



# Lemonade – A fair insurance for digital native

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Dissertation written under the supervision of

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## Abstract

**Title:** Lemonade – A fair insurance for digital native

**Author:** Giorgia Carretta

**Keywords:** insurance market, millennials, digitalization, business strategy

This case ultimate goal is providing an example of a digital insurance company targeting digital native generations, by punctually answering to all their purchasing preferences and needs.

The paper is based on a theoretical frame about insurance industry mechanism, in the specific the traditional relationship between insurer and insured, and the consequential contrast within it, how traditional insurance companies are trying to innovate and reinvent their services and distribution channels in order to appeal the youngest generations of customers, which is by far one of the main incoming challenges both for small emerging insurance businesses and long-lasting big incumbents, whose products and services have been shaped based on the needs and tastes of the previous generation. This scenario is compared with the clear and schematic characterization of youngest generations as customers, by defining purchasing needs and tastes of this segment and identifying the offer gap between these and the industry characteristics and practices. An example of how a company can address all the listed needs and preferences of Millennials and Gen Z is provided by Lemonade Insurance Case, whose strategy and initiatives are categorized based on the theoretical frame presented previously.

The present Case is directed mainly to undergraduate students or teachers of undergraduate business courses, that aim to discuss the topic of the service digitalization and digital native targeting through an appealing and well-structured example, as the Lemonade Insurance one.

## Resumo

**Título:** Lemonade – A fair insurance for digital native

**Autor:** Giorgia Carretta

**Palavras-chave:** mercado de seguros, millennials, digitalização, estratégia de negócios.

O objetivo final deste caso é fornecer um exemplo de uma seguradora digital voltada para as gerações nativas digitais, respondendo pontualmente a todas as suas preferências e necessidades de compra.

O artigo baseia-se em um quadro teórico sobre o mecanismo da indústria de seguros, na especificidade da relação tradicional entre seguradora e segurado, e o consequente contraste dentro dela, como as seguradoras tradicionais estão tentando inovar e reinventar seus serviços e canais de distribuição para atrair as gerações mais jovens de clientes, que é de longe um dos principais desafios de entrada tanto para as pequenas empresas de seguros emergentes como para as grandes empresas de longa data, cujos produtos e serviços foram moldados com base nas necessidades e gostos da geração anterior. Este cenário é confrontado com a caracterização clara e esquemática das gerações mais jovens como clientes, definindo as necessidades e gostos de compra deste segmento e identificando a lacuna de oferta entre estas e as características e práticas da indústria. Um exemplo de como uma empresa pode atender a todas as necessidades e preferências listadas dos Millennials e da Geração Z é fornecido pela Lemonade Insurance Case, cuja estratégia e iniciativas são categorizadas com base no referencial teórico apresentado anteriormente.

O presente Caso é direcionado principalmente a alunos de graduação ou professores de cursos de graduação em administração, que visam discutir o tema da digitalização de serviços e direcionamento de nativos digitais por meio de um exemplo atraente e bem estruturado, como o Lemonade Insurance.

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## List of Abbreviations

Abbreviation	Meaning
AI	Artificial Intelligence
APP	(Mobile) Application
BtoB	Business to Business
BtoC	Business to Consumer
BOT	Robot
IFP	In-Force Premium
NGO	Non-Governmental Organization
NPS	Net Promoter Score
PPC	Price per customer
WOM	Word-of-mouth

## Introduction:

In the last two decades the great majority of industries have been disrupted by digital technologies, which enabled the creation of new business models, products, and services.

One of the most disruptive and spread innovations, widely implemented across different industries, is the “digital platform” as a business model. From the communication to the transportations, entertainment, information, retail and even public sector and financial services, the shift from traditional businesses to digital platforms has been a game-changer in almost every economical and social organization.

Despite the shift in the demand expectations and needs, and in the other financial services, the insurance market appears as very reluctant and conservative when coming to digital innovation, as this disruptive wave did not yet hit this market. Insurance industry structure is highly concentrated among few incumbents, whose offer and customer target did not substantially change.

On the other hand, customers are changing in terms of demographic composition but also due to the different standards and mechanisms they have been educated to in the last 20 years. One of the highest potential and growing segment is composed by Millennials and Generation Z, whose purchasing habits and preferences are very specific and different from the previous generations. They are almost forgotten by the insurance market, which is not targeting them actively, and this is also resulting in their bad attitude and relationship with the insurance companies.

Lemonade Insurance is one of the firsts digital insurance companies, and one of the few who succeeded in appealing Millennials and Gen Z to their services, by implementing the concept of digital ecosystem to this industry. Thanks to the AI technology, and an innovative capital allocation system to ensure transparency and interest alignment, Lemonade delivers a “delightful experience”, redesigning the relationship between insurance and customers, and overall, the concept of insurance itself.

## **Problem Statement:**

Traditional insurance industry innovation level is not in line with the rest of services, and this represents a problem in attracting and appealing to Millennials and Gen Z, a growing and high potential market segment. Lemonade Insurance provides a possible solution.

**Research Questions:**

**Q1** In which direction, for which segments and in which scope is the BtoC insurance industry innovating?

**Q2** Are Millennials and Gen Z a potentially interesting market segment for an insurance company?

**Q3** Which are the specific purchasing preferences and needs of Millennials and Gen Z as customers compared to previous generations?

**Q4** How is Lemonade Insurance addressing their needs and tastes?

**Methodology:**

The methodology used to conduct this study is prevalent the exploratory research with both descriptive analysis through secondary data. Different reports, letter to shareholders and direct Lemonade declarations were analyzed. Multiple academic papers and reports of competitor companies or companies operating in different financial services were used to cover the theoretical frame of the questions raised as well as the specific Lemonade case analysis.

## 2. Literature review:

### 2.1 Insurance Market

The insurance market is defined by the Financial Time Lexicon as “the business of buying and selling insurance, and the companies that are involved in it”, whose main purpose is offering risk coverage, to allow groups or individuals risk management.

#### 2.1.1 Insurance Market characteristics:

According to the US Department of Justice and Federal Trade Commission, Herfindahl-Hirshman Index (HHI) in the insurance industry has been reported to be very high (>2.500 points) and quite stable in the last two decades. Although a slowly decreasing trend has been observed during the period going from 2010 to 2016, in the following four years, the HHI Index increased by far, reaching its maximum level in 2019 with an overall US HHI of 5159 on average by country. The ten largest insurance companies represented 52% in 2016 and 62% in 2019<sup>1</sup>. This aspect is surely driven by the Health Insurance branch, where the incumbents' market share is even higher and constantly increasing.

On one hand, it is physiological in this market to have large incumbents, established and stable for a long period of time, since the minimum economy of scale needed in order to reduce the risk is very big.

Another entry barrier for new entrants is the “heavy-capital” model, which is indeed another peculiar characteristic of the insurance market. Accumulated capital is an important form of protection against future possible adverse events impacting on the whole market, whose risk cannot be diversified and reduced. Insurance companies are in fact highly relying on the trust that customers and the system grant to them, based on the fact that in case of adverse events they will be able to refund claims. In this whole mechanism capital represents a guarantee and a protection.

On the other hand, the high concentration and the conservative market dynamics are a disincentive to invest and embrace new technological innovations, and a disadvantage for new companies entrance, which could be more motivated to introduce innovative solutions (Elizabethtown-Fort Knox, 2020).

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<sup>1</sup> Source: California Department of Managed Healthcare and SHCE data from Health Coverage Portal <sup>TM</sup>.

### **2.1.2 Economics Market failure**

The insurance industry, regardless the specific branch or sector it differentiates in, is based on Trust, by its own nature. The delicate insurer-insured relationship needs to be balanced and regulated to protect both sides. For instance, underwriting insurance, the customer needs to trust the coverage is fair and the company will satisfy their claim in case of loss; on the other side the company needs to trust the private information about the customer's initial situation and risk assessment provided.

