



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

MARKET CONDUCT
EXAMINATION REPORT

OF

LEMONADE INSURANCE COMPANY
NEW YORK, NY

As of: April 1, 2025
Issued: May 22, 2025

**BUREAU OF MARKET ACTIONS
PROPERTY & CASUALTY DIVISION**



PENNSYLVANIA INSURANCE DEPARTMENT
EXAMINATION VERIFICATION

I, Vernon Schmidt, Market Conduct Examiner II from
(Name of Examiner) (Title of Examiner)

The Pennsylvania Insurance Department certify that I was the Examiner-In-Charge of the Report of
(Name of Vendor/Department)

Examination of Lemonade Insurance Company made as of 03/27/2025
(Name of Examined Company) (Date)

The last date of examination file review was 01/14/2025 and the written Report
(Date)

of Examination was reviewed and accepted by the Paul Townsen
(Chief of Market Conduct Examiner)

on 04/01/2025
(Date)

I have reviewed the completed written Report of Examination and certify that the facts and figures recited therein are true and accurate, according to the records, documents and other evidence obtained during the course of the examination.

Vern Schmidt

(Examiner-in Charge)

Examination Resources, LLC.

(Name of Vendor/Department)

(Address of Vendor/Department)

Vern Schmidt

(Examiner in Charge Signature)

4/1/2025

(Date)

IN ORDER TO SATISFY SECTION 40 P.S. § 323.5(b), THAT PROVIDES FOR NO LONGER THAN SIXTY (60) DAYS FROM THE COMPLETION OF THE EXAMINATION, THE EXAMINER IN CHARGE SHALL FILE WITH THE DEPARTMENT A VERIFIED WRITTEN REPORT OF EXAMINATION UNDER OATH.

Lemonade INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this __3rd__ day of _July___, 2023, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate David J. Buono, Jr., Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Michael Humphreys
Insurance Commissioner

duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Lemonade Insurance Company, and maintains its address at 5 Crosby Street, New York, NY 10013.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from January 1, 2023 through December 31, 2023.
- (c) On April 1, 2025, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on April 30, 2025.
- (e) The Market Conduct Examination of Respondent revealed violations of the following:

- (i) All findings and conclusions in the Examination Report, which is attached hereto, are hereby incorporated into this Consent Order

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of 40 P.S. §310.71 are punishable by the following, under (40 P.S. §310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.
- (c) Respondent's violations of 40 P.S. §1171.5(a)(9)(ii) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):

- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.

- (d) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
 - (i) for each method of competition, act, or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00).
 - (ii) for each method of competition, act, or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

- (e) Violations of 40 P.S. §1224(a)&(i) are punishable by the following under the Fire and Marine Insurance Act (40 P.S. §1235):
 - (i) imposition of a civil penalty not to exceed \$50 for each violation or not more than \$500 for each such willful violation;
 - (ii) suspension of the license of any rating organization or insurer, which fails to comply with an order of the Commissioner within the time limited by such Order, or any extension thereof which the Commissioner may grant.

- (f) Respondent's violations of 31 Pa. Code §146.6 are punishable under Sections 1 through 5 and Section 9 of the Unfair Insurance Practices Act (40 P.S. §§1171.1 – 1171.5 and 1171.9):

- (i) cease and desist from engaging in the prohibited activity.
 - (ii) suspension or revocation of the license(s) of Respondent.
- (g) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (40 P.S. §§1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act, or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00).
 - (ii) for each method of competition, act, or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall pay Seventy Thousand Dollars (\$70,000.00) in settlement of all violations contained in the Report.
- (c) Payment of this matter shall be made at <https://www.bpp.ob.pa.gov/Customer>.
Instructions on how to do this are provided in the attached cover letter to this order.
Payment must be made no later than thirty (30) days after the date of this Order.
- (d) To determine Respondent's compliance with the full and timely implementation of all recommendations in the Examination Report, the Department may inquire with the Respondent about its implementation of the Recommendations no earlier than twelve (12) months from the date of this Order.
- (e) Respondent shall share the Examination Report and this Order with each of its directors and submit affidavits executed by each of its directors, stating under oath that they have received a copy of the Examination Report and this Order. Such affidavits shall be submitted within thirty (30) days of the date of this Order.
- (f) Respondent shall comply with all recommendations contained in the attached Report.

