

IMPORTANCE Concerns surrounding producer licensing and reporting have arisen as the pet insurance market in the U.S. continues to grow.

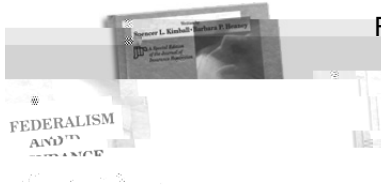
OBJECTIVES In this study, we discuss the pet insurance market and offer recommendations regarding licensing and reporting that we believe will better serve consumers and improve market transparency.

EVIDENCE

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Licensing and Reporting in the U.S. Pet Insurance Market

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Abstract

Pet insurance has been in existence for over a century; but over time, it has become increasingly prevalent in the U.S. market, with premiums written more than doubling for the period from 2013–2018. While pet insurance continues to gain traction in the U.S., regulatory questions regarding the sale of pet insurance remain, and we contend that these outstanding issues may have the effect of harming

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Introduction

The presence of pets in U.S. households has become increasingly widespread, with a recent survey finding that 67% of all U.S. households have at least one pet (American Pet Products Association, 2019). While pet ownership continues to rise in the U.S., pet owners are faced with potentially significant medical costs to care for their pets. The American Pet Products Association (APPA) (2019) reports that in 2018 a total of \$72.56 billion was spent on pets in the U.S, and roughly 25% of those expenses were attributed to veterinary care. It has also been estimated that the cost of medical care over the course of a pet's lifetime could range from \$9,000 to \$13,000 (Animal Health Institute, 2019). The 2018 Cost of Pet Health Care Report issued by Healthy Paws Pet Insurance states that some procedures can cost upwards of \$30,000²; representing a potentially devastating financial loss for pet owners (Healthy Paws Pet Insurance, 2018). As evidence of the potential financial ramifications associated with pet-related medical expenditures, 24% of respondents to a 2019 survey of pet owners in the U.S. indicated that they had gone into debt as a result of medical services for their pets (Kuehner-Hebert, 2019).

As detailed above, the cost to maintain health of a pet over the course of its lifetime can be non-trivial and at times can prove to be more costly than that of its owner (Marcus, 2016). One product, which has been available to pet owners for decades, that can be used to transfer a potentially substantial pet medical care costs is pet insurance, which is simply a form of health insurance for pets. While policies can vary significantly from one another, they often cover expenses that arise from illness or accidents, and they may even provide coverage for wellness and preventative care. Over a recent six-year period, the market for pet insurance has seen substantial growth in the U.S., with premiums written equal to roughly \$1.3 billion in 2018 and more than doubling for the period from 2013–2018. Although the market for pet insurance in the U.S. experienced dramatic growth, only 2%

1. The American Pet Products Association (APPA) defines the following as “pets”: birds, cats, dogs, horses, fish (freshwater and saltwater), reptiles, and “small animals.”

2. The report states that the highest covered claim for dog “stomach issues” was approximately \$28,000.

3. Coe, Adams and Bonnett (2007) conducted a study on perceptions related to the financial cost of veterinary services using a focus group approach. As part of their discussion, the authors note that “when pet owners were considering health and well-being of their own pets, emotions often appeared to drive their decisions, with veterinary considerations put on hold.” This finding reinforces the idea that pet owners may place such a great value on the health of their pets that they are willing to incur substantial costs, which could adversely affect an owner’s finances.

4. According to the NAIC Property & Casualty Coding system, a pet insurance plan is defined as a “veterinary care plan insurance policy providing care for a pet animal (e.g., dog or cat) of the insured owner in the event of its illness or accident” (NAIC, 2019d) while the NAIC State Licensing Handbook defined the term “pet insurance” to mean “...health insurance coverage, including but not limited to, coverage for injury, illness and wellness, for pets, such as birds, cats, dogs and rabbits” (NAIC, 2018).