The insurance market is indeed characterized by different types of market failure, as Asymmetric Information, Adverse Selection and Moral Hazard. The common root cause between them are the diametral opposite interests of the parties, who are not incentivized to reveal transparently to the counterpart the information they have, and on the other hand the difficulty of a control system implementation. To overcome these information asymmetries, companies developed over time a wide range of tactics to obtain an efficient outcome and avoid frauds. One of the most important is to identify high-risk users or customers and compute the risk assessment based on it, with the result of different premiums for different categories of users. A clear example of that is the “no claim bonus”, the higher premium for new insurers, or higher premiums paid by smokers or heart conditions patients for health insurances. The most common means to address the moral hazard is by using the deductibles, which work as monetary incentives for the customers to act in order to prevent and avoid the loss to occur, since they will suffer part of the loss itself in case the occurrence will be realized.

Other tactics put in place by the insurance companies to align insured interests with theirs are reputation systems such as reviews, references, or a risk audit, from third parties the request of guarantees to increase reliability, and other incentives mechanisms able to move the equilibrium towards a common point.

## **2.2 Innovation**

Innovation can be defined as the practical implementation of ideas that result in the introduction of new goods or services or improvement in offering goods or services (Shumpeter, 1983). It is seen as a fundamental source of competitive advantage and necessary for long-term survival and sustainable growth. Innovative processes and technological innovation have been also

indicated as positively and strong related to insurance company financial performance (R.P. JayaniRajapathirana, 2017).

Innovation and new technologies investments has been also recognized as an important aspect to meet the mutants needs and evolving expectations of stakeholders meet customers satisfaction (Srinivan et al. 2009, Sood & Tellis, 2005)

### **2.2.1 Motivation to Innovate – Arrow replacement effect**

Kenneth Arrow in 1962, established the so-called “Arrow replacement effect”, which reasons around market competition structure and how this affects innovation process. Similarly to the classical Schumpeter’s “Innovation Theory of Profit”, in Arrow’s publication as well, the fundamental element to generate innovation is the competition. This same concept was summarized by Carl Shapiro in 2012, in the “The rate and direction of inventive activity revisited”. This contrast between incumbent and new entrance according to Arrows implies that only entrants will have the motivation to invest an important R&D share for radical innovations, while incumbents will invest in incremental innovations, as the incentives and the potential earnings eventually resulting would be lower for this last. This general pattern is in line with qualitative and quantitative evidence on the nature of innovation, even though it does not consider the incumbent economic power in absolute terms.

### **2.2.2 Innovation types**

Different Innovation categorization have been summarized and integrated<sup>2</sup> by Rosanna Garcia and Roger Calantone (2002), who individuated as main dimensions two dichotomous choices: Micro or Macro innovative impact, Marketing or Technology as object of the innovation. The possible combinations result in three innovation types. Incremental innovations can be both technological or marketing application of a new technology with a micro impact, Radical innovation is defined as marketing and technological innovation at the same time having a macro impact and are considered the Really New innovation all the ones generating a macro innovative impact either on the technological or on the marketing aspect but also involving a micro impact on the other aspect.

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<sup>2</sup> Garcia R., Calantone R., 26 September 2003. A critical look at technological innovation typology and innovativeness terminology: a literature review, *The Journal of Product Innovation Management*. N 19 pp. 100-132.

Adegoke Oke (2007) applied a similar categorization (Radical, Me-too, Incremental) to analyze the service sector specifically, statistically proving a relationship between Radical and Incremental innovations with the innovation performance. In the publication, Radical innovations were also found to be related to innovation management practices.

The categorization that will be used in this paper will be in between, as it will consider Marketing and Technology as variables, which can both present two levels of Innovativeness, instead of three, high or low. The combinations obtained are: Architectural innovation as result of an existing innovation applied to a new market, Incremental innovation as outcome of an existing technology applied to an existing market, Disruptive as consequence of a new technology implemented in an existing market, and finally the Radical technology representing the case of a new technology launched in a new market.

This last categorization has been developed as wider model of the well-known Henderson and Clark “Four types model” (1990), which considers product innovation only and divide it into four possible subgroups: Radical, Incremental, Architectural, Modular, based on how much of the existing product is disrupted by the implementation of the new idea.

### **2.2.3 Insurtech**

Insurance market is often perceived as conservative and relatively reluctant towards innovation compared to other Financial Markets such as the Securities Market or the Credit Market, also due to the stricter regulation it needs to comply with.

Nevertheless, in the last decade Insurtech, the branch of Insurance that implements the use of new technology to drive cost savings and efficiencies at various points of the insurance value chain, emerged prominently. It has been defined as “*Innovations exploiting information technology to deliver solutions specific to the insurance industry*” (Stoekli et al., 2016).

According to the former Chief Digital Transformation Officer with Generali Global Assistance in the US, Brad Rutta, this specific branch was developed right next to fintech and emerged as an answer to consumer demand changings. “As banking institutions began changing the customer experience through fintech innovations, particularly by leveraging mobile devices to provide self-service functionality, it set forth expectations for all financial services, including insurance, to create user-centric platforms. So, ultimately, insurtech came about primarily from customers demanding (and rightfully so) simpler and more efficient products and services through digitalization.”

#### **2.2.4 Innovation in the Insurance Market**

In the last three decades digital innovation affected and influenced the insurance industry on many different levels. The most impactful changes have been consequences of the enabling of data collection, data storage and communication channels, both within the industry players and between insurers and customers (Eling and Lehmann, 2018).

Internal databases are currently synchronized and shared among companies to ensure a fast data flow along the entire value chain, to reduce asymmetric information and to increase efficiency. Artificial Intelligence is one of the most recent but widespread innovations, which enabled customer recognition, new communication channels such as API Chatbot, real-time answers at any time for customers and lower fraud rate for companies but also much more precise risk assessment. The broker's operations and tasks changed completely in the analyzed period, as it is indeed recorded the implementation of multiple Disruptive innovations from a company internal point of view. Following the innovation categorization presented above (See paragraph 2.2.2), there are even Radical innovations in the insurance industry, such as the new digital technologies implemented in new BtoB markets as the Cybersecurity.

One of the main insurance branches where digital technology is currently generating the biggest changes is Healthcare Insurance. The combination of digital technology and Healthcare is an ongoing process, and the insurance market has been involved in it on a global scale. Surely in this field the technology enabled a different level of monitor and control, increasing safety and cures available to patients.

During Covid-19 pandemic, this process was accelerated even more, as insurance companies were pressured to find alternative solutions to face-to-face contacts, which created a big opportunity for insurtech implementation and spreading along the industry.

However, when coming to House and Content, or even Car Insurance, from consumers point of view the changings are perceived as quite small and the innovation is just incremental<sup>3</sup>. One example of it is for instance the implementation of “new” distribution and communication channels such as online platforms to purchase the products or the email which substituted the physical mail for all the companies. The products sold are not the focus of the innovative process persecuted by most of the Incumbents, the objects protected by insurance policies were not disrupted, and the coverages offered maintained their traditional structure, in terms of

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<sup>3</sup> Oke A, 2007. Innovation types and innovation management practices in service companies, International journal of operations & production management. [0144-3577] vol:27 iss:6 pp: 564 -587.

contract, costs, profit source and margins. This is especially true analyzing big players and incumbents which are widely seen as reluctant to embrace this type of innovation.

### **2.3. Demographic Generations**

Demographic generations are a group of people defined by birth year (and not currently age) within a range. They usually have several aspects in common such as demographics, historical events lived, common popular culture, attitudes, perception. For instance, the names are proposed based on the historical period in which the members of that generation become adults (18-21). It is possible to find multiple official classifications with slightly different cutoffs and names considered, but the ones presented by Pew Research Center<sup>4</sup> and US Census Bureau<sup>5</sup> are enjoying the most widespread consensus. (See Fig. 1 in the Appendix).

#### **2.3.1 Silent generation**

Taking into consideration the XX century, the first defined generation is the “Silent Generation” (1928-1945). They have been through the Second World War and have been mentioned for the first time in the 50s in an article from the Time magazines, stating that the children of this generational group were taught to be quiet, silent, and very disciplined. This generation is always associated with loyalty in consumption and a strong preference for direct contacts and communication.

