

REPORT ON ORGANIZATION

OF

LEMONADE INSURANCE COMPANY

AS OF

SEPTEMBER 2, 2016

DATE OF REPORT

SEPTEMBER 13, 2016

EXAMINER

RAJENDRA SUNDER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

September 13, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, NY 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31526 dated September 1, 2016 attached hereto, I have made an examination on organization of Lemonade Insurance Company as of September 2, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Lemonade Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s office located at 85 Broad Street, New York, NY 10004.

1. SCOPE OF EXAMINATION

The examination comprised of a complete verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of the Company's assets and liabilities. The records examined were the declaration of intention and charter, the by-laws, the certificate of incorporation, the corporate minutes, the stock register, and the inter-company and custodial agreements entered into by the Company as of the examination date. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

Lemonade Insurance Company was incorporated under the laws of the State of New York on October 27, 2015. The Department approved the Company's declaration of intention and charter on the same date. The Company's office is intended to be located at 85 Broad Street, New York, New York 10004.

The Company's board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Shai Wininger Haifa, Israel	President/CTO Lemonade Ltd.
Ty R. Sagalow Syosset, NY	CEO & Founder Innovation Insurance Group, LLC
Ronald Topping Allentown, NJ	Chief Financial Officer Lemonade Insurance Company
Maya Prosor Brooklyn, NY	Chief Distribution Officer Lemonade, Inc.
James Hageman West Granby, CT	Chief Claims Officer Lemonade Insurance Company
Dan Ariely Durham, NC	Professor Duke University
Peter Diamandis Santa Monica, CA	CEO, Founder & Chairman The XPRIZE Foundation

As of September 2, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Shai Wininger	Chairman of the Board
Ty R. Sagalow	President/Chief Executive Officer
Ronald Topping	Chief Financial Officer and Secretary/Treasurer
Alex Tsetsenekos	Interim Chief Underwriting Officer
Maya Prosor	Chief Distribution Officer
James Hageman	Chief Claims Officer

3. **CAPITALIZATION AND SUBSCRIPTION**

The Company's authorized capital of \$1,000,000 consists of 1,000,000 shares of \$1 par value per share common stock. Gross paid in and contributed surplus is \$4,000,000. The Company issued to Lemonade Inc., a Delaware Corporation, 1 share of common stock on June 13, 2016 for a consideration of \$1 and 999,999 shares on August 15, 2016 for a consideration of \$999,999.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, on August 31, 2016, the Company placed securities with par and market values totaling \$500,000 in an account in the name of the "Superintendent of Insurance of the State of New York in Trust for the security of all policyholders of Lemonade Insurance Company within the United States, its territories and possessions." The custodian is U.S. Bank National Association, located at 50 South 16th Street, Suite 2000, Philadelphia, PA 19102 and the securities are held pursuant to a custodian agreement that conforms to the provisions of Section 1314 of the New York Insurance Law.

4. BALANCE SHEET

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of September 2, 2016, and as reported by the Company:

Assets

Cash and short-term investments	\$4,010,124
Bonds	999,748
Accrued investment income	<u>451</u>
Total assets	<u>\$5,010,323</u>

Liabilities

Payable to parents, subsidiaries & affiliates	\$ 10,000
All other liabilities	<u>126</u>
Total liabilities	10,126

Capital and Surplus

Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	4,000,000	
Unassigned funds (surplus)	<u>197</u>	
Total surplus as regards policyholders		<u>5,000,197</u>
Total liabilities and surplus as regards policyholders		<u>\$5,010,323</u>

5. AUTHORIZATION POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous Property
6	Water Damage
7	Burglary and Theft
8	Glass
9	Boiler and Machinery
12	Collision
13	Personal Injury Liability
14	Property Damage Liability
20(i)	Marine and Inland Marine (Inland only)

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,700,000.

Pursuant to the provisions of Section 1102(e)(1)(A) of the New York Insurance Law, in order for the Superintendent to issue a license to the Company, it must have the amount of its minimum initial surplus to policyholders on deposit in either cash or investments qualifying as minimum capital or surplus investments pursuant to Section 1402 of the New York Insurance Law; such investments consist of:

