



Pet insurance: market activity, trends and key issues

Casualty Actuarial Society Annual Meeting

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Section A: Pet insurance and regulation

What is pet insurance?

Pet insurance reimburses paid veterinary costs (subject to terms) when insured pets receive health care:



Insured pets are most commonly dogs and cats, but insurance coverage is available for other animals, too:



What else can pet insurance cover?

- Diagnostic exam fees
- Prescription medications (Rx)
- Prescription foods and supplements
- Congenital conditions (e.g., heart disease, cataracts)
- Hereditary conditions (e.g., diabetes, thyroid disease)
- Dental illnesses (e.g., extractions, gingivitis)
- Boarding fees in emergency situations
- Loss-and-found pet search expenses
- Working-pet coverage (police dogs, therapy pets)
- Recovery and complementary care:
 - Acupuncture
 - Chiropractic
 - Behavioral modification
 - Hydrotherapy
 - Physical therapy
 - Homeopathy
 - Naturopathy

What isn't pet insurance?

Life insurance for animals

Homeowners coverage E (personal liability)

Dog owner liability (dangerous dog insurance)

Livestock insurance



Poll question 1

How is pet insurance regulated?

- a) It is classified as special liability
- b) It is classified as other liability
- c) It is classified as health insurance
- d) It is classified as inland marine

Poll question 1 answer


Pet insurance is regulated as a property and casualty line of business: inland marine

- Pet insurance is similar in nature and coverage to human health insurance; however, pets are legally considered personal property and therefore pet insurance is regulated as a property and casualty line of business.
- The National Association of Insurance Commissioners (NAIC) published *A Regulator's Guide to Pet Insurance* in 2019 detailing the current state of pet insurance coverages, forms, marketing strategies, licensing and other considerations.
- The NAIC's Pet Insurance Working Group meets regularly to complete the development of a model law to establish appropriate regulatory standards for the pet insurance industry.

A regulatory analogy

Example: water

Municipal water is regulated as:  **Water**

But bottled water is regulated as:  **Food**

Example: health

Human health is regulated as:  **Health**

But animal health is regulated as:  **Property**

This is important to recognize because property and casualty pet insurers want be more knowledgeable of human health considerations (see Section D), and health pet insurers want to be more competitive in a property and casualty framework.

Regulatory differences by state

- Florida: While almost all states regulate pet insurance as inland marine, Florida regulates pet insurance as livestock and animals
- California: Currently the only state with a law specifically governing pet insurance:
 - The law requires pet insurers to disclose baseline information regarding reimbursement benefits, pre-existing condition limitations, and a clear explanation of limitations of coverage, including coinsurance, waiting periods, deductibles and annual or lifetime policy limits.
 - The California laws also provide consumers with a 30- day “free look” period in which a pet insurance policy can be returned for a full refund. An earlier version of this bill attempted to prevent exclusions for pre-existing conditions but was vetoed by the governor.
- No states address producer or adjuster licensing. Most states require a full property and casualty license to sell, solicit or negotiate pet insurance, while a few states, including Idaho, New Jersey, Rhode Island and Virginia, allow for use of a limited lines license.



Data sources

- Pet insurance does not have its own financial reporting line in the annual statement.
- Industry loss data is not easily obtainable because pet insurance is commingled with other inland marine property coverages, such as contractor's equipment, in the annual statement.
- North American Pet Health Insurance Association (NAPHIA)
 - Centralized industry resource for reporting and publishing of pet insurance information
 - Annual state of the industry report available to its contributing members
- Rate filings from a source such as S&P Capital IQ
 - S&P's rate filing inventory is one source of available information on pet insurance
 - Pet insurance plans can be identified as a subtype of insurance within inland marine

SELECT ALL

UNSELECT ALL

- 06.0 Mortgage Guaranty
- 08.0 Ocean Marine
- 09.0 Inland Marine
- 10.0 Financial Guaranty
- 11.0 Med Mal-Claims Made and Occurrence
- 11.1 Med Mal-Occurrence Only
- 11.2 Med Mal-Claims Made Only

UPDATE SUB-

SELECT ALL

UNSELECT ALL

- 09.0000 Inland Marine Sub-TOI Combinations
- 09.0001 Animal Mortality
- 09.0002 Difference in Conditions (DIC)
- 09.0003 Electronic Data Processing (EDP)
- 09.0004 Pet Insurance Plans
- 09.0005 Other Commercial Inland Marine
- 09.0006 Other Personal Inland Marine

