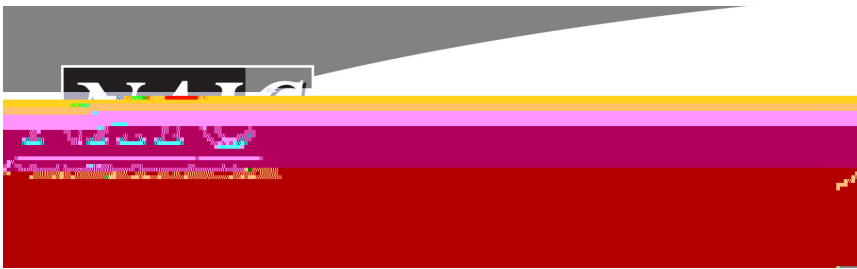


A Regulator's Guide to Pet Insurance



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INTRODUCTION

In December 2016, an insurer in the pet health insurance (pet insurance) industry voiced concerns to the Producer Licensing (D) Task Force regarding the use of limited lines licensing for pet insurance. The insurer recommended that pet insurance be removed from the State Licensing Handbook Uniform Licensing Standard (ULS) #37 as a limited line. It was the insurer's opinion that a full property/casualty (P/C) line should be required to sell, solicit or negotiate pet insurance. Reasons cited include: 1) tremendous growth in the pet insurance market; 2) policy premiums that far exceed the cost of the covered item (i.e. the pet); 3) complex policies with multiple coverage options and exclusions. Traditionally, limited lines products are designed to be incidental to the sale of another product which according to the insurer is not the case with pet insurance. The Task Force decided it needed to better understand the complexities of pet insurance before offering guidance regarding the type of producer license required to

in 2017, so while the pet insurance market is growing faster than the total P/C market, pet insurance still represents a small percentage of the total.

FIGURE 1. PET INSURANCE PREMIUM VOLUME

According to a survey conducted by the American Pet Products Association (APPA),¹ in 2017, approximately 68% of U.S. households, or 84.65 million families, own a pet.

FIGURE 2. TOTAL INSURED PETS

*Source: North American Pet Health Insurance Association. State of the Industry Report 2018.
naphia.org/industry/researchandreports/termsconditionsusestateindustryreport

Sweden and focused on horses and livestock. In
 n. In 1947, the first pet insurance policy was
 C, modern pet insurance policies are designed
 third parties for the action of pets. Sweden has
 and, as a result, 60% to 70% of pet owners
 cat owners maintain pet insurance.

inary Pet Insurance (VPI). VPI was founded
 ority of the 1980s and '90s, VPI had a near
 al companies joined the market. At the time,
 gure 3 below, VPI, which was purchased by
 e than 35% of the market for pet insurance in
 o today. Figure 1 above shows the remarkable

IN MILLIONS)*	MARKET SHARE
---------------	-----------------

36.33%

Figure 3 shows the U.S. 2017 premiums written by the top five insurers and branding entities with their 2017 premiums written established for the sale of pet insurance. Branding entities are programs that can be underwritten and sold by multiple insurers and are subject to change. Additionally, insurers may underwrite a variety of pet insurance programs. Branding entities may have programs underwritten by multiple insurers, and insurers may underwrite for multiple brands. The use of brand names is common in the industry which, without proper disclosure can cause confusion for state insurance regulators and consumers to determine the entity with a duty to indemnify.

Although the U.S. market has been growing by 15% or 20% a year for the last five years, it still only covers approximately 1% of the estimated 1.1 million dogs and cats kept as pets in the U.S. As noted in Figure 4, pet insurance coverage is concentrated in larger urban areas, with California and New York being the largest markets. However, over the last two decades, product offerings have expanded as additional insurers have entered the market. Caution should be used when contemplating data contained in Figures 1 through 4. Data for these figures was provided by the industry association NAPHIA, not the states or the NAIC. Data contained in each of the Figures 1 through 4 include NAPHIA members only and therefore are not exhaustive of the entire market for pet insurance. As discussed later in the paper, premiums and losses for pet insurance policies are contained in the inland marine line of business on the

