

2016 SOA
**Health
Meeting**

June 15-17, 2016
Philadelphia, PA



Session 114 PD, Actuarial Entrepreneur: Pet Health Insurance

Moderator/Presenter:

Lori Weyuker, ASA, MAAA

Presenter:

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Pet Health Insurance Overview

Lori Weyuker, ASA, MAAA
June, 2016

2016 SOA
**Health
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Agenda

- What is Pet Health Insurance?
- Pet Insurance Market Overview
- Pet Insurance Mechanics
- Product Offerings
- Competitive Landscape
- Distribution Channels
- Why Pet Insurance?

What is Pet Insurance?

Accident and Illness

- Pet medical care related to injury or sickness

Preventative Care

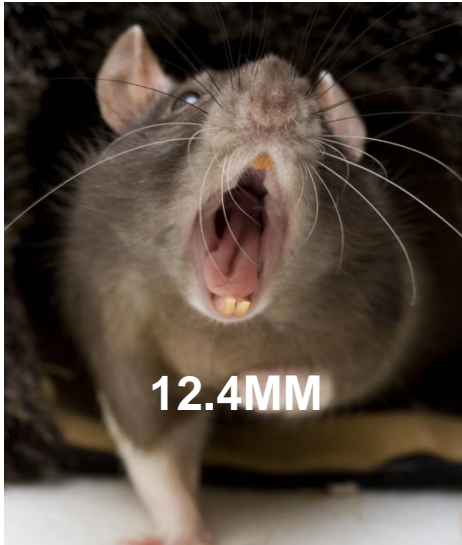
- Pet medical care related to predictable and planned care

Covers veterinary services, pharmaceuticals, supplies, testing

Coverage available to dogs, cats, birds, reptiles, and exotics

Available in all states and DC

US Pet Ownership



65%, according to 2015-2016 APPA National Pet Owners Survey. This equals 79.7 million homes.

What % of US Pet Owners Have Pet Insurance?



