

Pet Insurance Observers: Able 'Parents' Drive Five-Year, Annual 22.1% Growth Rate

By Renée Kiriluk-Hill

OLDWICK, N.J. - It's a fetching time for pet insurers. Potential customers identify as pet parents and grandparents, willing and financially able to take measures unheard of just a decade ago to make their pets live longer and healthier lives, according to industry professionals.



Pet health insurance — a \$1.56 billion market in the United States — is a wide open line with tens of millions of potential insureds and penetration rates in the low single digits. The global pandemic accelerated demand for pet health insurance, observers said, as adoptions soared and pre-COVID-19 owners self-isolated with their pets.

About 60 million — or half — of U.S. households include at least one pet, the U.S. Census Bureau estimates. And they're spending more on them: Sales of pet care services doubled to \$5.8 billion over the decade ending in 2017, the bureau said at the start of the year.

Meanwhile, pet insurance premium has risen an average 22.1% annually over the past five years, according to North American Pet Health Association Executive Director Kristen Lynch, as last year more than 2.81 million pets were insured in the United States and Canada.

U.S. pet insurance premiums hit \$1.56 billion and Canadian premiums \$159 million in 2019, NAPHA reported in its annual state of the industry report. Eighty-three percent of U.S. insured pets were dogs.

The COVID-19 pandemic has led to more adoptions and acquisitions, “combined with a dramatic change in pet-owners lifestyles ... people were home from work and school, and spending all day alongside our pets — living, working and playing — in unprecedented ways.

“These very real shifts in our behaviors and values around our pets are what is known as the evolution of the human/animal bond,” Lynch said. “If we consider this alongside the pandemic's impact on our earning and spending habits, it is easy to see why pet insurance is seeing increased growth.”

Trupanion, which is considered the second-largest carrier in the line, reported the number of pets enrolled in its plans increased 29% in the second quarter to 744,727. The company posted a \$1.4 million net income compared to a \$1.9 million net loss a year earlier.

Nationwide, as Veterinary Pet Insurance, issued the first U.S. pet health insurance policy in 1982 for screen star Lassie. It's the largest insurer in the line, covering more than 847,000 pets, and the only one to insure birds and exotic animals, said Chief Pet Officer Heidi Sirota.

“We create a pool and accept that things will balance themselves out,” she said.

The line started taking off about six years ago as new entrants — largely managing general agents — raised the profile of pet insurance, according to Sirota. Concurrently, younger generations are fueling demand. “They're adopting pets in record numbers, choosing pets over partners,” she said.

Pet Insurance Observers: Able 'Parents' Drive Five-Year, Annual 22.1% Growth Rate (continued)

One of the new writers is homeowners insurtech Lemonade, which launched in the U.S. in the second quarter, seeking a piece of a market, said the carrier's chief executive officer ([Best's News, July 15, 2020](#)).

"It's really a fast growing and evolving industry," Sirota said. Moving forward she sees different types of pet health subscriptions emerging and acceptance of telemedicine for veterinarians, the latter a side effect of the pandemic's shutdowns.

Were the penetration rate to rise to 10% over the next decade, Cognizant Chief Digital Officer and Consulting Leader Chris Blatchly said, it would provide massive growth for "an industry that doesn't see growth" in other U.S. personal lines.

He counts about 30 pet insurance plans today and compares circa-2020 pet health insurance to human health maintenance organizations of the early 1980s, envisioning a similar evolution. In economic terms, he pointed out health coverage for people or animals is considered a luxury good — its uptake a measure of a country's disposable income.

U.S. wealth has risen along with veterinarian advances in treatments and specializations rivaling human health options, said Blatchly, which in turn has made pet insurance increasingly attractive.

He knows from experience that a veterinarian surgeon and eye specialist can and will fix a pet's droopy eyelid for \$2,000. Veterinarians today routinely offer treatments for terminal illnesses in pets, not just euthanasia.

Pets can even get some treatments their owners can't, like vaccinations for tick-borne Lyme Disease. "There's no FDA holdup," Blatchly said.