NAIC 1812 (s) 1 (a) 1 (b) 1 (c) 1 (d) 1 (e) 1 (f) 1 (g) 1 (h) 1 (i) 1 (j) 1 (k) 1 (l) 1 (m) 1 (n) 1 (o) 1 (p) 1 (q) 1 (r) 1 (s) 1 (t) 1 (u) 1 (v) 1 (w) 1 (x) 1 (y) 1 (z) 1 (aa) 1 (ab) 1 (ac) 1 (ad) 1 (ae) 1 (af) 1 (ag) 1 (ah) 1 (ai) 1 (aj) 1 (ak) 1 (al) 1 (am) 1 (an) 1 (ao) 1 (ap) 1 (aq) 1 (ar) 1 (as) 1 (at) 1 (au) 1 (av) 1 (aw) 1 (ax) 1 (ay) 1 (az) 1 (ba) 1 (bb) 1 (bc) 1 (bd) 1 (be) 1 (bf) 1 (bg) 1 (bh) 1 (bi) 1 (bj) 1 (bk) 1 (bl) 1 (bm) 1 (bn) 1 (bo) 1 (bp) 1 (bq) 1 (br) 1 (bs) 1 (bt) 1 (bu) 1 (bv) 1 (bw) 1 (bx) 1 (by) 1 (bz) 1 (ca) 1 (cb) 1 (cc) 1 (cd) 1 (ce) 1 (cf) 1 (cg) 1 (ch) 1 (ci) 1 (cj) 1 (ck) 1 (cl) 1 (cm) 1 (cn) 1 (co) 1 (cp) 1 (cq) 1 (cr) 1 (cs) 1 (ct) 1 (cu) 1 (cv) 1 (cw) 1 (cx) 1 (cy) 1 (cz) 1 (da) 1 (db) 1 (dc) 1 (dd) 1 (de) 1 (df) 1 (dg) 1 (dh) 1 (di) 1 (dj) 1 (dk) 1 (dl) 1 (dm) 1 (dn) 1 (do) 1 (dp) 1 (dq) 1 (dr) 1 (ds) 1 (dt) 1 (du) 1 (dv) 1 (dw) 1 (dx) 1 (dy) 1 (dz) 1 (ea) 1 (eb) 1 (ec) 1 (ed) 1 (ee) 1 (ef) 1 (eg) 1 (eh) 1 (ei) 1 (ej) 1 (ek) 1 (el) 1 (em) 1 (en) 1 (eo) 1 (ep) 1 (eq) 1 (er) 1 (es) 1 (et) 1 (eu) 1 (ev) 1 (ew) 1 (ex) 1 (ey) 1 (ez) 1 (fa) 1 (fb) 1 (fc) 1 (fd) 1 (fe) 1 (ff) 1 (fg) 1 (fh) 1 (fi) 1 (fj) 1 (fk) 1 (fl) 1 (fm) 1 (fn) 1 (fo) 1 (fp) 1 (fq) 1 (fr) 1 (fs) 1 (ft) 1 (fu) 1 (fv) 1 (fw) 1 (fx) 1 (fy) 1 (fz) 1 (ga) 1 (gb) 1 (gc) 1 (gd) 1 (ge) 1 (gf) 1 (gg) 1 (gh) 1 (gi) 1 (gj) 1 (gk) 1 (gl) 1 (gm) 1 (gn) 1 (go) 1 (gp) 1 (gq) 1 (gr) 1 (gs) 1 (gt) 1 (gu) 1 (gv) 1 (gw) 1 (gx) 1 (gy) 1 (gz) 1 (ha) 1 (hb) 1 (hc) 1 (hd) 1 (he) 1 (hf) 1 (hg) 1 (hh) 1 (hi) 1 (hj) 1 (hk) 1 (hl) 1 (hm) 1 (hn) 1 (ho) 1 (hp) 1 (hq) 1 (hr) 1 (hs) 1 (ht) 1 (hu) 1 (hv) 1 (hw) 1 (hx) 1 (hy) 1 (hz) 1 (ia) 1 (ib) 1 (ic) 1 (id) 1 (ie) 1 (if) 1 (ig) 1 (ih) 1 (ii) 1 (ij) 1 (ik) 1 (il) 1 (im) 1 (in) 1 (io) 1 (ip) 1 (iq) 1 (ir) 1 (is) 1 (it) 1 (iu) 1 (iv) 1 (iw) 1 (ix) 1 (iy) 1 (iz) 1 (ja) 1 (jb) 1 (jc) 1 (jd) 1 (je) 1 (jf) 1 (jg) 1 (jh) 1 (ji) 1 (jj) 1 (jk) 1 (jl) 1 (jm) 1 (jn) 1 (jo) 1 (jp) 1 (jq) 1 (jr) 1 (js) 1 (jt) 1 (ju) 1 (jv) 1 (jw) 1 (jx) 1 (jy) 1 (jz) 1 (ka) 1 (kb) 1 (kc) 1 (kd) 1 (ke) 1 (kf) 1 (kg) 1 (kh) 1 (ki) 1 (kj) 1 (kk) 1 (kl) 1 (km) 1 (kn) 1 (ko) 1 (kp) 1 (kq) 1 (kr) 1 (ks) 1 (kt) 1 (ku) 1 (kv) 1 (kw) 1 (kx) 1 (ky) 1 (kz) 1 (la) 1 (lb) 1 (lc) 1 (ld) 1 (le) 1 (lf) 1 (lg) 1 (lh) 1 (li) 1 (lj) 1 (lk) 1 (ll) 1 (lm) 1 (ln) 1 (lo) 1 (lp) 1 (lq) 1 (lr) 1 (ls) 1 (lt) 1 (lu) 1 (lv) 1 (lw) 1 (lx) 1 (ly) 1 (lz) 1 (ma) 1 (mb) 1 (mc) 1 (md) 1 (me) 1 (mf) 1 (mg) 1 (mh) 1 (mi) 1 (mj) 1 (mk) 1 (ml) 1 (mm) 1 (mn) 1 (mo) 1 (mp) 1 (mq) 1 (mr) 1 (ms) 1 (mt) 1 (mu) 1 (mv) 1 (mw) 1 (mx) 1 (my) 1 (mz) 1 (na) 1 (nb) 1 (nc) 1 (nd) 1 (ne) 1 (nf) 1 (ng) 1 (nh) 1 (ni) 1 (nj) 1 (nk) 1 (nl) 1 (nm) 1 (nn) 1 (no) 1 (np) 1 (nq) 1 (nr) 1 (ns) 1 (nt) 1 (nu) 1 (nv) 1 (nw) 1 (nx) 1 (ny) 1 (nz) 1 (oa) 1 (ob) 1 (oc) 1 (od) 1 (oe) 1 (of) 1 (og) 1 (oh) 1 (oi) 1 (oj) 1 (ok) 1 (ol) 1 (om) 1 (on) 1 (oo) 1 (op) 1 (oq) 1 (or) 1 (os) 1 (ot) 1 (ou) 1 (ov) 1 (ow) 1 (ox) 1 (oy) 1 (oz) 1 (pa) 1 (pb) 1 (pc) 1 (pd) 1 (pe) 1 (pf) 1 (pg) 1 (ph) 1 (pi) 1 (pj) 1 (pk) 1 (pl) 1 (pm) 1 (pn) 1 (po) 1 (pp) 1 (pq) 1 (pr) 1 (ps) 1 (pt) 1 (pu) 1 (pv) 1 (pw) 1 (px) 1 (py) 1 (pz) 1 (qa) 1 (qb) 1 (qc) 1 (qd) 1 (qe) 1 (qf) 1 (qg) 1 (qh) 1 (qi) 1 (qj) 1 (qk) 1 (ql) 1 (qm) 1 (qn) 1 (qo) 1 (qp) 1 (qq) 1 (qr) 1 (qs) 1 (qt) 1 (qu) 1 (qv) 1 (qw) 1 (qx) 1 (qy) 1 (qz) 1 (ra) 1 (rb) 1 (rc) 1 (rd) 1 (re) 1 (rf) 1 (rg) 1 (rh) 1 (ri) 1 (rj) 1 (rk) 1 (rl) 1 (rm) 1 (rn) 1 (ro) 1 (rp) 1 (rq) 1 (rr) 1 (rs) 1 (rt) 1 (ru) 1 (rv) 1 (rw) 1 (rx) 1 (ry) 1 (rz) 1 (sa) 1 (sb) 1 (sc) 1 (sd) 1 (se) 1 (sf) 1 (sg) 1 (sh) 1 (si) 1 (sj) 1 (sk) 1 (sl) 1 (sm) 1 (sn) 1 (so) 1 (sp) 1 (sq) 1 (sr) 1 (ss) 1 (st) 1 (su) 1 (sv) 1 (sw) 1 (sx) 1 (sy) 1 (sz) 1 (ta) 1 (tb) 1 (tc) 1 (td) 1 (te) 1 (tf) 1 (tg) 1 (th) 1 (ti) 1 (tj) 1 (tk) 1 (tl) 1 (tm) 1 (tn) 1 (to) 1 (tp) 1 (tq) 1 (tr) 1 (ts) 1 (tt) 1 (tu) 1 (tv) 1 (tw) 1 (tx) 1 (ty) 1 (tz) 1 (ua) 1 (ub) 1 (uc) 1 (ud) 1 (ue) 1 (uf) 1 (ug) 1 (uh) 1 (ui) 1 (uj) 1 (uk) 1 (ul) 1 (um) 1 (un) 1 (uo) 1 (up) 1 (uq) 1 (ur) 1 (us) 1 (ut) 1 (uu) 1 (uv) 1 (uw) 1 (ux) 1 (uy) 1 (uz) 1 (va) 1 (vb) 1 (vc) 1 (vd) 1 (ve) 1 (vf) 1 (vg) 1 (vh) 1 (vi) 1 (vj) 1 (vk) 1 (vl) 1 (vm) 1 (vn) 1 (vo) 1 (vp) 1 (vq) 1 (vr) 1 (vs) 1 (vt) 1 (vu) 1 (vv) 1 (vw) 1 (vx) 1 (vy) 1 (vz) 1 (wa) 1 (wb) 1 (wc) 1 (wd) 1 (we) 1 (wf) 1 (wg) 1 (wh) 1 (wi) 1 (wj) 1 (wk) 1 (wl) 1 (wm) 1 (wn) 1 (wo) 1 (wp) 1 (wq) 1 (wr) 1 (ws) 1 (wt) 1 (wu) 1 (wv) 1 (ww) 1 (wx) 1 (wy) 1 (wz) 1 (xa) 1 (xb) 1 (xc) 1 (xd) 1 (xe) 1 (xf) 1 (xg) 1 (xh) 1 (xi) 1 (xj) 1 (xk) 1 (xl) 1 (xm) 1 (xn) 1 (xo) 1 (xp) 1 (xq) 1 (xr) 1 (xs) 1 (xt) 1 (xu) 1 (xv) 1 (xw) 1 (xx) 1 (xy) 1 (xz) 1 (ya) 1 (yb) 1 (yc) 1 (yd) 1 (ye) 1 (yf) 1 (yg) 1 (yh) 1 (yi) 1 (yj) 1 (yk) 1 (yl) 1 (ym) 1 (yn) 1 (yo) 1 (yp) 1 (yq) 1 (yr) 1 (ys) 1 (yt) 1 (yu) 1 (yv) 1 (yw) 1 (yx) 1 (yz) 1 (za) 1 (zb) 1 (zc) 1 (zd) 1 (ze) 1 (zf) 1 (zg) 1 (zh) 1 (zi) 1 (zj) 1 (zk) 1 (zl) 1 (zm) 1 (zn) 1 (zo) 1 (zp) 1 (zq) 1 (zr) 1 (zs) 1 (zt) 1 (zu) 1 (zv) 1 (zw) 1 (zx) 1 (zy) 1 (zz)

