# Features of Traditional Finance



Centralized Institutions
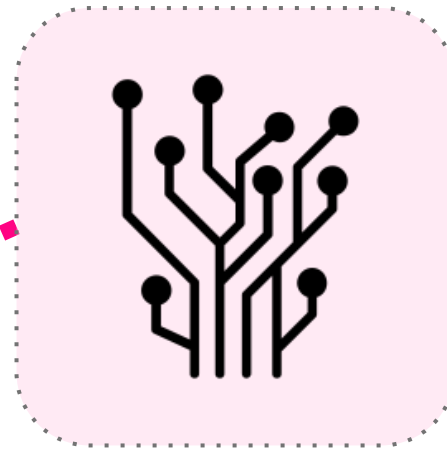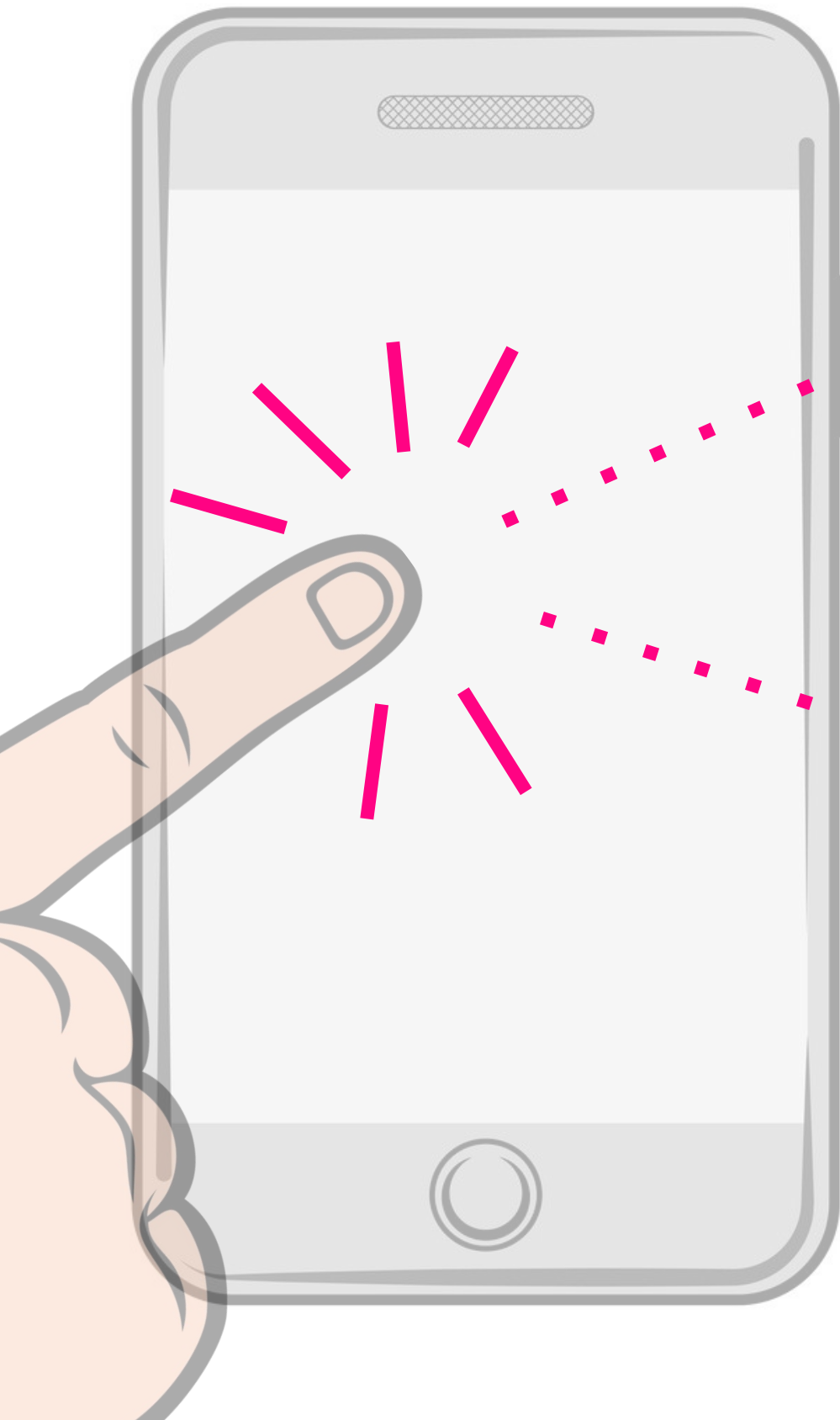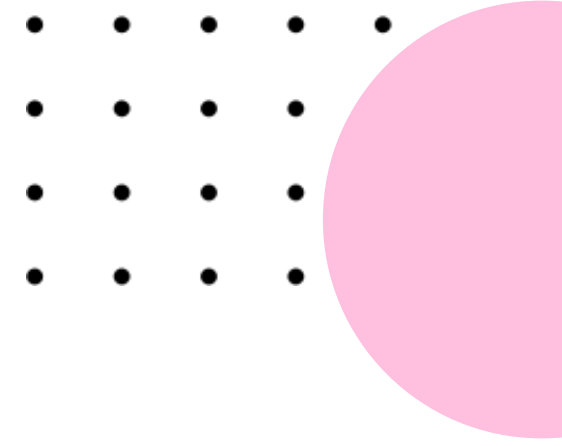
Physical Branches