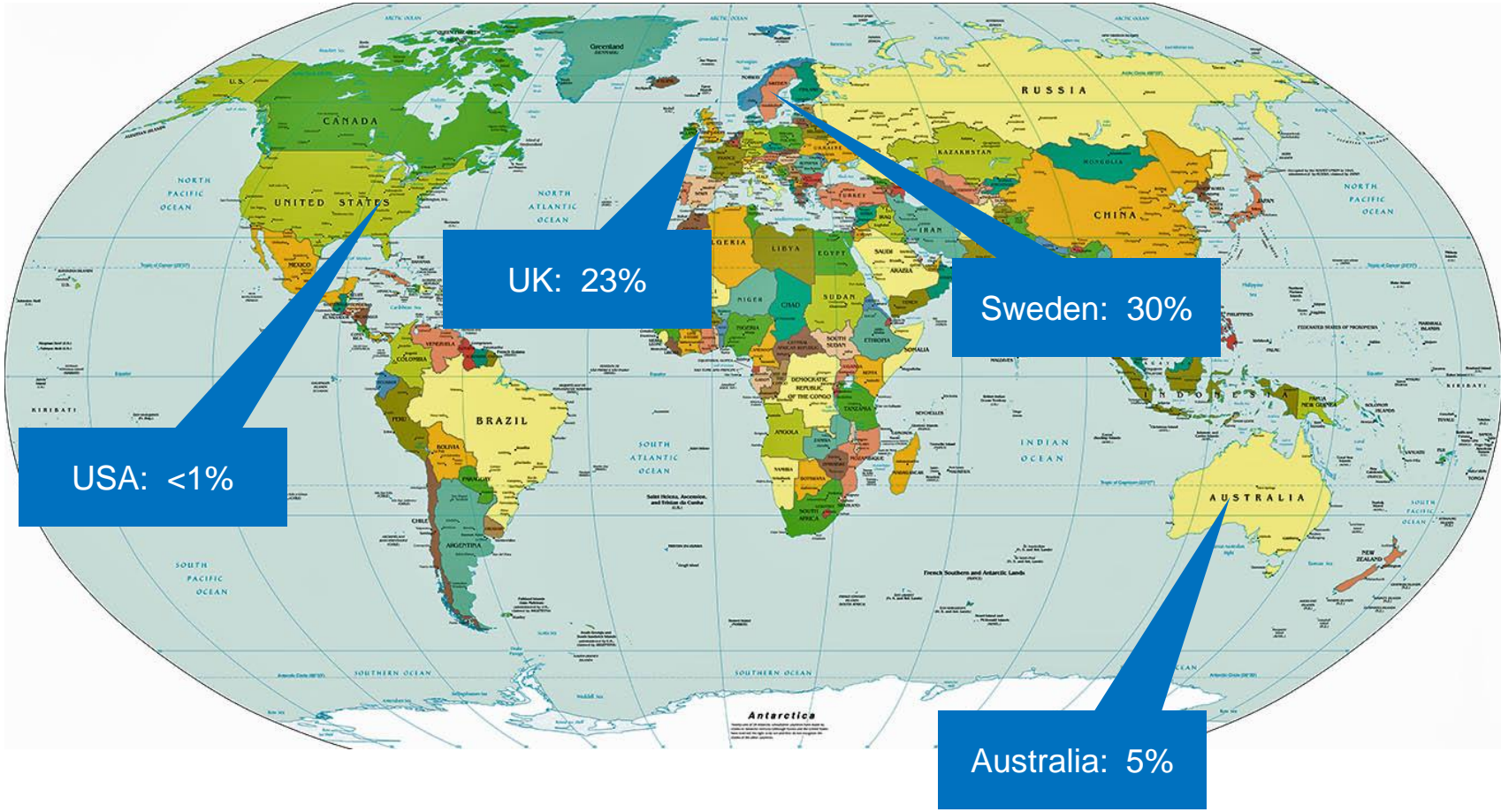
19.6MM



1.4MM

0.7%	% market penetration
0.9%	% market penetration, dogs and cats only

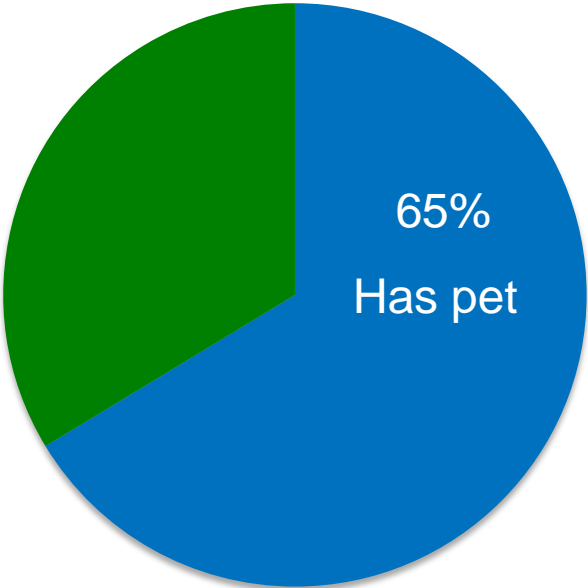