A study of the more developed markets in other coun

- **Two primary coverage types: accident only, or accident and illness plans.** Comprehensive policies may cover reasonable and necessary veterinary expenses that occur during the policy period for medical management, diagnosis or treatment of a pet's condition. Veterinary expenses or services include medical advice, diagnosis, care or treatment provided by a veterinarian. Other services and medical expenses that may be covered include the costs of the visit, prescription drugs, food, supplements and medical equipment, surgical procedures, physical therapy, and dental procedures.
- **Optional wellness and preventive coverage.** Such coverage may be available, which covers veterinary expenses during the policy period for preventive treatment or treatment provided to preserve or improve general nutrition or health when there are no underlying symptoms of an associated diagnosed medical condition. This typically includes vaccinations, flea and heartworm medication, wellness exams, blood tests, radiographs, heartworm tests, screens, urinalysis, deworming, pet identification (microchip), spaying or neutering, dental cleaning, genetic certification, etc.
- **Different plan options.** Pet health insurers may offer different plan options or tiers with varying policy limits.
- **Description of the veterinarians and clinics that may be used under the plan.**
- **Limits, which may be annual, lifetime, per procedure, per incident or a combination.** Optional coverages may have special limits.
- **Copayments applicable to the cost of each procedure, an overall limit or other basis.** Generally, there is a coinsurance percentage and/or deductible.
- **Waiting periods for injury, illness and orthopedic care.** Pet health waiting periods are usually broken up into two separate periods for illness and injury, but other pet health insurers may add longer waiting periods for specific coverages such as orthopedics or cruciate ligament events, etc. Although most of the definitions in pet health policies for waiting periods include the language "these waiting periods are waived for continuous renewal," the waiting periods may apply again if there are policy changes.
- **Policy exclusions, which often include exclusions for preexisting conditions.** Some may even exclude coverage in renewal policies for conditions diagnosed or treated in prior coverage periods. Many policies also exclude coverage for congenital and heredity conditions, such as hip dysplasia, heart defects, cataracts and diabetes. Other typical exclusions may include: preventive treatment or wellness care; dental care; vaccinations; flea prevention; spaying or castration; behavioral training/therapy or treatment; procedures, services or supplements for a

exclusively or provide customers with brochures or pamphlets on several different brands. In addition, kennels and breeding clubs may promote coverage for pets or even have preferred carriers for specific breeds. Also, some organizations include information on pet insurance on their website to educate consumers about pet insurance and to assist consumers in making comparisons between coverage options. However, as of this writing, none of that information has been vetted by the NAIC.