6. In the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Insurance Department may enforce the provisions of this

Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained

herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: LEMONADE INSURANCE COMPANY
Respondent



President/Vice President

Meaghan Brennan

Secretary/Treasurer



DAVID J. BUONO

Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination of Lemonade Insurance Company, hereinafter referred to as “Company”, was conducted at the Pennsylvania Insurance Department beginning June 11, 2024. There was no onsite portion of the exam.

Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to “error ratio.” This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company, during the examination is hereby acknowledged.

The following examiners participated in this examination and in preparation of this Report.

Paul Towsen, MCM
Market Conduct Division Chief
Pennsylvania Insurance Department

Vern Schmidt, MCM
Market Conduct Examiner II, EIC
Pennsylvania Insurance Department

Timothy R. Nutt CIE, AIRC, MCM
Examiner
Examination Resources, LLC

Kerry Banks, J.D.
Examiner
Examination Resources, LLC

Rosann Grandy, MCM
Senior Examiner
Examination Resources, LLC

Joan McClain, CIE, MCM, AIRC
Senior Examiner
Examination Resources, LLC

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Lemonade Insurance Company, at the Pennsylvania Insurance Department, located in Harrisburg, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act of 1921 and covered the experience period of January 1, 2023, through December 31, 2023, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

1. Personal Property
 - Underwriting – Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, and declinations.
 - Rating – Proper use of all classification and rating plans and procedures.
2. Claims
3. Complaints
4. Producers
5. Underwriting Practices & Procedures
6. Forms
7. Data Integrity

III. COMPANY HISTORY

Lemonade Insurance Company (“LIC”) was incorporated in New York on October 27, 2015, and was licensed on September 15, 2016, to transact insurance in New York. The Company’s target market is young, urban and tech-savvy, but its policyholders span the spectrum. LIC is a wholly owned subsidiary of Lemonade, Inc., a Delaware public benefit corporation. Lemonade, Inc. is the ultimate parent of a holding company system that includes LIC, Lemonade Insurance Agency, LLC (“LIA”) (a limited liability company and resident licensed as an insurance agency), Lemonade Life Insurance Agency, LLC (“LLIA”) (an Arizona resident insurance agency domiciled in Delaware), Lemonade, Ltd. (an Israeli technology subsidiary), and Lemonade B.V. (a Dutch intermediate holding company). Metromile Insurance Company (MIC) was acquired by Lemonade, Inc. on July 28, 2023. The enterprise comprising Lemonade, Inc., LIC, LIA, LLIA, Lemonade, Ltd, Lemonade B.V., MIC and its subsidiaries are collectively referred to by the brand name “Lemonade.”

Lemonade, Inc. became a publicly traded company, with its common stock listed on the New York Stock Exchange (NYSE:LMND), on July 2, 2020.

LICENSING

Lemonade Insurance Company’s last Certificate of Authority to write business in the Commonwealth was last issued on April 1, 2025. The Company is licensed in Arkansas, Arizona, California, Colorado, Connecticut, the District of Columbia, Florida, Georgia, Iowa, Illinois, Indiana, Kentucky, Massachusetts, Maryland, Maine, Michigan, Missouri, Mississippi, Montana, North Carolina, North Dakota, Nebraska, New Hampshire, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Virginia, Washington, and Wisconsin. The Company’s

2023 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$17,066,931. Premium volume related to the areas of this review were: Homeowners Multiple Peril \$9,421,958.

IV. UNDERWRITING

A. Personal Property

1. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 556 property policies, which were nonrenewed during the experience period, 89 files were selected for review. The property policies consisted of 10 homeowners, 75 tenant homeowners and four condominiums. All 89 files requested were received and reviewed. There were no violations noted.

2. Mid-term Cancellations

A mid-term cancellation is any policy that terminates at any time other than the normal twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 19,292 property policies which were cancelled midterm during the experience period, 175 files were selected for review. The property policies consisted of 50 homeowners, 100 tenant homeowners and 25 condominiums. All 175 files requested were received and reviewed. The 42 violations noted were based on 24 files, resulting in an error ratio of 14%.