Standardized Processes

Traditional Credit Scoring Methods

Regulation, Compliance, & Oversight

Risk Aversion

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# Innovations within FinTech

Digital-First
Approach
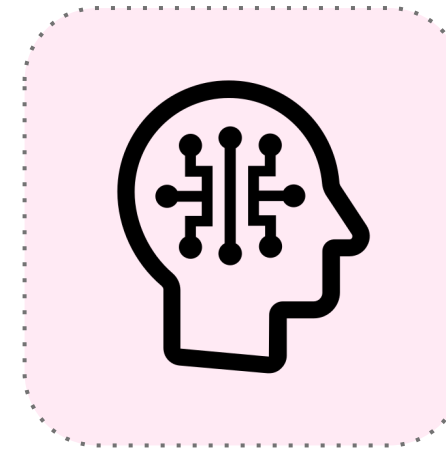
Artificial Intelligence &
Automation
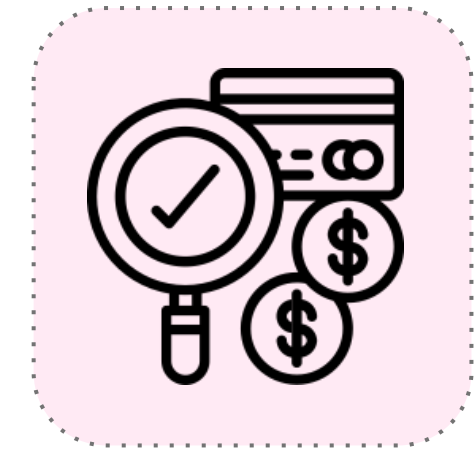
Alternative Credit
Scoring

Risk Taking

RegTech

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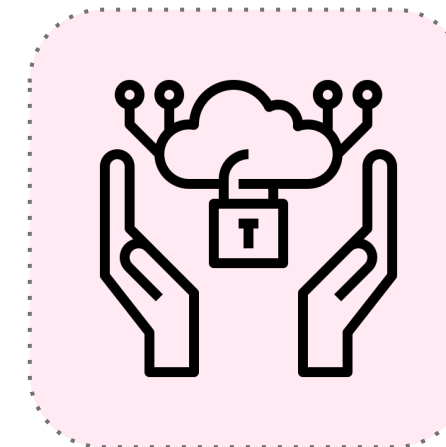
# How do these merge within the Insurance Industry?