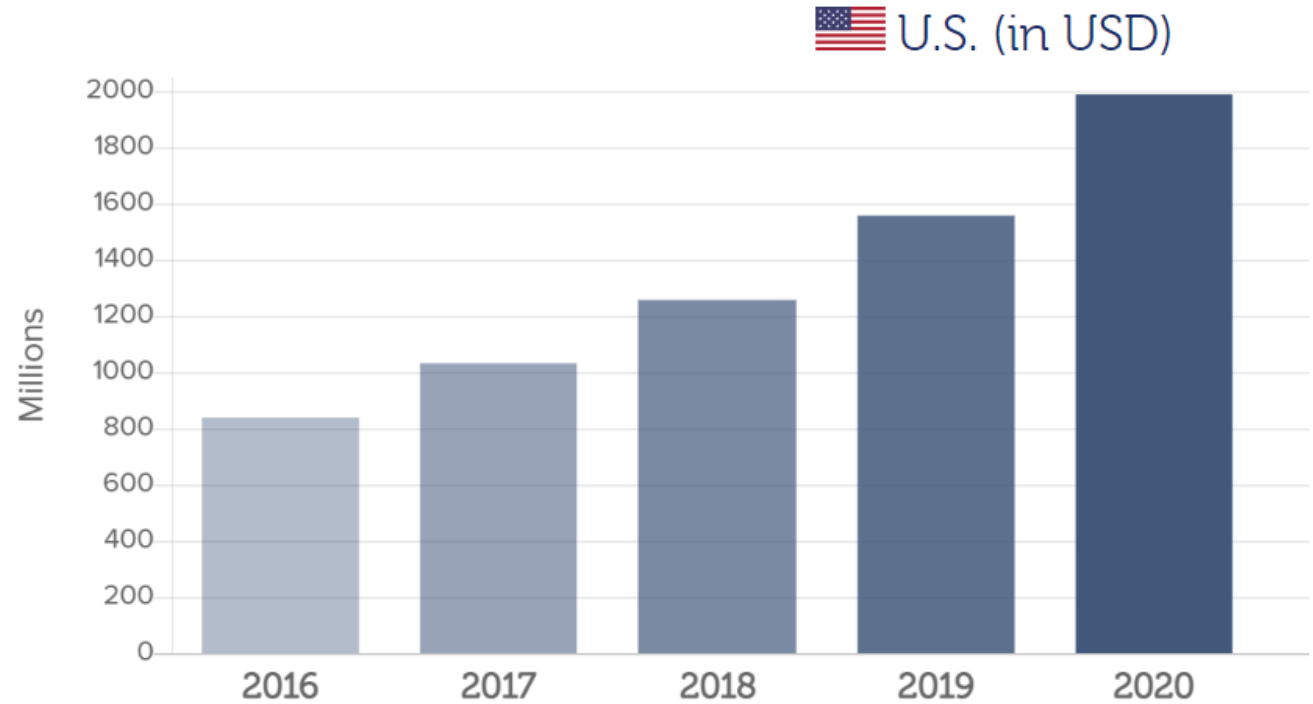
Section B: Market dynamics and growth

Market size and growth

The total premium volume in the U.S., as reported by NAPHIA members, amounted to \$1.99 billion at year-end 2020.

The U.S. market continues to experience double-digit increases (average annual growth rate of 24.2% between 2016 and 2020).

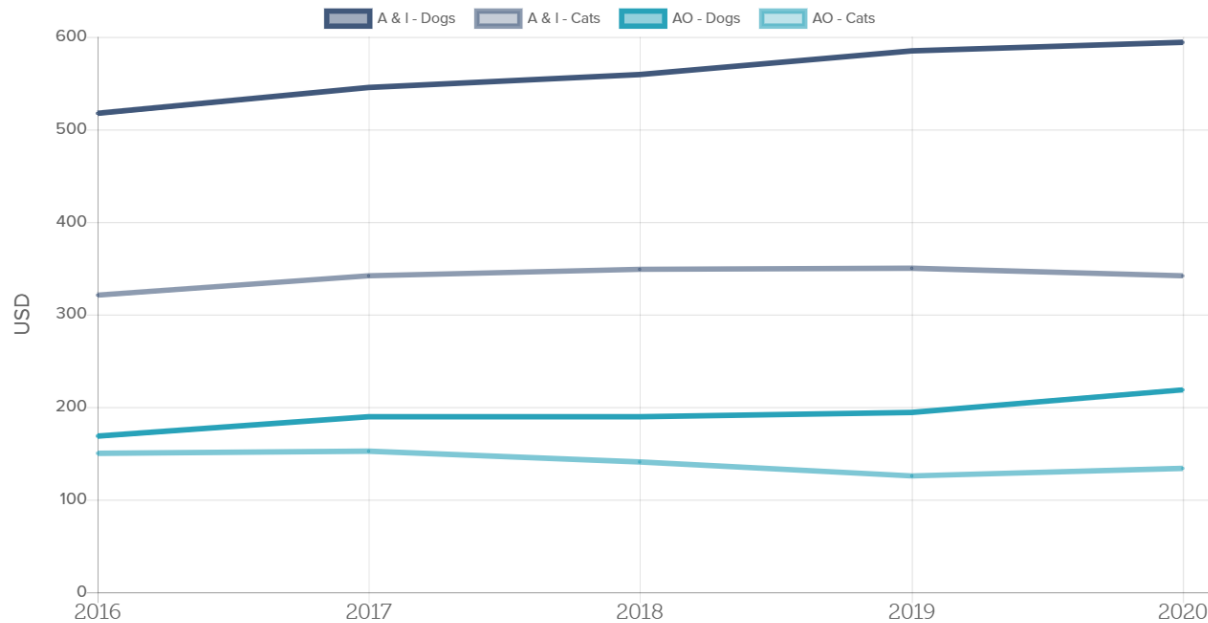
- 27.5% increase from 2019 to 2020
- 24.3% increase from 2018 to 2019
- 21.7% increase from 2017 to 2018
- 23.2% increase from 2016 to 2017