The following findings were made:

18 Violations 31 Pa. Code §59.6(6)

Notices of cancellation or refusal to renew shall meet the following requirements: (6) If the reason is a substantial change or increase in the hazard, the insurer shall specify the changes or increased hazards it relied on for its actions. If the reason is the failure to pay a premium, the insurer shall specify the amount due, and the date when it was due. The Company did not provide amounts due and / or due dates on the notice of cancellation for the 18 files noted.

6 Violations 31 Pa. Code §59.9(b)

Nonapplicability of the Acts. The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices

Act. The Company did not provide a cancellation notice to the insured prior to canceling the policy for the six files noted.

18 Violations 40 P.S. §1175.5(a)(9)(ii)

Prohibits canceling any policy of insurance covering owner-occupied private residential properties or personal property of individuals that has been in force for sixty days or more or refusing to renew any such policy unless the policy was obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due whether such premium is payable directly to the company or its agent or indirectly under any premium finance plan or extension of credit; or for any other reasons approved by the Commissioner. No cancellation or refusal to renew by any person shall be effective unless: (ii) State the date, not less than thirty days after the date of delivery or mailing on which such cancellation or refusal to renew shall become effective. The Company did not provide 30 days notice prior to cancellation effective date for the 18 files noted.

3. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days' notice of the termination.

From the universe of 1,930 property policies which were cancelled in the first 60 days of new business, 94 were selected for review. The property policies consisted of 14 homeowners, 75 tenant homeowners and five condominiums. All 94 files requested were received and reviewed. The 34 violations noted were based on 34 files, resulting in an error ratio of 36%.

The following findings were made:

16 Violations 31 Pa. Code §59.9(b)

Nonapplicability of the Acts. The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The

insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The Company did not provide 30 days mailing notice prior to the cancellation effective date for the 16 files noted.

18 Violations 31 Pa. Code §59.9(b)

Nonapplicability of the Acts. The period of 60 days referred to in Section 5(a)(9) and (c)(3) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(9) and (c)(3)) is intended to provide to insurers a reasonable period of time, if desired, to investigate thoroughly a particular risk while extending coverage during the period of investigation. An insurer may cancel the policy provided it gives at least 30 days notice of the termination and provided it gives notice no later than the 60th day. The insurer's decision to cancel during this 60-day period must not violate Section 5(a)(7)(iii) of the Unfair Insurance Practices Act. The Company did not provide a cancellation notice to the insured prior to canceling the policy for the 18 files noted.

4. Declinations

A declination is any application that is received by the Company and was declined to be written.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices.

From the universe of 20,477 property policies which were declined by the Company during the experience period, 150 files were selected for review. All 150 files requested were received and reviewed. The property policies consisted of 75 homeowners, 50 tenant homeowners and 25 condominiums. There were no violations noted.

5. Rescissions

A rescission is any policy which was void ab initio by the Company.

The primary purpose of the review was to determine compliance with Act 205, which establishes conditions under which action by the insurer is prohibited. The review also determines compliance with the rescission requirements established by the Supreme Court of Pennsylvania in *Erie Insurance Exchange v. Lake*.

The Company reported no rescissions during the experience period.

V. RATING

A. Personal Property

1. New Business

New business, for the purpose of this examination, is defined as policies written for the first time by the Company during the experience period.

The primary purpose of the review was to measure compliance with Act 247, the Fire, Marine, and Inland Marine Rate Regulatory Act, Sections 4(a) and (i) (40 P.S. §1224(a), (i)), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan, and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

Homeowner Rating – New Business without Surcharges

From the universe of 133 homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 policy files requested were received and reviewed. There were no violations noted.

The following concern was noted:

CONCERN: The Company used incorrect factors to calculate safety discounts on one file noted. The two incorrect rating factors offset each other resulting in no change in premium.

Homeowner Rating – New Business with Surcharges

The Company reported there were no new business policies with surcharge to review for the exam period.

Tenant Homeowner Rating – New Business without Surcharges

From the universe of 26,874 tenant homeowner policies written as new business without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. There were no violations noted.