% of Pets Insured, by Country



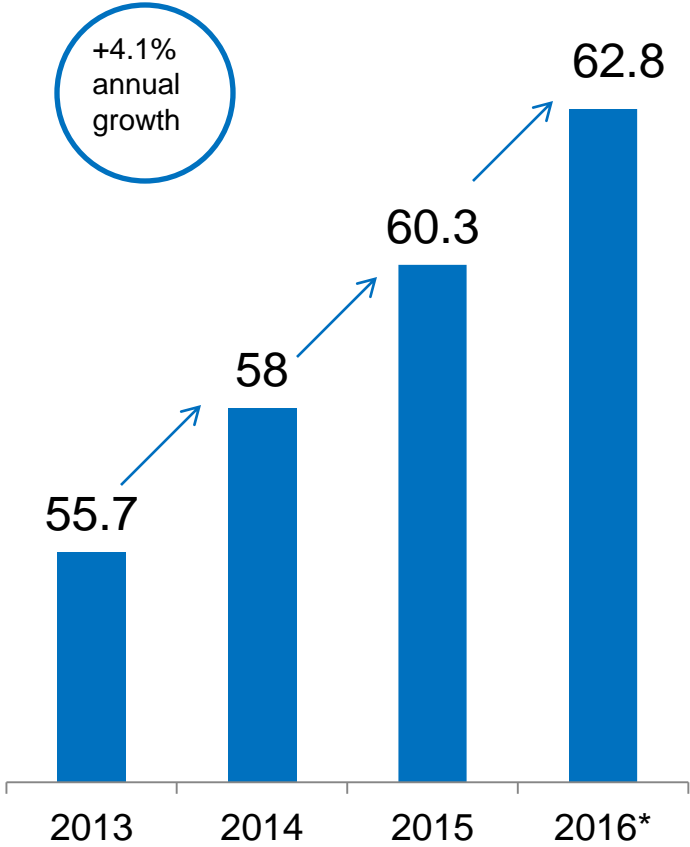
data from 2013; source: US Dept of Clinical Veterinary Science - Pet Food Institute