Source: naphia.org (North American Pet Health Insurance Association)

Average premiums

🇺🇸 Average Annual Premium Year Over Year (U.S.)



2020 Average Premiums (U.S.)

2020	A&I – Accident & Illness	AO – Accident Only
DOG	Annual: \$594.15 Monthly \$49.51	Annual: \$218.13 Monthly \$18.17
CAT	Annual: \$341.81 Monthly \$28.48	Annual: \$133.61 Monthly \$11.13

A&I – Accident & Illness: Accident benefits plus illnesses such as cancer, infections, digestive problems, etc.

AO – Accident Only: Foreign body ingestion, lacerations, motor vehicle accident, ligament tears, poisoning, etc.

Source: naphia.org (North American Pet Health Insurance Association)

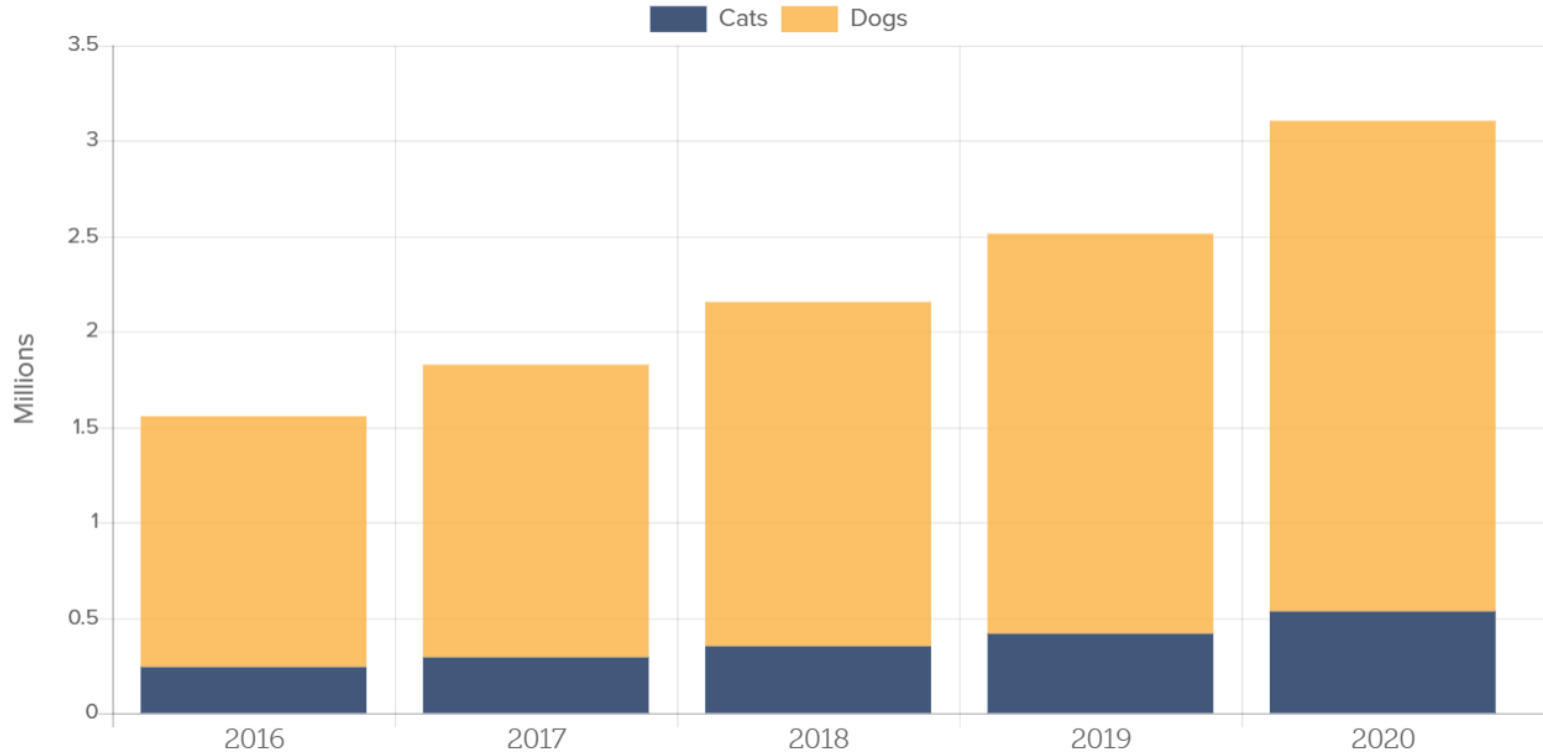
Poll question 2

How many pets are insured in the US?