The fastest growing form of distribution is through an employee benefit package. Coverage may be sponsored in part by the employer or entirely employee paid. Special employee pricing is sometimes offered with group discounts. According to Nationwide, 50% of Fortune 500 companies offered pet insurance as an employee benefit in 2017.

LICENSING

To encourage uniformity, the Producer Licensing (D) Working Group developed the ULS within the **State Licensing Handbook**(Handbook). Adopted originally in 2002, the ULS is a guide for state insurance regulators to use in their producer licensing process. In the November 2011 update, ULS #37 wSia (L)1 (S)-4 (a)4 (

agree pet insurance should not be sold by unlicensed individuals, but what level of licensure and what steps should require licensure are open topics of discussion.

There is an open debate as to whether insurance producers and claims adjusters (in states where claims adjusters are licensed) should be required to have a full P/C license or a limited lines license to sell pet insurance. According to Model #218,⁶ to obtain a resident license for the P/C line of authority, one must pass a written examination. According to the Handbook, states that require prelicensing shall require 20 credit hours of prelicensing education per major line of authority. The six major lines of authority identified in the Handbook are: 1) life; 2) accident and health (A&H) or sickness; 3) property; 4) casualty; 5) variable life and variable annuity; and 6) personal lines. Limited lines are considered alternatives to the major lines of authority. The products offered and the licensing requirements for limited lines tend to be more limited in scope.

Except for crop and surety, prelicensing examinations are not required for limited lines. Under both reciprocity standards set forth in Model #218 and the ULS, prelicensing education is not required for nonresident applicants or nonresident producers who change their state of residency. Additionally, 24 credits of continuing education (CE) are required for each major line of authority (or 4 per subline).

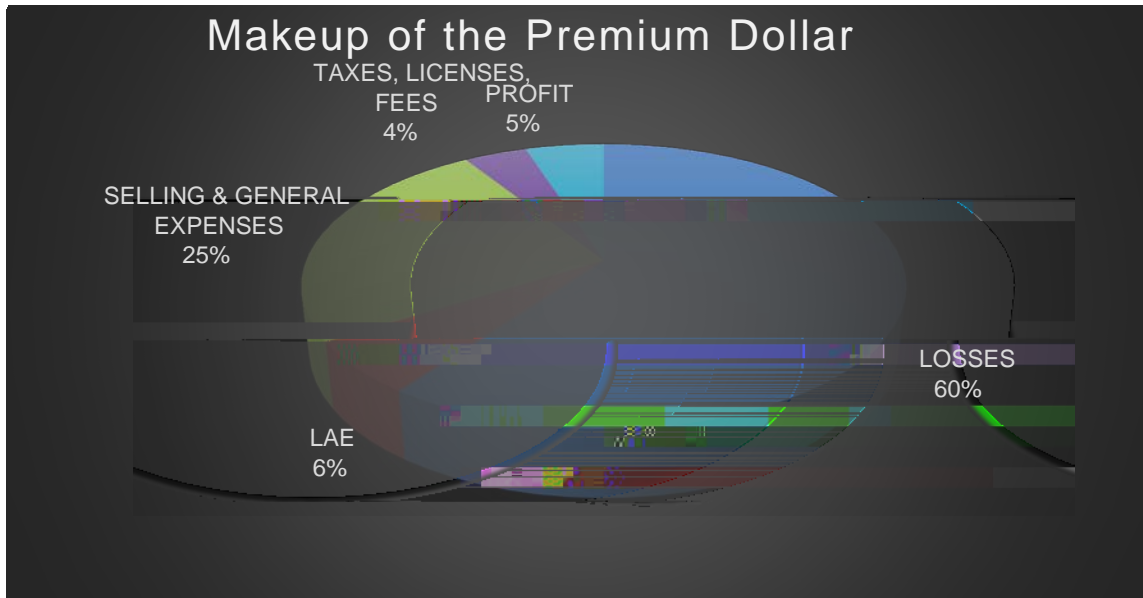
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In June

need specialized training to effectively handle claims where a high level of technical knowledge is required. A combination of adjuster training and access to subject matter experts is needed to properly adjust pet insurance claims. Other lines of business may have separate licensing requirements for producers and adjusters requiring a full property casualty license for producers and a limited lines license for adjusters.

RATES

FIGURE 5.



As discussed in detail under the coverage options section above, many pet insurance carriers offer more than one health plan. By far the most common is an “accident and illness” plan covering both fortuitous injuries, as well as health issues of the pet (subject to various limitations and exclusions). A less expensive alternative is an accident-only plan, which may cost around 60% less than an accident and illness plan. Most policies are written on an annual basis.