Pet ownership and spend continues to remain strong

U.S. Pet Ownership
% HH, 2015



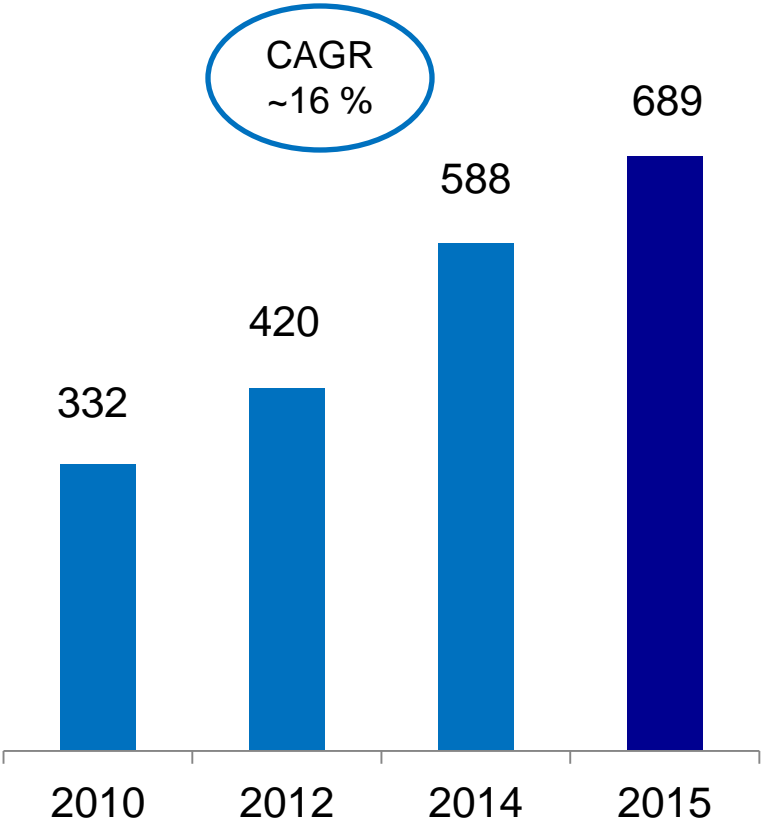
U.S. Pet Industry Expenditures
\$ B



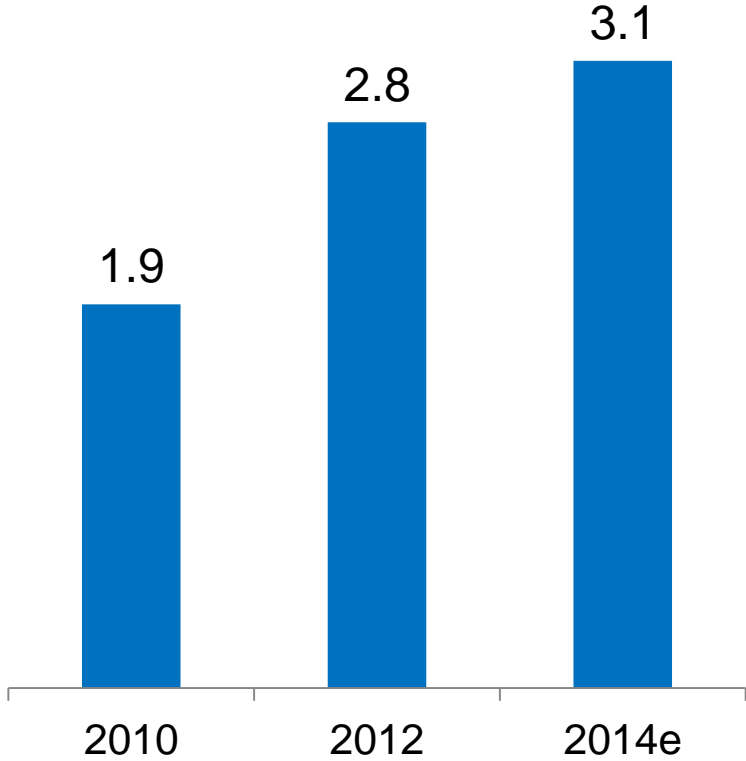
Source: APPA;
* Estimated.