- a) 550,000
- b) 2.3 million
- c) 3.1 million
- d) 8.7 million

Poll question 2 answer

🇺🇸 Total Insured Pets (U.S.)



Summary:

Results for 2020 show an excellent growth of **23.2% in Total Insured Pets in the U.S.**

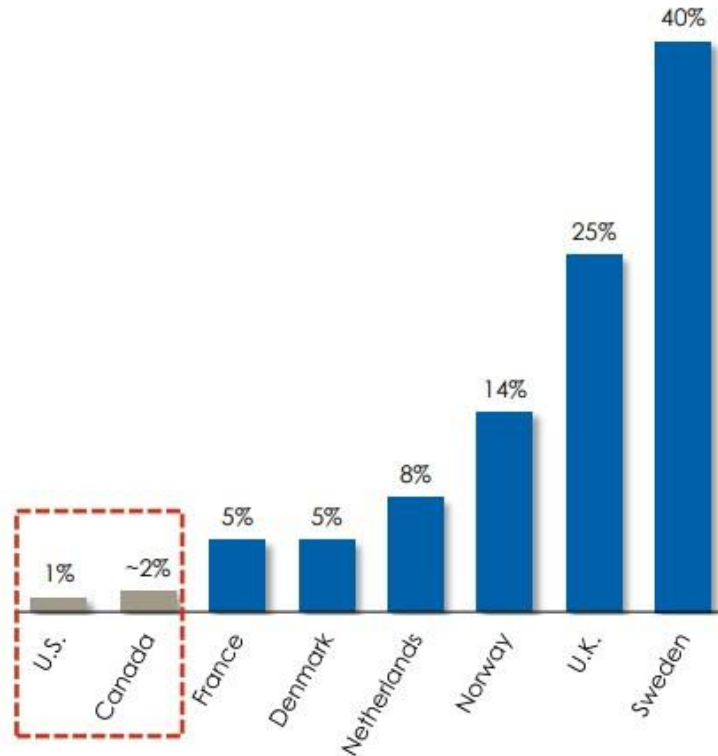
The average annual growth rate of Insured Pets in the U.S since 2016 is 18.9%.

Dogs continue to make up the majority of insured pets in the United States, with an approximate split per year of 82.9% insured dogs vs. 17.1% insured cats. The average annual growth rate was 18.4% for insured dogs and 21.4% for insured cats, between 2016 and 2020.

Source: naphia.org (North American Pet Health Insurance Association)

Market penetration

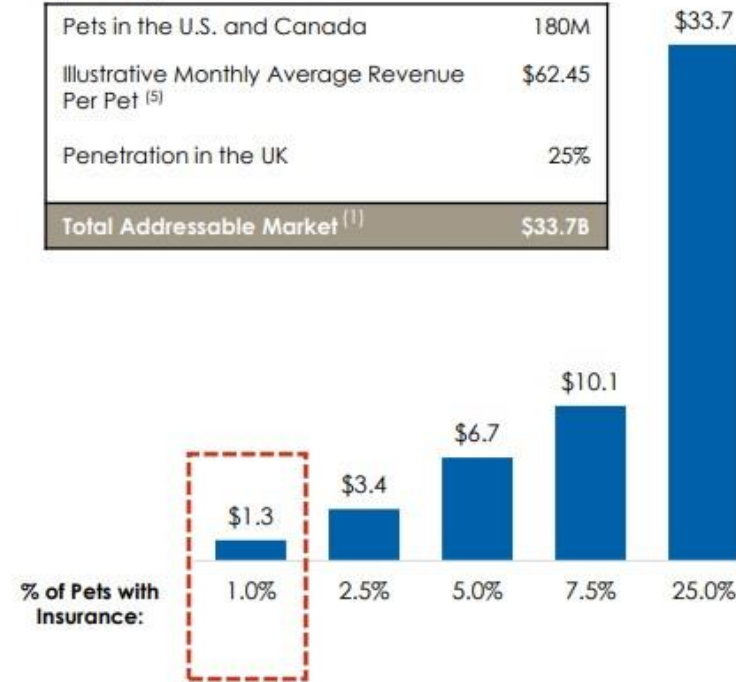
MASSIVE UNDERPENETRATED MARKET (2),(3),(4)