For an additional charge, typical plan options can include (on a bundled or unbundled basis):

- Preventive/wellness care
- Dental care
- Spay/neuter
- Cancer treatment
- Diabetes coverage
- Inherited/congenital conditions
- Behavioral therapy
- Prescription coverage
- Alternative medicine
- Lost pet recovery
- Ambulance care
- Euthanasia/cremation/funeral coverage
- Accidental death benefit
- Travel/vacation coverage
- Boarding/kenneling (unforeseen circumstances)

Pet insurance rate structures are relatively similar across insurers but will have some variances in the risk characteristics, the rating factors for those risk characteristics, or both. Insurers generally use the same rate structure in all states where they operate, but there may be exceptions based on a company initiative or state regulatory requirement.

Policy premium is the amount charged to the insured for coverage. An installment fee may be applied if the insured elects to pay for the insurance in installments rather than paying in full at the beginning of the policy term. Installment fees typically vary from \$1 to \$6 per pay period, depending on the insurer and the mode of payment (electronic funds transfer (EFT), credit card, etc.). An insurer may charge other fees such as non-sufficient fund fees, late fees, and reinstatement fees. These ancillary fe

Deductibles are typically provided by insurers on a per incident or an annual basis. Some insurers allow the insured to select either annual or per incident options, while others only have one reimbursement method. Coverage typically costs more with an annual deductible because it tends to result in a higher cost for the insurer and lower cost for the insured. Coverage with an annual deductible routinely costs 4% to 6% more than a per incident deductible plan.

Co-Insurance or Copay

The co-insurance percentage (sometimes referred to as copay) is the percentage of loss the insured has agreed to pay after the deductible is satisfied. Much like the deductible, the co-pay is intended to encourage the insured to use the insurance judiciously, with some “skin in the game” in partnering with the insurer to keep costs at a necessary and reasonable level. Copays are usually provided as multiples of 10—i.e., 10%, 20%, 30% and possibly higher. As compared with a 10% co-pay, a 20% co-pay can save between 5% and 25% of the insurance cost, depending on the insurer. Premium discounts are provided for out-of-pocket costs in the form of the copayments for the insured. Plans with 0% copay may be available for a higher premium amount.

Limit

Insurance policy limits are the maximum dollar amount an insurer will pay for claims. Policy limits are normally expressed on a per incident basis, as well as an aggregate policy term basis. Many insurers have both per incident and aggregate limits for one policy. Few insurers also use maximum lifetime limits (i.e., for the life of the pet). Higher limits are more expensive.

NOTES:

\$75 treatment: $\$0 = \$75 - \$100$, subject to a minimum of \$0

\$150 treatment: $\$40 = (\$150 - \$100) \times (100\% - 20\%)$

\$1,500 treatment: $\$1,000 = (\$1,500 - \$100) \times (100\% - 20\%)$, subject to a
maximum of \$1,000 (i.e., the per incident limit)

(3) =

variances for cats tend to be less. The cat

- Animal health employee discount.
- Shelter adoptee discount.
- Automated clearing house (ACH) payment discount.
- Premium paid-in-full discount (i.e., no installment plan used).
- Online enrollment/paperless policy administration discount.

RATING EXAMPLE

For a typical accident and illness plan, an illustrative and hypothetical example of the workup of a rate follows:

Overall Rate Level:

Annual Base Rate*	\$300
*Reflects:	
Geographic Area	#1
Deductible	\$100
Deductible Type	Per Incident
Co-pay	10%
Per Incident Limit	\$1,000
Annual Limit	\$10,000
Species	Dog
Pet Age	Less than 1 year
Breed Group	1
Multi-Pet	No
Group Marketing Member	No

Rate Structure Adjustments:

Geographic Area (#3)	1.160
Deductible (\$150)	0.955
Deductible Type (Annual)	1.060
Co-pay (20%)	0.925
Per Incident Limit (\$2,000)	1.280
Annual Limit (\$10,000)	1.000
Species (Dog)	1.000

Pet Age (5)	1.240
Breed Group (4)	1.050
Multi-Pet (No)	1.000
Group Marketing Member (Yes)	0.950
Final Rate	\$516 (i.e., \$300 x 1.160 x ... x 0.950)



Species	Geographic Class	
	Rural	Urban
Dog	0.900	1.500
Cat	0.540	0.900

write-ins for other lines of business (line 34). Also, depending on the type of animal insured, there could be additional categories in other inland marine areas, such as livestock (line 9.0001). Finally, homeowners' policies (line 04 on the state page) may include insurance coverage if a pet causes someone injury, as in a dog bite. However, homeowner's insurance covers the owner's liability only and does not provide medical coverage for the insured's pet. Several exclusions, including specified dog breeds, apply.

