

Tariffs, Tweets, Loss Ratios, and Machine Learning - Why Lemonade Might Be Built for This...

TL;DR: Lemonade Insurance (LMND) recently experienced a sharp 20% stock price decline following Trump's latest tariffs, raising investor concerns about its near-term profitability. However, a deeper analysis suggests Lemonade is uniquely positioned to manage inflationary pressures better than traditional insurers. Tariffs will indeed increase claim costs across renters, home, motor, and pet insurance lines - likely elevating Lemonade's consolidated gross loss ratio temporarily from mid 60's to high 60's with a one-time CAT impacted ratio in Q1 due to the LA wildfire impact.

Despite this immediate challenge, Lemonade's machine learning-driven infrastructure and rapid claim settlements, exemplified by its handling of the recent LA wildfires, offer significant advantages in quickly adapting rates and limiting prolonged cost increases. The company's advanced AI models and real-time inflation monitoring, developed from lessons learned during COVID-19, enable proactive and granular adjustments to insurance premiums.

While near-term volatility and regulatory approval delays could impact quarterly results, Lemonade's fundamentals remain robust, and its younger, sticky customer base provides resilience. Therefore, the recent market reaction may be overly pessimistic, and Lemonade's agility and technological edge position it well for recovery and long-term growth.

It is our belief that we will see considerable concessions regarding tariffs in the short to medium term and as such this is seen as a **highly unlikely scenario** but for those that do not share our belief or for those that have an interest in understanding how Lemonade and wider insurance companies can be impacted by Tariffs. Read on...

Deep Dive

I've lost count of how many times I've rewritten this article. Every time I believe it's finally complete, another late-night tweet or unexpected policy pivot from President Trump sends me back to square one. The last few days in the markets have felt like a bloodbath, causing investors to sprint for the exits. Yet, despite Lemonade's high-beta nature, its recent 15% drop has closely mirrored the pullback in the S&P 500 - painful, certainly, but demonstrating surprising resilience compared to the historical volatility of LMND.

Still, investors face a critical question: Have they overreacted or underreacted, given LMND now trades roughly 50% lower than its peak rally at the end of November last year? A closer examination of Lemonade's fundamentals and its innovative approach to insurance reveals strength beneath the surface and considerable growth potential ahead.

We've spent considerable time reflecting on the implications of Trump's latest tariffs and Lemonade's recent response to the devastating Los Angeles wildfires. Here's my perspective: While the tariffs will undoubtedly create short-term challenges for Lemonade, the company may be far better equipped to navigate tariff-driven inflation than many investors realise. Allow me to explain why (warning, this is a LONG ONE!)

Tariffs vs. Lemonade's Lines of Business

First, let's quickly recap Lemonade's business. They offer renters, homeowners, car, pet, and life insurance. Notably, renters and pet policies dominate their portfolio, catering largely to younger customers who often view pet insurance as essential, not optional. LMND do not split out Renters and Home mix, but let's assume 70/30 split favoring Renters.

Here's why tariffs matter, Tariffs do lead to inflation, whether you'd argue its transitory or longer-term impact, the impact is still immediate and very real. For Lemonade explicitly, below are some areas that will inevitably be impacted across their lines of business:



Renters

Coverage for your stuff, in and out of your home

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FROM \$5/MO



Homeowners

Protection for your home and stuff

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FROM \$25/MO



Car

Protect your car, passengers, and the planet

[CHECK OUR PRICES](#)

AS LOW AS \$30/MO



Pet

Health insurance for furry family members

[CHECK OUR PRICES](#)

FROM \$10/MO



Term Life

Protecting the people you love

[CHECK OUR PRICES](#)

FROM \$8/MO

Home: Replacing a damaged roof, fixing a burst pipe, or rebuilding after a fire now involves pricier lumber, steel, and consumer goods.

Renters: Theft or water damage claims become more expensive if personal items, especially electronics, come from tariffed imports.

Motor: Higher auto parts prices and rising used car values threaten to push up repair and total-loss costs - even medical inflation could climb if pharmaceuticals are imported.