POTENTIAL MARKET SIZE BY PENETRATION RATE

(\$ in billions)

Pets in the U.S. and Canada	180M
Illustrative Monthly Average Revenue Per Pet ⁽⁵⁾	\$62.45
Penetration in the UK	25%
Total Addressable Market ⁽¹⁾	\$33.7B



- 1 APPA, National Pet Owners Survey, 2017 - 2018.
- 2 Kynefec, on behalf of the Canadian Animal Health Institute, CAHI Estimate of Canadian Dog and Cat Population Survey, 2016.
- 3 Packaged Facts, a division of Market Research Group, LLC, Pet Insurance in North America, 5th Edition, September 2018.
- 4 Munich RE, How to Unlock the Potential of Pet Health, May 2013.
- 5 Represents our monthly average revenue per pet for the twelve month period ended June 30, 2021.

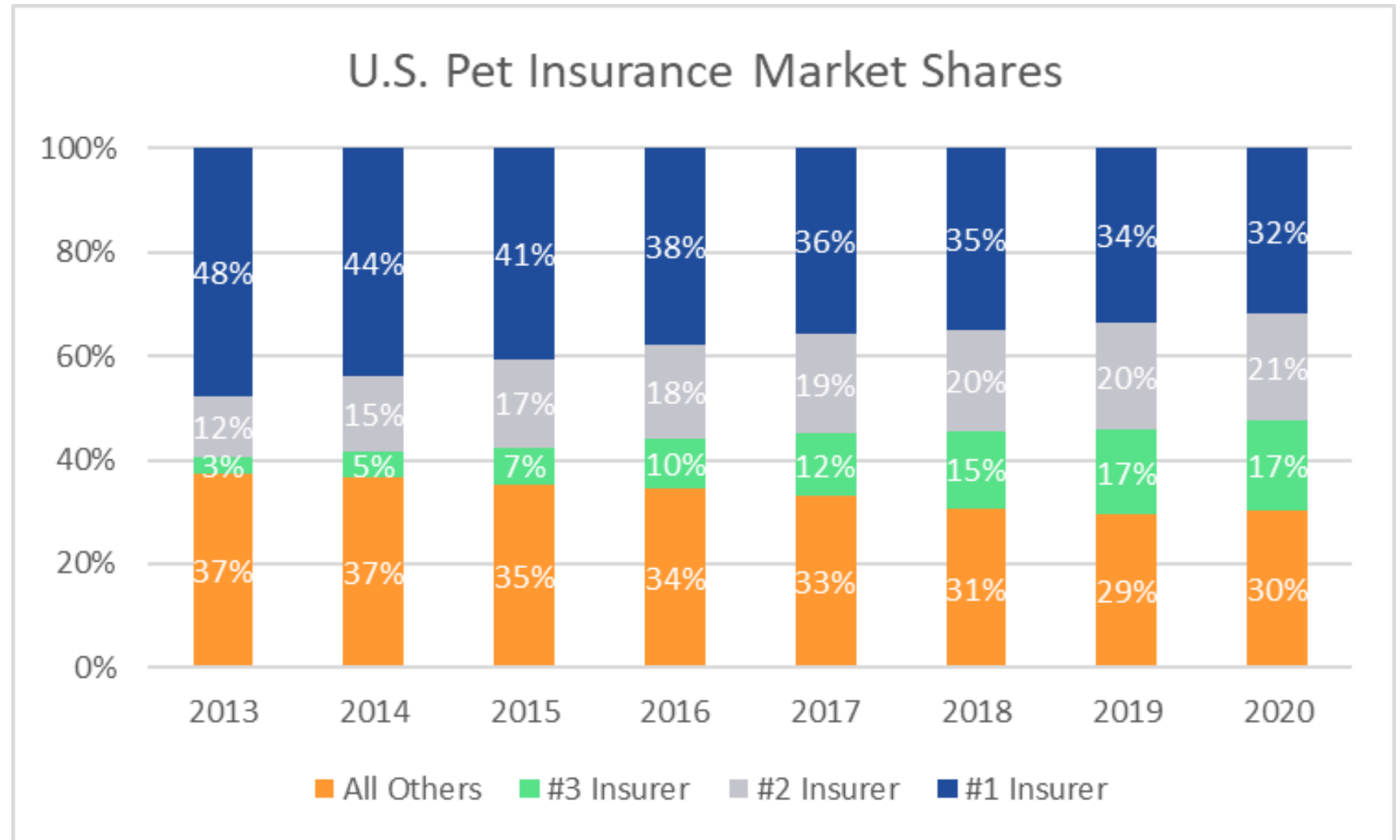


trupanion[®]

Source: trupanion August 2021 investor presentation

Market shares

- Pet insurance market share is less concentrated today relative to 10 years ago as competitors take share from the No. 1 provider and new participants and startups enter the pet health market.