Tenant Homeowner Rating – New Business with Surcharges

From the universe of 128 tenant homeowner policies written as new business without surcharges during the experience period, 50 files were selected for review. All 50 files selected were received and reviewed. The one violation noted was based on one file, resulting in an error ratio of 2%.

The following finding were made:

1 Violation 40 P.S. §1224(a)&(i)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan, and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. (i) Beginning ninety days after the effective 11 date of this act no insurer shall make or issue a contract or policy except in accordance with the filings or rates which are in effect for said

insurer as provided in this act or in accordance with subsections (g) or (h) of this section. This subsection shall not apply to contracts or policies for inland marine risks as to which filings are not required. The Company had an incorrect surcharge that was not justified for the one file noted.

Condominium Rating – New Business without Surcharges

From the universe of 51 condominium policies written as new business without surcharges during the experience period, 25 were selected for review. All 25 files selected were received and reviewed. There were no violations noted.

The following concern was noted:

CONCERN: The Company used incorrect factors to calculate safety discounts on one file noted. The Declaration page shows a \$43 discount for Management Company and a \$75 discount for Bundle Discount, a total discount of \$118. However, the rating sheet displays a \$35 discount for Management Company and a \$78 discount for Bundle Discount, a total discount of \$113, a \$5 difference between the rating sheet and Declaration page. The total premium on both the rating sheet and Declaration page is \$641.

Condominium Rating – New Business with Surcharges

The universe of one condominium policy was written as new business with surcharges during the experience period was selected for review. The one file selected was received and reviewed. There were no violations noted.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 247, the Fire, Marine, and Inland Marine Rate Regulatory Act, Sections 4(a) and (i) (40 P.S. §1224(a), (i)), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan, and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

Homeowner Rating – Renewal without Surcharges

From the universe of 851 homeowner policies renewed without surcharges during the experience period, 75 were selected for review. All 75 files selected were received and reviewed. There were no violations noted.

Homeowner Rating – Renewal with Surcharges

The universe of 17 homeowner policies renewed with surcharges during the experience period were selected for review. All 17 files selected were received and reviewed. There were no violations noted.

The following concerns were noted:

CONCERN: The premium totals are the same for the Declaration and the ROC on one file noted. However, the 2nd page of the Declaration indicates \$103 discount for Gated Community. The ROC does not call out this discount.

CONCERN: The premium totals are the same for the Declaration and the ROC on one file noted. However, the bundle discount on the ROC is \$289 and the discount showing on the Declaration is \$269. We are unable to determine where the \$20 difference was made up to equal the same premium total.

Tenant Homeowner Rating – Renewal without Surcharges

From the universe of 24,538 tenant homeowner policies renewed without surcharges during the experience period, 100 files were selected for review. All 100 files selected were received and reviewed. A universe of 9,997 policies that an incorrect premium capping factor was also reviewed. The 9,997 violations noted were based on 9,997 files, resulting in an error ratio of 100%

The following violations were noted.

9,997 Violations 40 P.S. §1224(a)&(i)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan, and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. (i) Beginning ninety days after the effective date of this act no insurer shall make or issue a contract or policy except in accordance with the filings or rates which are in effect for said insurer as provided in this act or in accordance with subsections (g) or (h) of this section. This subsection shall not apply to

contracts or policies for inland marine risks as to which filings are not required. The Company used an incorrect premium capping factor on the 9,997 files noted totaling \$198,069.81. The Company was required to review and submit violations using the same incorrect premium capping factor for the years 2021, 2022 and 2024. This resulted in an additional 16,757 violations, and \$171,649.67 in restitution due to the insured. The Department has already followed up with The Company and received proof that all restitution has been paid back.

Tenant Homeowner Rating – Renewal with Surcharges

From the universe of 197 tenant homeowner policies renewed with surcharges by the Company during the experience period, 50 files were selected for review. All 50 files requested were received and reviewed. There were no violations were noted.

Condominium Rating – Renewal without Surcharges

From the universe of 303 condominium policies renewed without surcharges during the experience period, 75 files were selected for review. All 75 files selected were received and reviewed. The one violation noted was based on one file, resulting in an error ratio of 1%.