#### **2.3.2 Baby Boomers**

The second generation (1946-1964) has been called “Baby Boomers” by the The US Census Bureau, because they are born in the so-called economic boom after WWII but also because in this period the number of births recorded was extremely large. Around 1964 indeed the birthrate starts to decline. This generational group is often associated with the need for independence and competitiveness.

#### **2.3.3 Generation X**

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<sup>4</sup> Dimock M., 2019. Defining generations: Where Millennials end and Generation Z begins, Pew Research Center.

Generation section of Pew Research Center database: <https://www.pewresearch.org/>

<sup>5</sup> Source: US Census Bureau, 1945 to 1969 Current Population Reports, 1970 to 2019 Current Population Surveys.

Generation X (1965-1980) is often defined as an intermediate generation between the pre-digital era and the digital era. Generation X, name diffused by the Canadian writer Douglas Coupland, lived the digital technology advancing very fast during their youth and adulthood, but the disruption was not yet applied, so they did not live completely in one of the two technological scenarios. The fertility rate in the relative decade decreased significantly and this generation was smaller in terms of volumes compared to Baby Boomers, which implied the lack of attention from marketing and policies that they claimed. They turned 18-21 right during the pop culture fragmentation period (many different opposite cultures emerged as Punk, Heavy Metal, Grunge, Grindcore, etc.), which contributed to the “Generation X” name, as the generation that do not desire to be defined.

#### **2.3.4. Millennials (Generation Y)**

The Millennials (1981-1986) are the most heterogeneous racially and ethnically adult generation in US history. This generation was born and defined in a world of emerging technology, and it is considered the first generation to be digital native. Generation Y is a unique generation, influenced in its behavior by their permanent connection with each other through digital media, and their peculiar relationship with Information and Communication Technologies (ICT).

Millennials are often presented in comparison with Baby Boomers as not since the ‘60s a generation had so radically changed the business, communication, relational aspect of the American landscape. Another peculiar aspect is the phenomenon called “slow start”, as many Millennials’ life choices, perspectives for the future, earnings and access to the work market and independence have been shaped by economic recession.

Millennials have been defined as trustworthy, tolerant, individualistic, academically prepared and with expertise in technological use that distinguishes them radically from the previous generations (Furlow, 2012).

#### **2.3.5 Generation Z**

The last generation officially defined (1997-2012) is Generation Z, often referred to as “Gen Z”. They never experienced a life without digital technology and disruptive transformation of the main economic industries (on-demand entertainment, transportation, digital communication and social media, robotic manufacturer, digital services, Wi-Fi, etc.). All these technologies are assumed and expected for them, and they prefer indirect contact and communication than real-

life engagement. They are also the highest educated expected generation and the most ethnically heterogeneous.

As Millennials, they are considered less brand loyal compared to previous generations and price sensitive. Almost a paradox with this last characteristic is their higher sensibility to environmental and sustainability as core values.

### **2.3.6 Millennials and Generation Z – Social and professional life**

On the other side, Millennials and Generation Z have many social and economical differences than the previous generations, which also translates into different and new needs and different professional paths.

For instance, these two demographic groups are the most educated ever. According to PEW Research Center, 67% of Millennials have at least a college degree, while among parents belonging to the Silent Generation and Early Boomers this indicator registers 28% and 45%. Another interesting detail about young generation education states the gender parity reached with regards to highest education levels, radically different than before. For the insurance industry the change can lead to the new need of renting insurance. University and College create 3-5 years of delay in the job market entrance and in economic independence, but also generate the new practice of students renting shared apartments or studios.

### 3. Insurance Industry

In the last two decades, technology has enabled also higher cooperation and communication across the industry players. One example of that are the national and international centralized databases, such as CUE in the UK (which stands for Claims and Underwriting Exchange) for example, set up in 1994, or the CLUE (Comprehensive Loss Underwriting Exchange) in the US.

But despite the increase of technological tools and support implemented, labor-intensive operations have always had a central role in the insurance industry, in every distribution channel. Even the most recent examples of innovation, which record companies effort in satisfying changing customer needs and investing in the new digital/technological trends, ensure the presence of the human agent as a central indispensable role. One great case in this sense is American Family Insurance, which after covid-19 is rethinking the relationship with its customers and investing massively in the digital channel but keeping a hybrid distribution model where the technology helps the agent in communicating, enables more flexibility and aims to strengthen the relationship with the customer. This strategy has been demonstrated to be successful and it's leading the American company to a strong revenue growth, and the main explanation is that many customers continue to prefer their insurance services to be served by an agent. Is the insurance BtoC industry really exempt from the digital disruption?

In the US the average age of brokers and agents in 2020 was 59, and the average “age” of insurance companies is currently 125.

#### 3.1 Industry value

Just considering the US market, Insurance represents almost 11% of the annual GDP, which in absolute terms means \$1.3 trillion, and \$5 trillion globally every year.

Analyzing the US insurance industry in terms of market value from 2013 to 2019<sup>6</sup>, it is possible to observe an annual average growth rate around 4 percent, and in 2021 the trend was positive but modest, recording a steady growth of 2 percent.<sup>7</sup> During covid-19 the profits slightly decreased due to pandemic impact on global economy (non-homogeneous given the strong growth of Health Insurance sector and the important losses of General Insurance sector), but

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<sup>6</sup> Source: Statista, Available at: <https://www.statista.com/statistics/1102802/insurance-market-size-usa> [Accessed 15.03.2022]

<sup>7</sup> Source: McKinsey Insurance 2020 Outlook

overall, the industry was less impacted compared to the general economic trend, due to insurance companies fast reaction and multiple new possibilities mainly in the Health Insurance sector. For this reason, the feared loss in profits that was expected due to covid-19 did not materialize, but neither did so the potential new market opportunities. Aside from the two-years period of global pandemic, which were very peculiar for all the economic sectors, the insurance industry seems quite stable and conservative, despite the increasing polarization among opposite channels and sectors, as between Health Insurance and Car Insurance.

## 4. Millennials and Generation Z as new potential segment

According to the American Census Bureau, Millennials are currently the largest consumers age group, outnumbering Baby Boomers in 2019. They reached in 2021 73.2 million, one quarter of the national population in the US and demographics projections forecast this generation to represent half of the population of the United States within 2030, while Generation Z reached 67.8 million in 2021 (to which are added 36.7 million of Gen Z under 18, not considered yet potential customers). This means that the two youngest generations combined represent 51% of the US population today, 42% of the US consumer population, and in a continuous positive trend.

From an economical perspective, they have not yet reached their full spending potential, but in the incoming years, as they progress in their careers, Millennials and Gen Z will see their economical power grow. Millennials purchasing power has increased constantly in the last two decades, registering \$1.8 trillions of disposable income in 2020, and an estimated income of \$8.3 trillion by 2025.<sup>8</sup>

Gen Z purchasing power was recorded at \$23 billion in 2020, and their disposable income was estimated to be \$360 billion in 2017<sup>9</sup>, which is more than double compared to the 2014 estimations.

Thanks to their size and economical importance, younger generations are becoming an attractive market segment for many sectors, and the customer industries are fast responding to the new demand generations, adapting business strategies, and generating a specific offer. The term “Gen Z” was mentioned in the S&P 500 earnings call 64 times in 2021, which is more than twice as in 2020.<sup>10</sup>

### 4.1 Millennials and Generation Z as customers

Younger generation and Millennials in particular, have radically different purchasing habits and needs compared to the previous generations. The main differences can be summarized by the preference for online channels, preference for experiences, peer referencing and trust, hedonistic purchase, and the need of engagement and co-creation with their favorite brands.

