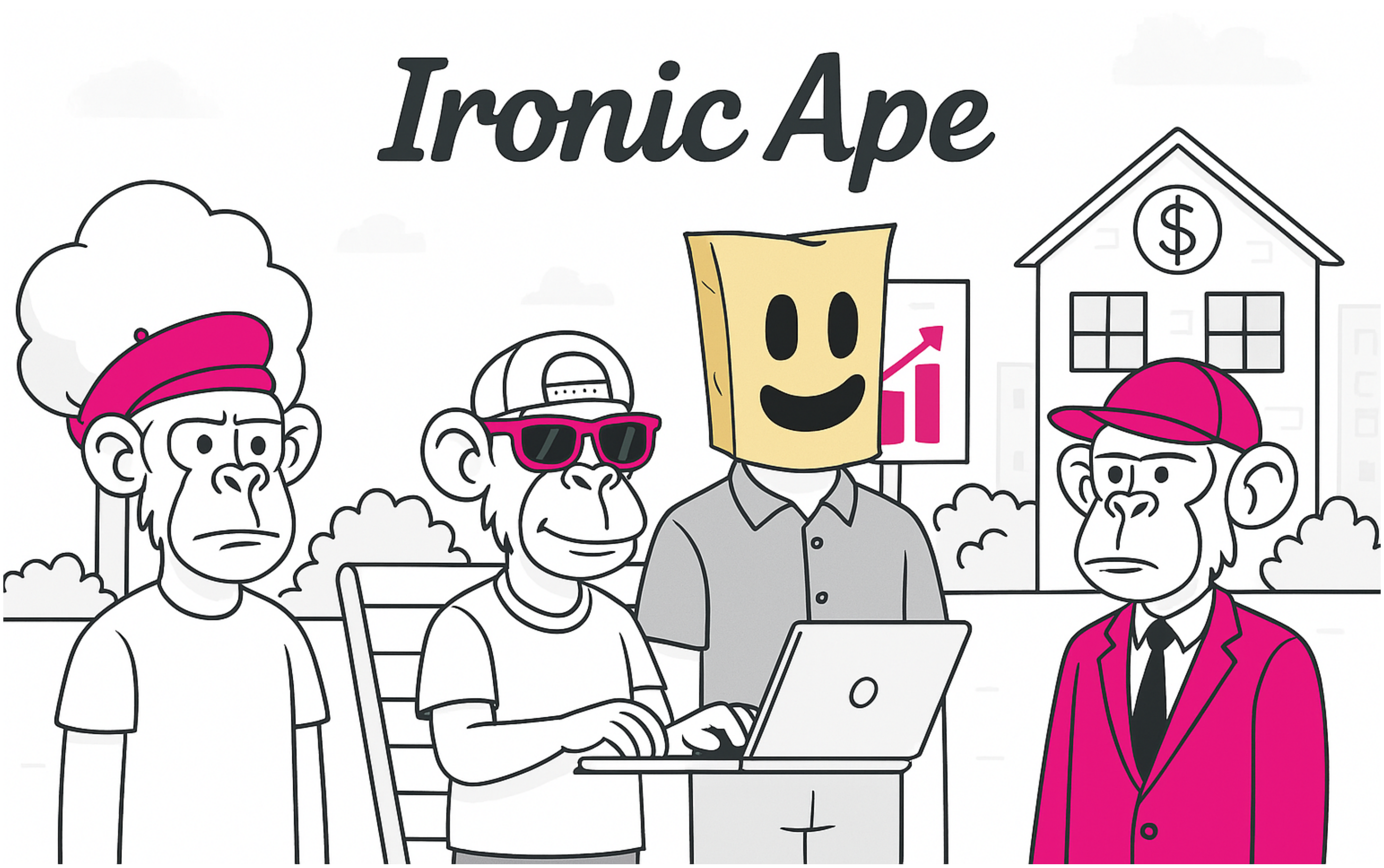


How Lemonade Is Quietly Rigging the Risk Pool - Reverse adverse selection and the end of insurance as the legacy carriers know it.

TL;DR: 🚀 Lemonade is quietly flipping the insurance industry on its head. By anchoring itself to young, first-time buyers and avoiding the 20% of customers who generate 80% of claims, it's building a cleaner, more profitable risk pool from day one. This isn't just disruption - it's long-term entrenchment through smarter underwriting, better design, and generational alignment.

Lemonade isn't just taking market share - it's changing the game entirely. And here's the kicker: it's stacking the cards against legacy incumbents, and they don't even know it yet. Like a dripping tap, Lemonade is slowly filling up the legacy carriers' portfolios with disproportionately high-risk customers.

