

**MARKET CONDUCT EXAMINATION REPORT**

**OF**

**LEMONADE INSURANCE COMPANY**

**AS OF**

**December 31, 2020**

**COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**

**Property and Casualty Division  
Market Conduct Section**

# COMMONWEALTH OF VIRGINIA



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## STATE CORPORATION COMMISSION

### BUREAU OF INSURANCE

I, Brandon Ayers, Senior Insurance Market Examiner of the Bureau of Insurance, do hereby certify that the annexed copy of the Market Conduct Examination Report of Lemonade Insurance Company as of December 31, 2020, conducted at the office of the State Corporation Commission in Richmond, Virginia is a true copy of the original Report on file with the Bureau and also includes a true copy of the company's response to the findings set forth therein, and a true copy of the Bureau's review letters and the State Corporation Commission's Order in Case Number INS-2024-00013 finalizing this Report.

IN WITNESS WHEREOF, I have  
hereunto set my hand and affixed  
the official seal of this the Bureau  
at the City of Richmond, Virginia,  
this 26th of March, 2024.

*B. D. Ayers*

Examiner in Charge

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## EXECUTIVE SUMMARY

The examination included a detailed review of the homeowner line of business written in Virginia by Lemonade Insurance Company for the period beginning January 1, 2020 and ending December 31, 2020. This review pertained to rating and underwriting, policy terminations, claims handling, forms, policy issuance, statutory notices, producer licensing and appointments, and complaint-handling.

The examination was called as a result of the Market Conduct Annual Statement (MCAS) and market analysis. The company is new to the Virginia insurance market, and this is the first Market Conduct Examination the Virginia Bureau of Insurance (Bureau) has performed on this company.

The examination revealed violations that were significant. There were 622 total violations in this Report. The bulk of these were the 268 violations found in the claims area, which included six general business practices (GBP). There were 155 rating violations and 94 violations in the area of terminations. There were no violations found in the forms and producer licensing and appointments areas.

There were 81 violations in the area of policy issuance, 23 notice violations, and one violation in the area of complaint handling.

The Corrective Action Plan (CAP) for rating and underwriting requested that the company list all applicable forms on the declarations page, file all rates and supplementary rates with the Bureau, use the rules and rates filed with the Bureau, and state the correct expiration time of the policy on the declarations page.

The CAP for terminations requested that the company specify accurate information on the declarations page, properly represent benefits and conditions of the policy, provide the Notice of Information Collection and Disclosure Practices to applicants, provide a written Adverse Underwriting Decision (AUD) notice to insureds and applicants, specify or

advise how to obtain the cancellation reason when the notice is mailed in the first 89 days of coverage, charge fees and calculate earned premium according to filed rules and policy provisions, advise the insured of the availability of insurance through the Virginia Property Insurance Association, advise the insured of the right to review by the Commissioner of Insurance, specify the cancellation date on the cancellation notice, obtain written notice for insured-requested cancellations, and maintain accurate data population files.

The claims CAP requested that the company properly document claim files so all events and dates pertinent to the claim can be reconstructed, provide a reasonable explanation of the basis for the written denial of the claim, properly represent pertinent facts or insurance provisions relating to coverage, adopt and implement reasonable standards for prompt investigations, make prompt, fair and equitable claim settlements, and include the correct statement of coverage under which payments are made with all claim payments to insureds.

The CAP for policy issuance requested that the company list and attach all applicable forms on the declarations page, provide the Replacement Cost statement as required, offer the coverage for damage caused by water that backs up through sewers and drains as required, provide the Ordinance or Law coverage offer, provide the Flood Exclusion notice, and provide the Earthquake Exclusion notice. In the areas of notices, the company was requested to correct/develop the following notices: internet blog statements, Information Collection and Disclosure Practices, Financial Information Collection and Disclosure Practices, AUD, Cancellation, Non-renewal, Replacement Cost, Ordinance or Law, Insurance Credit Score Disclosure, Credit Adverse Action, Flood Exclusion, and Earthquake Exclusion. The CAP for complaint-handling requested the company to maintain a complete complaint register.

Finally, the CAP requested that the company make restitution of \$8,934.41 to 11 consumers.



## INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a comprehensive examination has been made of the homeowner line of business written by Lemonade Insurance Company at the office of the State Corporation Commission, Bureau of Insurance, in Richmond, Virginia.

The examination commenced May 24, 2021 and concluded May 20, 2022. Brandon Ayers, William Felvey, NuDasha Fludd, Dan Koch, Melody Morrisette, Latitia Orange, and Gloria Warriner, examiners of the Bureau of Insurance, and Andrea Baytop, Market Conduct Manager of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Market Action Tracking System on March 9, 2021 and was assigned the Action Number of VA-VA177-17. The examination was conducted in accordance with the guidelines contained in the National Association of Insurance Commissioners (NAIC) Market Regulation Handbook.

## COMPANY PROFILE\*

Lemonade Insurance Company (LIC) is a New York domiciled direct-to-consumer personal lines property and casualty insurance company. The company was incorporated as of October 27, 2015 and commenced business on September 20, 2016.

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\* Source: Best's Insurance Reports, Property & Casualty, 2021 Edition.

The table below indicates when the company was licensed in Virginia and the lines of insurance that the company was licensed to write in Virginia during the examination period. All lines of insurance were authorized on June 20, 2017, except as noted in the table.

<b>GROUP CODE: N/A</b>	<b>LEMONADE INSURANCE COMPANY</b>
NAIC Company Number	16023
LICENSED IN VIRGINIA	12/27/2016
LINES OF INSURANCE	
Accident and Sickness	
Aircraft Liability	
Aircraft Physical Damage	
Animal	4/22/2020
Automobile Liability	
Automobile Physical Damage	
Boiler and Machinery	
Burglary and Theft	
Commercial Multi-Peril	X
Credit	
Farmowners Multi-Peril	
Fidelity	
Fire	X
General Liability	X
Glass	
Homeowners Multi-Peril	X
Inland Marine	X
Miscellaneous Property	X
Ocean Marine	
Surety	
Water Damage	
Workers' Compensation	

The table below shows the company's premium volume and approximate market share of business written in Virginia during 2020 for the line of insurance included in this examination.\* This business was developed through a direct-to-consumer system without agents.

<b>COMPANY AND LINE</b>	<b>PREMIUM VOLUME</b>	<b>MARKET SHARE</b>
<b>Lemonade Insurance Company</b>		
Homeowner	\$3,547,535	.14%

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\* Source: The 2020 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report.

## SCOPE OF THE EXAMINATION

The examination included a detailed review of the company's homeowner line of business written in Virginia for the period beginning January 1, 2020 and ending December 31, 2020. This review included rating and underwriting, policy terminations, claims handling, forms, policy issuance\*, statutory notices, producer licensing, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the company's operations were consistent with public interest.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Notes. Part One outlines all the violations of Virginia insurance laws that were cited during the examination. In addition, the examiners cited instances where the company failed to adhere to the provisions of the policies issued in Virginia. The Other Law Violations portion of Part One notes violations of other related laws that apply to insurers.

In Part Two, the Corrective Action Plan identifies the violations that are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the company's practices that require some action by the company. This section also summarizes the violations for which the company was cited in previous examinations.

The examiners may not have discovered every unacceptable or non-compliant activity in which the company engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

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\* Policies reviewed under this category reflected the company's current practices and, therefore, fell outside of the exam period.

### **STATISTICAL SUMMARY**

The files selected for the review of the rating and underwriting, terminations, and claims handling processes were chosen by random sampling of the various populations provided by the company. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

**Population  
Sample Requested**

AREA	LIC	TOTAL	FILES REVIEWED	FILES NOT FOUND	FILES WITH ERRORS	ERROR RATIO
<b>Homeowner</b>						
New Business	<u>18004</u> 55	<u>18004</u> 55	55	0	55	100%
Renewal Business	<u>4597</u> 45	<u>4597</u> 45	45	0	45	100%
Co-Initiated Cancellations <sup>1</sup>	<u>105</u> 9	<u>105</u> 9	8	0	7	88%
All Other Cancellations <sup>2</sup>	<u>375</u> 14	<u>375</u> 14	14	0	11	79%
Nonrenewals	<u>1</u> 1	<u>1</u> 1	1	0	1	100%
Rejected Applications <sup>3</sup>	<u>5182</u> 20	<u>5182</u> 20	19	0	18	95%
<b>Renters</b>						
All Cancellations	<u>6649</u> 36	<u>6649</u> 36	36	0	24	67%
<b>Claims</b>						
Homeowner	<u>553</u> 95	<u>553</u> 95	95	0	87	92%

Footnote <sup>1</sup> - One file was moved to the All Other Cancellations category.

Footnote <sup>2</sup> - One file was added from the Co-Initiated Cancellations category. One file was not an insured-requested cancellation and was not reviewed.

Footnote <sup>3</sup> - One file was a quote abandoned by the applicant and was not reviewed.

## **PART ONE - THE EXAMINERS' OBSERVATIONS**

This section of the Report contains all the observations the examiners provided to the company. These include all instances where the company violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the company violated other Virginia laws applicable to insurers.

### **RATING AND UNDERWRITING REVIEW**

#### **Homeowner New Business Policies**

The examiners reviewed 55 new business policy files. During this review, the examiners found overcharges totaling \$66 and undercharges totaling \$3,902. The net amount that should be refunded to insureds is \$66 plus six percent (6%) simple interest.

- (1) The examiners found 55 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The declarations page did not list all forms applicable to the policy.
- (2) The examiners found one violation of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents and records relating to the examination. The company failed to provide the complete policy file for review.
- (3) The examiners found two violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rating information with the Bureau prior to use.
- (4) The examiners found 31 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
  - a. In five instances, the company failed to use the correct discounts and/or surcharges.
  - b. In two instances, the company failed to use the correct base and/or final

rates.

- c. In two instances, the company failed to use the minimum premium rule.
  - d. In eight instances, the company failed to use the correct public protection class.
  - e. In 13 instances, the company failed to use the filed premium determination rule.
  - f. In one instance, the company failed to use the filed rounding rule.
- (5) The examiners found two violations of § 38.2-2104 A of the Code of Virginia. The company failed to show the correct expiration date and time of the policy on the declarations page.

### **Homeowner Renewal Business Policies**

The examiners reviewed 45 renewal business policy files. During this review, the examiners found overcharges totaling \$376 and undercharges totaling \$539. The net amount that should be refunded to insureds is \$376 plus six percent (6%) simple interest.

- (1) The examiners found 45 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the insurance policy as required by the statute. The declarations page did not list all forms applicable to the policy.
- (2) The examiners found 19 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
- a. In seven instances, the company failed to use the correct discounts and/or surcharges.
  - b. In five instances, the company failed to use the correct public protection class.
  - c. In seven instances, the company failed to use the filed premium determination rule.



**TERMINATION REVIEW**

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

**Company-Initiated Cancellations – Homeowner Policies****NOTICE MAILED PRIOR TO THE 90<sup>TH</sup> DAY OF COVERAGE**

The examiners reviewed eight homeowner cancellations that were initiated by the company where the notices were sent prior to the 90<sup>th</sup> day of coverage in the initial policy period. During this review, the examiners found overcharges totaling \$5.85 and undercharges totaling \$12.40. The net amount that should be refunded to insureds is \$5.85 plus six percent (6%) simple interest.

- (1) The examiners found two violations of § 38.2-610 A of the Code of Virginia. The company failed to provide a specific reason for the AUD or advise the insured how to request the specific reason in writing.
- (2) The examiners found two violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide accurate population data files.
- (3) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (4) The examiners found one occurrence where the company failed to comply with the provisions of the policy. The company failed to send the insured a cancellation notice when the policy had been in effect less than 90 days.

NOTICE MAILED AFTER THE 89<sup>TH</sup> DAY OF COVERAGE

The company did not provide any cancellations where the company sent the notices on or after the 90<sup>th</sup> day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy.

**All Other Cancellations – Homeowner Policies**NONPAYMENT OF THE PREMIUM

The examiners reviewed five homeowner cancellations that were initiated by the company for nonpayment of the policy premium. During this review, the examiners found overcharges totaling \$30.01 and undercharges totaling \$1,025.90. The net amount that should be refunded to insureds is \$30.01 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company listed an incorrect policy period on the declarations page sent to the insured.
- (2) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The endorsement declarations page did not provide a proper annual policy premium.
- (3) The examiners found two violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination.
  - a. In one instance, the company failed to provide the new business declarations page.
  - b. In one instance, the company failed to provide accurate population data files.

- (4) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (5) The examiners found one violation of § 38.2-2114 A of the Code of Virginia. The company cancelled the policy for reason not permitted by the statute. The company cancelled for nonpayment of premium when evidence of a disputed payment was not included in the policy file.
- (6) The examiners found 11 violations of § 38.2-2114 C of the Code of Virginia.
  - a. In four instances, the company failed to advise the insured of the right to request a review by the Commissioner of Insurance.
  - b. In four instances, the company failed to advise the insured of the availability of coverage through the Virginia Property Insurance Association (VPIA).
  - c. In three instances, the company failed to specify the date of cancellation on the notice sent to the insured.

REQUESTED BY THE INSURED

The examiners reviewed nine homeowner cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. During this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company listed an incorrect policy period on the declarations page sent to the insured.
- (2) The examiners found one violation of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to files, documents, and records relating to the examination. The company failed to provide the correct declarations page.

- (3) The examiners found four violations of § 38.2-2114 E of the Code of Virginia. The company failed to obtain a written request from the insured to cancel the policy.
- (4) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to retain evidence of the insured's request for cancellation of the policy.

### **Rejected Applications – Homeowner Policies**

The examiners reviewed 19 homeowner insurance applications for which the company declined to issue a policy.

- (1) The examiners found four violations of § 38.2-604 A of the Code of Virginia. The company failed to provide the Notice of Information Collection and Disclosure Practices as required by the statute.
- (2) The examiners found 18 violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the applicant with written notice of an AUD.

### **Company-Initiated Non-renewals – Homeowner Policies**

The examiners reviewed one homeowner nonrenewal that was initiated by the company.

The examiners found two violations of § 38.2-2114 C of the Code of Virginia.

- a. In one instance, the company failed to advise the insured of the right to request a review by the Commissioner of Insurance.
- b. In one instance, the company failed to advise the insured of the availability of coverage through the Virginia Property Insurance Association (VPIA).