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<sup>8</sup> Source: Nielsen Pop-facts, 2015 and 2018

<sup>9</sup> Source: Statista

<sup>10</sup> Fry R., Dec 2018. Young adult households are earning more than most older Americans did at the same age, Pew Research Center. Available at: <https://www.pewresearch.org/fact-tank/2018/12/11/young-adult-households-are-earning-more-than-most-older-americans-did-at-the-same-age/> [Accessed 05.05.2022]

#### **4.1.1 Preference for digital channels**

These characteristics are driven by their relationship with technology and by the different product and service standards they were educated to, which changed their benchmark and expectation in every field: immediacy and convenience. Kit Yarrow, Consumer Psychologist, states that technology became Millennials "third hand and second brain". Private and professional communication, socialization, and public information are managed through social media and similar digital platforms, travels and transportation are booked and paid in a few seconds relying mostly on reviews shared by strangers, most of the time without even involving physical money nor credit cards. Actually, almost all everyday tasks such as grocery shopping, transportation, entertainment, or financial services are just "a click away". In the last two decades, products and services appealing to Millennials have in common the fact that they became seamless, following an omnichannel approach, integrated to platforms the consumers use every day, offer a real-time interaction and are immediately available everywhere. They expect to transpose the same experience they have in other fields every day, to insurance.

As of 2020, 86.2% of Millennials declared to be a digital buyer, who defines a customer purchasing goods or services through an online channel. Among Millennials and Gen Z it has been reported by many the so-called "Showrooming behavior", the habit of checking physical items in offline channels when possible and then systematically finalizing the purchasing online for convenience and for a best price. A higher price sensitivity, compared to Silent Generation or Baby Boomers, is indeed another element that characteristics them as customers.

#### **4.1.2 Product social value as commodity**

Aside from the price, Millennials have been identified as the most sustainable adult generation to date. The brand qualities they value the most are good-quality customer service and brands consciousness, whether this can be on a social or environmental dimension. This is even stronger in Gen Z.

Both generations' members are observed to make purchasing decisions on the base of values and principles, be more informed about brands sustainability efforts and influenced by them. According to the Organization for Economic Co-operation and Development (OECD) they are the most sensitive age group "Very conscious of the need to reduce environmental pollution, improve human health and increase respect for human rights on a global scale. They believe their generation is consuming too much and want more information on how to reduce the negative ecological and social impacts of their consumption".

This can be also connected with another characteristic: the tendency of personally identifying themselves with the brands they purchase. Nielsen's Millennials Drive Sustainability Survey underlines the idea of Millennials that the purchasing choice is communicating something about their own social role, and 59% of them are willing to pay more for a brand which can convey "the right image". Considering brand communication strategies, advertising illustrating social benefits are more effective in catching their attention.

Overall, this aspect appears almost as a "commodity" that this customers segment is used to find in every good and service category, from consumables to fashion brands, APPs and services, and which became an expected brand behavior that companies are rapidly reacting to, by communicating labels as sustainability, locally produced, small businesses support, reduced footprint and many more.

#### **4.1.3 Emotional and Hedonistic purchase**

Millennials and Gen Z as customers are often defined as more emotional than their parents, which translates in a hedonistic conception of goods and services shopping experience, which they do not see as a mere act of acquiring resources, but a pleasant experience itself. The hedonic aspect in the context of online shopping is sensitively impacting customer experience evaluation and was also found positively related to loyalty for this group.

This is expressed in a visually appealing website design, and an interacting relationship with the brand itself. Unique online purchasing experience is indeed expected, for this target, to include interaction and co-creation with the brand itself, availability of personalization options, a credible Pull marketing strategy that commits the brand and the customer in a relationship beyond the product. The same communicational channels that connect this age group among each other is also expected from companies. According to Nielsen, 64% of Millennials think of social media as the most effective way to reach a brand. This consumption model sees the goods or services as important as the experience the customer is offered.

#### **4.1.4 Advocacy and peer referencing**

Customer funnel in a connectivity era, shifted from the traditional "4 As" model, Aware, Attitude, Act, Act again, to the "5 As" model, Aware, Appeal, Ask, Act, Advocate. In particular, this last phase consists in referencing to peers their own experience, both positively and negatively. On the other side this also means active research of information about product quality and consumer experiences coming from other consumers and relatives.

This form of content is considered even a more relying source than the brands content, and an influencing element.

With no doubt, technology supported this “reviews” process spreading, and generated a network effect, at the point that online reputation of a brand has a statistically significant impact on the willingness of these consumers to engage with the brand, and companies themselves are encouraging advocacy process and allocating resources to managing customer relationship also through these external channels, referring to them in their websites and internal channels.

## **4.2. Insurance appealing Millennials and Generation Z**

Given their habits and relationship with the insurance industry, let’s now try to understand how young generations are dealing with the safety need, which is one of the most basic human needs, after the physiological needs.

### **4.2.1 Millennials and Generation Z’s attitude toward Insurance Market**

According to the “Millennials Life Insurance Gap ” conducted by Legal&General among 2.997 British respondents between 18 and 35 years old, Millennials overestimate the cost of insurance premium, and are not deeply educated and interested about it until their 30s.

“A 30-year-old nonsmoker could get a policy worth £100,000 for 30 years at a cost of £7.27 per month, whereas the median guess by millennials was £23. Nine in 10 overestimated the cost.” While they still consider in their expenses priorities saving, pension, travel insurance, long term investment and long-term investment, the respondent ranked life insurance as second-last voice, and home and content insurance at the same level of entertainment and hobbies. According to the same investigation, cost and transparent terms and conditions are the main priorities and in many cases the obstacles for the purchase.

Looking at the US market in 2021, Millennials and Generation Z priorities when coming to insurance were ranked as: good Price-Quality Trade-off in the first place, followed by Convenience and Fairness. This last was particularly important for Gen Z. Insurance companies should create their services focusing on the needs in this specific order, to catch the attention of this specific customer segment, which is already about to be captured by indirect competitors, such as tech companies for instance. (See Fig.2 in the Appendix)

## **4.3 Insurance offer gap**

The traditional BtoC insurance industry as described above is labor-intensive, time and cost consuming, structured to satisfy previous generations of customer's needs. This configuration, on the other hand, is not appealing to a specific market segment that is becoming more and more important: Millennials and Gen Z.

The effort and investment operated by incumbents in implementing incremental technologies are not perceived as disruptive or appealing from this market segment, which has a very specific purchasing model, not heard from the industry.

The interaction of the customer with the broker, fundamental for the previous generations to develop a long-lasting relationship and to convey trust through advice and clarification, is not able to reach the same result when coming to Millennials and Gen Z. Over 75% of them prefer to send a message or receive a notification, over having a phone call, due to habits, convenience, and adaptation to their own schedule.

The traditional paradigm of "stable and safe" is not able to appeal to this customer segment, as their working and social life is much less homogeneous and predictable in terms of workplace and place of residence. In 2012 the average length of a job was 4.4 years, according to the Bureau of Labor Statistics, but narrowing the data down for the youngest generations only, the average was almost reduced to half that. On a lifetime basis, this translates into 15.20 jobs over the course of their professional lives. Compared to previous generations these working experiences are also more interspersed with education paths as MBAs, Graduate programs, Post-graduate Masters.

Overall, this trend can contribute explaining the high value they assign to flexibility compared to stability when choosing financial services and real estate companies for their decisions.

Another aspect needs to be analyzed: a side from Millennials and Gen Z, the whole market orientation is actually changing toward digital. It is indeed true that not only youngest customers, but also digital friendly customers are growing. This trend is even stronger after Covid-19 pandemic, as the percentage of customers who are willing to buy insurance coverage from a completely digital company jumped from just 7% in 2016 to 44% at the end of 2020.

## 5. Lemonade Insurance – The Case

### 5.1 Lemonade Insurance - Introduction

Lemonade is a completely digital insurance company, which pitches itself as completely disruptive regarding the business model and the customer relationship. Just as Netflix and Spotify have been game-changers within the entertainment industry, and Uber was in the transportation industry, in a similar way Lemonade aims to redesign the whole concept of insurance.

### 5.2 “*Forget everything you know about insurance*”

The company is based in New York City, and it was launched in the US in 2015 by the co-founders Daniel Schreiber and Shai Wininger. Both of them did not have any insurance background, but they had actually collected professional knowledge and expertise in the tech ecosystem.

Initially launched in the home and content insurance branch, Lemonade now also offers auto, pet, and term life coverage options. The initial branch choice has been most probable detected from the lack of specific knowledge in the very complex healthcare system and easier path in terms of regulation and requiring for a new entree, other than a lower initial risk in terms of frauds and dependencies from external expertise.