Here's why that matters: In insurance, 80% of claims typically come from just 20% of customers. The ability to identify and filter out that high-risk minority early - can dramatically improve loss ratios and capital efficiency for years to come.

Lemonade

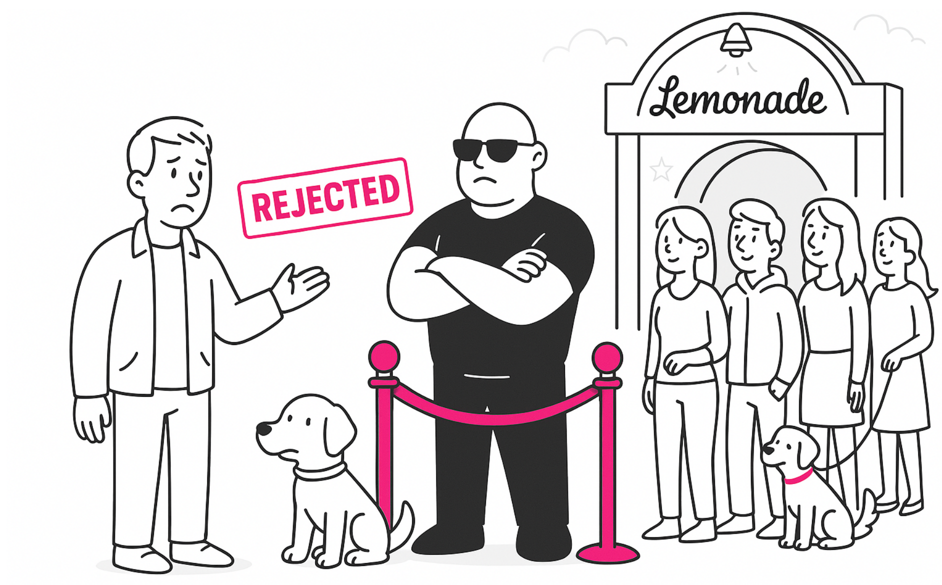
Forget everything you know about insurance

Lemonade's model is built around exactly that. By appealing to the digital-first, low-risk, first-time buyers, they're not just growing... they're curating a cleaner risk pool from day one, which will go on to pay figurative and literal dividends for them and shareholders for years to come.

While traditional insurers compete for a shrinking pool of over-insured, price-sensitive consumers, Lemonade is building something fundamentally different: A risk portfolio made up of first-time, digitally native, mission-aligned customers - most of whom would never have chosen an incumbent brand in the first place.

Roughly 90% of Lemonade's customers are buying insurance for the very first time. That's not just a different acquisition strategy - it's a completely different business model.

These aren't just new customers. They're better customers: Lower claim frequency, Higher cross-sell potential, More loyalty to brand and mission.



And by acquiring them early, Lemonade doesn't just win - it reshapes the game board. The legacy carriers are playing checkers. **Lemonade is playing 4D actuarial chess.**

WHY IT MATTERS: BY TARGETING GEN Z & MILLENNIALS, LEMONADE IS DOING 3 THINGS AT ONCE:

- Capturing low-risk customers early and shaping their view of what Insurance should look like
- Building loyalty before switching becomes a habit
- Filtering out high-risk profiles before they ever hit a legacy quote engine

This is reverse adverse selection in action. Cherry picking the best risk / reward customers first - and letting everyone else fight over what's left.

We've seen this strategy before - most notably in payments with the rise of BNPL (Buy Now, Pay Later) companies. Firms like Klarna and Affirm didn't try to out-credit the card companies; they went after a younger, digital-first demographic with a seamless, mobile-native experience. At first, the incumbents barely noticed. Fast forward a few years and ask Gen Z how many of them have a credit card... clue: not many...

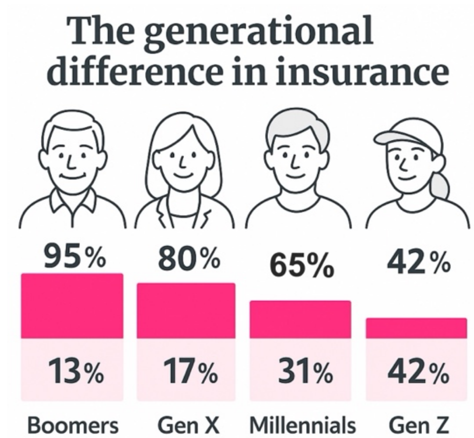
Once you set the behavioural anchor with speed, design, and trust - the old model starts to feel irrelevant. That's exactly the future legacy insurers are sleepwalking into, Insurance is the little brother to banking and the path is already well trodden, Klarna, Affirm, Revolut and Nu to name just a few examples.