1 Violation 40 P.S. §1224(a)&(i)

Requires every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan, and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time of issue. (i)

Beginning ninety days after the effective date of this act no insurer shall make or issue a contract or policy except in accordance with the filings or rates which are in effect for said insurer as provided in this act or in accordance with subsections (g) or (h) of this section. This subsection shall not apply to contracts or policies for inland marine risks as to which filings are not required. The Company used an incorrect lost cost modification factor for the file noted.

Condominium Rating – Renewal with Surcharges

The universe of four condominium policies renewed with surcharges during the experience period were selected for review. All four files selected were received and reviewed. There were no violations noted.

The following concerns were noted.

CONCERN: The condominium policies are subject to surcharges for losses. Therefore, it is a concern that no surcharge disclosure plan is provided to these policyholders. The disclosure plan should state what surcharge percentage applies for paid losses as provided in the Company's rate filing. In an email dated 7/2/2024, the Company confirmed that they do not provide surcharge disclosures at any time.

CONCERN: Lemonade filed a rating manual with incorrect factors. Based on their 8/23/2024 response, Lemonade confirmed the 2/14/2022 manual was approved with incorrect factors due to a clerical error. They claimed these factors were not used in the rating of these policies. They did not specify

which factors were incorrect or provide any detail as to how the clerical error occurred.

CONCERN: Lemonade utilized flat rates for the building code effectiveness grading adjustment from their 3/1/23 rating manual instead of the correct manual that utilized a rating factor on the three files noted. The flat rate premium adjustments were verified and were correct.

VI. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Tenant Homeowner Claims
- C. Condominium Claims

The primary purpose of the review was to determine compliance with 31 Pa. Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) of the Unfair Insurance Practices Act (40 P.S. §1171.5(a)(10)(vi)).

A. Homeowner Claims

From the universe of 80 homeowner claims reported during the experience period, 40 files were selected for review. All 40 files were received and reviewed. The one violation noted were based on one file, resulting in an error ratio of 3%.

The following violation was noted:

1 Violation 31 Pa. Code §146.6

Every insurer shall complete investigation of a claim within

30 days after notification of the claim, unless such investigation cannot be reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a 30/45-day status letter for the claim file noted.

B. Tenant Homeowner Claims

From the universe of 921 tenant homeowner claim reported during the experience period, 75 files were selected for review. All 75 files were received and reviewed. The two violations notes were based on two files, resulting in an error ratio of 3%.

The following violations were noted.

2 Violations 31 Pa. Code §146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot be reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a 30/45-day status letter for the two claim files noted.

C. Condominium Claims

The universe of 23 condominium claims reported during the experience period was selected for review. All 23 files were received and reviewed. There were no violations noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 31 consumer complaints received during the experience period and provided all consumer complaint logs requested. The universe of 31 complaint files were selected for review. All 31 files requested were received and reviewed. There were no violations noted.

The following synopsis reflects the nature of the 31 complaints that were received.

| | | |
|----|----------------|------|
| 24 | Claims Related | 77% |
| 7 | Agency Conduct | 12% |
| — | | — |
| 31 | | 100% |

VIII. PRODUCER LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1-A(a) and Section 671-A of the Insurance Department Act No. of 1921, (40 P.S. §§310.41(a)a, 310.71), the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. The lists were reviewed and checked against the records of the Insurance Department. During the exam, underwriting and rating files were also checked to verify proper licensing and appointments.

The following violations were noted:

7 Violations 40 P.S. §310.71

(a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

(b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

(1) Delineates the services to be provided; and

(2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

(c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies

within the insurer's holding company system or group the appointment is made.

(d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.

(e) Appointment fee. – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.

(f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The following producers were found to be writing policies but was not found in Insurance Department records as having an appointment. The Company failed to file a notice of appointment and submit appointment fees to the Department.

Robert E. Lake

Nathan Simpson

Joe Rivera

Meron Daniel

Sequoia Johnson Byrd

Antoinette L. Stover

Anita M. Ashley

IX. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Underwriting guides and supplements were furnished for homeowners, tenant homeowners, and condominiums. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. There were no violations noted.

X. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with the Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with 75 Pa. C.S. §1822, which requires all insurers to provide an insurance fraud notice on all applications for insurance, all claims' forms and all renewals of coverage and 18 Pa. C.S. §4117(k)(1), which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claim forms. There were no violations noted.

XI. DATA INTEGRITY

As part of the examination, the Company was sent a preliminary examination packet in accordance with NAIC uniformity standards and provided specific information relative to the exam. The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the Department reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act of 1921, Section 904(b) (40 P.S. §§323.3(a) and 323.4(b)). There were no data integrity violations noted.

XII. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary, as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

1. The Company must review 31 Pa. Code §59.6(6) to ensure it provides the proper amounts and due dates, when sending notice to the insured prior to cancellation effective date, so that the violations as noted in the report, do not occur in the future.
2. The Company must review 31 Pa. Code §59.9(b) to ensure it provides the proper number of days notice, prior to cancellation effective date, so that the violations as noted in the report, do not occur in the future.
3. The Company must review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code, Chapter 146.6, Unfair Claims Settlement Practices, so that the violations relating to status letters, as noted in the report, do not occur in the future.
4. The Company must ensure all producers are appointed, as required by 40 P.S. §310.71 prior to accepting any business from any producer, so that the violations as noted in the report, do not occur in the future.
5. The Company must review 40 P.S. §1171.5(a)(9)(ii) to ensure that a 30 day notice is provided, prior to cancellation, so that the violations as noted in the report, do not occur in the future.

6. The Company must review 40 P.S. §1224(a)&(i) and take appropriate measures to ensure the homeowner rating violations noted in the report, do not occur in the future.

XIII. COMPANY RESPONSE

Lemonade

Lemonade Inc. / Lemonade Insurance Company
5 Crosby Street, 3rd Floor
New York, NY 10013

Robert Stevener
Head of Compliance

April 30, 2025

Paul E. Towsen III
Chief of Market Conduct - P&C/Life & Annuities Division
Pennsylvania Insurance Department
1321 Strawberry Square
Harrisburg, PA 17120
717-705-7288

Sent via email:

Re: Market Conduct Examination

Lemonade Insurance Company, NAIC 16023
Market Conduct Examination Initial Report Transmittal Letter

Dear Mr. Towsen,

This letter serves as the Company's written response to the above-referenced report dated April 1, 2025. We thank you for the professionalism and courtesy extended to us during the examination by you and your outside examiners, and we look forward to a long and positive working relationship with the Pennsylvania Insurance Department, with the shared goal of serving our customers in Pennsylvania.

Please see the attached Exhibit A, which includes our responses to the recommendations identified in your letter from April 1, 2025. We believe we have sufficiently addressed all the instances of non-compliance identified in your letter of April 1, 2025.

Please don't hesitate to contact me if you require anything further. Thank you.

Kind regards,

Robert Stevener
robert.stevener@lemonade.com
210.379.2385

Cc: Scott Fischer
Annie McGeorge
Scott Cancel

EXHIBIT A

Lemonade Insurance Company submits the following responses to the above report. We have repeated the Department's recommendations in ***bold italics*** for ease of reference.

1. ***The Company must review 31 Pa. Code §59.6(6) to ensure it provides the proper amounts and due dates, when sending notice to the insured prior to cancellation effective date, so that the violations as noted in the report, do not occur in the future.***

To ensure compliance with 31 Pa. Code §59.6(6), the Company revised its cancellation notices to ensure both the proper amounts due and the date when the amount was due were included. On February 25, 2025, the Company submitted a filing to the state for these updated cancellation forms. The filing was approved on March 3, 2025 with an effective date of May 27, 2025 for new business and renewal business.

2. ***The Company must review 31 Pa. Code §59.9(b) to ensure it provides the proper number of days notice, prior to cancellation effective date, so that the violations as noted in the report, do not occur in the future.***

To ensure compliance with 31 Pa. Code §59.9(b), the Company revised its cancellation notices to ensure the proper number of days notice prior to cancellation effective date was provided. On February 25, 2025, the Company submitted a filing to the state for these updated cancellation forms. The filing was approved on March 3, 2025 with an effective date of May 27, 2025 for new business and renewal business.