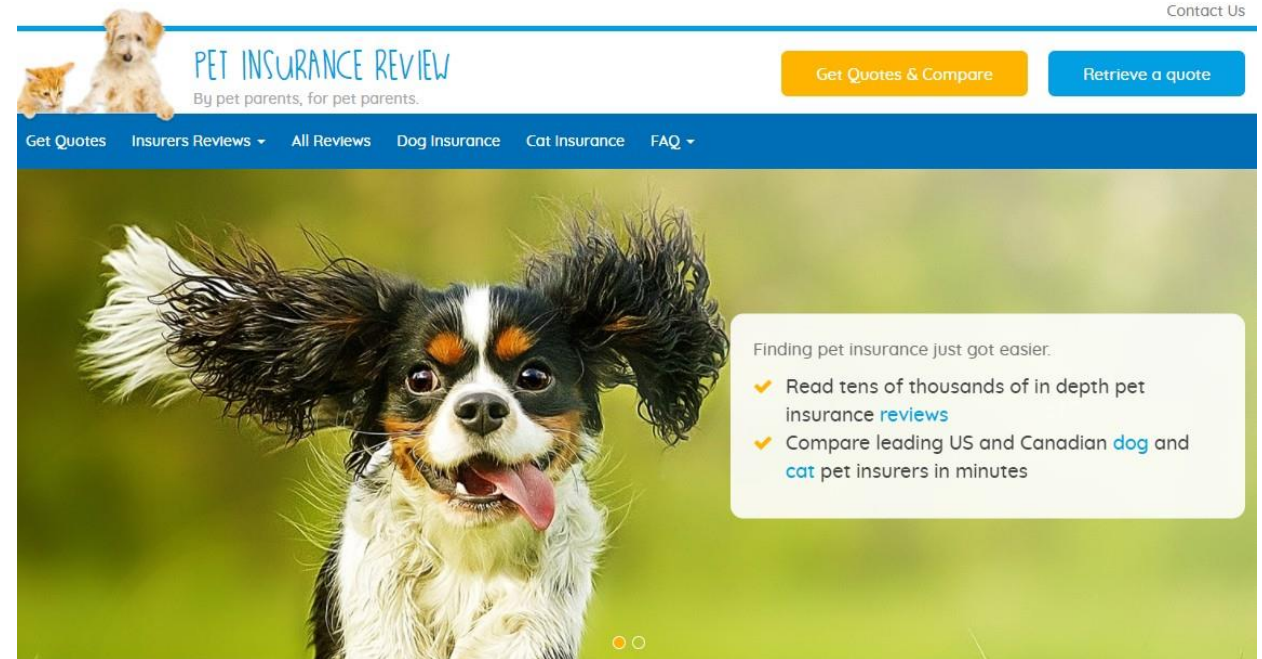
Source: EY analysis



Distribution channels

Insurance is available through the following “channels”:

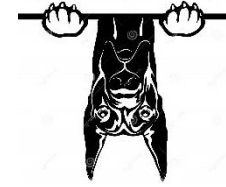
- Direct to consumer/digital
- Employee voluntary benefits
- Agents and brokers
- Affiliates
 - Pet insurance review sites
 - Pet insurance comparative raters
- Partnerships
- Veterinarians



Source: petinsurancereview.com

Section C: Pricing and underwriting

Policy features



- Structure
 - Percentage of invoice — these plans reimburse a stated percentage of covered veterinary expenses; this percentage is known as the coinsurance requirement or the reimbursement level.
 - Benefit scheduled — these plans define the reimbursement amount by the diagnosis or treatment; these products are more complicated to administer and are not very common in pet insurance.
- Configuration
 - Accident only — not popular with policyholders but can offer lower price points for emergencies.
 - Accident and illness (medical) — this is the most common configuration providing full medical coverage.
 - Wellness — some insurers offer wellness coverage and some don't.
- Coinsurance — 90% is the most common but can typically range from 50% to 90%.
- Deductible — \$250 is the most common but can typically range from \$100 to \$1,000.
- Limit — annual limits are commonly between \$5k and \$10k; some policies are unlimited.

Underwriting

- Pre-existing conditions
 - Plans exclude coverage on pre-existing conditions, but the extent of underwriting and fraud detection abilities to determine or deny coverage varies significantly between insurers.
- Hereditary or congenital conditions
 - Exclusions may exist on certain health conditions, but this varies among insurers as well.
- Waiting periods
 - Most policies are sold with a waiting period (a time between application approval and the policy effective date) to minimize the risk of adverse selection; the common waiting period is 14 days.
- High utilization (frequency)
 - Pet insurance is a high-utilization product because policyholders typically obtain the coverage with the intent to use it.
 - Active underwriting may be required on highest-utilizing policyholders to manage loss ratios.