**Tenant Policies**

The examiners reviewed 36 tenant policy terminations from the company. During this review, the examiners found overcharges totaling \$4.01 and undercharges totaling \$168.43. The net amount that should be refunded to insureds is \$4.01 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify accurate information in the policy. The company failed to list the additional insured on the declarations page.
- (2) The examiners found two violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The endorsement declarations page did not provide a proper annual policy premium.
- (3) The examiners found four violations of § 38.2-610 A of the Code of Virginia. The company failed to provide the insured with written notice of an AUD.
- (4) The examiners found eight violations of § 38.2-1318 C of the Code of Virginia. The company failed to provide convenient access to the files, documents, and records relating to the examination. The company failed to provide accurate population data files.
- (5) The examiners found eight violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the earned premium correctly.
- (6) The examiners found 13 occurrences where the company failed to comply with the provisions of the insurance policy.
  - a. In two instances, the company failed to indicate the date of cancellation on the notice sent to the insured.
  - b. In two instances, the company failed to honor the cancellation date

requested by the insured.

- c. In one instance, the company failed to send the notice of cancellation to the insured at least five days before the cancellation effective date when the policy was in effect for less than 90 days.
- d. In one instance, the company cancelled a policy after the 89<sup>th</sup> day of coverage for a reason not permitted by the statute.
- e. In one instance, the company failed to send the notice of cancellation to the insured at least 30 days before the cancellation effective date when the policy was in effect for more than 89 days.
- f. In three instances, the company failed to send a notice of cancellation to the insured.
- g. In three instances, the company failed to retain evidence of the insured's request for cancellation of the policy.

### **CLAIMS REVIEW**

#### **Homeowner Claims**

The examiners reviewed 95 homeowner claims for the period of January 1, 2020 through December 31, 2020. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. During this review, the examiners found overpayments totaling \$2,605.00 and underpayments totaling \$7,946.82. The net amount that should be paid to claimants is \$7,946.82 plus six percent (6%) simple interest.

- (1) The examiners found 25 violations of 14 VAC 5-400-30 C. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (2) The examiners found six violations of 14 VAC 5-400-40 A. The company failed to disclose all pertinent benefits, coverages, or provisions of an insurance policy to the insured.
- a. In three instances, the company failed to disclose to an insured the benefits under the Additional Living Expenses (ALE) coverage of the policy.
  - b. In two instances, the company failed to disclose to an insured the replacement cost benefits under the Dwelling coverage of the policy.
  - c. In one instance, the company failed to disclose to an insured the replacement cost benefits under the Personal Property coverage of the policy.
- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within 15 calendar days to pertinent communications from a claimant or a claimant's authorized representative that reasonably suggested a response was expected.
- (4) The examiners found four violations of 14 VAC 5-400-50 D. The company failed to provide reasonable assistance to an insured in the management of a claim.
- (5) The examiners found three violations of 14 VAC 5-400-60 B. The company failed to notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- (6) The examiners found seven violations of 14 VAC 5-400-70 B. The company failed to provide a reasonable explanation of the basis for its denial in the written denial of the claim.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found six violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim or failed to pay a claim in accordance with the insured's policy provisions.
- a. In one instance, the company failed to pay the entire claim under the insured's Dwelling Replacement Cost coverage.
  - b. In three instances, the company failed to pay the entire claim under the insured's ALE coverage.
  - c. In one instance, the company failed to pay the entire claim under the insured's Other Structures coverage.
  - d. In one instance, the company failed to pay the entire claim under the insured's Personal Property Replacement Cost coverage.
- (8) The examiners found one violation of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The declarations page failed to list the policy's Water Backup coverage limit.
- (9) The examiners found 85 violations of § 38.2-510 A 1 of the Code of Virginia.
- a. In 83 instances, the company misrepresented pertinent facts or insurance policy provisions.
  - b. In two instances, the company misrepresented pertinent facts relating to the replacement cost provisions.

These findings occurred with such frequency as to indicate a general business practice.

- (10) The examiners found two violations of § 38.2-510 A 2 of the Code of Virginia. The company failed to acknowledge and act reasonably promptly to communications.



- (11) The examiners found 12 violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under policies.

These findings occurred with such frequency as to indicate a general business practice.

- (12) The examiners found eight violations of § 38.2-510 A 6 of the Code of Virginia. The company failed to make a prompt, fair, and equitable settlement of a claim in which liability was reasonably clear.

These findings occurred with such frequency as to indicate a general business practice.

- (13) The examiners found 77 violations of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which payment was made.

These findings occurred with such frequency as to indicate a general business practice.

- (14) The examiners found 22 occurrences where the company failed to comply with the provisions of the insurance policy.

a. In one instance, the company made payment directly to the insured and failed to include the lienholder on the check.

b. In three instances, the company paid an insured more than the insured was entitled to receive under the terms of the policy.

c. In 18 instances, the company failed to pay in accordance with the policy provisions.

### Other Law Violations

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found nine violations of § 52-40 of the Code of Virginia. The company failed to include the fraud statement on claim forms required by the company as a condition of payment.

### FORMS REVIEW

The examiners reviewed the company's policy forms and endorsements used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for the line of business listed below, the Bureau requested copies from the company. In addition, the Bureau requested copies of new and renewal business policy mailings that the company was processing at the time of the Examination Data Call. The details of these policies are set forth in the Policy Issuance Process Review section of the Report. The examiners then reviewed the forms used on these policies to verify the company's current practices.

### **Homeowner Policy Forms**

#### POLICY FORMS USED DURING THE EXAMINATION PERIOD

The company provided copies of 46 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

#### POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

**POLICY ISSUANCE PROCESS REVIEW**

To obtain sample policies to review the company's policy issuance process for the line examined, the examiners requested new and renewal business policy mailings that were sent after the company received the Examination Data Call. The company was instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the company enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

**Homeowner Policies**

The company provided nine new business policies sent on the following dates: March 3, 5, 11, 18, 20, 25, 26, and 31, 2021. In addition, the company provided nine renewal business policies sent on the following dates: March 2, 3, 8, 13, 14, 16, 23, and 25, 2021.

**NEW BUSINESS POLICIES**

- (1) The examiners found 13 violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute.
  - a. In nine instances, the company failed to list all forms applicable to the policy on the declarations page.
  - b. In four instances, the company failed to attach all forms applicable to the policy.
- (2) The examiners found five violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost statement as required by the

statute.

- (3) The examiners found three violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.
- (4) The examiners found three violations of § 38.2-2124 of the Code of Virginia. The company failed to provide the Ordinance and Law offer as required by the statute.
- (5) The examiners found nine violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the Flood Exclusion notice as required by the statute.
- (6) The examiners found nine violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the Earthquake Exclusion notice as required by the statute.

#### RENEWAL BUSINESS POLICIES

- (1) The examiners found ten violations of § 38.2-305 A of the Code of Virginia. The company failed to specify in the policy all of the information required by the statute.
  - a. In eight instances, the company failed to list all forms applicable to the policy on the declarations page.
  - b. In two instances, the company failed to attach all forms applicable to the policy.
- (2) The examiners found three violations of § 38.2-2118 of the Code of Virginia. The company failed to provide the Replacement Cost statement as required by the statute.
- (3) The examiners found five violations of § 38.2-2120 of the Code of Virginia. The company failed to offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains.
- (4) The examiners found three violations of § 38.2-2124 of the Code of Virginia. The company failed to provide the Ordinance and Law offer as required by the statute.

- (5) The examiners found nine violations of § 38.2-2125 of the Code of Virginia. The company failed to provide the Flood Exclusion notice as required by the statute.
- (6) The examiners found nine violations of § 38.2-2129 of the Code of Virginia. The company failed to provide the Earthquake Exclusion notice as required by the statute.

### **STATUTORY NOTICES REVIEW**

The examiners reviewed the company's statutory notices used during the examination period and those that are currently used for the line of business examined. From this review, the examiners verified the company's compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for the line of business listed below, the Bureau requested copies from the company. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the company on all applications, on all policies, and those special notices used for property policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the company but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

### **General Statutory Notices**

- (1) The examiners found three violations of § 38.2-502 1 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions, or terms of the insurance policy. The company misrepresented provisions of the insurance policy on its internet blog.

- (2) The examiners found one violation of § 38.2-604 B of the Code of Virginia. The company's long form Notice of Information Collection and Disclosure Practices did not include all the information required by the statute.
- (3) The examiners found one violation of § 38.2-604.1 B of the Code of Virginia. The company's notice of Financial Information Collection and Disclosure Practices did not include all of the information required by the statute.
- (4) The examiners found one violation of § 38.2-610 A of the Code of Virginia. The company's AUD notice did not comply with the requirements of the statute.

**Statutory Property Notices**

- (1) The examiners found two violations of § 38.2-2118 of the Code of Virginia. The company's Replacement Cost statement did not comply with the statute.
- (2) The examiners found two violations of § 38.2-2124 of the Code of Virginia. The company's Ordinance and Law offer did not comply with the statute.
- (3) The examiners found one violation of § 38.2-2125 of the Code of Virginia. The company failed to include all of the information required by the statute in its Flood Exclusion notice.
- (4) The examiners found three violations of § 38.2-2126 A 1 of the Code of Virginia. The company's Insurance Credit Score Disclosure notice did not include all the information required by the statute.
- (5) The examiners found one violation of § 38.2-2126 A 2 of the Code of Virginia. The company's Credit Adverse Action notice did not include all the information required by the statute.
- (6) The examiners found one violation of § 38.2-2129 of the Code of Virginia. The company failed to have available for use a notice advising the insured that the policy does not include coverage for loss due to Earthquake.

**Other Notices**

The companies provided copies of 11 other notices (including applications) that were used during the examination period.

The examiners found six violations of § 38.2-2114 C of the Code of Virginia.

- a. In one instance, the company's Cancellation notice failed to include the AUD language.
- b. In one instance, the company's Non-renewal notice failed to include the AUD language.
- c. In one instance, the company's Cancellation notice failed to advise the insured of the right to request a review by the Commissioner of Insurance.
- d. In one instance, the company's Non-renewal notice failed to advise the insured of the right to request a review by the Commissioner of insurance.
- e. In two instances, the company's electronic Cancellation and Non-renewal notices failed to advise the insured of the availability of fire insurance coverage through the Virginia Property Insurance Association (VPIA).

**Other Law Violations**

Although not a violation of Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found one violation of § 52-40 of the Code of Virginia. The company's claims reporting app did not include the fraud language as required by the statute.

**LICENSING AND APPOINTMENT REVIEW**

A review was made of new business homeowner policies to verify that each producer of record for those policies reviewed was licensed and appointed to write business for the company as required by Virginia insurance statutes. In addition, the agent or agency to which the company paid commission for these new business policies was checked to verify that the entity held a valid Virginia license and was appointed by the company.

**Agency**

The examiners found no violations in this area.

**Agent**

The examiners found no violations in this area.

**COMPLAINT-HANDLING PROCESS REVIEW**

A review was made of the company's complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found one violation of § 38.2-511 of the Code of Virginia. The company failed to maintain a complete complaint register in compliance with the statute.

**PRIVACY AND INFORMATION SECURITY PROCEDURES REVIEW**

The Bureau requested a copy of the company's information security program that protects the privacy of policyholder information in accordance with § 38.2-613.2 of the Code of Virginia.

The company provided its written information security procedures.



## **PART TWO – CORRECTIVE ACTION PLAN**

This section identifies the violations of Virginia insurance statutes and regulations that are subject to a monetary penalty. This determination is based upon the guidelines provided by the NAIC Market Regulation Handbook. A seven percent (7%) error criterion was applied to claims handling practices. Any error ratio above this threshold for violations of the unfair claim settlement practices statutes and regulations is considered a general business practice and subject to a monetary penalty. In some instances, such as filing requirements, forms, notices, and agent licensing, the Bureau applies a zero-tolerance standard.

### **General**

Lemonade Insurance Company shall:

Provide a Corrective Action Plan (CAP) with its response to this Report.

### **Rating and Underwriting Review**

Lemonade Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed Restitution Spreadsheet file. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) File all rates and supplementary rating information with the Bureau.

- (5) Specify accurate information in the policy by listing all forms applicable to the policy on the declarations page.
- (6) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, base and/or final rates, minimum premium rule, public protection class rule, premium determination rule, and rounding rule.
- (7) State the proper policy expiration time as 12:01 a.m. on the declarations page.

### **Termination Review**

Lemonade Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit the Restitution Spreadsheet file to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.
- (4) Specify accurate information in the policy by listing the correct policy period and any additional insureds on the declarations page.
- (5) Properly represent the benefits, coverages, advantages, and conditions of the policy.
- (6) Provide the Notice of Information Collection and Disclosure Practices to the applicant.
- (7) Provide a written AUD notice to an insured or applicant.

- (8) Charge fees and/or calculate earned premium according to the filed rules and policy provisions.
- (9) Advise the insured of the availability of other insurance through the VPIA.
- (10) Advise the insured of the right to have the cancellation or nonrenewal of the policy reviewed by the Commissioner of Insurance.
- (11) Specify the date of cancellation on the Cancellation notice sent to the insured.
- (12) Obtain written notice when the insured requests cancellation as required by the policy.
- (13) Maintain accurate data population files.
- (14) Advise the insured of the specific cancellation reason or how to request the specific cancellation reason in the AUD notice when the notice is mailed in the first 89 days of coverage.

### **Claims Review**

Lemonade Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit the Restitution Spreadsheet file to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.
- (4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.

- (5) Provide a reasonable explanation of the basis for its denial in the written denial of the claim.
- (6) Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.
- (7) Adopt and implement reasonable standards for the prompt investigation of claims arising under policies.
- (8) Make prompt, fair and equitable claim settlements.
- (9) Include a correct statement of coverage under which payments are made with all claim payments made to insureds.

#### **Policy Issuance Process Review**

Lemonade Insurance Company shall:

- (1) Specify accurate information in the policy by listing and attaching all applicable forms on the declarations page.
- (2) Provide the Replacement Cost statement as required by the Code of Virginia.
- (3) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.
- (4) Provide the Ordinance and Law Coverage offer as required by the Code of Virginia.
- (5) Provide the Flood Exclusion notice as required by the Code of Virginia.
- (6) Provide the Earthquake Exclusion notice as required by the Code of Virginia.

#### **Statutory Notices Review**

Lemonade Insurance Company shall:

- (1) Amend the company's internet blog to properly represent the benefits, advantages, conditions, and terms of the insurance policy.
- (2) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.