**Accessibility & Experience for Customers**

**Tailored Product Offerings**

**Transparency**

Traditional insurance companies

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**Automation**

**Regulatory Technology Solutions**

**Enhanced Cybersecurity**

**Competition & Disruption**

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# The Profit Split Between Industries

**InsurTech Firms**

## LOWER OVERALL PROFITS

→ Why?

- Mainly popular amongst tech savvy consumers in niche markets

**BUT**

- Lower operational costs and lead to higher profit margins

- Innovative pricing models and products attract new customer bases

- More accurate risk assessments allow can create more profit

**Traditional Insurers**

## LARGER OVERALL PROFITS

→ Why?

- Larger market share and presence
- Established customer base, brand recognition, etc.

**BUT**

- Will soon decrease due to higher overhead costs
  - Adapting to new technologies may help

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# Costs vs. Benefits of Technology in the Insurance Industry

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# How Lemonade Claims Work



Tap the 'File a Claim' button in the Lemonade app

Tell us what happened

Our AI runs dozens of anti-fraud algorithms

If your claim is **instantly** approved, our AI will pay it in seconds

Otherwise, our AI hands over your claim to our devoted team of **humans** to handle ASAP

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# Benefits

→ **The Use of Artificial Intelligence (AI) & Big Data**
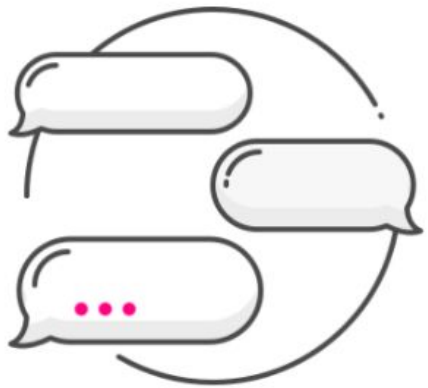
1. Digital Platform
   - Streamline workflow & customer interactions
   - Process Claims Quickly
   - Cuts employee salary costs

2. Data Advantage & Integration
   - Improves underwriting
   - Better at detecting fraud (higher accuracy)
   - Collects 100x more data points
   - Lowers loss ratio & operational costs