CLAIMS PRACTICES

According to NAPHIA's 2018 State of the Industry Report, approximately 1.83 million pets in the U.S. were covered by pet insurance, with 98% of those being accident and illness policies, earning insurers more than \$1 billion in premium. In a high frequency, low severity product line, how claims are handled has a significant impact on an insurer's profit, as well as its ability to attract and maintain customers.

State insurance regulators have historically identified claim practice concerns through tracking of consumer complaints. However, this information is not readily available for pet insurance for a couple of reasons. The first reason is pet insurance is not separately identified in most state complaint databases. To remedy this lack of information, states using State Based Systems (SBS) could include a separate item in the complaints section for pet insurance. The second reason for the lack of information regarding consumer complaints tied to pet insurance could be because consumers do not know how to file claims or which entity they should report due to the use of brand names.

NAPHIA provided complaints data representing the number of complaints reported to the state department of insurance for each of its member companies. The total represents the minimum number of complaints reported as it does not include information for all companies nor does it consider complaints filed directly with the insurer or via any method other than those filed directly with the state department of insurance. According to NAPHIA, in 2017 a total of 320 complaints were filed with a department of insurance. This represents a 0.0174% complaint ratio (320 complaints/1.8 million policies). Without a measurable system to track all complaints specific to pet insurance it is difficult to determine if the low complaint volume is attributable to consumer satisfaction with the products available in the market.

To supplement the data obtained from NAPHIA, independent research into pet insurance claim practices was conducted using available online consumer review resources such as ConsumerAdvocate.org, ConsumerAffairs.com, ConsumerReports.org and the Better Business Bureau.

Online consumer reviews found on these pages suggest that complaints against pet insurers fall into categories similar to those of other P/C lines of business: claim delay, claim denial and partial or insufficient claim payments.

Some complaints may be attributed to the consumer's misunderstanding of coverage and the policy terms and conditions. Restrictions, waiting periods, fee schedules, excluded preexisting, congenial and hereditary conditions are often not obvious to the consumer until after they have a loss. Companies can serve their policyholders better by providing clear and understandable information regarding:

- Whether congenital and hereditary conditions (such as hip dysplasia, heart defects, cataracts or diabetes) are covered.
- How reimbursement is calculated (based on the actual vet bill, a benefit schedule or usual and customary rates).
- Whether the deductible is on a per-incident or annual basis.
- Whether there are limits or caps applied (per incident, per year, age or over the pet's lifetime).
- Whether there is an annual contract that determines if anything diagnosed in the prior year of

payments, the benefit schedule used, and the usual and customary fee limitation. Disclosures must be made within the policy and through a link on the main page of the insurer's website.

According to the *Los Angeles Times*, a 2016 report found that 37% of all pet insurance claims were denied in California. No commensurate figure for the U.S. could be found, but one could extrapolate similar numbers. The subject of the article was a nearly \$13,000 claim that was denied, appealed and denied again. It was not until the *Los Angeles Times* stepped in to do an exposé that the claim was paid.

In most cases, especially in emergency situations, the expense is incurred before the insured has an opportunity to check with the insurer regarding coverage. This is another point of contrast, with most other types of property coverage where an adjuster may conduct an appraisal before most expenses are incurred.

REGULATORY CONCERNS

Although pet insurance products have been around for many years, the demand for and insurers willing to offer the coverage have increased. The regulatory framework and reporting requirements may be less

Market Conduct Concerns

Conducting Business in Legal Insurer Name

Marketing by brand name causes confusion not only for consumers, but also for employees of the agencies, third-party administrators (TPAs), and partners such as veterinary clinics and hospitals.

According to the Unfair Trade Practices Act¹⁹ (#880), “making, publishing, disseminating, circulating or placing before the public, or causing, directly or indirectly to be made, published, disseminated, circulated, or placed before the public, in a newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio or television station, or in any other way, an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance or with respect to any insurer in the conduct of its insurance business, which is untrue, deceptive or misleading” is considered an unfair trade practice.

If consumers have difficulty identifying the underwriter, they may not know how to file a complaint with the state DOI. Branding entities may change underwriters or use multiple underwriters, making it difficult even for state insurance regulators to track the insurer with a duty to indemnify claims. Additionally, consumers may file complaints instead with the branding entity, agency or insurer directly. Review of various social media sites reveals a growing number of consumer complaints regarding claims handling and marketing practices. Due to confusion as to the direct underwriter, these complaints may never be effectively reported. Often, consumers have complaints regarding conditions or what is actually covered in the policy. The Californ

Use of Nonlicensed Producers to Market and Sell Pet Insurance

During the Washington OIC's targeted market conduct exam, it was determined that a pet insurer used appointed agencies to market and sell its pet insurance policies. Both entities were licensed producers although they employed unlicensed, non-

licensing database as well as the WA website will reflect the non-resident license issued as a P/C line of authority.