Pet: Vet care depends on medical supplies and drugs, some of which come from overseas. Short-tail claims settle quickly, so a spike in vet costs shows up in payouts almost immediately.

Life: Largely not impacted.

Each of these lines faces short-term inflationary pressure, and Lemonade's gross loss ratio (the percentage of premiums paid out in claims) will undoubtedly tick upwards initially. How much? Well, that remains to be seen, we explore a few scenarios in this document purely for educational purposes, but it's important to note that a 10% increase in pet medication will not convert to 10% increase in claim costs.

Understanding Claim Cost Increases: Why It's Not a 1:1 Relationship

When discussing rising costs - such as a 10% increase in pet medications - it's easy to assume this directly translates to a 10% increase in total claim costs. But that's not actually the case.

Insurance claims, especially in areas like pet coverage, are typically made up of several different components:

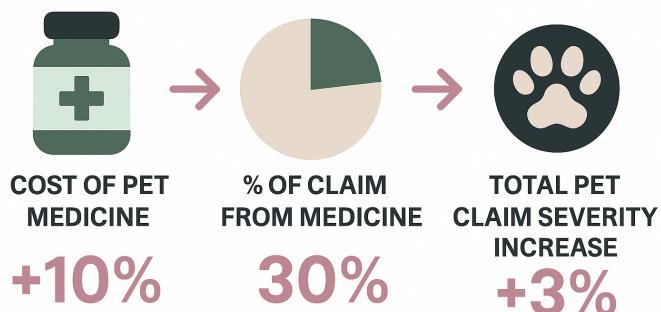
- Medications and Supplies
- Veterinary Labour Costs
- Medical Equipment or Procedures

Only a portion of the total claim cost is typically attributed to medication. For example, let's assume the breakdown of an average pet claim looks something like this:

If medication costs rise by 10%, we calculate the overall impact as follows:

- Medication portion (30%) \times Cost increase (10%) = 3% total claim increase

Since the other parts of the claim (vet labour and equipment) have not changed in cost (at least in the short term), they don't add to the increase. Therefore, the overall total claim cost increase is just 3%, not the full 10%.



This is important when assessing the real impact of inflation or tariffs: the overall effect on claims is often smaller and more manageable than initial price spikes on individual components might suggest.

In an inflationary environment, Speed is key – Case study: The LA Wildfires - Lemonade's Speed Advantage

What caught our attention in Lemonade's recent presentations from InsureTech London (Video's on the home page) was COO Adina's commentary on the Los Angeles wildfires. While many insurers struggled with weeks or months of backlog, Lemonade settled the majority of claims in mere days. According to Adina:

"By leveraging our end-to-end digital workflow, we were able to close most LA wildfire claims within days. That speed not only delighted customers - reflected in our highest-ever NPS for a catastrophe"

This matters hugely under the new tariffs. If an insurer takes months to finalize claims, rebuilding costs inevitably climb, especially with tariffs driving material prices even higher. Lemonade's rapid settlement capability helps them dodge this "cost creep" trap, A big gold star for them! This speed advantage will provide them a structural advantage in staying one step ahead of the rising cost of goods and services.

Is this Covid Inflation all over again?

People can argue one way or another on whether Inflation created from tariffs will be Transitory or long lasting, at this stage it's too early to tell, The Fed has reduced its QT strategy but yet to implement lower interest rates and QE (This may well be an out of date statement by the time you read this given the market drops we have seen in recent days; as such and at present, the money supply is not being hugely inflated like we witnessed during covid, but the increased prices for physical goods is very real and will lead to short term inflation, which could trigger wage growth. So... (assuming these tariffs are here to stay and not some kind of negotiation tactic by Trump (which we believe they are) what does this mean for Lemonade?

Well firstly - Lemonade learned valuable lessons during the COVID-driven inflation spikes of 2021 and 2022. Their models are far better adapted today than they were when Covid struck. Below just some examples from the past earnings calls that clearly shows they Lemonade are far better positioned today to deal with the impact of either transitory or long term inflation.