THE GENERATIONAL WEDGE - DIFFERENT GENERATIONS SEE INSURANCE VERY DIFFERENTLY:
Many people see LMND going after Pet as a failure to succeed in Home and Car and they could not be further from the truth, it's a line of business that is fast growing, highly relevant with their target demographic and has far lower capital adequacy needs, it builds LMND a huge cash platform from which they can launch the Rocketship of less liquid lines of business (i.e. those like Home and car that require more capital adequacy needs as claims have a longer "long tail", meaning claims can come in for many years after the initial policy was taken out)

Take a look:

The younger the customer, the more open they are to: Buying online, Trusting automation, Valuing social impact, Insuring things legacy carriers ignore (like pets)

- **Boomers**: ~95% insured but only **13%** have pet insurance
- **Gen X:** ~80% insured | **17%** have pet insurance
- **Millennials:** ~65% insured | **31%** have pet insurance
- **Gen Z**: <50% insured | **42%** have pet insurance



The pet insurance 3x multiplier effect! - Pet insurance is a perfect lens into this shift for multiple reasons that I'll dig into now:

There's cultural change: Younger generations are **humanising pets** - treating them like family, not animals. That's been a huge driver and the Pandemic saw a huge uplift in pet ownership.

There's also a technological revolution: Veterinary medicine today includes CT scans and MRIs, Hydrotherapy, Specialised oncology and orthopaedics and even Radioactive iodine treatment for hyperthyroidism (instead of surgery).

The **cost of care has skyrocketed**! Medications that were once generic are now niche, expensive, and increasingly human-grade. Suddenly, a vet bill can look like a hospital invoice, what was once a small monthly premium is quickly taking a larger share of disposable income, and with the humanisation of pets, where they are seldom seen as "pets" and "owned" they are today seen as family.

Now add this context: Gen Z and Millennials have less disposable income than previous generations, they're more likely to live alone or rent, and as mentioned above, their pets often are their family. The emotional bond is stronger, and the financial risk is higher.

The result? An urgent need for insurance - not just a nice-to-have, what was once a discretionary purchase is now **non-discretionary** - a very sticky, predictable, high margin, highly liquid line of business....

This is why the pet insurance market is growing at around 18–21% CAGR in the US and why younger demographics are driving that growth. Today, only about 4.4% of Pets are insured in the US. vs 25 - 35% in Europe, this means, even growing at **CAGR of 21%** - the runway is VAST!

LEMONADE'S ADVANTAGE

By targeting these customers early, Lemonade isn't just tapping into an emotional trend - they're locking in: High-retention, high-LTV users, Behavioural data on risk profiles and Cross-sell potential across renters, home, car, and life.

Meanwhile, legacy carriers risk becoming the fallback option - stuck insuring late adopters, high-risk users, and price hoppers, LMND not only gain the technology advantage for expense ratio leveraging its Ai and machine learning capabilities, they gain a structural advantage of having the lowest risk portfolio, all they have to do is keep those first time buyers happy, people seldom change if they are happy and the price is average or better and non-renew the ones they no longer want to insure based on their LTV models.

THE BIG PICTURE

This isn't just disruption. This is entrenchment through behavioural design, generational insight, and smarter risk curation.

Lemonade has leveraged **anchor theory** - subtly but powerfully. For many of their young, first-time customers, Lemonade becomes the anchor for what insurance is supposed to be:

Fast, Fair, Digital-first and Aligned with their values at killer prices. That first impression matters. It shapes expectations permanently.

Even if some of those customers hop to another carrier for a slightly lower premium, the anchor remains: Lemonade is still the benchmark in their minds. And when that next insurance decision comes around - whether it's home, car, or pet - many will realise they left for worse, not better and return. Like Smoking and Alcohol is now seen as "not the norm" with Gen Z, who knows - **in future will people be looked down on by their peers if they are uninsurable by Lemonade,** will they think, what's wrong with him or her that Lemonade won't insure them?? (probably not, but I also didn't think my student union would be a coffee shop now).

In a low-churn, high-switch-cost industry, that psychological advantage is worth its weight in gold. Lemonade isn't fighting over the old insurance market. They're building a better one - from the ground up.

Lemonade is rewriting the rules - not by beating legacy insurers at their own game, but by playing a different one entirely. With early access to high-quality customers, behavioural data, and generational alignment, they're not just winning market share... they're **reshaping the entire risk economy** and the incumbents are pointing fingers and laughing at their declining book value, not realising they are heavily **investing today to take tomorrow.**