Poll question 3

Who was the first insured dog in the US?

a) Rin Tin Tin



b) Benji



c) Beethoven



d) Eddie from Frasier



e) Lassie



Poll question 3 answer



Pricing

- These are most critical pricing variables for pet insurance:
 - Species
 - Breed
 - Age
 - Territory
 - Coinsurance/deductible/limit
- Pricing algorithms may additionally include variables such as the following:
 - Gender
 - Spay/neuter
 - Working pet
- Policyholder discounts are commonly offered based on affiliations and partnerships:
 - Animal shelter or human society discounts
 - Strategic partner and corporate group discounts
 - Veterinary staff and student discounts

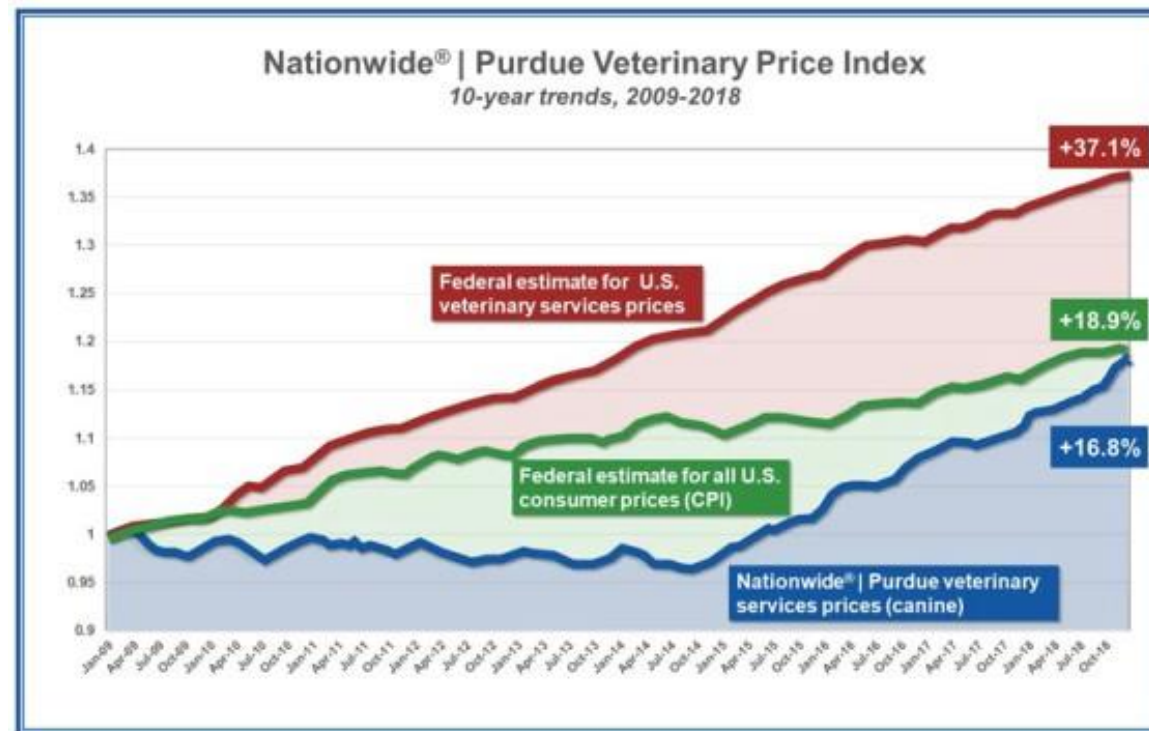
Alternative approaches to age rating

- Attained age rating — animals are rated based on their attained age when they become insured, and premiums increase each year to account for the aging of the pet.
- Initial age rating — animals are rated based on their attained age when they become insured, but premiums do not increase to account for the aging of the pet in future years.
- Underwriting duration benefit — for animals that are insured later in their lives, a higher rate may be charged for a given age, as it is more likely that unfavorable health conditions exist.
- Underwriting duration penalty — for animals that are insured later in their lives, a lower rate may be charged for a given age, as the insurer is able to exclude certain pre-existing conditions.



Loss trends

Loss cost trends on pet insurance portfolios may be 10% to 15% annually, or higher. Veterinary inflation is quite high and can be difficult to keep pace with. People who buy pet insurance policies typically use them, and benefit utilization rates are high and increasing.