- (3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.
- (4) Amend the language in the AUD notice to be substantially similar to the prototype set forth in Administrative Letter 2015-07.
- (5) Amend the Cancellation and Non-renewal notices to include applicable AUD language, right to review language, and language informing the insured about obtaining insurance through the VPIA.
- (6) Amend the Replacement Cost statement to comply with § 38.2-2118 of the Code of Virginia.
- (7) Amend the Ordinance and Law offer to comply with § 38.2-2124 of the Code of Virginia.
- (8) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.
- (9) Amend the Insurance Credit Score Disclosure notice to comply with § 38.2-2126 A 1 of the Code of Virginia.
- (10) Amend the Credit Adverse Action notice to comply with § 38.2-2126 A 2 of the Code of Virginia.
- (11) Develop an Earthquake Exclusion notice to comply with § 38.2-2129 of the Code of Virginia.

### **Complaint-Handling Process Review**

Lemonade Insurance Company shall:

Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.

## **PART THREE – NOTES**

This section provides additional details regarding current, potential, and past compliance issues the examiners identified.

### **RECOMMENDATIONS**

Throughout the examination process, the examiners have commented on changes the company should make to promote compliance. The examiners also found violations that did not appear to rise to the level of business practices by the company. The company should carefully scrutinize these errors and correct the causes before these errors become business practices.

We recommend that the company take the following actions:

### **Rating and Underwriting**

- The company should review its Rating Rule 524.C. The premiums shown on the declaration page should accurately correspond to the filed rule.
- File rating manual revisions with the Bureau as identified on the recommendation review sheet provided for the examination.

### **Terminations**

- Cancel a policy insuring an owner-occupied or tenant-occupied dwelling when the notice is mailed after the 89<sup>th</sup> day of coverage only for those reasons permitted by the policy.
- Maintain evidence of the insured's request for cancellation of their policy.
- Use the cancellation date requested by the insured.
- Send the cancellation notice for a tenant-occupied dwelling policy at least 30 days before the effective date of cancellation when it is mailed after the 89<sup>th</sup> day of coverage.
- Update the reporting tool used to categorize terminations so that terminations are placed into an accurate cancel type.
- Cancellation notices that are e-mailed should contain the cancellation effective date within the body of the e-mail.

**Claims**

- Document the claim file that all applicable coverages have been disclosed to the insured. Particular attention should be given to ALE coverage and replacement cost benefits under Dwelling and Personal Property coverages.
- Provide reasonable assistance to an insured in the management of a claim.
- Notify the insured, in writing, every 45 days of the reason for the company's delay in completing the investigation of the claim.
- Acknowledge and act reasonably promptly to communications.
- Offer the insured an amount that is fair and reasonable as shown by the investigation of the claim and pay the claim in accordance with the insured's policy provisions.
- Pay no more than an insured is entitled to receive under the terms of the policy.
- Make replacement cost claim payments in accordance with the policy provisions.
- Include the fraud language on all claim forms required by the company as a condition of payment.
- Reference the correct policy page number in its denial letters when directing the insured to the policy.
- Not make broad statements as "Everything is covered and paid for." to the insured as it could result in an estoppel exposure.
- Only request police reports and third-party contact information when such will be used and pertains to the subject matter of the claim.
- Ensure releases are properly executed with appropriate signatures and language that corresponds to the facts of the claim.
- Use words in the policy contract when discussing coverage with their insureds.
- Revise the claims manual for concerns that were identified on the recommendation review sheet during the exam.
- Revise the company's website for the concerns that were identified on the recommendation review sheet during the exam.

**Statutory Notices**

- Make the changes to the website that were identified on the recommendation review sheet received during the exam.
- Amend the “Virginia Renewal Water Backup and Building Ordinance” notice by replacing the term “coming out” with “backs up.”
- Ensure e-mail notices sent regarding water backup display accurate information that corresponds to the policy coverages and provisions.
- When applicable, include the AUD language on or with the cancellation notice sent to the insured.

**SUMMARY OF PREVIOUS EXAMINATION FINDINGS**

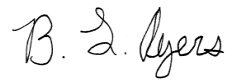
This is the first time the Virginia Bureau of Insurance has conducted an examination of the company.



**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the company during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in cursive script that reads "B. D. Ayers".

Brandon Ayers  
Insurance Market Examiner

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[scc.virginia.gov](http://scc.virginia.gov)

August 9, 2022

## VIA E-MAIL DELIVERY

Ms. Ann-Marie Friedman  
Compliance Director  
Lemonade Insurance Company  
5 Crosby Street, 3<sup>rd</sup> Floor  
New York, NY 10013  
E-mail: [ann-marie.friedman@lemonade.com](mailto:ann-marie.friedman@lemonade.com)

RE: Market Conduct Examination  
Lemonade Insurance Company, NAIC #16023  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Friedman:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of Lemonade Insurance Company for the period of January 1 through December 31, 2020. The preliminary examination report (Report) has been drafted for the company's review.

Attached with this letter is a copy of the Report and copies of review sheets that have been added, withdrawn, or revised since May 20, 2022. Also attached are several technical reports that will provide you with the specific file references for the violations listed in the Report.

Due to the number of Virginia insurance law violations cited, I would urge you to closely review the Report. Please provide a written response. The company does not need to respond to any particular item with which it agrees. If the company disagrees with a violation or wishes to further comment on a violation, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the Report or modify a violation unless the company provides written documentation to support their position. When the company responds, please do not include any personally identifiable or privileged information (names, policy numbers, claim numbers, addresses, etc.). The company should use exhibits or appendices to reference such information. In addition, please use the same format (headings and numbering) as found in the Report. If not, the response will be returned to the company to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report.

Secondly, the company must provide a corrective action plan that addresses all the issues identified in the examination, again using the same headings and numberings as are used in Part Two of the Report.

Thirdly, if the company has comments it wishes to make regarding Part Three of the Report, please use the same headings for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the company should outline the actions it is taking to prevent those issues from becoming a business practice.

Finally, we have attached an Excel file that the company must complete and return to the Bureau with its response. This Restitution spreadsheet lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The company's response and the spreadsheet mentioned above must be returned to the Bureau by November 4, 2022.

After the Bureau has received and reviewed the company's response, we will make any justified revisions to the Report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by November 4, 2022.

Sincerely,



Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
Office: (804) 371-9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Attachments



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

Ann-Marie Friedman  
Senior Director of Compliance

November 4, 2022

Andrea Baytop, AMCM  
Manager  
P&C Market Conduct Section  
Virginia Bureau of Insurance  
804.592.0245

Sent via email: [andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov) and [brandon.ayers@scc.virginia.gov](mailto:brandon.ayers@scc.virginia.gov)

**Re: Market Conduct Examination Report of Lemonade Insurance Company (Company) as of December 31, 2020**

Dear Ms. Baytop,

This letter serves as the Company's written response to the above-referenced report dated August 9, 2022. On behalf of myself and the Lemonade team, we thank you, Brandon Ayers and the examination team for the professionalism and courtesy extended to us during the examination. We look forward to a long and positive working relationship with the Virginia Bureau of Insurance with a view toward our mutual goal of serving our customers in Virginia.

We will take the additional recommendations contained in the report under advisement and appreciate your guidance as we are focused on continuous improvement.

For convenience, the pertinent portions of the Department's letter are quoted below (indicated by ***bold italic type***), and the Company's status of corrective actions (CAP) to address violations. As the examiners noted violations during the examination, the Company initiated effort to remediate through update to procedures and through various trainings and product changes (system). We completed all restitution (refunds plus 6% interest) directed by the BOI (see attached spreadsheet).

***Rating and Underwriting Review***

- 1. Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.*** - completed
- 2. Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.***- completed

3. **Complete and submit to the Bureau, the enclosed Restitution Spreadsheet file. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.**- completed see attached
4. **File all rates and supplementary rating information with the Bureau.** - completed
5. **Specify accurate information in the policy by listing all forms applicable to the policy on the declarations page.**-product change to be implemented 4Q2022
6. **Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, base and/or final rates, minimum premium rule, public protection class rule, premium determination rule, and rounding rule.** - completed and noted
7. **State the proper policy expiration time as 12:01 a.m. on the declarations page.**-completed

### **Termination Review**

1. **Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.** - completed
2. **Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.** - completed
3. **Complete and submit the Restitution Spreadsheet file to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.**- see attached
4. **Specify accurate information in the policy by listing the correct policy period and any additional insureds on the declarations page.** - completed
5. **Properly represent the benefits, coverages, advantages, and conditions of the policy.** -product change 4Q2022
6. **Provide the Notice of Information Collection and Disclosure Practices to the applicant.**- product change 4Q2022
7. **Provide a written AUD notice to an insured or applicant.**- completed
8. **Charge fees and/or calculate earned premium according to the filed rules and policy provisions.**- completed
9. **Advise the insured of the availability of other insurance through the VPIA.**- product change 4Q2022
10. **Advise the insured of the right to have the cancellation or nonrenewal of the policy reviewed by the Commissioner of Insurance.**- product change 4Q2022
11. **Specify the date of cancellation on the Cancellation notice sent to the insured.** -product change 4Q2022
12. **Obtain written notice when the insured requests cancellation of the policy.**- completed
13. **Maintain accurate data population files.** -completed

14. **Advise the insured of the specific reason or how to request the specific reason for cancellation.** -product change 4Q2022

### **Claims Review**

1. **Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.**- completed
2. **Include six percent (6%) simple interest in the amount paid to the insureds and claimants.**- completed
3. **Complete and submit to the Bureau, the enclosed Restitution Spreadsheet file. By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.**- completed see attached
4. **Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.**- completed
5. **Provide a reasonable explanation of the basis for its denial in the written denial of the claim.**- completed
6. **Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.** - completed
7. **Adopt and implement reasonable standards for the prompt investigation of claims arising under policies.**- completed
8. **Make prompt, fair and equitable claim settlements.**- completed
9. **Include a correct statement of coverage under which payments are made with all claim payments made to insureds..**- completed

### **Policy Issuance Process Review**

1. **Specify accurate information in the policy by listing and attaching all applicable forms on the declarations page.**- product change 4Q2022
2. **Provide the Replacement Cost notice as required by the Code of Virginia.**- completed
3. **Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.**- product change 1Q2023
4. **Provide the Ordinance and Law Coverage notice as required by the Code of Virginia.**- product change 4Q2022
5. **Provide the Flood Exclusion notice as required by the Code of Virginia.**- product change 4Q2022
6. **Provide the Earthquake Exclusion notice as required by the Code of Virginia.** -product change 4Q2022

### **Statutory Notices Review**

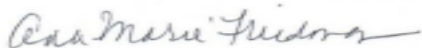
1. ***Amend the company's internet blog to properly represent the benefits, advantages, conditions, and terms of the insurance policy.*** - completed
2. ***Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.***- - completed
3. ***Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.***-- completed
4. ***Amend the language in the AUD notice to be substantially similar to the prototype set forth in Administrative Letter 2015-07.***- product change 4Q2022
5. ***Amend the Cancellation and Nonrenewal notices to include applicable AUD language, right to review language, and language informing the insured about obtaining insurance through the VPIA.***- product change 4Q2022
6. ***Amend the Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.*** - product change 4Q2022
7. ***Amend the Ordinance and Law notice to comply with § 38.2-2124 of the Code of Virginia.*** product change 4Q2022
8. ***Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.*** product change 4Q2022
9. ***Amend the Insurance Credit Score Disclosure notice to comply with § 38.2-2126 A 1 of the Code of Virginia.***- completed
10. ***Amend the Credit Adverse Action notice to comply with § 38.2-2126 A 2 of the Code of Virginia.***-completed
11. ***Develop an Earthquake Exclusion notice to comply with § 38.2-2129 of the Code of Virginia.***- product change 4Q2022

#### ***Complaint-Handling Process Review***

***Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.***- completed

The Company is committed to completing the necessary corrections and improvements to our practices to ensure continuous compliance.

Kind regards,



Ann-Marie Friedman  
ann-marie.friedman@lemonade.com  
(732)598-0568  
cc:  
Scott Fischer  
Annie McGeorge

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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January 3, 2023

## VIA E-MAIL DELIVERY

Ms. Ann-Marie Friedman  
Compliance Director  
Lemonade Insurance Company  
5 Crosby Street, 3<sup>rd</sup> Floor  
New York, NY 10013  
E-mail: [ann-marie.friedman@lemonade.com](mailto:ann-marie.friedman@lemonade.com)

RE: Market Conduct Examination  
Lemonade Insurance Company, NAIC #16023  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Friedman:

The Bureau of Insurance (Bureau) has reviewed the November 4, 2022 response to the Preliminary Market Conduct Report (Report) of Lemonade Insurance Company (Company). The Bureau has referenced only those items where the Company has disagreed with the Bureau's findings or outstanding items that require the Company's attention. This response follows the format of the Report.

## PART TWO – CORRECTIVE ACTION PLAN

### General

The Company has not sufficiently addressed the items listed throughout Part Two of the Report for its Corrective Action Plan. The Company did not indicate what steps were taken to assure future compliance. The Company should summarize what it has completed, performed, filed, amended, and corrected as a result of the market conduct examination. The Company should also provide copies of any new/revised forms, notices, and declaration pages that have been implemented as a result of the examination. Since it is after the fourth quarter of 2022, the Company should provide specific completion dates or estimated completion dates in its corrective action plan. Although we have only addressed



specific items below, the Company should address all the corrective actions listed in Part Two of the Report.

### **Rating and Underwriting Review**

- (3) The Company responded in the Restitution spreadsheet for RHO037. The overcharge amount of \$181 remains in the Report. The Company did not provide a copy of the Non-payment notice and evidence of payment was never received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

The Company responded in the Restitution spreadsheet for RHO045. The overcharge amount of \$66 remains in the Report. The Company did not provide evidence the policy was cancelled mid-term and full payment was not received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

The Company incorrectly made restitution to the mortgage company instead of directly to the insured for RHO058. Please note that sending insureds' restitution payments to a mortgage company is not acceptable, even when the premium was escrowed. The Company must either obtain acknowledgment from the insured that they were able to retrieve the refund or make an additional payment directly to the insured.

The Company responded in the Restitution spreadsheet for RHO065. The overcharge amount of \$141 remains in the Report. The Company did not provide evidence the policy was cancelled mid-term and full payment was not received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

The Company responded in the Restitution spreadsheet for RHO072. The overcharge amount of \$183 remains in the Report. The Company did not provide evidence the policy was cancelled mid-term and full payment was not received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

Please confirm that the Company paid the entire restitution amount of \$34.98 for RHO093. Otherwise, please explain why the net amount was not paid to the insured.

- (4) Please provide the SERFF filing number(s) where the Company filed all rates and supplementary rate information pertaining to violations within this Report.
- (5&7) Please provide a copy of the revised declarations page.