This company is not only a peculiar combination of digital technology and insurance activities, but in 2016 Lemonade became one of the few insurance companies that has received the certification as B-Corp, a for-profit Benefit Corporation. The company's impact is measured and assessed by the global nonprofit organization “B Lab”, according to rigorous standards of social and environmental performance, accountability, and transparency. In the specific case of Lemonade, the social purpose that balances with the profit goals is the important role that charity and non-profit organizations have in the company’s operation. Quoting its founder Daniel Schreiber, Lemonade is “an unconflicted business model powered by AI and behavioral economics. We invented the Lemonade Giveback, where leftover premiums are donated to charities our customers choose.”

### 5.3 The business strategy

Summarized by a four-element virtuous cycle, the simple company strategy starts from a delightful customer experience, as the centric pillar of the overall company vision. This would have enabled a fast initial growth, fundamental in order to collect the big amount of customers data needed to generate predictive data about risk assessment and prices. Through machine learning technology, the growth of data collection translated into a more and more precise prediction of claims and risk assessment, leading to a sustainable decrease of costs and adjusted prices, as well as a high-quality customer experience, which again is the source of the company's growth.

### **5.3.1 AI Technology as core value**

Lemonade customer interface is offered through a mobile APP, with chatbot technology. The unified system the company built, enables a total integration between the data generated and collected during customer support interaction, with the claims processes, and the information collected through the claim process itself can support marketing campaigns and activities to target the right customer, ensuring the full deployment of data along every phase of customer experience. This is a very typical element of digital platforms, which at every interaction are designed to leverage the positive same-side network effect.

Lemonade technology is recognized as one of the main competitive advantages compared to traditional competitors, as with almost half of the questions asked by a human broker, the AI interface is able to translate the customers information into 1.600 data points, usually unavailable to traditional insurances. In the very initial phase of Lemonade operation, the company purchased industry data as input to estimate and define policies, risk, and prices. As output from the available data, the pricing and the options presented by the algorithm were highly uniform, with no possibility of customization a superficial risk analysis. After the internal customer data collection, the company illustrates how it has been possible to build predictable subgroups, with 600% variation in the likelihood to file a claim and in the specific case risk. The high precision predictive algorithm generates precisely forecasts, and customized prices for the insurance policies offered.

As the company grows and the platform evolves, another main goal is to automate more and more functions.

Indeed, while in 2018 only 6% of customer enquiries and requests were handled by AI bot, now 30% of all customers' requests are processed instantaneously by the digital intelligence. Human

agents are supporting only the most complex claims that technology cannot process with immediacy. In this way the human resource can be focused just on very controversial situations, and the expectation is that these will be always fewer over the time. Even in these cases, AI is supporting the human operation by collecting and presenting all the relevant information to the agent with the purpose of reducing his effort as much as possible, and the waiting time and the frictions for the customer.

### **5.3.1.1 AI as competitive advantage**

The implementation of the AI in the management of BtoC insurance services, is surely a groundbreaking element for the customers, who benefit from lower costs, higher efficiency, real-time assistance. However, this crucial innovation is also a huge competitive advantage from the company side as well, in order to allocate its resources in a more efficient way, and even more important to prevent the frauds and reduce the loss ratio. This is one of the most important KPIs in the insurance market, and one of the biggest challenges Lemonade faced in its early stage. Right after the company launch, its performance regarding loss ratio was not positive, nor sustainable, recording a loss ratio of 368%. Thanks to the technology built, the Lemonade loss ratio dropped to 99% in two years and stabilized around 72% in Q4 2019, still slightly higher than the 60% of industry average.

### **5.3.2 Light capital company**

Differently than any other traditional company, where the left capital is usually accumulated and kept as guarantee against the general market risk, Lemonade is able to manage the entire risk, both the specific fraction and the market one, through the 75% of the premium which does not compete with the company profits. Indeed, as further discussed in paragraph 5.3.3.1, 75% of customers premium is entirely allocated in claims payment, and from the same share are allocated the resources for the GiveBack value. The remaining 25% is kept upfront from Lemonade as fixed profit, which is the reason why company interest and customer interest do not conflict.

The possibility of operating with a light-capital mechanism was enabled also by the more and more precise and accurate forecasts about claims and risk, generated by the AI technology.

### **5.3.3 Close to customer**

Customer “delightful experience” as defined by the company, is the central aspect of Lemonade strategy, which aims to completely redefine the insurer-insured relationship.

In order to address all the needs and preferences of the targeted segment, a new insurance model has been proposed, which includes a different cost structure and a third-party involvement to disrupt the traditional paradigm of rivalry and opposition between customer and company interest.

Not only the product concept itself, but the whole customer experience has been redesigned from scratch, by creating an easy and intuitive digital APP very similar to any other financial APP interface, with interactive content and brand elements that refers to a social network experience in terms of semantic, colors, notifications, and brand elements.

Other than these emotional and hedonistic aspects, the more utilitarian advantage offered by Lemonade to its customers is the low price enabled by the low variable costs. Compared to a traditional insurance company, they sustain a much lower variable cost level, given the low presence of human brokers and agents, and the lack of physical channels. This enabled it to decrease the prices at the point that with the minimum premium cost, Lemonade can offer on average 50% cheaper insurance prices compared to competitors for first time buyers or renters insured.

As illustrated before, the capability of combining a competitive price with a product with a positive social value, and delivering them through an intuitive, appealing designed digital app, is highly meeting all the Millennials and Gen Z purchasing preferences.

#### **5.3.3.1 Lemonade giveback**

The widespread perception is that the insurance company profits by denying claims to customers, as the same money can either be a source of profit for the company itself or be allocated as claims for the insured. Within this dynamic, the change of distribution or communication channels are simply seen as mere branding operations, and the negative attitude toward the insurer does not change, nor does the fragile trust between the two parties.

Lemonade was able to break this conflict of interest that characterized the industry structure at its very core, by proposing a different model: the fixed fee that the company will hold is defined upfront and it is currently 25% of the annual premium paid by the customer. The remaining 75% will be completely allocated between customer claims and reinsurance, and in case of

exceeding resources, these will be devolved to a non-profit organization chosen by the customer himself, as per charity. This occurs once a year and it has been called “Lemonade Giveback”. Indeed, by requesting a claim the customers do not subtract any resources from the company but in fact from the charity organization they choose. In the customer-insurance relationship a third party has been introduced, which enables them to align their interests with the customer’s and to deliver a socially valuable service, beyond the insurance safety function.

Moreover, Lemonade implemented other strategies inspired by behavioral economics, such as the initial Honesty Pledge that the customer is asked to sign at the beginning of the claim process instead of at the end. This same strategy has been tested in several behavioral experiments (Shu L., Mazar N., Gino F. Ariely D., and Bazerman MH., 2012) and implemented for instance in the Annual Income Reporting of many countries by the public administration, which was proved to reduce up to 50% of dishonest declarations.

### **5.3.3.2 Open-Source Policy**

Lemonade is also the first insurance company in the world that launched an “open-source policy”. They called it “Policy 2.0” and encouraged users and professionals to reframe and rewrite the sentence of their policy in a simpler way, by proposing the new structure through GitHub. It was first launched in the Europe, in German, Dutch and French, and it applies to house rental insurance, but the perspective is to deploy the option to other lines, languages and legal jurisdictions.

This is for sure another initiative that can lead Lemonade toward a fairer and more approachable product for customers, but also a great way to engage them actively in a co-creation process.

### **5.3.4 Purchasing and claim**

The promise is to be able to subscribe to the best insurance policy for your needs, through your smartphone in 30 seconds, with a very modest monthly expense. Instead of paperwork, calls or waiting times, the user experience is composed just by 10-13 questions form and an interactive chat that directs the customer to the appropriate option according to his situation.

When buying insurance, what you are actually buying is the ability to file a claim.