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# Lemonade's Tech Stack



CUSTOMER FACING

BACKOFFICE

**AI Jim**

Claims Experience Bot

**AI Maya**

Customer Experience Bot

**CX.AI**

AI-Based Customer
Experience Platform

COOPER

Internal Process
Manager

**Customer Cortex**

FORENSIC GRAPH

Internal Process
Manager

BLENDER

Insurance Management
Platform

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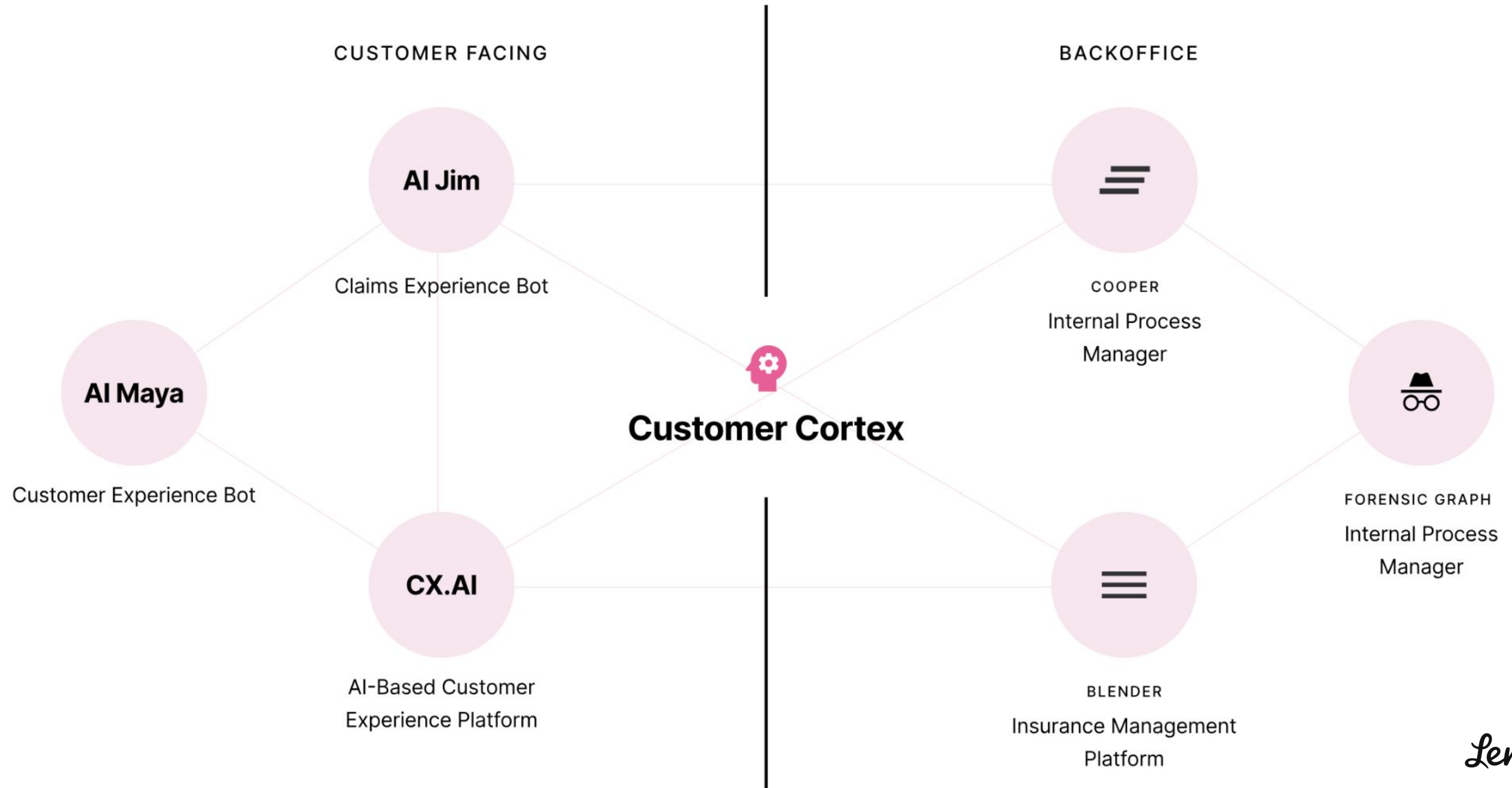
# Costs

**The Dangers of Artificial Intelligence in Insurance**

1. **Technological Risks**
   - Data Privacy & Confidentiality
   - Security & Transparency
   - Limited Regulation for AI

1. **Usage Risks**
   - Wrong Answers & Inaccuracy
   - Bias

1. **Economic Risks**
   - Higher Unemployment

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# Regulatory Environment

# Insurance Regulations

## REGULATORY COMPLIANCE
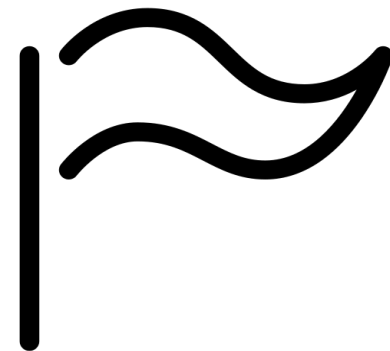
Rules    Standards    Policies    Requirements    Regulations    Transparency    Law

*Adhering to changing insurance regulations on a state, national, and international level.*

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# Data Privacy & Security

Governing how data is **collected, shared, and used.**

Protecting data from **internal and external hackers.**

Regulatory authorities may focus on protecting consumers by ensuring transparent policies, fair practices, and effective communication of terms and conditions for data use.

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# Cybersecurity

InsurTech companies like Lemonade must implement strong cybersecurity measures to **protect customer information** and **maintain the integrity** of their systems.