3. ***The Company must review and revise internal control procedures to ensure compliance with the claims handling requirements of 31 Pa. Code, Chapter 146.6, Unfair Claims Settlement Practices, so that the violations relating to status letters, as noted in the report, do not occur in the future.***

On December 20, 2023, the Claims team implemented an automated workflow to ensure compliance with the claims handling requirements of 31 Pa. Code, Chapter 146.6, Unfair Claims Settlement Practices moving forward. This workflow generates a task for the claim representative six days before the required date of the status letter (i.e. 24 days, 54 days, 84 days, etc). The task is completed once the claim representative issues the status letter to the appropriate parties.

4. ***The Company must ensure all producers are appointed, as required by 40 P.S. §310.71 prior to accepting any business from any producer, so that the violations as noted in the report, do not occur in the future.***

In March 2025, our Compliance and Licensing teams participated in an intensive three-day workshop in New York. This workshop focused on conducting a comprehensive end-to-end review of the Company's licensing program. The participants engaged in a thorough examination of licensing requirements for internal personnel, including claim representatives, customer experience representatives and other employees that necessitate claims licenses. Additionally, they reviewed the licensing and appointment process for independent agents. The goal of the workshop was to assess our current procedures, identify areas for improvement and implement strategies to enhance our overall licensing framework. The workshop generated valuable insights and ideas that will enable the Company to ensure compliance with 40 P.S. §310.71 going forward.

5. ***The Company must review 40 P.S. §1171.5(a)(9)(ii) to ensure that a 30 day notice is provided, prior to cancellation, so that the violations as noted in the report, do not occur in the future.***

To ensure compliance with 40 P.S. §1171.5(a)(9)(ii), the Company revised its cancellation notices to ensure a 30 day notice is provided prior to cancellation. On February 25, 2025, the Company submitted a filing to the state for these updated cancellation forms. The filing was approved on March 3, 2025 with an effective date of May 27, 2025 for new business and renewal business.

6. *The Company must review 40 P.S. §1224(a)&(i) and take appropriate measures to ensure the homeowner rating violations noted in the report, do not occur in the future.*

The Company's Insurance Product Team is conducting a thorough review, anticipated to be completed in Q3 2025, of our QA process concerning our rating procedures and identifying opportunities for increased automation in the process. They are engaging key stakeholders in this review to incorporate diverse perspectives and insights, ensuring a comprehensive and robust QA process. These measures reflect the Company's commitment to ensuring compliance with 40 P.S. §1224(a)&(i) moving forward.

ADDITIONAL COMMENTS

In Q1 2025, our Compliance department underwent a restructuring to enhance our ability to meet regulatory requirements and respond proactively to industry challenges. This reorganization has streamlined our operations into three distinct areas of focus: Prevent, Detect, and Fix, each with specialized functions that are crucial to maintaining and elevating our compliance standards.

The Prevent team is dedicated to our risk management efforts, collaborating closely with internal stakeholders. This team plays a crucial role in maintaining regulatory adherence by working to ensure that new company initiatives and filings meet compliance standards. Additionally, they manage the licensing function, overseeing the proper licensure and appointment of agents. Their work is essential in protecting both the claims and customer experience process by embedding strong compliance practices from the beginning.

Our Detect team focuses on testing and monitoring. Their core responsibility is to review prior corrective actions and commitments made to States, ensuring that we remain on track and that our fixes continue to function effectively. Additionally, the Detect team focuses on testing new releases to ensure proper implementation, confirming that updates are implemented as intended. By maintaining vigilant oversight and performing proactive testing of these processes, the Detect team plays a critical role in mitigating compliance risks before they escalate.

The Fix team manages our Market Conduct and Complaint handling function. This team is tasked with addressing all incoming Market Conduct Exams and Continuums, coordinating with internal stakeholders to provide comprehensive and timely responses. Additionally, they handle all Department of Insurance complaints we receive, ensuring they are reviewed and resolved effectively.

We are confident that this new structure not only bolsters our compliance capabilities but also enhances our agility in responding to inquiries from States. By clearly defining roles and responsibilities within these three focus areas, we aim to foster a more proactive and resilient compliance department.