### **Statutory Notices Review**

- (1) Please provide a copy of the Company's revised internet blog.
- (2) Please provide a copy of the revised long form Notice of Information Collection and Disclosure Practices.
- (3) Please provide a copy of the Notice of Financial Information Collection and Disclosure Practices.
- (4) Please provide a copy of the AUD notice once it has been revised.
- (5) Please provide a copy of the Cancellation and Nonrenewal notices that includes the applicable AUD language, right to review language, and language informing the insured about obtaining insurance through the VPIA, once it has been revised.
- (6) Please provide a copy of the Replacement Cost notice once it has been revised.
- (7) Please provide a copy of the Ordinance and Law notice once it has been revised.
- (8) Please provide a copy of the Flood Exclusion notice once it has been revised.
- (9) Please provide a copy of the revised Insurance Credit Score Disclosure notice.
- (10) Please provide a copy of the revised Credit Adverse Action notice.
- (11) Please provide a copy of the revised Earthquake Exclusion notice.

### **Claims Review**

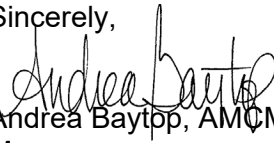
- (3) The Company should contact the named insured and confirm if they had any additional out-of-pocket ALE expenses for CHO006. The Company's restitution spreadsheet had "No" in the "Was Net Paid to customer?" field, but the refund check field indicated \$999 was refunded back to the insured's debit card. Further, the Company was advised that the \$999 was a placeholder amount until the actual amount of incurred expenses, if any, was verified upon contacting the insured.

Please confirm that the Company paid the entire restitution amount of \$6,352.58 for CHO073. Otherwise, please explain why the net amount was indicated as not paid to the insured.

We have made the changes noted above to the Market Conduct Examination Report. Attached with this letter is a revised copy of the Report, technical reports and Restitution spreadsheet, and any review sheets withdrawn, added, or altered as a result of this review.

Once we have received and reviewed the Company's responses to these items, we will be in a position to make a settlement offer. We look forward to your response by January 30, 2023.

Sincerely,



Andrea Baytop, AMCM  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 592-0245  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Attachments



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

Ann-Marie Friedman  
Senior Director of Compliance

February 15, 2023

Andrea Baytop, AMCM  
Manager  
P&C Market Conduct Section  
Virginia Bureau of Insurance  
804.592.0245

Sent via email: [andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov) and [brandon.ayers@scc.virginia.gov](mailto:brandon.ayers@scc.virginia.gov)

Re: Market Conduct Examination  
Lemonade Insurance Company, NAIC #16023  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Baytop:

This letter serves to respond to yours dated January 3, 2023 regarding those items contained in the Report where the Company has disagreed with the Bureau's findings or outstanding items that require the Company's attention. Thank you for granting us an extension to prepare our response to today. This response follows the format of your letter (and the Report).

#### Part Two – Corrective Action Plan

##### General

[The Company has not sufficiently addressed the items listed throughout Part Two of the Report for its Corrective Action Plan. The Company did not indicate what steps were taken to assure future compliance. The Company should summarize what it has completed, performed, filed, amended, and corrected as a result of the market conduct examination. The Company should also provide copies of any new/revised forms, notices, and declaration pages that have been implemented as a result of the examination. Since it is after the fourth quarter of 2022, the Company should provide specific completion dates or estimated completion dates in its corrective action plan. Although we have only addressed specific items below, the Company should address all the corrective actions listed in Part Two of the Report.]

## Rating and Underwriting Review

- (3) The Company responded in the Restitution spreadsheet for RHO037. The overcharge amount of \$181 remains in the Report. The Company did not provide a copy of the Non-payment notice and evidence of payment was never received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

### **Company Response:**

***Attached as Exhibit A is evidence that the \$181 return of premium for [REDACTED] was not appropriate as we had not collected any premium from this customer. The policy was not cancelled for non-payment.***

The Company responded in the Restitution spreadsheet for RHO045. The overcharge amount of \$66 remains in the Report. The Company did not provide evidence the policy was cancelled mid-term and full payment was not received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

### **Company Response:**

***Attached as Exhibit B is evidence demonstrating the correct amount that was uncollected. The BOI pointed out that \$66 return of premium was due for [REDACTED]. On September 23, 2022 we refunded \$15.83 to the customer on the basis that we thought \$50.17 was uncollected. However, our research since receiving your letter revealed that only \$4.18 in premium was uncollected and a refund in the amount of \$61.81 was appropriate. We are in the process of issuing a second refund in the form of a check in the amount of \$45.98 to achieve the full refund due.***

The Company incorrectly made restitution to the mortgage company instead of directly to the insured for RHO058. Please note that sending insureds' restitution payments to a mortgage company is not acceptable, even when the premium was escrowed. The Company must either obtain acknowledgment from the insured that they were able to retrieve the refund or make an additional payment directly to the insured.

### **Company Response:**

***Attached as Exhibit C is evidence that our restitution chart regarding [REDACTED] was incorrect and we had in fact reimbursed the customer in the amount of \$19 and a separate check for interest in the amount of \$1.14.***

The Company responded in the Restitution spreadsheet for RHO065. The overcharge amount of \$141 remains in the Report. The Company did not provide evidence the policy was cancelled mid-term and full payment was

not received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

**Company Response:**

*Attached as Exhibit D is evidence demonstrating the correct calculation for the uncollected amount and evidence that the policy was cancelled midterm. The BOI pointed out that \$141 return of premium was due for for [REDACTED]. On September 23, 2022 we refunded \$17.97 to the customer on the basis that we thought \$123.03 was uncollected. However, our research since receiving your letter revealed that only \$57.12 in premium was uncollected and a refund in the amount of \$141 was appropriate. We are in the process of issuing a second refund in the form of a check in the amount of \$65.91 to achieve the full refund due.*

The Company responded in the Restitution spreadsheet for RHO072. The overcharge amount of \$183 remains in the Report. The Company did not provide evidence the policy was cancelled mid-term and full payment was not received. Please provide supporting documentation in an Attachment or Exhibit with information identifying the policy in question for reconsideration of the overcharge amount.

**Company Response:**

*Attached as Exhibit E is evidence demonstrating that the policy was cancelled midterm and that the refund has been processed. The BOI pointed out that \$183 return of premium was due for [REDACTED]. On September 23, 2022 we refunded \$98.90 and the uncollected amount was \$84.10 to the customer, which aligns with the BOI's calculation of \$183 due to the customer.*

Please confirm that the Company paid the entire restitution amount of \$34.98 for RHO093. Otherwise, please explain why the net amount was not paid to the insured.

**Company Response:**

*Attached as Exhibit F is evidence demonstrating that the refund has been processed. The BOI pointed out that \$34.98 return of premium was due for [REDACTED]. On September 23, 2022 we refunded \$33 and a separate check in the amount of \$1.98 for the interest, aligning with the BOI's calculation of \$34.98 due to the customer.*

- (4) Please provide the SERFF filing number(s) where the Company filed all rates and supplementary rate information pertaining to violations within this Report.

**Company Response:**

**Attached as Exhibit G is a spreadsheet that represents all rate and supplementary rate information filed, including dates and SERFF references (as well as forms, for the BOI's information).**

(5&7) Please provide a copy of the revised declarations page.

**Company Response:**

**Attached as Exhibit H are copies of the revised declarations page for each of an HO3, HO4 and HO6 policy as recently issued to VA policyholders.**

Statutory Notices Review

**Company Response:**

**Attached as Exhibit I we have provided an index and copy of each of the items listed below. The index follows the list in exact order.**

1. Please provide a copy of the Company's revised internet blog.
2. Please provide a copy of the revised long form Notice of Information Collection and Disclosure Practices.
3. Please provide a copy of the Notice of Financial Information Collection and Disclosure Practices.
4. Please provide a copy of the AUD notice once it has been revised.
5. Please provide a copy of the Cancellation and Nonrenewal notices that includes the applicable AUD language, right to review language, and language informing the insured about obtaining insurance through the VPJA, once it has been revised.
6. Please provide a copy of the Replacement Cost notice once it has been revised.
7. Please provide a copy of the Ordinance and Law notice once it has been revised.
8. Please provide a copy of the Flood Exclusion notice once it has been revised.
9. Please provide a copy of the revised Insurance Credit Score Disclosure notice.
10. Please provide a copy of the revised Credit Adverse Action notice.
11. Please provide a copy of the revised Earthquake Exclusion notice.

Claims Review

- (3) The Company should contact the named insured and confirm if they had any additional out-of-pocket ALE expenses for CHO006. The Company's restitution spreadsheet had "No" in the "Was Net Paid to customer?" field, but the refund check field indicated \$999 was refunded back to the insured's debit card. Further, the Company was advised that the \$999 was a placeholder amount until the actual amount of incurred expenses, if any, was verified upon contacting the insured.

**Company Response:**

**On February 2, 2023 the claimant under claim# [REDACTED] was contacted to confirm if any additional out of pocket expenses were incurred. On February 14, 2023 the insured advised that he had \$400 in additional expenses and on**

*the same day a full refund was issued. We will issue a second check in the amount of \$24 representing interest owed. Attached as Exhibit J is evidence of the \$400 payment.*

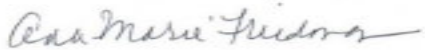
Please confirm that the Company paid the entire restitution amount of \$6,352.58 for CHO073. Otherwise, please explain why the net amount was indicated as not paid to the insured.

***Company Response:***

*On August 29, 2022 we issued two checks to the claimant under claim # [REDACTED] in the amount of \$5,993 and the second in the amount of \$359.58 for interest. (total of \$6,352.58) Attached as Exhibit K is evidence of the payments.*

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

Kind regards,



Ann-Marie Friedman  
ann-marie.friedman@lemonade.com  
(732)598-0568  
cc:  
Scott Fischer  
Annie McGeorge



# COMMONWEALTH OF VIRGINIA

SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

June 26, 2023

## VIA E-MAIL DELIVERY

Ms. Ann-Marie Friedman  
Compliance Director  
Lemonade Insurance Company  
5 Crosby Street, 3<sup>rd</sup> Floor  
New York, NY 10013  
E-mail: [ann-marie.friedman@lemonade.com](mailto:ann-marie.friedman@lemonade.com)

Re: Market Conduct Examination  
Lemonade Insurance Company (NAIC #16023)  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Friedman:

The Bureau of Insurance (Bureau) has reviewed the February 15, 2023 response to the Revised Market Conduct Report (Report) of Lemonade Insurance Company (Company). The Bureau's following response only addresses the Company's disagreements, changes made to the Report, and outstanding items that require the Company's attention. This response follows the format of the Report.

## PART TWO – CORRECTIVE ACTION PLAN

### General

The Company should resubmit a complete corrective action plan with its response. The Company only responded to the items of the corrective action plan (CAP) mentioned in the Bureau's January 3, 2023 letter instead of all the items as requested. A sufficient CAP has a summary of the actions taken to correct non-compliance, provides documentation of these changes when appropriate, and provides specified implementation dates. The Company should ensure that a complete CAP is provided within its written response or as a separate document on company letterhead.

### **Rating and Underwriting Review**

- (3) The violation for RHO037 remains in the Report, but the overcharge of \$181 is removed. The Company provided documentation that the insured never made any payment for this policy.
- The restitution of \$66 remains in the Report for RHO045. The Company provided evidence of the insured's failed payment of \$4.18. The Company made a partial payment of \$15.83 plus interest of \$3.96 on September 23, 2022. The Company still owes \$45.99 after considering the insured's balance owed and previous restitution payments. Please submit the Restitution spreadsheet with payment amount, check number, and date.
- The restitution of \$141 remains in the Report for RHO065. The Company provided evidence of uncollected premium of \$57.12. The Company made a partial payment of \$17.97 plus interest of \$8.46 on September 23, 2022. The insured is due an additional 65.91. Please submit the Restitution spreadsheet with payment amount, check number, and date.
- (4) The Company's SERFF filing LEMO-133012233 includes a homeowner manual and rate order of calculation (ROC). The Company should ensure the homeowner manual properly references the term "Base Premium" since both "Base Premium" and "Base Premium 2" are used in the ROC. Secondly, the correction made for the LEM 06 Coverage A increased limit calculation does not appear to reflect the Company's actual calculation. Please provide an example of the Company's current calculation steps in a separate Exhibit.

### **Statutory Notices Review**

- (2) The Company's GLBA notice, revised October 1, 2021, requires further revisions. While the Company added verbiage at the end of the notice that complies with those items raised in the review sheet that documented the violation, the examiner identified that the notice does not fully comply with § 38.2-604 B 3 of the Code of Virginia. The notice does not provide all those instances that occur with such frequency as to indicate a general business practice as described under § 38.2-613 B and C of the Code of Virginia. The Company should revise the notice to identify all the instances that are a general business practice.
- (4) The Company's revised notice, Virginia Summary of Rights, provides the Adverse Underwriting Decision (AUD) language via a link that is attached to the e-mail. The Company must provide the AUD language in the body of the e-mail itself, and not make it available only via a link in the e-mail that must be selected in order to be opened separately. Moreover, the Nonrenewal Notice e-mail reads that "Regulators require insurance companies to follow strict guidelines when it comes to determining which properties we can cover. We are prohibited from insuring locations that are used for any type of business activity. Unfortunately, based on those guidelines, we won't be able to renew our coverage...." It should be clear that "Regulators" do not mandate or require any condition(s) which pertain to a Company's underwriting guidelines(s) and the reference to same should be removed from the e-mail. This is the Company's

business decision as to this underwriting decision. Continuing with this issue, the Company's "Cancellation Notice" e-mail reads "As an insurance company, regulation requires us to follow strict guidelines...one of the guidelines specifies that we aren't able to insure homes with private mortgages". Again, the Company is referencing a regulation in place of a business decision and this reference to the "regulation" must be removed. If the Company disagrees with this specific issue, please provide the regulation that is being referenced for consideration in regard to "insuring locations that are used for any type of business activity" and regarding "private mortgages". Finally, please provide any other e-mail(s), written communication(s), etc. that reference "regulation" and/or "regulators", that the Company uses for Virginia policies, and provide same for review.