Lemonade's Declining Loss Ratio
Q4'17 - Q4'19

166%
146%
132%
105%
99%
87%
82%
79%
**73%**

Q4'17    Q1'18    Q2'18    Q3'18    Q4'18    Q1'19    Q2'19    Q3'19    Q4'19
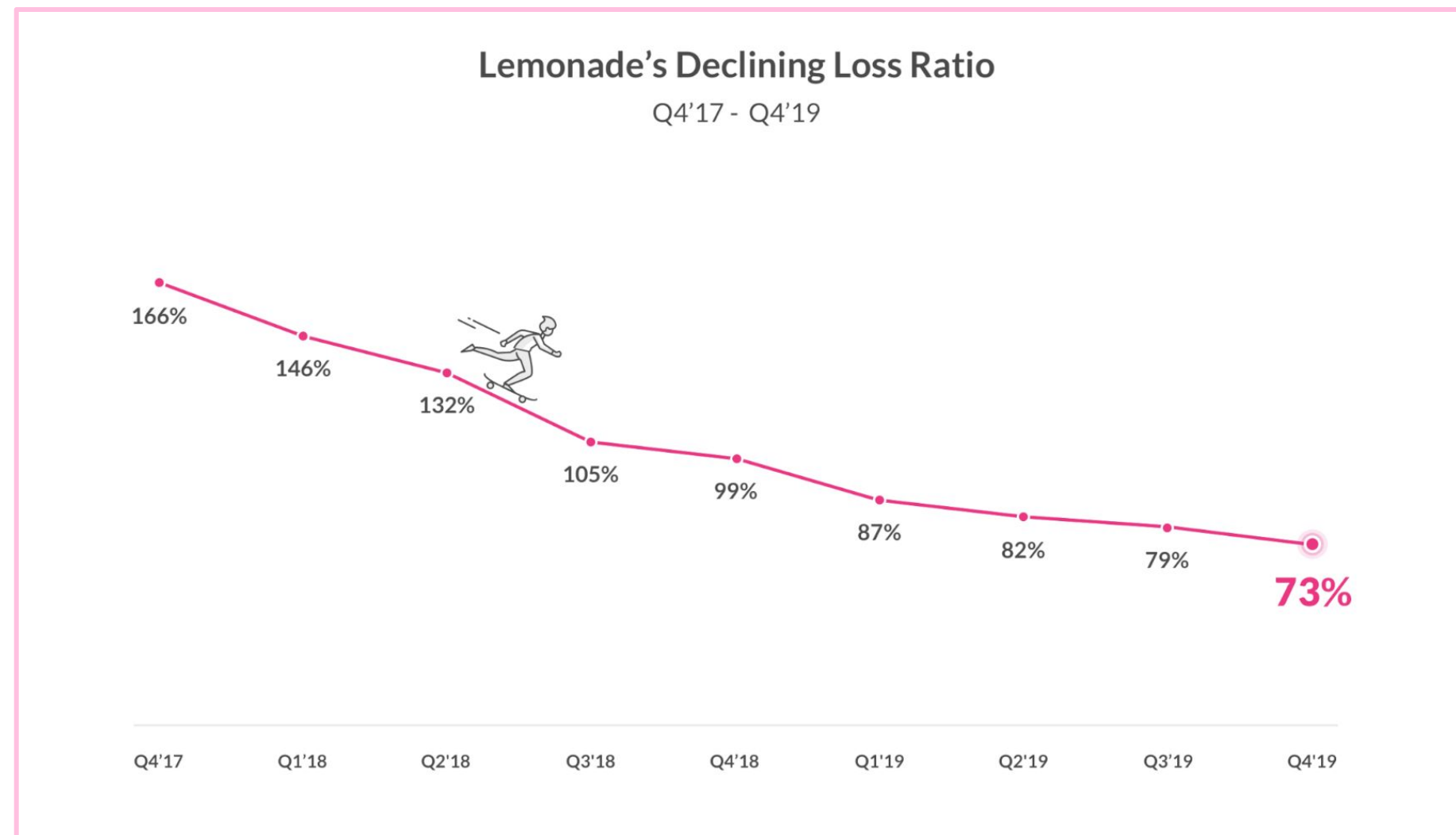
**Pictured above:** Lemonade's use of digital fraud detection tools allowed faster emergency response times and the removal of bad risks – dropping their loss ratio as a result.