This process has also been redesigned and approached as a central part of the relationship, instead of a remote possibility. Through the virtual assistance the customer is asked to record a short video where he explains the accident, which is analyzed instantaneously by the AI

technology to prevent frauds, both abroad and in the residency country. Most of the clients are able to receive the claim in a few minutes, and this has translated into an active and enthusiastic advocacy. The experience is largely reviewed directly by the customers as “easy”, “refreshing”, “helpful”, “surprising and supportive”.

#### **5.4 Target customer**

Lemonade's main targets are Millennials and Gen Z, young adults in their 20s and 30s, most likely with very little or no previous experience with the insurance industry. The goal is to attract and acquire them in their first experience out of the family nest, offering a cheap product and a delightful experience to build a strong customer relationship and brand advocacy. Later, as the customers go through highly predictable lifecycle events, their lifetime value increases exponentially, and Lemonade aims to be able to answer to their needs step by step along consumers' life changes, with a wider range of options.

Lemonade products are specifically customized on Millennials and Gen Z needs and tastes, starting from the marketing and brand element, the choice of easiness and transparency, but also the online channel and the behavioral component of Giveback. The social value of Lemonade does not sacrifice cost importance, nor the visual appeal. As a result, more than 70% of Lemonade customers are under 30 years, and almost all of them are purchasing their first insurance coverage, with an annual average premium of \$60, which can grow along the lifetime even up to an annual premium of \$700.

#### **5.5 Customer lifetime value**

Lemonade conversion process towards more committing and expensive products is planned to be smooth and customized on single case's needs, through a very strong pull strategy that is supposed to be enabled by customer's good experience rather than upselling strategies.

The effort from the company in this phase is minimal, as almost no additional effort is placed. The shift percentage of customers shifting from renting coverage to homeowner coverage is currently estimated by the company to be 9.8% of total customers, and it is in constant growth.

There is also a registered upselling trend within the renting coverages category after the first year of service offered. The spending average increase is 56% in 4 years of insurance (data collected from 2016 to 2020), against an industry average of 20% for similar products.

## 5.6 Customer ratings

“Intuitive”, “friendly”, “fast”, are the keywords used to build Lemonade APP. The platform is very similar to a social network for its colors, chat, and design, with no typical brand elements of a traditional insurance company. The company made a very deliberate choice in terms of semantic field, avoiding any technicalities or specific terms, nor complex contract clauses, to be closer to the customer and comprehensible to everyone. This helped to delivering a frustration free experience and it is in line with the main promise of subscribing an insurance and filing your claims in a few seconds, but with transparency on terms and conditions.

Lemonade has been rated as the top owners and renters insurance in the US from 2020, not just from industry internal publications, but from benchmarking websites visited and consulted by customers. One great example of that is Clearurance, whose role in the insurance industry is similar to TripAdvisor, as it collects and aggregates singular customer experiences. Here Lemonade has a score of 4.84/5, with 95% of clients declaring satisfaction of their claims.

Even more important in this sense is the NPS, the Net Promoter Score, that for the company in 2020 has been reported to be 70 out of 100. The US industry average in 2021 has been reported to be 35.5, breaking this data down into insurance branches, auto insurance records 41% and home and contents insurance 34%. (See Fig.3 in the Appendix).

Finally, analyzing the customers number and revenues, Lemonade recorded a compound annual growth rate of IFP <sup>11</sup>of 450%, reaching in 2020 an absolute amount of \$133 million, coming from 730.000 total insurer, so the average Price Per Customer (PPC) was \$183, with high variability as the great majority of their contracts have an annual premium of \$60.

In the first 3 years after the company launch, IFP grew at a 400% compound annual growth, which is sensibly higher than the insurance industry average and in line with the trend of tech companies' best performances. This metric, combined with the fact that in the same period lemonade was able to see its loss ratio decreasing, is a key measurement of a great performance. The drivers identified for this initial growth are the success of the “newbies acquisition”, the very positive word-of-mouth mechanism initiated on social networks, and internal marketing campaigns. Indeed, 90% of customers are first insurance buyers, while the remaining 10% are brand switchers, corroborating that the strategy of the company regarding the target segment actually worked.

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<sup>11</sup> IFP, defined as the aggregate annualized premium for customers as of the period end date

This changed radically the traditional insurance paradigm “I switched and I saved” on which the whole industry marketing and value proposition is based on.

## **5.7 Similar companies**

With the focus on the target and the digital approach, it is possible to individuate two different categories of companies: incumbent who differentiated their offer to appeal younger customers and tech savvy, and small tech companies with a similar history.

### **5.7.1 Incumbent diversifying**

As already explained above, incumbents are slowly offering an alternative hybrid customer path, to be closer to this customer segment by allowing purchase or contacts through owned digital channels, such as APP or website or even social networks. In some cases, the companies are even accepting the claims to be communicated through social networks as and initially analyzed by a BOT.

Another approach pursued by big insurance companies is the creation of new channel options, by offering their services indirectly through embedding or partnering on with product companies such as Toyota, Sofi, Ford, Petco, Outdoorsy.

These solutions are for sure addressing the need of digital channels and immediacy, compared to the traditional channels, and the technology implemented could contribute to reduce costs and prices compared to a human broker, but the preference for a social value delivered and the transparency perceived are still missing points in the offered service.

### **5.7.2 Examples of emerging tech companies**

Similar small tech examples are available in the market, with very similar histories to Lemonade. These, differently to Lemonade, focused their attention mostly on very specific use cases, and market niches, not highly relevant for the big incumbents who left them uncovered. One great example of that is Slice, a car insurance created for Lyft and Uber drivers, which thanks to Internet of Things technology is able to be activated at the beginning of the ride and be suspended at the end, so that the premium paid is minimum, affordable, and extremely customized.

This last is similar to Metromile, which applies almost the same concept to the BtoC market, as the car insurance in this case calculates the premium based on the miles traveled.

One last great example, which includes not only the digital component but also the philanthropic approach is Bought by Many, a insurance that thanks to the digital platform created aims to collect and combine very specific and individual requests of coverage that could never be accepted nor profitable for a company if treated as individual. From examples of pet insurance for a rescued pet with disabilities, to travel insurance for a diabetic family, this company promises to pull together unserved specific requests and reach the minimum scale needed.

Despite being great examples of new insurance services, and great innovative models, these are not presented as of now as game changers, given the specificity of the use cases targeted and the lack of scalability.

In some cases, though, it is not an insurance company to offer an innovation in its own industry, but a digital platform originally created for a totally different scope, that have been after all be implemented to protect customers from the effect of an adverse event, such as Crowdfunding for instance. It is not rare that after a property damage or a medical need, the users open petitions and general help calls collecting the needed resources to face expensive constructions or medical surgeries. With this same idea, many Peer-to-Peer insurance companies are growing. Other tech insurance companies have been launched recently in the market, enjoying success, as for instance the British “Dead Happy”.

Dead Happy Insurance is a completely digital company, which became well known for its usage of humor and irreverent terminology in its communication, but also for the fast and easy usage offered to customers. Their capturing slogan is “Please die responsibly”, and their last advertisement campaign is built around new and controversial benefits such as “DeathWishes” included in their coverage, which allow customers to choose exactly what they want to leave to their relatives when in case they will die. The wishes range from standard options, such as paying off a mortgage, or leaving the funds to the family or a friend but can also create their own specific wishes as season tickets for their favorite sports team or a paid holiday.

Their logo is a skull, and their marketing campaign has been defined as “hilarious” and with “dark humor”. They caught the attention of Millennials, given the high growth they observed among customers between 25 and 29 years old, but the strongest growth was registered in the age group 55-59.

Their financial results in 2021 grew by 120% compared to 2020,

The price model is a “pay-as-you-go”, as the premium is computed based on 4 simple questions regarding the current demographic status of customers and it is available for a maximum of 10

years. This model enabled to offer a premium 50% cheaper than the market average, with a monthly price of £14.78, “This is because Dead Happy's life insurance is priced annually based on a customer's current age and risk level, not a prediction about their risk of dying across the next 20 years” the company states. The premium will rise or decrease after this first period according to age and risk adjustments. This second part though has been criticized due to lack of transparency and clear indicators.