States should address with clarity the licensing obligations for the sale, solicitation and negotiation of this product and, if applicable in the individual state, the licensing obligations for claims adjustment. For states that permit limited line producer licenses, products will need to be filed that align with the authority permitted by the limited license. Producers will also require monitoring to make sure they are not selling homeowners or other products that exceed the limited line authority.

RESOURCES

http://www.naic.org/cipr_topics/topic_pet_insurance.htm

http://www.naic.org/documents/cmte_ex_pltf_producer_licensing_exposure_pet_insurance_n.pdf

<https://www.aspcapetinsurance.com/research-and-compare/petinsurancebasics/petinsurancebasics/>

APPENDICES

The people of the State of California do enact as follows:

SECTION 1. Part 9 (commencing with Section 12880) is added to Division 2 of the Insurance Code, to read:

PART 9. PET INSURANCE

12880. For purposes of this part, the following definitions shall apply:

- (a) "Chronic condition" means a condition that can be treated or managed, but not cured.
- (b) "Congenital anomaly or disorder" means a condition that is present from birth, whether inherited or caused by the environment, which may cause or otherwise contribute to illness or disease.
- (c) "Hereditary disorder" means an abnormality that is genetically transmitted from parent to offspring and may cause illness or disease.
- (d) "Pet insu

- (2) If the policy includes any other exclusion, the following statement: “Other exclusions may apply. Please refer to the exclusions section of the policy for more information.”
- (3) Any policy provision that limits coverage through a waiting or affiliation period, a deductible, coinsurance, or an annual or lifetime policy limit.
- (4) Whether the insurer reduces coverage or increases premiums based on the insured’s claim history.
- (b) (1) If a pet insurer uses any of the terms in paragraph (1) of subdivision (a) in a policy of pet insurance, the insurer shall use the definition of those terms as set forth in Section 12880 and include the definition of the term in the policy. The pet insurer shall also make that definition available through a link on the main page of the insurer’s Internet Web site.
- (2) Nothing in this subdivision or Section 12880 in any way prohibits or limits the types of exclusions pet insurers may use in their policies, nor does it require pet insurers to have any of the limitations or exclusions defined in Section 12880.
- (c) A pet insurer shall clearly disclose a summary description of the basis or formula on which the insurer determines claim payments under a pet insurance policy within the policy and through a link on the main page of the insurer’s Internet Web site.
- (d) A pet insurer that uses a benefit schedule to determine claim payment under a pet insurance policy shall do both of the following:
- (1) Clearly disclose the applicable benefit schedule in the policy.
- (2) Disclose all benefit schedules used by the insurer under its pet insurance policies through a link on the main page of the insurer’s Internet Web site.
- (e) A pet insurer that determines claim payments under a pet insurance policy based on usual and customary fees, or any other reimbursement limitation based on prevailing veterinary service provider charges, shall do both of the following:
- (1) Include a usual and customary fee limitation provision in the policy that clearly describes the insurer’s basis for determining usual and customary fees and how that basis is applied in calculating claim payments.
- (2) Disclose the insurer’s basis for determining usual and customary fees through a link on the main page of the insurer’s Internet Web site.
- (f) The insurer shall create a summary of all policy provisions required in subdivisions (a) through (e), inclusive, into a separate document titled “Insurer Disclosure of Important Policy Provisions.”
- (g) The insurer shall post the “Insurer Disclosure of Important Policy Provisions” document required in subdivision (f) through a link on the main page of the insurer’s Internet Web site.
- (h) (1) In connection with the issuance of a new pet insurance policy, the insurer shall provide the consumer with a copy of the “Insurer Disclosure of Important Policy Provisions” document required pursuant to subdivision (f) in at least 12-point type when it delivers the policy.

administrative law bureau administrative law judges. The commissioner and the appointed administrative law judge shall have all the powers granted under the Administrative Procedure Act.

(d) The person shall be entitled to have the proceedings and the order reviewed by means of any remedy provided by Section 12940 or by the Administrative Procedure Act.

12880.5. The commissioner may adopt reasonable rules and regulations, as are necessary to administer this part, in accordance with the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

Appendix 3: Overview of Actuarial Science

Considering the ratemaking discussion in this paper, a few words about actuarial science may be helpful. Actuarial science is the discipline that applies mathematical and statistical methods to evaluate risk in insurance and other business endeavors. Actuaries are pr