- (6) In terms of the "Replacement Cost Coverage Notice", LEM-VANOTICE04 (08-21), the notice reads, "Please note that if at the time of loss your policy does not meet the minimum coverage requirements of 100% of the replacement cost, we will pay..." This 100% requirement conflicts with the 80% threshold referenced in the Lemonade Homeowners policy (LEM 03 VA 05 20 and LEM 03 VA 08 18) under Section I-Conditions, D. Loss Settlement, Coverages A and Coverage B, 1. The notice must be revised to accurately represent the threshold that is found in the above-referenced policies.
- (8) The "Advisory Notice to Policyholders Virginia Flood Exclusion", LEM-VANOTICE03 (08-21), should be revised to inform the reader that information regarding flood insurance is available from the "insurer", in addition to the National Flood Insurance Program, as well that contents coverage is available for an additional premium. The Company should review § 38.2-2125 of the Code of Virginia for compliance.
- (10) The Company provided the "NOTICE: CREDIT AND CREDIT BASED INFORMATION", LEM-AdvAction02-VA (08-21) for compliance with § 38.2-2126 A 1 of the Code of Virginia. However, this notice does not comply with subdivisions (ii) and (iii) of this statute. The Company should review the aforementioned statute and the prototype language provided in same for compliance.
- (11) The Company's notice, "VIRGINIA EARTHQUAKE EXCLUSION", LEM-VANOTICE02 (08-21), needs to be revised. It currently reads, "Your policy does not protect you against losses from earthquakes." Section 38.2-2129 of the Code of Virginia requires the statement to read, "earthquake coverage is excluded unless purchased by endorsement". The statute requires the insurer to inform the reader that if such coverage is available from the insurer, that information regarding earthquake insurance is available from the insurer or insurance agent. Considering the Company provided the Earthquake-Virginia endorsement, HO 23 54 08 98, indicating same was available for use during the examination period, the above notice must be revised to be compliant with the statute.

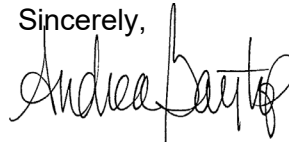
## Claims Review

- (3) For CHO006, the Company submitted a screen shot of the \$400 Additional Living Expense (ALE) payment being made to the named insured. The Company should clarify how the \$400 payment was determined. The screenshot does not provide any information outside the payment amount and the policy number. According to the restitution spreadsheet, the Company also made a payment of \$999 in the form of a debit card refund. The Company needs to clarify if the \$400 ALE payment was a separate payment on top of the \$999 payment. Until shown otherwise, the underpayment amount on review sheet ClaimPropHO-1491059272 has been updated to reflect an underpayment of \$1,399. If the insured was underpaid a total of \$1,399 under their ALE coverage, then the Company should submit proof of the \$24.00 interest payment once it has been made. If the underpayment amount under ALE was only \$400 and not \$1,399, then an additional interest payment would not need to be made. According to the restitution spreadsheet, Lemonade already made an interest payment of \$59.94 on 9/1/2022. Additionally, if the Company is making payments directly to the debit card then documentation needs to be provided that the payment is in fact going to the insured's debit card. Debit card refund shown in the check number field on the Restitution spreadsheet is not sufficient evidence of proper payment.

We have made the changes noted above to the Market Conduct Examination Report. Enclosed with this letter is a revised version of the Report, technical reports and Restitution spreadsheet; and any review sheets withdrawn, added or altered as a result of this review. The Company's response to this letter is due in the Bureau's office by July 14, 2023.

Once we have received and reviewed the Company's response to these items, we will be in a position to make a settlement offer. We look forward to your response by July 14, 2023.

Sincerely,



Andrea Baytop, AMCM  
Manager  
Market Conduct Section  
Property and Casualty Division  
(804) 371-9547  
[andrea.bayotp@scc.virginia.gov](mailto:andrea.bayotp@scc.virginia.gov)

Enclosures

# Lemonade

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

Ann-Marie Friedman  
Senior Director of Compliance

July 18, 2023

Andrea Baytop, AMCM  
Manager  
P&C Market Conduct Section  
Virginia Bureau of Insurance  
804.592.0245

Sent via email: [andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov) and [brandon.ayers@scc.virginia.gov](mailto:brandon.ayers@scc.virginia.gov)

Re: Market Conduct Examination  
Lemonade Insurance Company, NAIC #16023 (the "Company")  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Baytop:

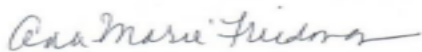
This letter responds to yours dated June 26, 2023 regarding the Bureaus's review of the Company's February 15, 2023 response to the Revised Market Conduct Report. Thank you for granting us an extension of time to respond.

Please see attached **Exhibit A** which provides a complete Corrective Action Plan, including narratives with completion dates or prospective dates for completion and supporting documentation when appropriate. We believe we have sufficiently addressed all the non-compliances identified in your letter of June 26, 2023.

Please see attached **Exhibit B** which provides a complete Corrective Action Plan, including narratives with completion dates or prospective dates for completion and supporting documentation when appropriate for all items outlined in Part Two - Corrective Actions of the Report. We believe we have sufficiently addressed all the non-compliances identified by the Bureau.

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

Kind regards,



Ann-Marie Friedman  
ann-marie.friedman@lemonade.com  
(732)598-0568

cc:  
Scott Fischer  
Annie McGeorge

## EXHIBIT A

Company Action/Plans are noted under repeated subject heading and item number aligned with Letter from BOI dated June 26, 2023

### Rating and Underwriting Review

- (3) *The violation for RHO037 remains in the Report, but the overcharge of \$181 is removed. The Company provided documentation that the insured never made any payment for this policy.*

#### COMPANY ACTION/PLAN:

No further action is necessary.

*The restitution of \$66 remains in the Report for RHO045. The Company provided evidence of the insured's failed payment of \$4.18. The Company made a partial payment of \$15.83 plus interest of \$3.96 on September 23, 2022. The Company still owes \$45.99 after considering the insured's balance owed and previous restitution payments. Please submit the Restitution spreadsheet with payment amount, check number, and date.*

#### COMPANY ACTION/PLAN:

Please see Attachment "Lemonade Restitution July 18, 2023" for the fully updated Restitution Spreadsheet which includes all overcharges with indication of when refunds were processed. The Company issued a refund to the customer on 2/17/23 in the amount of \$45.99. No additional interest is due to the customer as the original interest payment was sent on 9/23/22 for the full overcharge amount of \$66.00.

*The restitution of \$141 remains in the Report for RHO065. The Company provided evidence of uncollected premium of \$57.12. The Company made a partial payment of \$17.97 plus interest of \$8.46 on September 23, 2022. The insured is due an additional 65.91. Please submit the Restitution spreadsheet with payment amount, check number, and date.*

#### COMPANY ACTION/PLAN:

Please see the "Lemonade Restitution July 18, 2023" spreadsheet attached above. The Company issued a refund to the customer on 2/17/23 in the amount of \$65.91. No additional interest is due the customer as the original interest payment was sent on 9/23/22 for the full overcharge amount of \$141.00.

- (4) *The Company's SERFF filing LEMO-133012233 includes a homeowner manual and rate order of calculation (ROC). The Company should ensure the homeowner manual properly references the term "Base Premium" since both "Base Premium" and "Base Premium 2" are used in the ROC. Secondly, the correction made for the LEM 06*

***Coverage A increased limit calculation does not appear to reflect the Company's actual calculation. Please provide an example of the Company's current calculation steps in a separate Exhibit.***

**COMPANY ACTION/PLAN:**

On 10/12/2021 the Company filed a revision (Please see Attachment "SERFF# LEMO-133012233") which was approved by the BOI on 01/04/2022 and implemented by the Company for New Business on 5/1/2022 and Renewal Business on 6/30/2022.

In the filing, Lemonade updated the rate order of calculation to apply Rule 28. - Wind Protective Credits to LEM 06. Additionally, Rule 507. - Form LEM 06 Coverage A Dwelling Basic & Increased Limits & Special Coverage was revised to reflect the rule number change to Rule 305 and moved to Section 2. Base Premiums (pages 285-288 of the attachment). The intent of the changes was to clarify the application of the filed rates and rules with Lemonade's current rating structure. Form LEM 06 Coverage A Dwelling Basic & Increased Limits & Special Coverages.

As we have had staffing changes, we reviewed this observation again and discovered that the changes approved on 01/04/2022 were insufficient. We plan to submit a rule filing that includes the current rating structure for LEM 06 Increased. This will be done no later than 12/31/2023.

Please see Attachment "Increased Limits Calculation Example" as an example of our current LEM 06 Coverage A increased limits calculation steps.

Our rating for increased limits is as follows: our policy automatically provides a basic Coverage A limit of \$5,000 on a named peril basis. To develop the premium for each additional \$1,000 of insurance, multiply the LEM 06 key factor of 0.026 for "Each Add'l \$1,000" by the following rating factors: Base Rate, Protection Class Factor, Tier Factor, All Other Peril Deductible Factor, Age of Dwelling Factor, Gated Community Credit, Loyalty Credit, Graduation Credit, Renovation Credit, Management Company Credit, Wind Protective Device Credit, Bundle Credit, Fire Protective Device Credits, Theft Protective Device Credits, Water Protective Device Credits, Vacant Dwelling Factor, Type of Residence Factor, and Renovation/Construction Surcharge.

**Statutory Notices Review**

- (2) ***The Company's GLBA notice, revised October 1, 2021, requires further revisions. While the Company added verbiage at the end of the notice that complies with those items raised in the review sheet that documented the violation, the examiner identified that the notice does not fully comply with § 38.2-604 B 3 of the Code of***

**Virginia. The notice does not provide all those instances that occur with such frequency as to indicate a general business practice as described under § 38.2-613 B and C of the Code of Virginia. The Company should revise the notice to identify all the instances that are a general business practice.**

**COMPANY ACTION/PLAN:** The Company has revised its GLBA notice per the finding by the BOI and posted to our website on July 17, 2023. This is also the date on which this notice will be generated with all new business and renewals from that date forward. Please see Attachments entitled “Privacy Pledge June 30, 2023 and “GLBA July 17, 2023” for evidence of the modifications.

- (4) ***The Company’s revised notice, Virginia Summary of Rights, provides the Adverse Underwriting Decision (AUD) language via a link that is attached to the e-mail. The Company must provide the AUD language in the body of the e-mail itself, and not make it available only via a link in the e-mail that must be selected in order to be opened separately. Moreover, the Nonrenewal Notice e-mail reads that “Regulators require insurance companies to follow strict guidelines when it comes to determining which properties we can cover. We are prohibited from insuring locations that are used for any type of business activity. Unfortunately, based on those guidelines, we won’t be able to renew our coverage....” It should be clear that “Regulators” do not mandate or require any condition(s) which pertain to a Company’s underwriting guidelines(s) and the reference to same should be removed from the e-mail. This is the Company’s business decision as to this underwriting decision. Continuing with this issue, the Company’s “Cancellation Notice” e-mail reads “As an insurance company, regulation requires us to follow strict guidelines...one of the guidelines specifies that we aren’t able to insure homes with private mortgages”. Again, the Company is referencing a regulation in place of a business decision and this reference to the “regulation” must be removed. If the Company disagrees with this specific issue, please provide the regulation that is being referenced for consideration in regard to “insuring locations that are used for any type of business activity” and regarding “private mortgages”. Finally, please provide any other e-mail(s), written communication(s), etc. that reference “regulation” and/or “regulators”, that the Company uses for Virginia policies, and provide same for review.***

**COMPANY ACTION/PLAN:** We agree with the issue raised by the Examiners. Please see Attachment “Revised Macros” for the macros that were updated as of 7/11/2023. In addition, we have undertaken to review all customer facing communications (macros) and AUD notices to amend the language to remove references to “regulation” and/or “regulators”, and the system development work has begun to add the AUD language in the body of the email in lieu of a link to the email. This has a target completion date of 8/31/2023. Please see Attachments “Revised Cancellation Notice” and “Revised Nonrenewal Notice”



for the planned changes to the Cancellation and Nonrenewal notices.

- (6) ***In terms of the “Replacement Cost Coverage Notice”, LEM-VANOTICE04 (08-21), the notice reads, “Please note that if at the time of loss your policy does not meet the minimum coverage requirements of 100% of the replacement cost, we will pay...” This 100% requirement conflicts with the 80% threshold referenced in the Lemonade Homeowners policy (LEM 03 VA 05 20 and LEM 03 VA 08 18) under Section I-Conditions, D. Loss Settlement, Coverages A and Coverage B, 1. The notice must be revised to accurately represent the threshold that is found in the above-referenced policies.***

**COMPANY ACTION/PLAN:** To remove the conflict between the “Replacement Cost Coverage Notice” LEM-VANOTICE04 (08-21) and the Lemonade Homeowners policy form LEM 03 VA 04 22, we will update the “Replacement Cost Coverage Notice” no later than 11/01/2023 to reflect a consistent replacement cost percentage of 80% in the Notice to align with the base policy.

- (8) ***The “Advisory Notice to Policyholders Virginia Flood Exclusion”, LEM-VANOTICE03 (08-21), should be revised to inform the reader that information regarding flood insurance is available from the “insurer”, in addition to the National Flood Insurance Program, as well that contents coverage is available for an additional premium. The Company should review § 38.2-2125 of the Code of Virginia for compliance.***

**COMPANY RESPONSE:** Lemonade agrees with this observation and will update and implement the “Advisory Notice to Policyholders Virginia Flood Exclusion” to comply with § 38.2-2125 no later than 11/01/2023 that will include an email to existing customers informing of the notice update.

- (10) ***The Company provided the “NOTICE: CREDIT AND CREDIT BASED INFORMATION”, LEM-AdvAction02-VA (08-21) for compliance with § 38.2-2126 A 1 of the Code of Virginia. However, this notice does not comply with subdivisions (ii) and (iii) of this statute. The Company should review the aforementioned statute and the prototype language provided in same for compliance.***

**COMPANY ACTION/PLAN:** Lemonade agrees with this observation and will update and implement the Notice: Credit and Credit Based Information, LEM-AdvAction02-VA (08-21) to comply with § 38.2-2126 A 1 of the Code of Virginia no later than 11/01/2023 that will include an email to existing customers informing of the notice update.

- (11) ***The Company’s notice, “VIRGINIA EARTHQUAKE EXCLUSION”, LEM-VANOTICE02 (08-21), needs to be revised. It currently reads, “Your policy does not protect you against losses from earthquakes.” Section 38.2-2129 of the Code of Virginia requires the statement to read, “earthquake coverage is excluded unless purchased***

*by endorsement". The statute requires the insurer to inform the reader that if such coverage is available from the insurer, that information regarding earthquake insurance is available from the insurer or insurance agent. Considering the Company provided the Earthquake-Virginia endorsement, HO 23 54 08 98, indicating same was available for use during the examination period, the above notice must be revised to be compliant with the statute.*

**COMPANY ACTION/PLAN:** Lemonade agrees with this observation and will address the required updates to the Virginia Earthquake Exclusion Notice (LEM-VANOTICE02 (08-21) to comply with Section 38.2-2129 of the Code of Virginia and will implement no later than 11/01/2023 that will include an email to existing customers informing of the notice update.