Adina (COO) on Adaptive Pricing - *"We trained our AI to highlight any region where claim severity is accelerating, even mid-policy. That way, we can prioritize rate filings in the states with the biggest gaps, rather than waiting for annual reviews. This let us stay ahead of the inflation curve last year, and it's key now that tariffs are pushing up import prices."* **(Mentioned in the Q4 2024 letter's 'Operations' section)**

Shai Wininger (CTO) on Granular Severity Predictions - *"Our earlier models lumped most property damage together. Now we break out severity drivers for homeowners vs. renters vs. auto vs. pet, so if we see spiking auto parts costs, we can specifically reprice motor policies without overcorrecting in other lines."* **(Highlighted in prior letters, reiterated as a bullet in transcript Q4 2024)**

In short, Lemonade is purpose-built for fast pivots when economic conditions shift abruptly. Their AI and digital infrastructure isn't just flashy tech - it's a genuine financial advantage in turbulent times.

Why this is so important - LTV Model Upgrades:

Lemonade's **LTV** (Lifetime Value) model aims to forecast each customer's projected claims, policy duration, and overall profitability. If their models cannot adapt and match price with risk quickly the amount they have to pay out on claims (long tail), exceeds the value that was taken as premium (what

the customer paid up front) – so they end up having to pay out more than they took in for that risk. Here are **statements** from management on how the models evolved to handle inflation, drawn from the company's shareholder letters and earnings calls:

1. **Incorporating New Inflation Feeds** - “At the onset of COVID, we recognized the threat of rapidly changing supply chains - so we fed real-time indices for motor vehicle parts, home rebuild costs, and even veterinary billing data into our LTV engine. Now if a single data set spikes unexpectedly - like the price of steel for auto body repairs - LTV immediately recalculates the projected cost for relevant customers.” **Daniel Schreiber, CEO, Lemonade Q2 2022 Earnings Call**
2. **Breaking Down Severity vs. Frequency** - “Our earlier models, say LTV3 or LTV4, mostly assumed stable claim severity trends. When inflation soared, we realized we needed more granular predictions for severity across lines - home vs. auto vs. pet. That's why LTV6 introduced separate severity components, each keyed to unique inflation drivers, from vehicle parts to construction labor.” **Shai Wininger, President & COO, Q1 2023 Shareholder Letter**
3. **Geo-Level Insights** - “We now track home rebuild indices at the zip-code level rather than statewide averages, because inflation can run hotter in certain regions. This hyper-local approach helps us file more targeted rate changes, so a spike in, say, Texas lumber costs doesn't force a blanket premium hike across all states.” **Tim Bixby, CFO, Q4 2023 Earnings Call**
4. **AI-Generated Filing Documents** - “We cut the lag between deciding we need a rate increase and submitting that filing from months to days. This is thanks to new internal tools that convert the LTV model outputs directly into the required regulatory format, drastically shortening the time before new rates can hit the market.” **Shai Wininger, President & COO, Q3 2024 Earnings Call**

These enhancements, management insists, allowed Lemonade to **lower its aggregate loss ratio from nearly 90% at the end of 2021 to 73% TTM and 63% for Q4 2024**, even as broader inflation continued, put plainly, they are far better equipped today to navigate this situation.

Lemonade's AI Edge: Rapid Rate Filing and Agile Underwriting

A key piece of Lemonade's playbook is its AI-first approach. Unlike legacy carriers that require large actuarial teams and lengthy approval processes, Lemonade has largely automated much of its underwriting and rate-filing documentation. The result: the company can recognize rising costs in real time, submit adjusted rates to regulators quickly, and scale marketing spend up or down based on which lines are currently profitable.

During the pandemic, Lemonade realized that many of its underlying models did not fully anticipate high volatility in claims costs. By 2022–2023, the company made significant model overhauls, culminating in **LTV5, LTV6**, and later versions. These models incorporate a richer data set on supply-chain disruptions, building cost indices, and even monthly tracking of used-car values. The company's leadership has specifically highlighted how this data fuels faster repricing.