The insurance product has overall a traditional structure, and the focus of the innovation is for sure the communication strategy and the online channel.

## **5.8 Future perspectives**

Despite the rise of its popularity and recognition, Lemonade is currently available in France, the Netherlands, Germany, and the United States. As their model is studied and analyzed worldwide, the risk of other companies scaling up the same concept faster than they are is not irrelevant, given the high potential of markets as the United Kingdom for instance, where digital education is extremely high, and the insurance market is very big.

Another high potential opportunity is for sure the penetration of the health insurance branch. As Lemonade decided to currently offer life insurance only, and in very few countries, these services are missing from their offer range and could be an obstacle to the customer relationship. Indeed, if a customer is not able to find all the options needed at one single insurance, they could actually decide to change service provider for convenience and bundling programs.

Finally, other opportunities given the age target and the technology implemented, could be the geographical diversification in emerging countries such as Latin American where the population age is on average very young, and the public social security system is inadequate. The Latin American population is on average 31, which means 12 years younger than the European (>42) and 8.5 years younger than in the US. The adoption of digital mobile technology here is in some cases even higher than the European data, due to high digital illiteracy in some areas and older age groups. In Brazil for instance, the smartphone adoption rate has been indicated at 75.6% of the population in 2021, while in Spain this data in 2021 was 72.96% and in Italy in 2020 the percentage of population using a smartphone was only 49.2, expecting to reach 70% in 2025.

## **6. Teaching notes**

The following chapter's aim is to provide indications and suggestions for the professor, to conduct a successful teaching case, develop an interactive and stimulating conversation with the class, and to help students applying and elaborating the service digitalization topic to the specific insurance industry case, with the help of Lemonade example. In particular, the Teaching Strategy has been discussed with the contribute of Professor Dr. Florian Kraus, who hold the Chair of Sales and Services Marketing at the University of Mannheim, and in the specific teaches the course of Service Business Model Innovation in the Master courses.

### **6.1 Synopsis**

The focus of this case is Lemonade insurance as a great example of a digital insurance company, able to appeal to new generations of customers, Millennials and Generation Z, which present very specific needs, preferences, and habits. The point of view chosen to analyze the case is behavioral and qualitative, rather than quantitative. The characterization of Millennials and Gen Z as customers is related and compared with the traditional insurance offer and with the innovative proposal of Lemonade. Lemonade value proposition is analyzed, as well as their strategy and main differences than traditional insurance players.

### **6.2 Target group**

This case is adequate for either undergraduate or master students that have a general basic knowledge of the insurance market stakeholders and dynamics.

Finally, this case study has been written in May 2022, with the updated information and data available at this date. Future investigations or findings can lead to new points of view and different conclusions.

### **6.3 Learning objectives and key issues**

The main objective of this case teaching should be the analysis of a possible insurance market reaction, to the lack of interests and engagement currently experienced by the youngest customer segment, which will represent a challenge for traditional companies in this industry in the next future.

Through the reading, questions, discussion and with the help of specific frame, the students should at the end of the session be able to:

- Analyze Millennials and Gen Z demographic and social characteristics, in order to understand their expectations and needs as customers.
- Understand traditional insurance's main customer target and their differences from Millennials and Gen Z.
- Recognize in Lemonade innovations the key preferences of new generations and characteristics typical of digital platforms.
- Identify competitive advantage and possible challenges that Lemonade has compared to competitors.
- Identify possible Lemonade competitors and alternative services across different industries and different company profiles.
- A critique point of view on future possible industry mechanism and upcoming opportunities

#### **6.4 Teaching strategy**

The students should have full access to the case material before and during the discussion. The allocated time slot for the case discussion and elaboration should be approximately 90 minutes. Students are expected to read the case before the class, and they are not expected to prepare any preliminary work as the discussion will be led during the class, as well as the case resolution. The professor could provide templates of the frameworks that will be used, so that the students can be guided by them during the case individual reading.

As the students' group age is expected to be the same of the targeted customer group of the case (born between 1981 and 2012), an introduction activity can be kicked-off to stimulate creative thinking and participation. Through [Menti](#) or a similar tool, a quick exercise of topic association can be triggered by the question "Which 3 words do you associate top of mind with 'insurance'?" (See Fig.4 in the Appendix one one example of the experiment)

To introduce Lemonade customer experience this quick [video](#) can be shown to the class, which is part of Lemonade marketing campaign, and it results in a collection of customer feedback.

After this, a quick introduction and theoretical overview of the insurance market characteristics and of Millennials and Generation Z preferences can be provided by the Professor, in collaboration with the class, through the following questions.

At the end of it, the session outcome should be organized in frameworks, which incorporates the knowledge they acquired through the lesson, as well as help the students re-elaborating the specific scenario into a more general logic.

## **6.5 Supplementary material and Multimedia**

Additional material could be found in the Resource section of this case. Particularly relevant content is also available in this [video](#) where the Lemonade business strategy is presented by the co-founders themselves, and explained in relation to the market conditions, and an [interview](#) to the co-founder and company CEO Daniel Schreiber. Additionally, an interesting point of view about insurance market scope is presented in this [TedEx](#) session, by Laura Drabik.

## **6.6 Possible questions for discussion**

The following questions listed are designed to be followed with the presented order. However, the conversation should be flexible and adapted to the students' interest and knowledge, it can be also integrated with further questions or focus in case it of need.

- Analyze the insurance landscape in relation with the specific customer target, using the template provided (Industry Landscape), to organize pain points, trends, and mechanism. You can also compare different industries best practices. (See to Fig.5 in the Appendix for the template)

At this question, students are expected to answer referring to Chapters 2, 3 and 4, by individuating main customer difficulties (e.g. Lack of trust, complex contract and difficulty in understanding terms and conditions, long waiting times & frustrate until low offer accepted, arduous claim process & denying, lack of support in case of need, high costs) and insurance companies frustrations (e.g. high costs, difficulty in earning trust, risk of frauds and dishonesty) but also referring to their personal knowledge and perception. And finally individualizing possible opportunities referring to Lemonade example, comparing different industries services and products.

- Break down Lemonade “disruptive model” into the Business Model Canvas template. (See Fig. 6 in the Appendix for the template)

This question is asking a real analysis and re-elaboration of Lemonade proposal, by individuating in Chapter 5 cost and revenues structure, on a general base. Main stakeholders (e.g. customers, NGOs, employees, WOM), target segments with their characteristics, and the online channels (owned and external), in order to have a clear idea about the main elements composing Lemonade proposal.

- How is Lemonade addressing each of the new customers’ needs and which are the main competitive advantages?

The debate should be developed here comparing Chapters 4 and 5, and in the specific the list of purchasing needs and preferences indicated for Millennials and Generation Z, and the Lemonade strategy elements.

- Do you think this easy and frictionless customer relationship is worthwhile and sustainable? Is the strategy “bullet proof” in recession times?
- Why are they not considering healthcare at all? Could their model be applied in that field? Moreover, which do you think that could and should be the next growth direction?

Last two questions listed are not specifically designed to be answered with a specific part of the case but are inserted to trigger an open discussion and brainstorm with the class. The different ideas collected can be analyzed based on the information provided in this paper.

## 7. Main findings

### 7.1 Conclusion

Lemonade is fast growing and becoming very well known among Millennials, Gen Z and tech savvy overall, providing as a main competitive advantage the promise of transparency and lack of interest conflicts between customers and the insurer. This transparency model also includes the “Giveback” mechanism, which is another important and unique aspect of this specific insurance. Thanks to the commendable activity, personally chosen from the customer who selected the NGO for the donations, the company also has the great opportunity of communicating meaningful content and positive notification, which is a very rarity in the insurance and financial market. These touchpoints are unrelated to the coverage itself, but they are part of the customer relationship with the company and can be extremely powerful in the brand image creation, as well as in the reputation of Lemonade.

