

The Story Behind the Lemonade Hype



Summary:

It's time to splash some cold water on the hype inferno about Lemonade that appears to have taken over the sane minds of our industry.

By: Nick Lamparelli

I am a sucker for new stuff. I bet many of you are, as well. If news of the iPhone 7's release date caused you to immediately organize your camping gear for a week-long sidewalk holiday at your local Apple store, then you know what I am talking about. Beyond our excitement for the next iPhone or Tesla, apparently we also get all giddy for new insurance, insurer named [Lemonade](#) has popped up on the scene and has caused quite a ripple. Here are some recent news headlines:

- o [Some cool insurance products are finally on the horizon](#) ? Market Watch
- o [Lemonade is revolutionizing risk management](#) ? Asean
- o [Startup P2P Insurer Lemonade Reveals How First 48 Hours of Business Went](#) ? Insurance Journal
- o [Insurance startup Lemonade pays claims quickly, doesn't profit from denials](#) ? Repairer Driven News
- o [Insurance Startups Push Peer-To-Peer, Online Policy Tech](#) ? Law360
- o [Peer-to-Peer Insurance Adds a Human Touch Through Mobile Technology](#) ? Insights
- o [How Lemonade's founders raised a massive seed round just by talking](#) ? Business Insider

Wow! Give that publicist a raise. That is some quality publicity. But it was when I saw this headline, [?The Sheer Genius of Lemonade ? A Whole New Paradigm for Personal Lines Insurance,](#) on InsNerds that I knew I had to speak out. Next thing I know, my good friend Tony Canas at InsNerds convinced me to write this response. To start, this article is NOT a criticism of Lemonade or what it is trying to bring to the consumer. Insurance is in desperate need of heart and soul. No, what this article will do is splash some cold water on the hype inferno that appears to have taken over the sane minds of our industry. Allow me to go point-by-point with my issues: **Is Lemonade really peer-to-peer insurance?** Whether it is called peer-to-peer ? or fashionably referred to as P2P ? Lemonade ain't it. Lemonade is a standard insurance



company. You pay premiums, and the company pays claims from the general pool of funds. There are no peer groups insuring one another. There is no distribution model of peer invitations or referrals. The only 'peer' element of the business model is that you will, as a customer, be grouped with others like you for the sole purpose of dispersing any underwriting profits to a charity of the group's choosing. Now, there is a reason for this, but, seriously, was anything I just described even remotely connotative of peer-to-peer? Want to know what peer-to-peer looks like, see [Friendsurance](#) or [Guevara](#).



Is Lemonade really

insurtech? Sure, Lemonade is an online-only firm. And, yes, you can buy its insurance products through an app on your phone, where a bot named Maya will help you with your coverage selections, but Lemonade is still just an insurance company with a fancy website. I can buy insurance from other insurance companies where I can choose from dealing with a website, walking into an agent's office or calling an agent over the phone. Lemonade has eliminated two options and given me a sole option that is little different from what I could have had before. And before you start screaming, 'But I don't want to call anyone or drive to any office,' just keep in mind that having options makes the experience better. Insurance is complicated enough that, occasionally, I would like to call someone or walk into an office and scream my head off. I deserve that option! **See also: [Could an Incumbent Act Like Lemonade?](#)** What about the bot and the machine language? Isn't that technology? It is technology in the sense that there are computer scientists engineering a robot to replace a human. But if the experience is crummier than just dealing with a human, it is a wasted effort. In an attempt to play fair, I will reverse my position on this one - if it can be shown that the robot can handle the firestorm that comes when the company is hit with its first major natural catastrophe. **But isn't it awesome that Lemonade's underwriting profits go to charity?** One of the big marketing ideas coming from Lemonade is the unique feature of aligning the interests of policyholders and the insurer by taking excess profits and donating them to charity in the name of the peer group. Fraud is a big deal in insurance, and most insurers have systems in place to detect and counteract fraud. The charity angle from Lemonade is an attempt to prevent fraud from happening by linking the monetary loss because of fraud not to



Lemonade is a broker by another name. Another of Lemonade's selling points is that insurers have a conflict of interest because they make money by denying claims. Lemonade purports to have absolved itself of this conflict by not actively acting like an insurer. Here's how: Lemonade is actually two companies. It is a risk-bearing insurance company AND a [brokerage firm](#). When you buy a policy from Lemonade, the 20% fee goes immediately to the brokerage firm. The remaining 80% stays with the insurer. The paper on which the insurer is based is a B-corporation, which essentially makes it a non-profit. So it is the brokerage part of the business that is the money maker. That is the entity that secured all that seed-funding. Sequoia Capital knows a thing or two about making sound investments. It doesn't do non-profits. And once the fee from the premiums the policyholder pays gets swept into the Lemonade's brokerage company, it will not be used to pay claims, at all? ever. It is income, free of insurance risk. If the insuring entity ever goes insolvent, all the fees will be protected. There is nothing wrong with this. The model has already been used successfully by [other insurers](#). But, by acting as a broker, Lemonade has shifted its risk from the risk of loss or damage of the client toward that of a trusted adviser that only has one product to sell and gets a 20% commission for selling that one product. What if its product is NOT the best choice for the client? Will Maya the bot steer the buyer elsewhere like a traditional agent would? No. How forcefully will Maya point out all the flaws and gaps of Lemonade's ISO style homeowners policy? Will Maya give direction to the insured about the flood or earthquake policy the client really should have but can't buy through Lemonade? Somehow, I can't match the hype and excitement of seeing a broker selling an average product, even if it's sold via a robot. **See also:** [Why I'm Betting on Lemonade](#) Lastly, I want to challenge the major premise of Lemonade ? that insurers make money by denying claims. As a professional in the business for 20 years, I find that this is the one selling point that Lemonade and its marketing keeps touting that upsets me the most. It upsets me because it isn't true. In fact, I have seen the opposite. I have seen emails or communications from senior executives to staff adjusters onsite during a natural disaster that flat out instructed adjusters to move quickly, be fair and, if there is any doubt about the damage, settle IN FAVOR of the policyholder. I am not naive enough to believe insurers never play fast or loose with their claims handling, but, by and large, insurers pay their claims. In the property area in which Lemonade competes, those policies it sells are legal contracts. Many a court battle has been fought to word the contract so that claims can be settled quickly and fairly. Lemonade is implying that it will be different; it is almost implying that it won't deny claims. Are there really claims that insurers have denied (and acknowledged via the court system) that Lemonade would not have denied? I seriously doubt it. Look, I like new things. You like new things. Lemonade is the new thing on the 300-year-old block. But the shiny new aspects that Lemonade is bringing to the table don't appear to be worthy of the hype, in my opinion. I give them an "A" for effort in maximizing the hype to drive attention and [sales](#). But insurance is all about the long game. The real key performance indicators (KPIs) are retention, combined ratios and customer satisfaction. Those will take years to sort out. Is Lemonade truly in it for the customer; does it really want to revolutionize the business model; or is the exit strategy already in place? The world is watching. I hope it succeeds.



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Nick Lamparelli has been working in the insurance industry for nearly 20 years as an agent, broker and underwriter for firms including AIR Worldwide, Aon, Marsh and QBE. Simulation and modeling of natural catastrophes occupy most of his day-to-day thinking. Billions of dollars of properties exposed to catastrophe that were once uninsurable are now insured because of his novel approaches.