Filing Efficiency: CFO Tim Bixby said in a 2023 interview, “*We've automated most of the compliance process, so when we see lumber costs suddenly spike 25%, our systems immediately flag that for possible mid-year rate filings rather than waiting for the annual review.*” Source: Lemonade Q3 2023 Earnings Call

Underwriting Discipline: CTO Shai Wininger added, “*Our internal AI quickly surfaces patterns - like how certain car models are experiencing higher repair inflation. Once we spot it, we can either adjust prices*

for that risk tier or reduce marketing to those segments until we're confident we've matched rate to risk."

Source:Q42023 Shareholder Letter

Near-Term Forecast vs. Long-Term Potential

Despite these tech-driven advantages, **2025's tariffs will almost certainly push up short-term claim costs** for home and auto, in particular. Lemonade's gross loss ratio could see a single-digit percentage rise in the next few quarters (more detail below) as it processes claims on higher-priced imports. Motor repairs and building materials are especially exposed. Pet coverage is also vulnerable to pricier vet supplies, though management can adjust pet rates more quickly than in heavily regulated lines like auto.

In the **medium term**, Lemonade's new rating filings should help offset these added costs, returning its loss ratios closer to target levels. Over the **long run**, if tariffs become the "new normal," Lemonade's AI-driven approach still positions it to continuously calibrate rates as inflation data flows in.

Pet Insurance: A Surprising Source of Stability?

An interesting wrinkle is Lemonade's pet insurance line. Traditionally seen as discretionary, Lemonade's younger customers see pet insurance as essential, helping maintain retention even during price hikes. More on this in our previous article [Rigging the risk pool](#) which can be found at [Ironic-ape.com](#)

Scenario Modelling: Understanding Lemonade's Post-Tariff GLR Outcomes

Based on earlier tariff discussions (e.g., higher replacement-part costs for Car, pricier building materials for Home/Renters, moderate upward pressure on Pet from supplies/equipment rather than finished pharmaceuticals, etc.).

To clearly illustrate the potential impacts of the recent tariffs, we've modelled three realistic scenarios - Low, Medium (Base Case), and High - using Lemonade's Q4 2024 in-force premium (IFP) and detailed line-by-line claim adjustments.

Each scenario uses this formula: **GLR = (Original Claims × (1 + Inflation Rate)) ÷ Premium**

This provides transparency and allows a precise understanding of how different levels of inflation, regulatory speed, and efficiency improvements may influence Lemonade's loss ratio.

Clear Assumptions for Each Scenario:

Low Scenario

- Blended inflation uplift: ~3%
- Rapid regulatory approval (rate changes approved swiftly)
- Full 2.5% offset from Lemonade's AI-driven underwriting efficiency
- Minimal inflationary impact in Pet line
- No significant catastrophe losses



Improved Loss Ratios

Underwriting and efficiency gains have driven year-over-year improvements in gross loss ratios.



Tariffs Add Pressure

Newly announced tariffs could add roughly 3-5 points to the consolidated gross loss ratio.



Q1 Impacted by LA Wildfires

One-time losses from the Los Angeles wildfires drove elevated homeowners claims in Q1.



Potential Upside

Rate approvals and tariff rollbacks could lead to sharper decreases in loss ratios

Medium Scenario (Base Case)

- Blended inflation uplift: ~6%
- Moderate regulatory approval speed (typical delays, 1–2 months)
- Partial 2.5% offset from efficiency gains
- Moderate inflation across all product lines
- Normal seasonal GLR uplift of 4% included for realism

High Scenario

- Blended inflation uplift: ~9%
- Slow regulatory approval (3+ month delays)
- No efficiency gain offsets
- Widespread inflation across all product lines, especially motor and home repairs
- Normal seasonal GLR uplift of 4% included

Scenario Outcomes:

Scenario	Adjusted Claims (\$M)	Raw GLR (%)	+4% Seasonal Adjustment	- ML Efficiency Improvement	Final GLR (%)
Low	618.8	65.5%	69.5%	-2.5%	67.0%
Medium	635.9	67.4%	71.4%	-2.5%	68.9%
High	653.1	69.2%	73.2%	No offset	73.2%