Core insurance market growing; penetration remains low

US pet insurance market
\$ Millions, GWP

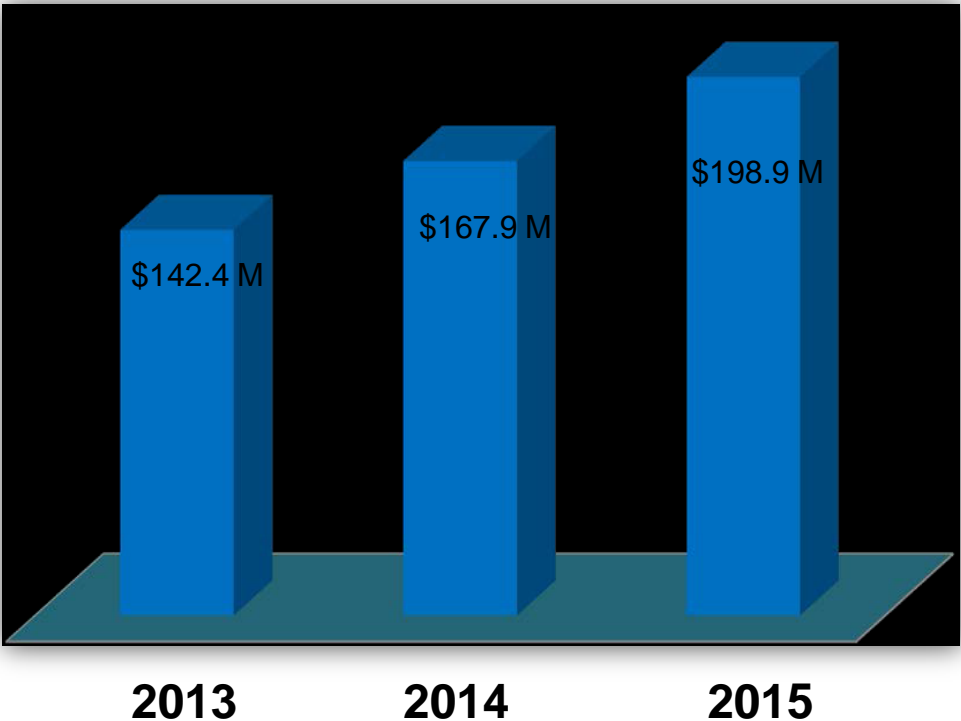


US ownership of pet insurance
%, US pet HH visiting veterinarian



Source: NP, Added Value A&U, AVMA, NAPHIA Report 2016

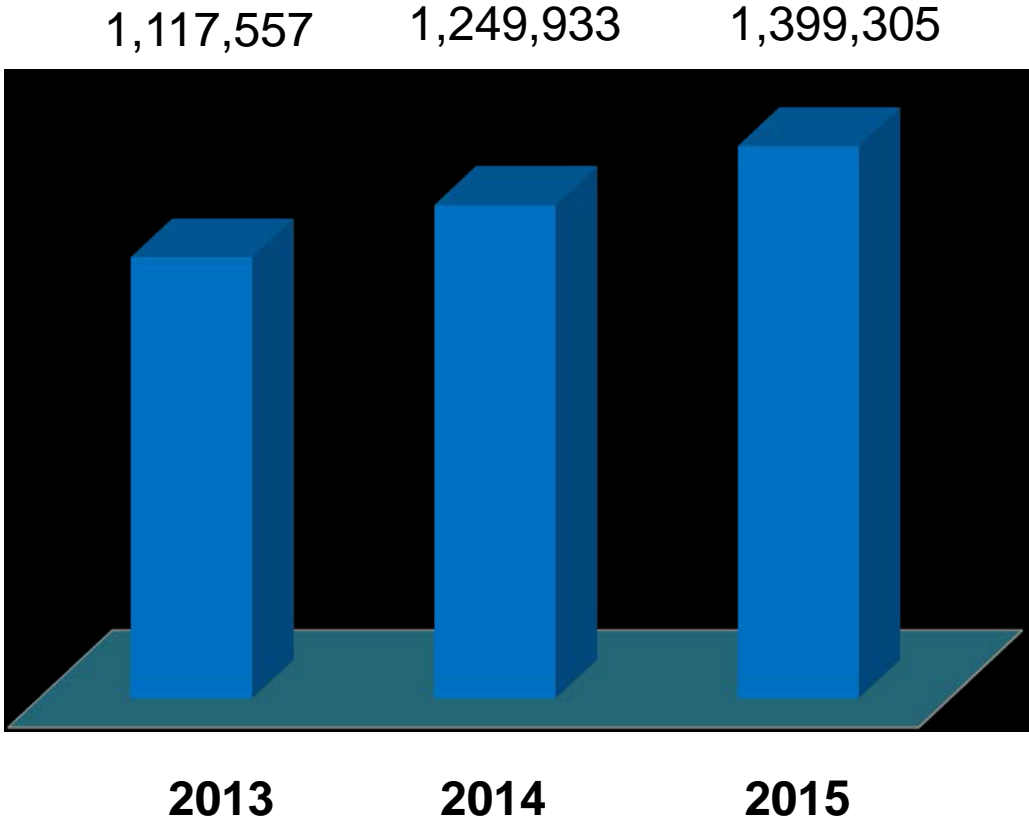
New Business: Gross Written Premium



*18.4% increase from 2014 to 2015
* 17.9% increase from 2013 to 2014

Source: NP, Added Value A&U, AVMA, NAPHIA Report 2016

Number of Insured Pets



Total Insured Pets % increase
•12.0% increase from 2014 to 2015
•11.8% increase from 2013 to 2014

Source: NP, Added Value A&U, AVMA, NAPHIA Report 2016

Cost of Pet Health Insurance



\$12 - \$35/month*



\$17 - \$64/month*

*Depends on various factors including coverage, age, species, breed, geography, et al

How does it work?

Reimbursement model – not human health care



**Pet
Insurer**

How does it work?

Two basic types of plans

Percent of Invoice

- Pays specific % of the veterinary invoice after deductible and exclusions

Benefits Schedule

- Pays up to maximum benefit level for treatment of diagnosis after deductible and exclusions