After all, any insurance company has a basic need of creating a strong reputation and trust given the delicate service offered, and any customer needs to believe that the insurer will be able to respect the conditions in case of claim request. In this sense Lemonade is proving to be able to stand out from the multiple tech companies, start-ups, digital insurances that promise a similar experience, but are seen as non-reliable compared to the historic conservative companies. These last, despite not really being able to elicit a positive attitude or customer experience among clients, are for sure synonyms of reliability.

Other innovative and modern aspects are for sure the totally digital and delightful experience, the very quick purchase and claim, as well as the affordable premium. On the other hand, these aspects are all very typical of any other digital platform. This means that with regards to the targeted segments, they do represent advantages compared to a traditional insurance company, but they are very easily replicable from all the other similar tech companies that have been launched recently or can be launched in the next future.

### 7.2. Limitations

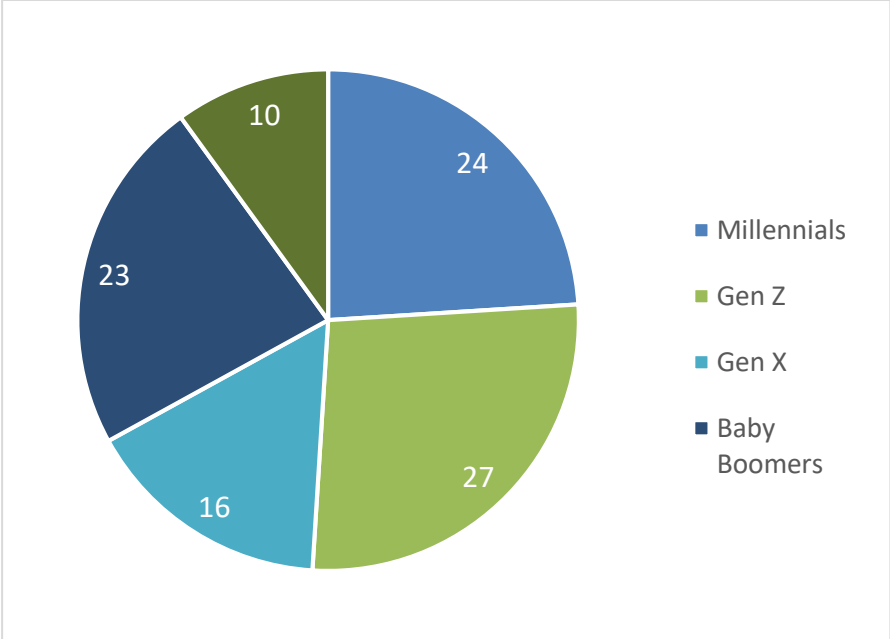
The Lemonade model presented in this thesis as a solution to the insurance industry lack of popularity among Millennials and Gen Z has a prevalent qualitative approach, it should not be considered as a complete quantitative analysis.

The marketing and business strategies have been analyzed using partial internal data and the focus is on the US market rather than specific European countries. Although customer profiles and models have been widely recognized in all developed countries, some considerations and conclusions could be highly related to specific geographical areas and socio-economic contexts, which could prevent them from being valid and accurate in other scenarios.

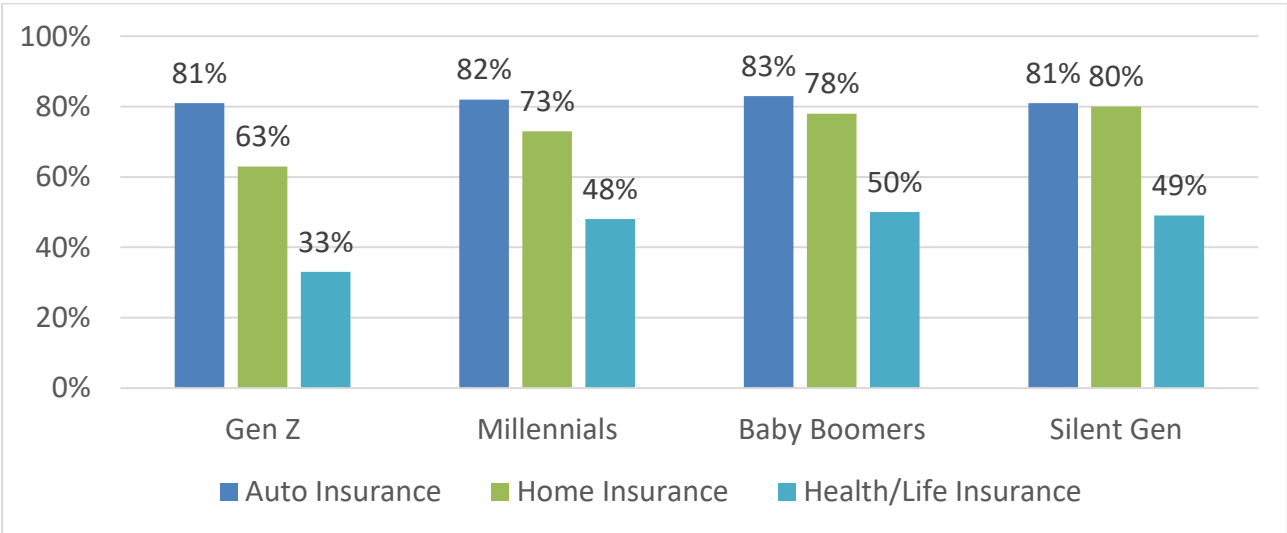
For reasons of synthesis, the complexity of the health insurance market has been deliberately excluded from this analysis, given the unrelatedness with the Lemonade case and the very specific and heterogenous regulation in force by country.

## 8. Appendix

**Fig.1** US Population by generation, 2021 (Data by US Census Bureau, Current Population Survey 2021).

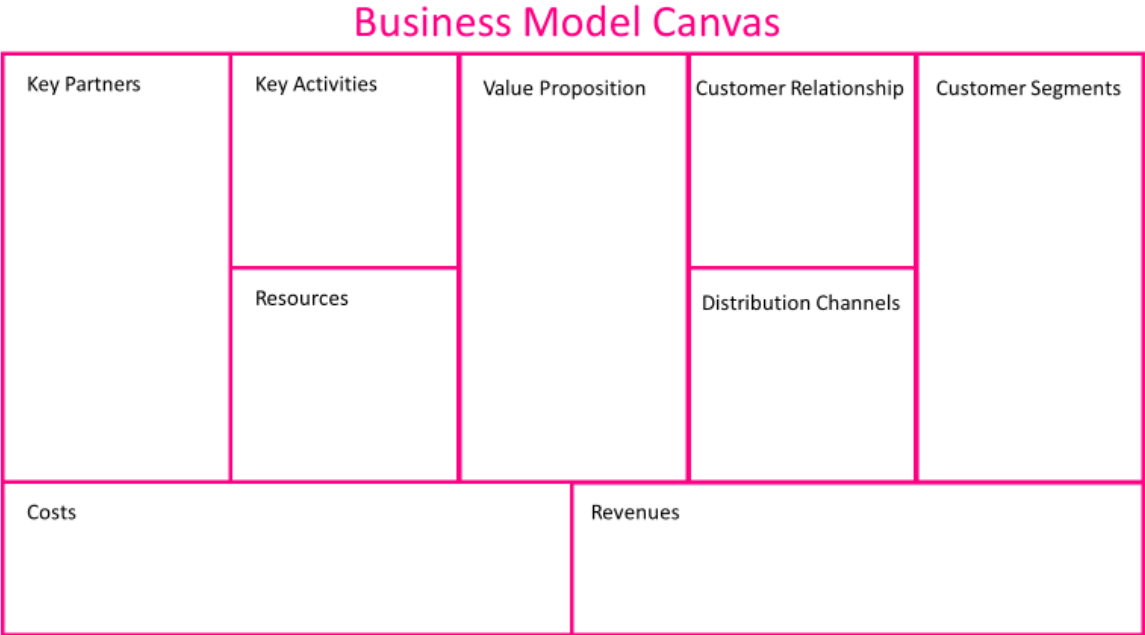


**Fig.2** Insurance product purchased by generation. (Source: Nielsen Scarborough 2015)





**Fig.6** Business Model Canvas Template, created to guide question1 in the teaching note chapter



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