Source: Nationwide Purdue Veterinary Price Index (2019 update)

Claims and reserving

- Pet insurers receive high volumes of small claims, so the pet insurance claim process should be highly automated, with straight-through processing where possible.
- Lack of standardization in veterinary diagnosis and treatment codes has been a challenge to implementing such auto-adjudication of pet insurance claims.
- Document intelligence solutions can be critical differentiators in the pet claims process.
- Pet insurance reserving considerations include the following:
 - Paid basis reimbursement nature of the coverage
 - No “open” claims typically
 - No case reserves typically
 - Very short development tail (a few months)

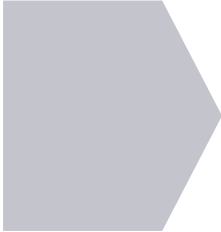


Section D: Human health considerations

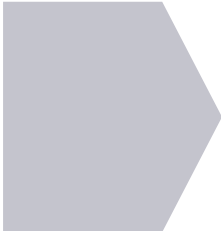
Human health considerations



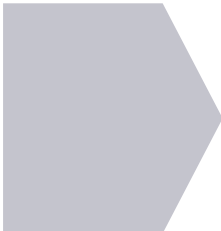
Plan design



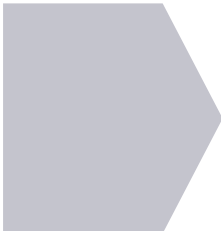
“Barbell” plan designs — No- or low-cost wellness coverage combined with a higher deductible can encourage preventative treatments and reduce severe outcomes.



Benefit richness — Rich benefit designs may be particularly subject to adverse selection in situations where market penetration is low.



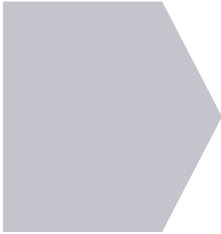
Benefit caps — Dental insurance typically has fairly low limits particularly for wellness (e.g., cleanings) and voluntary (e.g., orthodontia) expenses.



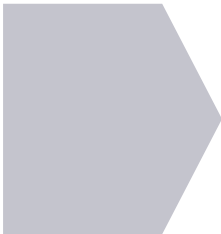
Scheduled benefits — Some human health products define the claim amount payable for each condition based on a payment schedule found in the contract.



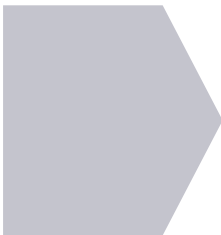
Pricing and underwriting



Pre-existing condition exclusions — Exclusions and waiting periods may mitigate the risk that insurance is bought only when a forthcoming need for coverage is expected.



Post-claims underwriting — The pre-ACA individual marketplace used post-claims underwriting to deny claims based on discovered policy misrepresentations.

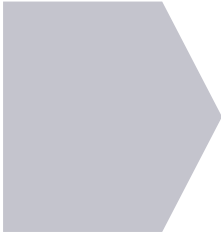


Experience studies — High-frequency lines of business like health insurance create relatively rich sets of claims data that can be evaluated for actionable insights.

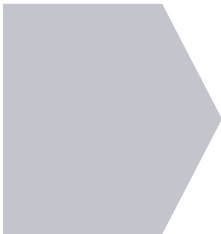
Human health considerations



Networks and cost control



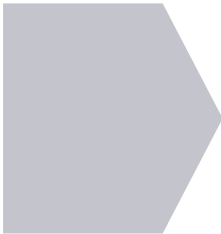
Networks — Human health insurers negotiate discounts with providers and charge members different cost shares for in-network providers vs. out of network.



Provider capitation and profit sharing — These are both mechanisms to transfer risk to the health care providers and create incentives for offering lower-cost services.



Group plans — Group plans and group rating capabilities may help increase sales volume over time by offering targeted pricing and products to known populations.

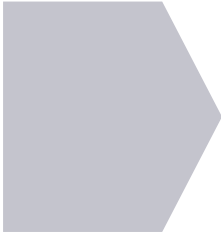


Claims adjudication — The majority of low-complexity and high-frequency human health insurance claims are auto-adjudicated to reduce administrative expenses.

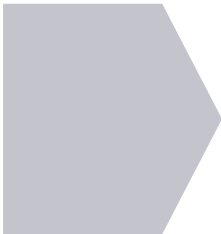
Human health considerations



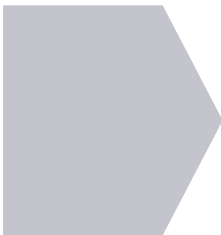
Financial reporting



Attained vs. issued age — Human health insurance policies may be priced based on the current age of the insured or the age when the policy was first issued.



Durational deterioration — This concept reflects the wear-off of the favorable impact of initial underwriting when the insurance product is rated based on attained age.



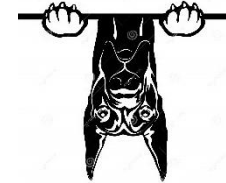
Long-duration contracts — If certain conditions are met, accounting for policies as long-duration contracts could allow future policy benefit reserves to be recorded.

Poll question 4

How many peeking pets were in this presentation?

- a) 3
- b) 7
- c) 9
- d) 11

Poll question 4



9 peeking pets





Questions?

Thank you

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