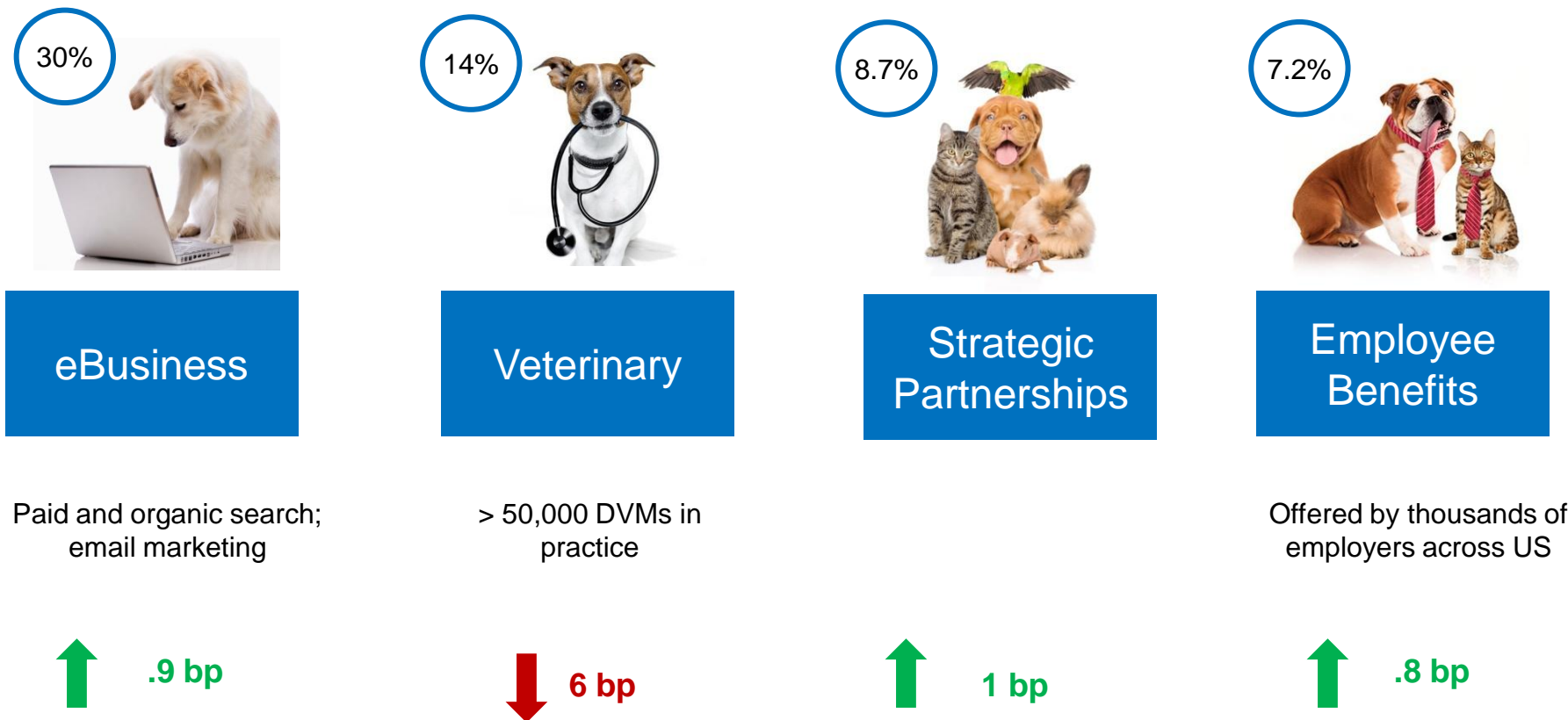
Pet Insurance Market - Ranking

- Nationwide (formerly VPI)
- Trupanion
- Pets Best
- Embrace
- Healthy Paws
- Pet Plan
- ASPCA Pet Health Insurance
- PetFirst
- Pet Premium
- AKC Pet Insurance
- 24 Pet Watch
- FIGO

Pet Insurance Industry - History

- 1924 – 1st dog insurance policy issued, Sweden
- 1947 – 1st pet health insurance policy issued, UK
- 1982 – 1st pet health insurance policy issued, USA (by VPI [now Nationwide])
 - VPI created by veterinarian, Dr. Jack Stevens
- 2003 – 1st pet health insurance company founded by an actuary (Laura Bennett)

Reach prospective customers through various distinct channels



Indicates % of 2015 new leads

Why Offer Pet Insurance as an Employee Benefit?