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# Current Event: AI & Insurtech

## AI Regulations in Insurtech
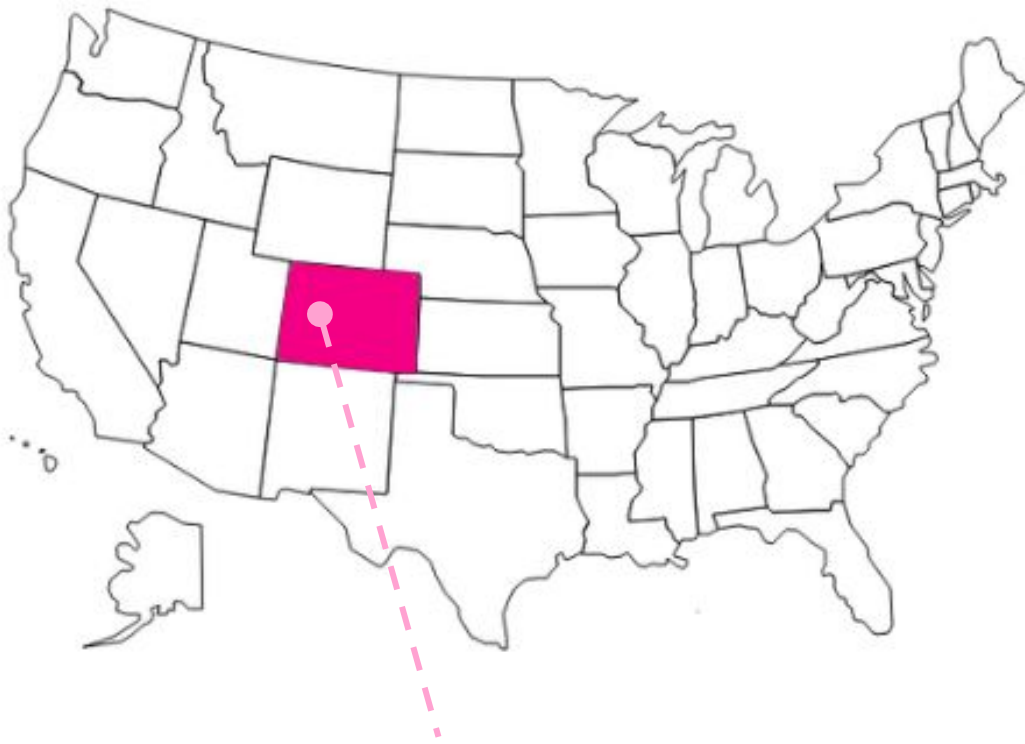
*Life & Auto insurance are receiving **new regulations** due to the implementation of **AI** in those industries.*

Example: Colorado.

## AI in Insurance

1. AI can lead to **$390 billion** in cost savings for insurers by 2030 (Autonomous NEXT Report)

2. The front office will drive most cost savings of up to **$168 billion** by 2030 (Autonomous NEXT Report)

3. **80%** of customers in the insurance industry are looking for personalized services that AI can provide. (Accenture)