Lemonade does not and has not offered Earthquake coverage and we do not plan to. As you are aware, we filed ISO form number HO 23 54 08 98 in SERFF Tracking #PERR-131533235, and did not put this endorsement form into production. We plan to submit a filing to formally withdraw this endorsement no later than 12/31/2023.

Claims Review

- (3) *For CHO006, the Company submitted a screen shot of the \$400 Additional Living Expense (ALE) payment being made to the named insured. The Company should clarify how the \$400 payment was determined. The screenshot does not provide any information outside the payment amount and the policy number. According to the restitution spreadsheet, the Company also made a payment of \$999 in the form of a debit card refund. The Company needs to clarify if the \$400 ALE payment was a separate payment on top of the \$999 payment. Until shown otherwise, the underpayment amount on review sheet ClaimPropHO-1491059272 has been updated to reflect an underpayment of \$1,399. If the insured was underpaid a total of \$1,399 under their ALE coverage, then the Company should submit proof of the \$24.00 interest payment once it has been made. If the underpayment amount under ALE was only \$400 and not \$1,399, then an additional interest payment would not need to be made. According to the restitution spreadsheet, Lemonade already made an interest payment of \$59.94 on 9/1/2022. Additionally, if the Company is making payments directly to the debit card then documentation needs to be provided that the payment is in fact going to the insured's debit card. Debit card refund shown in the check number field on the Restitution spreadsheet is not sufficient evidence of proper payment.*

**COMPANY ACTION/PLAN:** After receiving the restitution spreadsheet during the examination, an initial payment of \$999 was issued to the customer via a check. Simultaneously, an interest payment of \$59.94 was made. In light of the BOI's follow-up letter dated January 3, 2023, we reached out to the customer to

confirm if there were any further amounts, apart from the \$999, that they believed should be included in the claim settlement. The customer, after discussing it with their spouse, mentioned that the remaining amount was \$400, covering Additional Living Expenses, resulting in a total underpayment of \$1399. This payment was sent electronically, while a paper check of \$24 was issued for the interest payment. Please see Attachments "CHO006 Payments" for the four payments made to the customer to resolve the underpayment for this claim.

**EXHIBIT B**  
**Part Two - Corrective Action Plan Response**

**Rating and Underwriting Review**

**Lemonade Insurance Company shall:**

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.**
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.**
- (3) Complete and submit to the Bureau, the enclosed Restitution Spreadsheet file. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.**

**COMPANY ACTION/PLAN 1-3:** Please see Attachment "Lemonade Restitution July 14, 2023" for the fully updated Restitution Spreadsheet which includes all overcharges with indication of when refunds were processed. This was also referred to in Exhibit A.

- (4) File all rates and supplementary rating information with the Bureau.**

**COMPANY ACTION/PLAN:** The Company has increased the amount of staff dedicated to rate filings and introduced additional quality control initiatives to ensure accurate rates and forms are filed and implemented in alignment with the filing. These initiatives include a formal peer review and approval process, the development of comprehensive QA checklists for rates and forms, and formal sign-off procedures by team managers. Please see Attachment "Insurance Operations Process" for evidence of the (1) staffing (2) QA initiatives: peer review/approval, QA checklists; sign off procedures.

- (5) Specify accurate information in the policy by listing all forms applicable to the policy on the declarations page.**

**COMPANY ACTION/PLAN:** On February 13, 2023, the Company made revisions to Policy Declarations which now lists all applicable endorsements using form names and form numbers. Please see Attachments "Declaration Pages" for example Declaration Pages for each of HO3, HO4 and HO6.

- (6) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, base and/or final rates, minimum premium rule, public protection class rule, premium determination rule, and rounding rule.**

**COMPANY ACTION/PLAN:** The Company has made significant enhancements to our quality control practices in order to validate current ratings, rule applications, and premium determinations. Our quality assurance testing now encompasses multiple stages, including pre-release, immediate post-release, and a few weeks after the release, covering both revised

and non-revised items. We have also revamped our documentation and training for test plans to ensure comprehensive and accurate validation of each item. Lastly, we have introduced a new process that restricts system changes exclusively to approved modifications outlined in specification documents, effectively eliminating any unplanned changes. Please see Attachment “Home: List of Tasks Required for a Rate Change (02/13/2023)”

In addition, Attachment “Virginia MCE - Action Plan Report - July 18 2023” provides a list of our current action plans that need to be addressed for the market conduct exam.

**(7) State the proper policy expiration time as 12:01 a.m. on the declarations page.**

**COMPANY ACTION/PLAN:** In February 2020, the Company updated Policy Declarations for HO3, HO4 and HO6 to clearly state policy expiration time as 12:01 am on date of expiration. Please see the Declaration Pages attached above. These are identical to those provided for item 5 above under Rating and Underwriting.

### **Termination Review**

#### **Lemonade Insurance Company shall:**

**(1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds’ accounts the amount of the overcharge as of the date the error first occurred.**

**(2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds’ accounts.**

**(3) Complete and submit the Restitution Spreadsheet file to the Bureau. By returning the completed file to the Bureau, the company acknowledges that it has refunded or credited the overcharges listed in the file.**

**COMPANY ACTION/PLAN TO 1-3:** Please see the “Lemonade Restitution July 18, 2023” spreadsheet attached above under Rating and Underwriting. This was also referred to in Exhibit A.

**(4) Specify accurate information in the policy by listing the correct policy period and any additional insureds on the declarations page.**

**COMPANY ACTION/PLAN:** The Company updated the Declarations Page to state the proper policy expiration time as 12:01 am and include any additional insureds. Please see the Declaration Pages attached above. These are identical to those provided for item 5 above under Rating and Underwriting.

**(5) Properly represent the benefits, coverages, advantages, and conditions of the policy.**

**COMPANY ACTION/PLAN:** Please see the Declaration Pages attached above for the revised Declarations pages that now list all endorsements attached to policy upon issuance. These are identical to those provided for item 5 above under Rating and Underwriting.

**(6) Provide the Notice of Information Collection and Disclosure Practices to the applicant.**

**COMPANY ACTION/PLAN:** On October 4, 2020, the Company began providing the Privacy Pledge at New Business and Renewal. Our GLBA notice attached to our Privacy Pledge has been updated to comply with § 38.2-604 B of the Code of Virginia and was effective and posted to our website on July 17, 2023. Please see Attachments entitled “Privacy Pledge June 30, 2023” and “GLBA July 17, 2023” for evidence of the modifications. These are also provided in Exhibit A.

**(7) Provide a written AUD notice to an insured or applicant.**

**COMPANY ACTION/PLAN:** Effective by 11/1/2023 we will ensure that all applicants or policyholder receive written notice of declination, cancellation, and nonrenewal containing the AUD language, which also advises the insured of their options through Virginia Property Insurance Association, and their right to have the cancellation or nonrenewal reviewed by the Commissioner of Insurance in the body of the email. Please see Attachments “Revised Declination Notice”, “Revised Cancellation Notice”, “Revised Nonrenewal Notice”.

**(8) Charge fees and/or calculate earned premium according to the filed rules and policy provisions.**

**COMPANY ACTION/PLAN:** Please see our response under Rating and Underwriting review item 6 above.

**(9) Advise the insured of the availability of other insurance through the VPIA.**

**COMPANY ACTION/PLAN:** Effective by 8/31/2023, we will ensure that all declination, cancellation, and nonrenewal notices currently in use will contain in the body of the email the AUD language, advise the insured of their options through VPIA, and their right to have the cancellation or nonrenewal reviewed by the Commissioner of Insurance. Please see the revised notice Attachments provided for item 7 under Termination Review above.

**(10) Advise the insured of the right to have the cancellation or nonrenewal of the policy reviewed by the Commissioner of Insurance.**

**COMPANY ACTION/PLAN:** Effective by 8/31/2023, we will ensure that all declination, cancellation, and nonrenewal notices currently in use will contain in the body of the email the AUD language, advise the insured of their options through VPIA, and their right to have the cancellation or nonrenewal reviewed by the Commissioner of Insurance. Please see the revised notice Attachments provided for item 7 under Termination Review above.

**(11) Specify the date of cancellation on the Cancellation notice sent to the insured.**

**COMPANY ACTION/PLAN:** All underwriting cancellations (excluding non-payment cancellations) and non-renewals currently specify the date of cancellation on the notice. We will update the notice of cancellation for non-payment to specify the date and time (12:01am) of cancellation in the notice (removing the language that states X number of days). This will be completed by 8/31/2023. Please see Attachment “Revised Dunning Notice”.

**(12) Obtain written notice when the insured requests cancellation as required by the policy.**

**COMPANY ACTION/PLAN:** We plan to file additional revisions to our base policies by 12/31/23, to more accurately align with our current business practices and will implement once approved. We have also adjusted our CX procedures such that customers who call in and request cancellation are asked to email us as well before we process the cancellation.

**(13) Maintain accurate data population files.**

**COMPANY ACTION/PLAN:** Please see Attachment “Termination/Rejected App Data File - June 2023” which contains, for the period June 1, 2023 - June 30, 2023, data for both terminations (company initiated, insured requested and non-renewals) as well as rejected applications. This demonstrates the Company’s effort in refining how this data is presently captured which we believe you will find more accurate for business intelligence and future audits and examinations.

**(14) Advise the insured of the specific reason or how to request the specific cancellation reason in the AUD notice when the notice is mailed in the first 89 days of coverage.**

**COMPANY ACTION/PLAN:** The Company currently advises the insured on how to request the specific cancellation reason in the AUD notice via a link in the footer of the notice. However, as noted in the BOI’s letter dated June 26, 2023, and no later than 8/31/2023, these customer facing communications will include the “how to” information in the body of the email and the links will be removed. Please see the revised notice in the Attachments provided for item 7 under Termination Review above.

## **Claims Review**

### **Lemonade Insurance Company shall:**

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.**
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.**
- (3) Complete and submit to the Bureau, the enclosed Restitution Spreadsheet file. By returning the completed file to the Bureau, the company acknowledges that it has paid the underpayments listed in the file.****(4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.**

**COMPANY ACTION/PLAN TO 1-3:** Please see the “Lemonade Restitution July 18, 2023” spreadsheet attached above under Rating and Underwriting. This was also referred to in Exhibit A.

**(4) Properly document claim files so that all events and dates pertinent to the claim can be reconstructed.**

**COMPANY ACTION/PLAN:** The Claims Department Best Practices were updated in September 2022 and provide guidance to our Claim team members surrounding complete file

documentation (please refer to Section 6 - Claim Documentation in Attachment “Claims Department Best Practices”). All new Claim Team members are required to review the document and acknowledge their understanding of its contents during onboarding. All Claim Team members do same on an annual basis. The claims training team delivers mandatory annual training which overviews the manual in its entirety and includes all updates.

We monitor our advocates adherence to the guidelines set forth by our Best Practices by conducting quality reviews of our claim files. Our Quality Assurance (QA) department procedures have been improved to require coaching by supervisors to advocates. The feedback delivered during this process tests for claim file completeness (all pertinent information regarding coverage analysis, decisions, and events that occur). The QA team now uses Claim Toolkit to facilitate an improved QA process that measures the adherence to our claim standards and helps proactively detect errors. An updated QA Scorecard was designed with an emphasis on technical quality, payment accuracy, adherence to the Claims Department Best Practices, and regulatory compliance. Please see Attachments “QA Scorecard - Home” and “QA Scorecard - Renters” for the updated QA scorecards. Needed adjustments will be made to the process to ensure continuous improvement and compliance.

**(5) Provide a reasonable explanation of the basis for its denial in the written denial of the claim.**

**COMPANY ACTION/PLAN:** The Company’s Claims Department Best Practices have been updated to include verbiage surrounding coverage letters to ensure that denials and partial denials clearly include the Company’s reasoning for not paying a portion or all of the claim (please refer to Section 4 - File Documentation in the Claims Department Best Practices). Relevant action appears below for ease:

*Coverage Communications*

*G. The Advocate is responsible for ensuring that all coverage letters include the following:*

- i. A summary of the facts of the loss and the relevant findings of the claim investigation*
- ii. What the policy language states (by citing all relevant policy provisions);*
- iii. Why it is believed that coverage may not apply;*

**(6) Properly represent pertinent facts or insurance provisions relating to coverage(s) at issue.**

**COMPANY ACTION/PLAN:** The revised Claims Department Best Practices (Version: September 2022) include verbiage surrounding disclosing and explaining all potential benefits/coverages (please refer to Section 4 - File Documentation, item a, i, iii & iv on pages 4 and 5 in the Claims Department Best Practices). Relevant sections appear below for ease:

*Coverage communications*

*a. The Advocate should disclose to a first-party claimant or beneficiary all benefits, coverage, time limits, or other provisions of any Lemonade insurance policy issued to that insured that may apply to the claim presented by the claimant. Take the time to explain ALL coverages under the policy to the insured. Do not assume the insured understands all coverages available to them.*

*i. Ask questions. During the claim investigation, it may become apparent that the insured has incurred, but not disclosed, additional expenses or covered*



losses. (For example, if a burglary took place in the home, confirm whether loss of use coverage applies, and whether there may be damage to the home that the insured is responsible for).

ii. In the event of a loss under a homeowner's or renter's insurance policy where the insured has made a claim for additional living expenses, the Advocate is to provide the insured with a list of items that may be covered under Loss of Use. Where appropriate, the Advocate is to include a statement that the list is not intended to include all items covered under the policy, but only those that are commonly claimed.

iii. When discussing coverage, fully explain what is covered. (For example, if an insured is given temporary housing, explain that any increase in car mileage due to their new location may be covered).

iv. The claim file should be documented to reflect what is discussed with the insured.

**(7) Adopt and implement reasonable standards for the prompt investigation of claims arising under policies.**

**COMPANY ACTION/PLAN:** In May of 2021, a technical lead role was hired with the intent of the role being dedicated to establishing consistent Lemonade claim practices, continuously improving these processes, and implementing unit-wide changes.

To complement the new practices, the Company also introduced multiple claims system enhancements, allowing for advocates and supervisors to have better insights into the pending claims, assisting with timely processing of files. Enhancements include:

1. Priority View: Advocates may view claims classified as "priority", defined as 1) newly-assigned claims and 2) claims on which a new communication has been received that requires review and response. Implemented in March 2022 and is continuously streamlined/improved to provide the best detail in order for our advocates to receive the necessary information to prioritize their work.