5. Values reported are obtained from the North American Pet Health Insurance Association (NAPHIA) annual State of the Industry reports.

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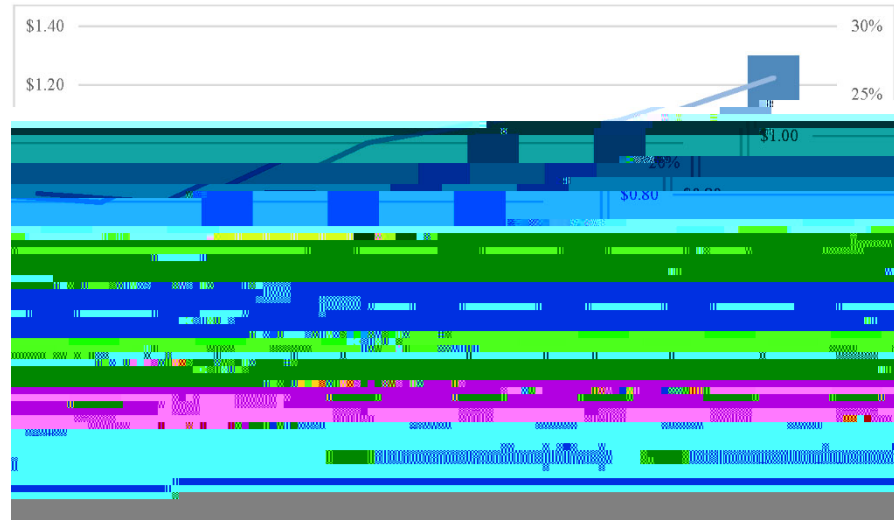
of households with pets had pet insurance in 2017 (Jenks, 2017), which suggests that there is significant room for growth in this ever-evolving market.

History and Status of Pet Insurance

Pet insurance has a rich history that ~~spans~~ ^{goes} 125 years, ~~back~~ ^{to} when the first pet insurance policy was issued for horses and livestock in 1890 (NAPHIA, 2019a). Over 30 years after the issuance of the first pet insurance policy, a policy was issued

academic research into the factors that drive demand for this product. Using a sample of U.S. pet owners, Williams et al (2016) conduct a study that investigates the factors associated with pet insurance demand and find that cost, reimbursement level, and the availability of unlimited benefits and wellness plans offered through the policy each affect consumer demand. The authors also show that expectations regarding the future health of consumers' pets affects the decision to purchase coverage. These results suggest that both financial and non-financial factors can influence the purchasing decision.

Figure 1:
Pet Insurance Premiums Written in the U.S., 2013-2018



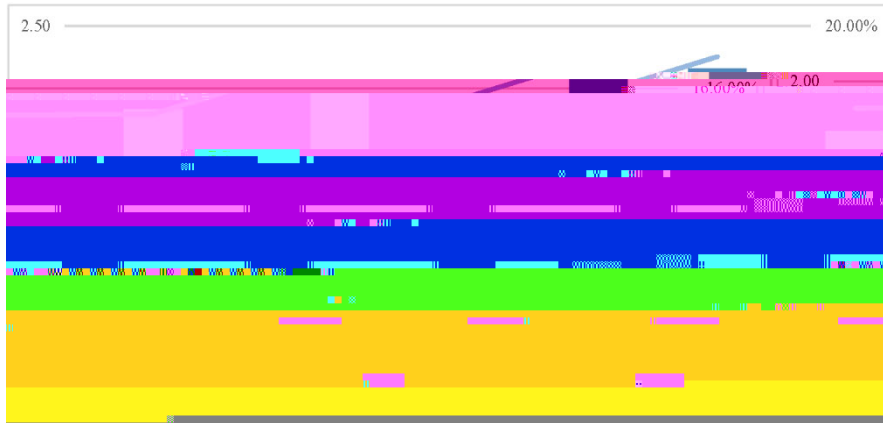
Source Data for the creation of Figure 1 are obtained from the North American Pet Health Insurance Association's (NAPHIA's) annual State of the Industry reports. Values reported on the primary (left-hand side) vertical axis represent total pet insurance premiums written in billions. Values on the secondary (right-hand side) vertical axis represent percentage change in the pet insurance premiums written from year-1 to year.