Note: Calculations are based on Lemonade's Q4 2024 total IFP of \$944M, with line-by-line claim adjustments detailed below for transparency

Line-by-Line Calculation (Base Case):

Line of Business	IFP (\$M)	Original GLR (%)	Original Claims (\$M)	Inflation Rate (%)	Adjusted Claims (\$M)
Renters*	352.1	40%	140.8	7.5%	151.4
Homeowners*	150.9	90%	135.8	5.6%	143.4
Pet	283.0	69%	195.3	2.9%	201.0
Car	123.0	83%	102.1	8.4%	110.7
Europe	11.0	75%	8.25	5.3%	8.7
Other	24.0	85%	20.4	2.4%	20.9
Total	944.0		602.65	Blended ~6%	635.9

*Lemonade does not split out Home and Renters, this is an estimate based on a 70:30 split

- Step 1: We calculated adjusted claims: \$635.9M total post-inflation.
- Step 2: Then divided by IFP, so GLR: \$635.9M ÷ \$944M = 67.4%.
- Step 3: We Applied +4% seasonal adjustment (as they tend to see lower CAT events in Q4) applied a -2.5% ML efficiency = **68.9% final GLR**.

Why this matters:

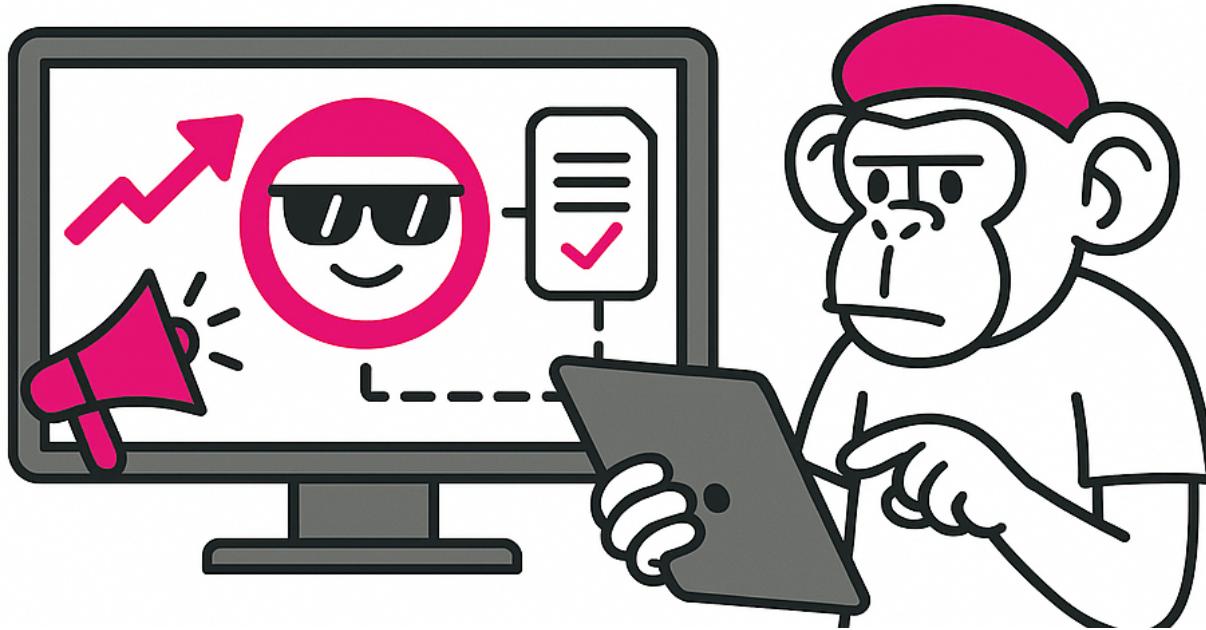
Even in a challenging high-inflation environment, Lemonade's GLR remains notably lower than historical peaks, thanks to enhanced underwriting, efficient claims handling, and rapid repricing. These scenario estimates show the potential paths clearly - reassuring investors of Lemonade's ability to manage short-term tariff shocks effectively.