2. Performance Dashboard: Advocates and Supervisors can view entire teams new claims, unanswered messages, and tasks. This allows for better monitoring of claim loads and tasks by the supervisors to ensure that files are moving forward in a timely fashion. Implemented in September 2022.

3. Idle Claims - Implemented in January of 2023, this provides a notification on a claim that has not had any activity after a certain amount of time.

Senior claims management and Claims Operations have enhanced monitoring of median claim settlement times, median response times, and key claims performance metrics (such as number of calls responded to within 24 hours, NPS and CSAT, both customer satisfaction measurements) to measure effectiveness of these features and propose adjustments.

**(8) Make prompt, fair and equitable claim settlements.**

**COMPANY ACTION/PLAN:** In addition to the added to the corrective actions discussed in question 7, we implemented additional system enhancements:

Check Payment Integration and Automation: Checks can be issued within Blender upon approval. This eliminates handoffs and reduces human error which causes delays and inaccuracies. This was implemented in March of 2022.

Our Claims Department Best Practices (version: September 2022) also includes language around the responsibility of the advocate to ensure prompt payment is made as soon as one is able to (please refer to section 3 - Coverage Review, item g on page 4). Relevant section appear below for ease:

*Coverage review*

*g. Any part of the claim which is supported and eligible for reimbursement (undisputed amounts) must be processed as soon as is practicable. The Advocate will not hold or delay payments.*

**(9) Include a correct statement of coverage under which payments are made with all claim payments made to insureds.**

**COMPANY ACTION/PLAN:** In January of 2022, the Company implemented payment worksheets that provide a template to breakdown payments based on coverages. Please see Attachments "Payment Worksheets (Ho3)" and "Payment Worksheets (Ho4)".

**Policy Issuance Process Review**

**Lemonade Insurance Company shall:**

**(1) Specify accurate information in the policy by listing and attaching all applicable forms on the declarations page.**

**COMPANY ACTION/PLAN:** The Company made revisions to our declarations page to list all applicable form names and form numbers. These changes were implemented on 2/13/23. Please see the Declaration Page Attachments provided for item 5 under Rating and Underwriting above.

**(2) Provide the Replacement Cost notice as required by the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Replacement Cost notice has been added to all VA HO3, and HO6 new and renewal policies. These changes were implemented on 2/13/2023, however, as the Examiners pointed out additional revisions are necessary. Please see Attachment "Replacement Cost Notice" for evidence displaying these changes. We plan to implement a revised "Replacement Cost Notice" by 11/1/2023, to reflect a consistent replacement cost percentage (80%) in both documents. This was also referred to in Exhibit A.

**(3) Offer the insured the option of purchasing coverage for damage caused by water that backs up through sewers and drains as required by the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Company made revisions to offer Water Backup as an optional coverage on renewals. These changes were implemented on 1/25/23. Please see Attachment “Water Backup Offer” for the renewal email offering Water Backup Coverage.

The Company also made a revision to offer Water Backup coverage up to the Coverage C limits for HO4 policies. These changes were implemented on 5/3/23. Please see Attachment “Water Backup Coverage”, which reflects an HO4 policy with a limit of \$10,000.

**(4) Provide the Ordinance and Law Coverage notice as required by the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Company made revisions to offer Ordinance or Law coverage for renters. These changes were implemented on 11/23/22. Please see Attachment “Ordinance or Law - Dec Page”, including the Ordinance or Law coverage endorsement and form HO 04 77 04 91.

The Company also made a revision to offer Ordinance or Law Coverage as an optional coverage on all HO3, HO4, and HO6 renewal policies. These changes were implemented on 1/25/23. Please see Attachment “Ordinance or Law Coverage Offer” as evidence of a renewal email offering Ordinance or Law Coverage.

**(5) Provide the Flood Exclusion notice as required by the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Company added the Flood Exclusion notice to all VA HO3, HO4, and HO6 new business and renewal policies. These changes were implemented on 2/13/23, however, as the Examiners pointed out additional revisions are necessary. Please see Attachment “Flood Exclusion Notice”. The Company will implement a revised Flood Exclusion notice by 11/1/2023.

**(6) Provide the Earthquake Exclusion notice as required by the Code of Virginia.**

**COMPANY ACTION/PLAN:** Earthquake Exclusion notices have been added to all VA HO3, HO4, and HO6 new and renewal policies. These changes were implemented on 2/13/23, however, as the Examiners pointed out additional revisions are necessary. Please see Attachment “Earthquake Exclusion Notice”. The Company will implement a revised Earthquake Exclusion notice by 11/1/2023.

## **Statutory Notices Review**

### **Lemonade Insurance Company shall:**

**(1) Amend the company’s internet blog to properly represent the benefits, advantages, conditions, and terms of the insurance policy.**

**COMPANY ACTION/PLAN:** The Company communications team undertook a review that was completed on 10/04/2022 and made revisions to blogs where necessary and new content undergoes a legal review before publication.

**(2) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.**

**(3) Amend the Notice of Financial Information Collection and Disclosure Practices to comply with § 38.2-604.1 B of the Code of Virginia.**

**COMPANY ACTION/PLAN 2 and 3:** The Company has revised its Privacy Pledge and GLBA notice per the finding by the BOI and posted to our website on the dates on the documents. This is also the date on which this notice will be generated with all new business and renewals from that date forward. Please see Attachments “Privacy Pledge June 30, 2023” and “GLBA July 17, 2023” for evidence of the modifications. This was also provided in Exhibit A and above under Termination Review item 6.

**(4) Amend the language in the AUD notice to be substantially similar to the prototype set forth in Administrative Letter 2015-07.**

**COMPANY ACTION/PLAN:** Please see Attachment in our response to item 7 under Termination Review above.

**(5) Amend the Cancellation and Nonrenewal notices to include applicable AUD language, right to review language, and language informing the insured about obtaining insurance through the VPIA.**

**COMPANY ACTION/PLAN:** Please see Attachment in our response to item 7 under Termination Review above.

**(6) Amend the Replacement Cost notice to comply with § 38.2-2118 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Company filed the Replacement Cost notice and was approved in SERFF# LEMO-133536415. The effective dates were 2/13/2023 for new business and 4/14/2023 for renewal business however, as the Examiners pointed out additional revisions are necessary. Please see Attachment “Replacement Cost Notice” provided for item 2 under Policy Issuance Process Review above. The Company will implement a revised Replacement Cost notice by 11/1/2023.

**(7) Amend the Ordinance and Law notice to comply with § 38.2-2124 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** Please see Attachment “Ordinance or Law Notice” as evidence demonstrating our notice available beginning 11/23/2022, which is now available for HO4 policies and offered as an optional coverage at new business and on renewals.

**(8) Amend the Flood Exclusion notice to comply with § 38.2-2125 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** Our Flood Exclusion notice was filed and approved in SERFF# LEMO-133536415 and were effective 2/13/2023 for new business and 4/14/2023 for renewal business however, as the Examiners pointed out additional revisions are necessary. Please see the Flood Exclusion Notice Attachment provided for item 5 under Policy Issuance Process Review above.

**(9) Amend the Insurance Credit Score Disclosure notice to comply with § 38.2-2126 A 1 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Insurance Credit Score Disclosure notice will be corrected in our application flow no later than 11/01/2023.

**(10) Amend the Credit Adverse Action notice to comply with § 38.2-2126 A 2 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** Our updated version of the LEM-AdvAction02-VA (08-21) "Notice: Credit and Credit Based Information Fair Credit Reporting Act Notice - Virginia" was filed and approved in SERFF# LEMO-133536415 and was effective 2/13/2023 for new business and 4/14/2023 for renewal business. However, per the Examiner's observation the notice does not comply with 38.2-2126 A 2 of the Code of Virginia. The Company will implement the revised Credit Adverse Action notice by 11/1/2023.

**(11) Develop an Earthquake Exclusion notice to comply with § 38.2-2129 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** Our Earthquake Exclusion notice was filed and approved in SERFF# LEMO-133536415 and effective 2/13/2023 for new business and 4/14/2023 for renewal business. However, as the Examiners pointed out additional revisions are necessary. The Company will implement the revised Earthquake Exclusion notice by 11/1/2023.

### **Complaint-Handling Process Review**

#### **Lemonade Insurance Company shall:**

**Maintain a complete complaint register that is in compliance with § 38.2-511 of the Code of Virginia.**

**COMPANY ACTION/PLAN:** The Company has undertaken to refine the manner in which customer grievances are captured and counted in CX, CLX (for customer grievances) and Compliance (with regard to DOI complaints).

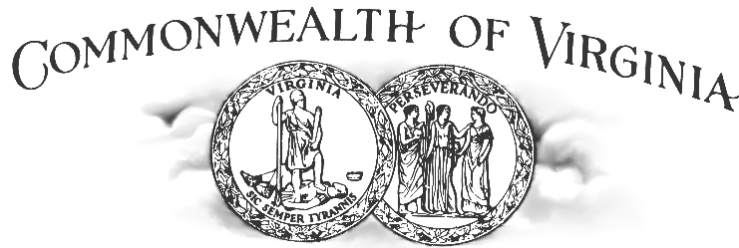
CX and CLX have undertaken this project to comply with § 38.2-511. Please see Attachment "Customer Operations Q3 OKRs" which is the team's OKR for 3Q2023.

With regarding to DOI complaints, Compliance has increased staff and have corrected the Company's complaint register to include the following information as required by § 38.2-511:

- total number of complaints
- their classification by line of insurance
- the nature of each complaint
- the disposition of these complaints
- the time it took to process each complaint.

Please see Attachment "VA DOI Complaint Log" for evidence of the formal (DOI) complaint log in effect from January 1, 2023 through June 30, 2023.

**SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE**



**P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)**

September 25, 2023

**VIA E-MAIL DELIVERY**

Ms. Ann-Marie Friedman  
Compliance Director  
Lemonade Insurance Company  
5 Crosby Street, 3<sup>rd</sup> Floor  
New York, NY 10013  
E-mail: [ann-marie.friedman@lemonade.com](mailto:ann-marie.friedman@lemonade.com)

RE: Market Conduct Examination  
Lemonade Insurance Company (NAIC #16023)  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Friedman:

The Bureau of Insurance (Bureau) has reviewed the July 18, 2023 response to the Revised Market Conduct Report (Report) of the Lemonade Insurance Company. The Bureau also reviewed the additional documents the Company provided on September 12, 2023. The Bureau's following response only addresses outstanding items that require the Company's attention. This response follows the format of the Report.

**PART TWO – CORRECTIVE ACTION PLAN**

**Termination Review**

- (13) The Company has provided a document titled "Termination/Rejected App Data File – June 2023." However, the examiners were unable to open the document. Therefore, the Company may wish to submit in Excel format.

### **Statutory Notices Review**

- (4) Please provide documentation that the Adverse Underwriting Decision (AUD) notice language is now implemented as a part of the cancellation notice and the references to Regulators have been removed.
- (6) The Company indicated that SERFF filing LEMO-133536415 was “approved” with effective dates February 13, 2023 for new business and April 14, 2023 for renewal business; this filing contained various notices related to this exam. Upon review, this filing was “Closed-Returned to Company”; this is not the same as if the filing was “approved”. Moreover, notices are not subject to review by the Personal Lines Rules, Rates, and Forms Section as they do not contain policy provisions. The Replacement Cost Notice should clearly inform the insured that not meeting the 80% minimum coverage requirement will result in a reduced coverage payment.
- (7) In terms of the Ordinance or Law Coverage notice, the offer that was provided for review does not comply with Virginia Code Section 38.2-2124. Simply stating, “If you’re interested, we offer Water Backup Coverage and Building Code (AKA Law or Ordinance) Coverage.” does not comply with the aforementioned statute. Please reference the review sheet for guidance in terms of revising this notice for compliance.
- (8) For the Flood Exclusion notice, the Company again indicated that this notice was filed with SERFF filing LEMO-133536415. As previously indicated, this filing was returned to the Company and notices are not subject to review by the Personal Lines Rules, Rates, and Forms Section. Please confirm if the recent version received on September 12, 2023 will be implemented effective November 1, 2023.
- (9) The Company indicated that the Credit Disclosure Notice will be corrected no later than November 1, 2023. Please provide a copy for review once revised.
- (10) In terms of the Credit Adverse Action Notice, the Company attempted to file this notice with SERFF Filing LEMO-133536415, but notices are not subject to review as previously explained and this SERFF filing was closed and returned to the Company. Please confirm if the recent version received on September 12, 2023 will be implemented effective November 1, 2023.
- (11) For the Earthquake Exclusion Notice, please confirm if the recent version received on September 12, 2023 will be implemented effective November 1, 2023.

Once we have received and reviewed the Company's responses to these items, we will be in a position to make a settlement offer. We look forward to your response by October 9, 2023.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive style with a loop at the end of the last name.

Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
Office: (804) 371-9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Attachments



## Andrea Baytop

---

**From:** Ann-Marie Friedman <ann-marie.friedman@lemonade.com>  
**Sent:** Monday, October 16, 2023 6:10 PM  
**To:** Andrea Baytop  
**Cc:** Annie McGeorge; Scott Fischer; Brandon Ayers; Joy Morton; Pam Henry  
**Subject:** Re: VA BOI Lemonade Response 9/25/2023

**Follow Up Flag:** Follow up  
**Flag Status:** Completed

Hello Andrea! We just loaded our response letter, exhibit and two attachments to Box. We will get back to you on Thursday for an implementation date on one item; we are unconfirmed for a few in regard to current customer/renewals. We appreciate your acknowledgement of what our colleagues are contending with. I'll reach out on Thursday. Thank you and enjoy your evening!  
Ann-Marie

**Ann-Marie Friedman**

Sr. Compliance Director  
[ann-marie.friedman@lemonade.com](mailto:ann-marie.friedman@lemonade.com)  
5 Crosby Street, 3rd Floor  
New York, New York 10013  
732-598-0568



## EXHIBIT A

### PART TWO – CORRECTIVE ACTION PLAN

#### Termination Review

(13) *The Company has provided a document titled “Termination/Rejected App Data File – June 2023.” However, the examiners were unable to open the document. Therefore, the Company may wish to submit in Excel format.*

**Company Response:** The Company resubmitted the file in Excel format on October 4, 2023. Please let us know if you have any trouble opening the file.

#### Statutory Notices Review

(4) *Please provide documentation that the Adverse Underwriting Decision (AUD) notice language is now implemented as a part of the cancellation notice and the references to Regulators have been removed.*

**Company Response:** Please see the revised cancellation notice (Attachment 1), which confirms the AUD notice language is now implemented and the reference to Regulators has been removed.