Blatchly thinks genomics testing will progress more rapidly for pets because people resist genetic testing and genetics-based treatments. This will be particularly important for dog owners, Blatchly added, because breed has a "huge impact on health care" and therefore insurance costs, but may not be apparent in rescue dogs. Additionally, genetic-based policy exclusions for pets don't carry ethical constraints.

Insurers and managing general agents also partner with pet rescue and adoption centers and service providers. This year Spot Pet Insurance — one of a number of plans underwritten by Fairfax Financial Holdings subsidiary United States Fire Insurance Co. — launched with TV show dog "whisperer" and behaviorist Cesar Millan as chairman.

Crum & Forster Pet Insurance Group oversees Spot Pet and a number of other brands, white labels and co-brands, said group Senior Vice President Bob Capobianco. The largest is house brand ASPCA Pet Health Insurance with more than 150,000 covered pets.

His group has seen an uptick in consumer interest since the pandemic. "Our ability to work with various partners to have the widest reach into the consumer space is proving very important to us" and is an area of concentrated focus, said Capobianco, along with technology and data.

Pet Insurance Observers: Able 'Parents' Drive Five-Year, Annual 22.1% Growth Rate (continued)

As a major U.S. pet health insurer, and one with 20 years of experience, he said Crum & Forster brings a large data set to policy and pricing decisions. And it helps predict consumer behavior.

Millennials factor in because they're quickly becoming one of the largest pet-owning segments. "Studies have reinforced their attitude of pets being part of the family," Capobianco said. Also, digital engagement increased visibility "at a time that millennials became big spenders and pets became a suitable alternative to marriage and children."

Employee benefits managers like to offer the line as a voluntary benefit, said Capobianco and Sirota. The former said it's the top change in the employee benefits channel over the past five years, which is driving expansion and competition in pet health insurance.

Employee benefits is a top distribution channel for the line at Nationwide, Sirota said, with nearly 9,000 companies enrolled, including half of the largest 500 U.S. corporations. "There's no cost to employers and it's portable, you can convert to a direct bill and keep the group pricing for the life of the pet if you leave the company," she said.

Both writers say decades of experience in the line help them set rates. "It's not easy to do and requires a ton of data analysis," said Capobianco, but pays off in customer satisfaction and retention.

"As the industry grows, data pricing sophistication will allow underwriters to balance good customer experience with company profitability," he said.

However, he added, the current race to the top of the line will be decided by who can settle claims promptly. "Technology plays a huge role here," he said.

Blatchly added industry insight. Consumers submit claims digitally, but there is still a lot of manual intervention at the back end to make it look as seamless as it does, he said. Better technology will reduce cost and, equally important, fraud, he said.

NAPHIA members cover more than 99% of pet health insurance written in the region. In 2019 it said annual pet accident and illness policies for dogs averaged \$585 compared to \$465 in 2015. The same coverage for cats rose to \$350 last year from \$316 in 2015. Accident-only policies cost less, averaging \$194 annually for dogs — a \$30 bump over five years — and \$126 for cats, a decline of \$10 over the period.

Policies aren't standardized, according to the Society of Actuaries. Some plans include routine health maintenance, diagnostic tests, lab fees or prescriptions. Deductibles can be per claim or policy term. Many exclude preexisting conditions but some add exclusions for congenital conditions, cancer treatments or more, said the society.

Sirota said Nationwide will insure the health of any pet at the right rate. It will also reimburse policyholders for veterinarian bills incurred globally — it has policyholders submit bills for reimbursement.

Pet Insurance Observers: Able 'Parents' Drive Five-Year, Annual 22.1% Growth Rate (continued)

Regulators have noticed consumer confusion as pet policies proliferate. A law that took effect this year in California requires pet insurers to disclose contact information for the underwriting insurer, the agent or broker, and the Department of Insurance to pet insurance policyholders. A legislative sponsor said generic brand names, such as "Petplan," are common and can confuse regulators and consumers who want to contact a plan's insurer (Best's News, Jan. 3, 2020).

Capobianco said Crum & Forster is careful to promote what is and isn't covered. The shift to invoice reimbursement increased transparency, he said.

"If I'm being honest, looking back five years, the industry seems almost unrecognizable. The number of brands and the explosion of digital avenues for reaching consumer has grown and changed so much," he said.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

BN-NJ-9-22-2020 1500 ET #