Soooo....Is a 20%+ Share Price Drop an overreaction given its already significant pull back?

While it's true that claims costs will initially spike due to tariffs, Lemonade's recent improvements – highlighted throughout various earnings calls and recorded interviews - demonstrate the company's newfound agility in responding to inflation. Yes, some short-term mild impact is possible. But Lemonade's quick repricing capability, fast claims settlement, and sticky younger customer base should significantly soften any medium- to long-term blow, in our opinion, this is not a major impact for Lemonade.

It's still yet to be seen if Trump is using tariffs as a negotiating tactic. Our personal view here at Ironic Ape is that he is and we will quickly see major nations capitulate and we will see reductions in tariffs, as such, we assume these to be worse case scenarios, we also anticipate the FED will be forced to pivot and introduce rate cuts sooner, which would reduce the cost of capital and ultimately benefit fast growing growth stocks such as LMND, but as this is yet to be seen, we have based this article on no changes to policy, any chance to policy would be seen as upside, epically if state rate filings are approved in-between due to their speed advantage.

Moreover, Lemonades experience handling inflationary shocks during the pandemic era clearly sharpened their tools. The LA wildfires prove Lemonade can execute under pressure, minimizing the severity of rising rebuild costs.



An Ironic Apes bottom line

Lemonade's ongoing efforts to refine its underwriting and claims processes have historically produced a notable decrease in gross loss ratios over time, with some lines - such as homeowners multi-peril and car - showing double-digit percentage-point improvements year over year. These gains stem from better risk segmentation, more efficient claims handling, and gradual product maturity.

However, the newly announced tariffs - which we estimate could add roughly 2–5 percentage points to Lemonade's consolidated gross loss ratio - pose a near-term headwind, mainly due to higher prices for imported auto parts, building materials, and consumer goods. Although Lemonade's machine-learning models and process optimizations help offset much of this inflation, limited rate-filing approvals mean

the two effects largely cancel out, suggesting overall loss ratios may stay flat or slightly down year over year.

Q1 results will also include a one-time impact from the LA wildfires, temporarily spiking homeowners claims and overshadowing some of the underlying improvements. While this event inflates early-year numbers, it is not expected to derail the broader downward trend in losses if catastrophic incidents remain relatively contained in subsequent quarters. Nevertheless, if Lemonade secures broader rate approvals, the company could more aggressively pass along cost increases and potentially achieve a sharper decline in loss ratios. That upside grows further if tariffs are rolled back in key markets such as China, Mexico, or Canada, which supply a significant portion of the materials and components driving insurance claims most impacted, Pet, Home and Motor.

In that more favorable scenario, the ongoing gains in underwriting and claims efficiency would combine with reduced import costs, pushing loss ratios below current forecasts and strengthening Lemonade's long-term profitability outlook.

Still, let's be real: regulatory bottlenecks matter. Fast-moving models mean nothing if state regulators move at a glacial pace - and this has been proven repeatedly in states like Florida and California. Likewise, reinsurance dynamics and consumer tolerance for premium increases will define just how fast Lemonade can adjust.

All that said, our under-evolved Ape Intuition is that the 20% sell-off feels too harsh - especially coming on the back of an already significant pullback from November highs. Lemonade appears well-equipped to weather this latest storm. In a few quarters, this may well read like yet another chapter in the company's long-term resilience story - tweets, tariffs, and all.

Yes, the near-term impact is real. But if this is "transitory" **rolls eyes**, then Lemonade's tech stack is uniquely positioned to adapt quickly. The company remains well-capitalized, nimble, and - most importantly - learning faster than the market is pricing in.

Remember, we're just dumb apes, retail investors and not financial analysts. This is not financial advice, Do your own diligence! The Ironic Ape remains long on LMND and holds positions in LMND.

If you found this useful, additional content can be found at ironic-ape.com, please follow @ironic-ape on X for the latest.