(6) *The Company indicated that SERFF filing LEMO-133536415 was “approved” with effective dates February 13, 2023 for new business and April 14, 2023 for renewal business; this filing contained various notices related to this exam. Upon review, this filing was “Closed-Returned to Company”; this is not the same as if the filing was “approved”. Moreover, notices are not subject to review by the Personal Lines Rules, Rates, and Forms Section as they do not contain policy provisions. The Replacement Cost Notice should clearly inform the insured that not meeting the 80% minimum coverage requirement will result in a reduced coverage payment.*

**Company Response:** Please see the revised Replacement Cost Notice (Attachment 2) , with our revisions underlined. We greatly appreciate your feedback on this content.

(7) *In terms of the Ordinance or Law Coverage notice, the offer that was provided for review does not comply with Virginia Code Section 38.2-2124. Simply stating, “If you’re interested, we offer Water Backup Coverage and Building Code (AKA Law or Ordinance) Coverage.” does not comply with the aforementioned statute. Please reference the review sheet for guidance in terms of revising this notice for compliance.*

**Company Response:** The Company will revise the renewal email language providing the offer for Water Backup Coverage and Building Code Coverage as follows:

“If you’re interested, we offer Water Backup as well as Building Code Coverage (aka Ordinance or Law Coverage). Water Backup covers damages from things like backed-up pipes or sump pumps and Building Code Coverage covers the cost to repair or replace your property with applicable ordinances or laws that regulate construction, repair or demolition.”

We greatly appreciate your feedback on this content. We are unable to give a firm date for implementation at this time from our engineers as a result of the war in Israel, but this will stay on our list of priorities and we will let you know as soon as we know.

(8) *For the Flood Exclusion notice, the Company again indicated that this notice was filed with SERFF filing LEMO-133536415. As previously indicated, this filing was returned to the Company and notices are not subject to review by the Personal Lines Rules, Rates, and Forms Section. Please confirm if the recent version received on September 12, 2023 will be implemented effective November 1, 2023.*

**Company Response:** The Company confirms that the Flood Exclusion Notice will be implemented effective November 1, 2023 for new business policies.

For current and renewal customers we are unable to give a firm date for implementation at this time from our engineers as a result of the war in Israel, but this will stay on our list of priorities and we will let you know as soon as we know.

**(9)           The Company indicated that the Credit Disclosure Notice will be corrected no later than November 1, 2023. Please provide a copy for review once revised.**

**Company Response:** We are working with our product team in Israel to confirm that the notice will be corrected no later than November 1, 2023, however, resources are very limited. We will provide an update by Thursday, October 19, 2023.

The Company will implement the following Credit Disclosure Notice as part of the application process:

*"In connection with this application for insurance, we shall review your credit report or obtain or use an insurance credit score based on the information contained in that credit report. We may use a third party in connection with the development of your insurance credit score. You may request that your credit information be updated and if you question the accuracy of the credit information, we will, upon your request, reevaluate you based on corrected credit information from a consumer reporting agency."*

**(10)           In terms of the Credit Adverse Action Notice, the Company attempted to file this notice with SERFF Filing LEMO-133536415, but notices are not subject to review as previously explained and this SERFF filing was closed and returned to the Company. Please confirm if the recent version received on September 12, 2023 will be implemented effective November 1, 2023.**

**Company Response:** The Company confirms that the Credit Adverse Action Notice will be implemented effective November 1, 2023 for new business policies.

For current and renewal customers we are unable to give a firm date for implementation at this time from our engineers as a result of the war in Israel, but this will stay on our list of priorities and we will let you know as soon as we know.

**(11)           For the Earthquake Exclusion Notice, please confirm if the recent version received on September 12, 2023 will be implemented effective November 1, 2023.**

**Company Response:** The Company confirms that the Earthquake Exclusion Notice will be implemented effective November 1, 2023 for new business policies.

For current and renewal customers we are unable to give a firm date for implementation at this time from our engineers as a result of the war in Israel, but this will stay on our list of priorities and we will let you know as soon as we know.

## Andrea Baytop

---

**From:** Andrea Baytop  
**Sent:** Monday, October 23, 2023 2:26 PM  
**To:** Ann-Marie Friedman  
**Cc:** Annie McGeorge; Scott Fischer; Brandon Ayers; Joy Morton; Pam Henry  
**Subject:** RE: VA BOI Lemonade Response 9/25/2023

Hello Ann-Marie,

We have reviewed the company's October 16, 2023 response and are preparing to send the pre-settlement letter. As we will continue to work with Lemonade Insurance Company with its notices, I have provided some initial feedback from our review of the revised notices.

- Cancellation Notice (Renters)
  - The AUD language is omitting the insured's right to obtain the specific reason for cancellation. Per Section 38.2-610 A 1 of the Code of Virginia, the AUD notice must either state the specific reason for cancellation or inform the insured how to obtain the specific reason from the company.
  - The specific reason for cancellation is not provided in the cancellation notice. Please note that stating "doesn't comply with some of our guidelines" is not a specific reason, as explained in our Most Common Problems publication.
  - As this appears to be a Renters cancellation, the right to review notification should not be provided. Section 38.2-2114 of the Code of Virginia only applies to owner-occupied policies.
  - The notification about the VPIA may remain in the cancellation notice since it is a fact although not required.
- Replacement Cost notice
  - Please send us confirmation when this notice has been implemented.
- Ordinance or Law (Building Code) coverage notice
  - Please send us confirmation when this notice has been implemented.
- Water Backup notice
  - Please note that Section 38.2-2120 of the Code of Virginia requires this notice for damage from water which backs up through sewerers or drains. The company's notice indicates the coverage is for damage from backed up pipes or sump pumps. The company should ensure that the statement on its notice accurately corresponds to the coverage provided by the endorsement and does not misrepresent the coverage offered.
- Credit Score Disclosure notice
  - Please send us confirmation when this notice has been implemented.

Please do not hesitate to contact me if you have any questions or concerns with the above.

Thank you,

### Andrea Baytop, AMCM

Manager  
P&C Market Conduct Section  
Virginia Bureau of Insurance  
804.592.0245  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)



---

**From:** Ann-Marie Friedman <ann-marie.friedman@lemonade.com>  
**Sent:** Monday, October 23, 2023 12:54 PM  
**To:** Andrea Baytop <Andrea.Baytop@scc.virginia.gov>

# COMMONWEALTH OF VIRGINIA



**SCOTT A. WHITE**  
**COMMISSIONER OF INSURANCE**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

**P.O. BOX 1157**  
**RICHMOND, VIRGINIA 23218**  
**1300 E. MAIN STREET**  
**RICHMOND, VIRGINIA 23219**  
**TELEPHONE: (804) 371-9741**  
**[scc.virginia.gov](http://scc.virginia.gov)**

January 25, 2024

## VIA E-MAIL

Ann-Marie Friedman  
Compliance Director  
Lemonade Insurance Company  
5 Crosby Street, 3<sup>rd</sup> Floor  
New York, NY 10013  
E-mail: [ann-marie.friedman@lemonade.com](mailto:ann-marie.friedman@lemonade.com)

RE: Market Conduct Examination  
Lemonade Insurance Company, NAIC #16023  
Examination Period: January 1, 2020 – December 31, 2020

Dear Ms. Friedman:

The Bureau of Insurance (Bureau) has concluded its review of the company's response of October 16, 2023, and revised documents provided on November 14, 2023. Based upon the Bureau's review of the company's correspondence, we are now in a position to conclude this examination. Attached is the final Market Conduct Examination Report of Lemonade Insurance Company (Report).

Based on the Bureau's review of the Report, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-502 1, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 6, 38.2-510 A 10, 38.2-511, 38.2-604 A, 38.2-604 B, 38.2-604.1 B, 38.2-610 A, 38.2-1318 C, 38.2-1906 A, 38.2-1906 D, 38.2-2104 A, 38.2-2114 C, 38.2-2114 E, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2-2126 A 1, 38.2-2126 A 2, and 38.2-2129 of the Code of Virginia; and 14 VAC 5-400-30 C, 14 VAC 5-400-70 B, and 14 VAC 5-400-70 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive style with a large initial 'A'.

Andrea Baytop, AMCM  
Manager, Market Conduct Section  
Property & Casualty Division  
Cell: (804) 592-0245  
Office: (804) 371-9547  
[andrea.baytop@scc.virginia.gov](mailto:andrea.baytop@scc.virginia.gov)

ADB/pgh  
Attachment

# Lemonade

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

Ronald J. Topping  
Chief Financial Officer

February 20, 2024  
(3rd Corrected)

## Via Email and Overnight Mail

Zuhairah Tillinghast, CPCU, CLMP, AIC, API, AIM  
Deputy Insurance Commissioner  
Property and Casualty Division | Bureau of Insurance  
1300 E. Main Street  
Richmond, VA 23219

Ph. 804.371.9741

Re: Market Conduct Examination Settlement Offer  
Ecase/Docket Number: INS-2024-00013

Dear Ms. Tillinghast:

This will acknowledge receipt of the Bureau of Insurance's letter dated January 29, 2024, concerning the above-referenced matter. This letter replaces our earlier letters dated February 12, 14 and 16, 2024 which contained typographical errors for which we apologize.

We wish to make a settlement offer on behalf of the insurance company listed below for the alleged violations of §§ 38.2-305 A, 38.2-502 1, 38.2-510 A 1, 38.2-510 A 3, 38.2-510 A 6, 38.2-510 A 10, 38.2-511, 38.2-604 A, 38.2-604 B, 38.2-604.1 B, 38.2-610 A, 38.2-1318 C, 38.2-1906 A, 38.2-1906 D, 38.2-2104 A, 38.2-2114 C, 38.2-2114 E, 38.2-2118, 38.2-2120, 38.2-2124, 38.2-2125, 38.2, 2126 A 1, 38.2-2126 A 2, and 38.2-2129 of the Code of Virginia; and 14 VAC 5-400-30 C and 14 VAC 5-400-70 B of the Virginia Administrative Code to indicate a general business practice.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$78,900.
2. We agree to comply with the corrective action plan set forth in the company's letters of November 4, 2022, February 15, 2023, July 18, 2023, and October 16, 2023.
3. We confirm that restitution was made to 11 consumers for \$8,934.41 in accordance with the company's letters of November 4, 2022, February 15, 2023, July 18, 2023, and October 16, 2023.

4. We further acknowledge the company's right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Topping', with a stylized flourish at the end.

Ronald J. Topping  
Chief Financial Officer

Lemonade Insurance Company, NAIC #16023

cc:

Scott Fischer

Ann-Marie Friedman

Annie McGeorge

Ori Harani

John Peters

Andrea Baytop, VA BOI

Brandon Ayers, VA BOI



COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
AT RICHMOND, MARCH 26, 2024

SCC - CLERK'S OFFICE  
DOCUMENT CONTROL CENTER

2024 MAR 26 P 2:59

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2024-00013

LEMONADE INSURANCE COMPANY,  
Defendant

SETTLEMENT ORDER

Based on a market conduct examination conducted by the Bureau of Insurance ("Bureau"), the Bureau has alleged that Lemonade Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia, in certain instances violated § 38.2-305 A of the Code of Virginia ("Code") by failing to specify the required information in each insurance policy; § 38.2-502 1 of the Code by misrepresenting the benefits, advantages, conditions, or terms of any insurance policy; § 38.2-510 A 1 of the Code by misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue; § 38.2-510 A 3 of the Code by failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies; § 38.2-510 A 6 of the Code by failing to attempt in good faith to make prompt, fair and equitable settlements of claims in which liability has become reasonably clear; § 38.2-510 A 10 of the Code by making claims payments to insureds or beneficiaries not accompanied by a statement setting forth the coverage under which payments were made; § 38.2-511 of the Code by failing to maintain a complete record of all the complaints that it has received since the date of its last examination; §§ 38.2-604 A, 38.2-2125, and 38.2-2129 of the Code by failing to provide the required notice or disclosure to insureds; §§ 38.2-604 B, 38.2-604.1 B, 38.2-2114 C,

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38.2-2126 A 1, and 38.2-2126 A 2 of the Code by failing to include all the required information in the notices; § 38.2-610 A of the Code by failing to provide the applicant, policyholder, or individual proposed for coverage with the required written notices; § 38.2-1318 C of the Code by failing to provide convenient access to records, files, and documents to Commission personnel during an examination; § 38.2-1906 A of the Code by failing to file with the Commission all rates and supplementary rate information for use in Virginia on or before the date they become effective; § 38.2-1906 D of the Code by making or issuing insurance contracts or policies that were not in accordance with the rate and supplementary rate information filings that are in effect for the insurer; § 38.2-2104 A of the Code by issuing a policy that did not contain an insuring agreement with the effective time of 12:01 a.m.; § 38.2-2114 E of the Code by failing to either obtain written notice from the insured in accordance with the terms of the policy that the insured wishes to cancel the policy or otherwise follow required procedures prior to cancelling an insurance policy; § 38.2-2118 of the Code by failing to include the required statement on insurance policies; §§ 38.2-2120 and 38.2-2124 of the Code by failing to offer optional coverage as required by the statutes; as well as 14 VAC 5-400-30 C of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.* of the Virginia Administrative Code ("Rules"), by failing to maintain detailed documentation for each claim file in order to permit reconstruction of the insurer's activities relating to each claim; and Rule 14 VAC 5-400-70 B by failing to provide a reasonable written explanation of the basis for any claim denial, with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219 and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a

defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendant has been advised of the right to a hearing in this matter whereupon the Defendant, without admitting or denying any violation of Virginia law, has made an offer of settlement to the Commission. Through its settlement offer, the Defendant has agreed to comply with the corrective action plan outlined in company correspondence dated November 4, 2022, February 15, 2023, July 18, 2023, and October 16, 2023; has confirmed that restitution was made to 11 consumers in the total amount of Eight Thousand Nine Hundred Thirty-Four Dollars and Forty One Cents (\$8,934.41); has tendered to the Treasurer of Virginia the amount of Seventy-Eight Thousand Nine Hundred Dollars (\$78,900); and has waived the right to a hearing.

The Bureau has recommended that the Commission accept the Defendant's settlement offer pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered this matter, is of the opinion and finds that the Defendant's settlement offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The Defendant's settlement offer is hereby accepted.
- (2) This case is dismissed.

A COPY hereof shall be sent by the Clerk of the Commission by electronic mail to: Ann-Marie Friedman, Compliance Director, Lemonade Insurance Company, 5 Crosby Street, 3rd Floor, New York, New York 10013, ann-marie.friedman@lemonade.com; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Zuhairah Tillinghast.