4. **77%** of customers will provide data as long as their premiums are lowered, claims are settled faster or they are provided coverage recommendations (Accenture)
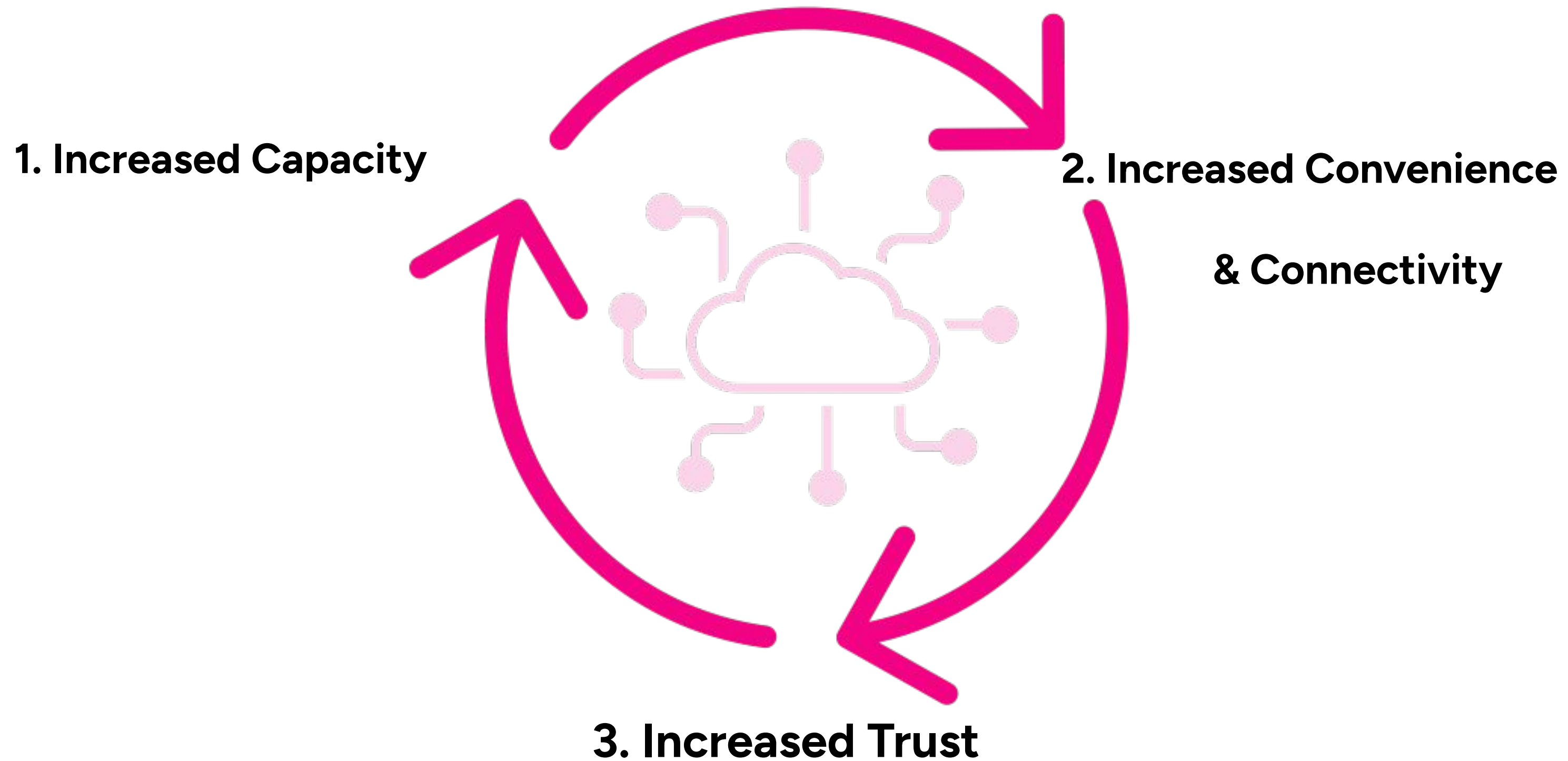
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# Key Takeaways

# Industry Comparison

| | Lemonade | Other InsurTechs | Traditional Insurance Companies |
|---|:---:|:---:|:---:|
| P2P Lending | ✅ | ✅ | ❌ |
| User Friendly Experience | ✅ | ✅ | ❌ |
| Industry Leading Technology | ✅ | ❌ | ❌ |

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# Recap

## Why InsurTech and Why Lemonade?

1. Increased Capacity

2. Increased Convenience

& Connectivity

3. Increased Trust

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We would invest in Lemonade.
**Would You?**

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# THANK YOU.

*Any questions?*

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