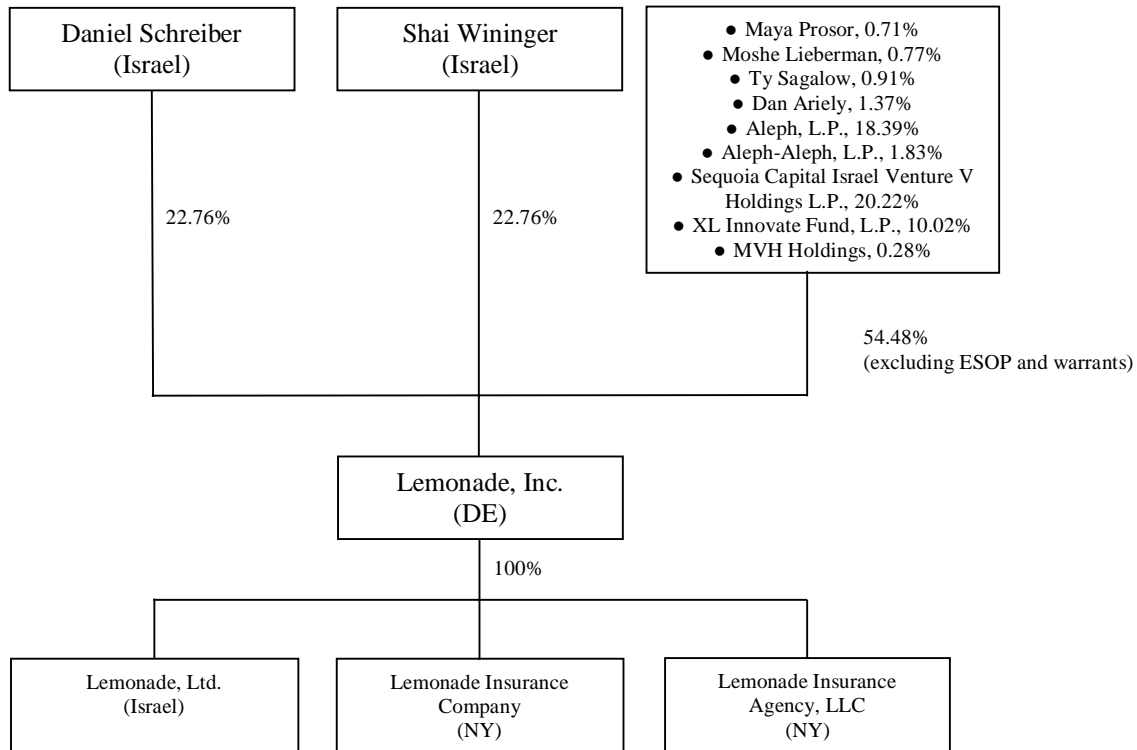
- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct obligations of this state or of any county, district or municipality thereof.
- (3) Direct obligations of any state of the United States.
- (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.

The Company has met these requirements.

6. HOLDING COMPANY SYSTEM

The Company is a wholly-owned subsidiary of Lemonade, Inc., (DE) which is ultimately controlled by Daniel Schreiber and Shai Winger.

The following is an abridged chart of the holding company system at September 2, 2016:



NOTE: Sequoia Capital Israel Venture V Holdings L.P., Aleph, L.P. and XL Innovate Fund, L.P. have each submitted an application to the Department in which they are seeking a determination of non-control of Lemonade Insurance Company, pursuant to Section 1501 of the New York Insurance Law.

At September 2, 2016, the Company was party to the following agreements with other members of its holding company system:

Service Agreement

Effective September 1, 2016, the Company entered into a Service Agreement with Lemonade, Inc., a Delaware public benefit corporation (the “Parent,”) whereby the Parent agreed to perform certain services for the Company in its operations and provide certain property, equipment and facilities of the Parent and its subsidiaries. The services to be provided by the

Parent include accounting, tax & auditing, underwriting, claims, reinsurance, distribution, investment, functional support services and requested services.

Agency Agreement

Effective September 1, 2016, the Company entered into an Agency Agreement with Lemonade Insurance Agency, LLC (“Agent”) whereby the Company appointed the agent to act on its behalf with respect to the Company’s personal lines insurance policies.

Tax Allocation Agreement

Effective September 1, 2016, the Company entered into a Tax Allocation Agreement (the “Agreement”) with Lemonade, Inc.

All agreements were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

7. CUSTODIAL AGREEMENT

A review of the Citibank custodial agreement for Lemonade Insurance Company revealed that the agreement lacked many of the protective covenants and provisions contained in the NAIC’s *Financial Condition Examiners Handbook, Custodial or Safekeeping Agreements, Section I, Part III, Item F*.

It is recommended that the Company amend its custodial agreement to include all the protective covenants and provisions in order to comply with the requirements set forth in the NAIC’s *Financial Condition Examiners Handbook* and Department guidelines.

8. CONCLUSION

Based on the foregoing examination, it is concluded that the Company sold 1,000,000 shares of common stock with a par value of \$1 per share. These shares represented the total authorized and issued stock for which the Company received a consideration of \$5,000,000, of which \$1,000,000 represents capital paid in and \$4,000,000 represents gross paid in and contributed surplus.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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It is recommended that the Company amend its custodial agreement to include all the protective covenants and provisions in order to comply with the requirements set forth in the NAIC's *Financial Condition Examiners Handbook* and Department guidelines.

Respectfully submitted,

_____/s/_____

Rajendra Sunder
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Rajendra Sunder, being duly sworn, deposes and says that the foregoing report, subscribed to by him, is true to the best of his knowledge and belief.

_____/s/_____
Rajendra Sunder

Subscribed and sworn to before me
this _____ day of _____, 2016.

APPOINTMENT NO. 31526

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Rajendra Sunder

as a proper person to examine the affairs of the

Lemonade Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 1st day of September, 2016

MARIA T. VULLO
Superintendent of Financial Services



By: *Joan R. Riddell*

Joan Riddell
Deputy Bureau Chief