Another factor that affects the demand for pet insurance is knowledge about the existence of this coverage. Using a focus group approach, Coe, Adams and Bonnett (2007) study consumer perceptions regarding the cost of veterinary services and report that many of the focus group participants "received little information about pet insurance in terms of a possible solution to the costs of veterinary care." While the group of consumers that participated in the study indicated that they had little knowledge of pet insurance as a solution to the cost of pet health services, veterinarians that participated in the study noted that they were "apprehensive"

16. While the authors report that factors such as price and reimbursement percentage affect consumer purchasing habits, they find that the size deductible is not significantly related to demand.

about pet insurance because insurers could change coverages afforded by the insurance, and such changes could affect the care provided by the veterinarian. Finally, another factor that could influence demand is the consumers' perception regarding the cost of veterinary care. As noted by Coe, Adams and Bonnett (2007), some veterinary care is offered at a price that is far below the appropriate cost, which causes consumers to believe that services may be less expensive than they actually are.¹⁷ If this is the case, pet owners may choose to avoid the purchase of pet insurance because they do not fully appreciate the potential financial ramifications of costly veterinary services.

Figure 2:
Total Insured Pets in the U.S., 2013-2018



Source Data for the creation of Figure 2 are obtained from the NAPHA annual State of the Industry reports. Values on the primary (left-hand side) vertical axis represent the total number of insured pets in the U.S. in millions. Values on the secondary (right-hand side) vertical axis represent the percentage change in the total number of insured pets in the U.S. from year to year.

In addition to the work of Coe, Adams and Bonnett (2007), Gates et al. (2019) study the factors associated with the utilization of veterinary services in New Zealand. As part of the survey used in their study, the authors ask respondents about their feelings toward pet insurance. Among the findings from their survey, the authors note that the most common reasons for not having coverage included the coverage being too expensive and consumers not seeing the value in having the coverage. The authors also find that roughly 24% of respondents “don’t know much

17. Coe, Adams, and Bonnett (2007) indicate that veterinary service costs are lowered to encourage the well-being of the pet or due to guilt placed on the veterinarian by the pet owner. One of the focus group’s veterinarian participants stated, “Our vaccine visits are undercharged, our spay and neuters are grossly undercharged, and they’ve trained them [pet owners] that they don’t need pet insurance because veterinary medicine is so cheap.”

about it," while approximately 8% "didn't know it was available."

Licensing and Reporting in the U.S. Pet Insurance Market

As detailed above, pet insurance coverage has a long history and the market continues to grow and evolve, as do the products. However, as insurers offering pet insurance seemingly continue to make progress in terms of market development, there are two important regulatory issues related to pet insurance that have received little attention and we contend warrant further examination. First, while licensing

Limited line licenses generally have simpler licensing requirements than those required by the major lines; i.e., property, casualty, life, and accident and health. For instance, Idaho, New Jersey, Rhode Island and Virginia do not require an examination for limited lines producers that sell pet insurance. Although this is an option for states, we are not advocating its place of the property and/or casualty license for those states currently requiring one or both. Instead, these states could require a licensing exam testing coverage specific to pet insurance and the insurance laws of the specific state. This compromise would ensure that those offering pet insurance have training that is more directly related to the product that is being offered. This recommendation is consistent

compensation, fidelity, financial guaranty,

Licensing and Reporting in the

Because insurance is regulated at the state level, there is no single licensing approach that is employed, but general, most states require that producers either hold a property license, casualty license or both. However, we contend that a property and/or casualty license is inappropriate if a primary objective of licensing is to educate producers, thereby protecting consumers. The features of pet insurance,

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