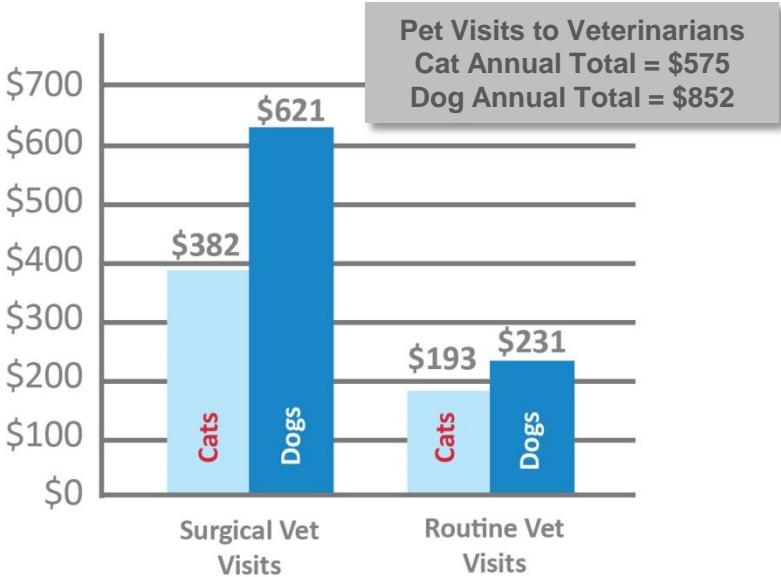
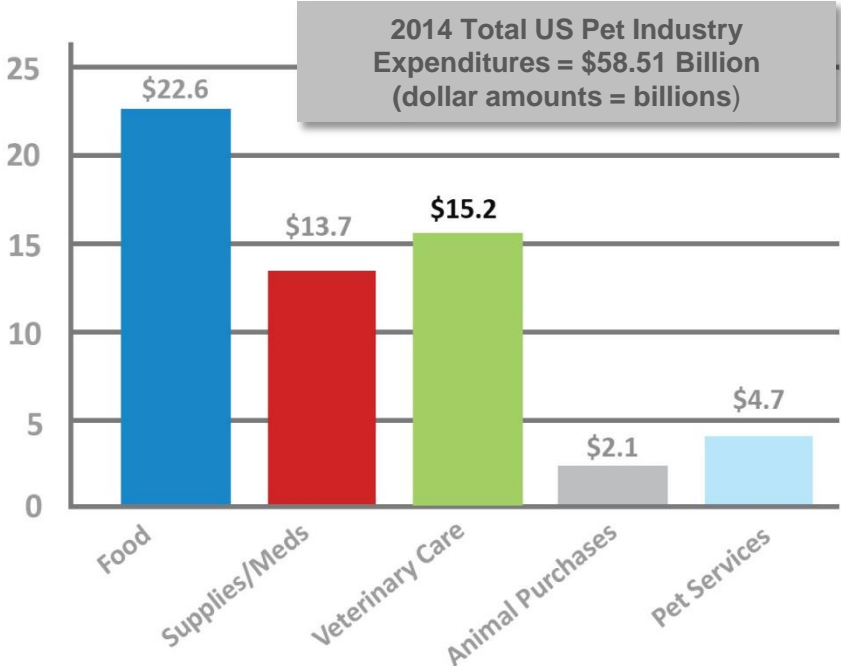
Pet Insurance is becoming one of the fastest growing employee benefits in the country. More and more employers are adding this to their benefit portfolio offerings.



*Source: The American Pet Products Association (APPA) 2014 National Pet Owners Survey

Pet Insurance Can Provide Financial Support for Increasing Pet Expenditures

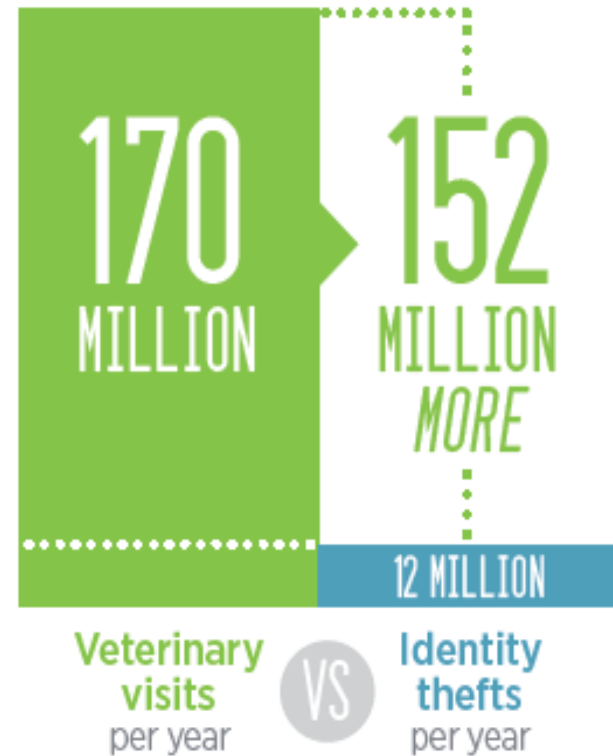
An estimated \$58.51 billion will be spent on pets in the U.S. with \$15.25 billion on Veterinary care. With the rising costs of veterinary care, more employees need help affording quality care for their pets. The increasingly sophisticated treatments available to animals, from ACL surgery to chemotherapy, have sent vet bills upwards, making pet insurance a smart investment.



*Source: The American Pet Products Association (APPA) 2014 Pet Industry Market Size & Ownership Statistics Report
 * Source: Statista – US basic annual expenses for dogs and cats 2014 report

It's frequently used

Pet insurance is one of the most practical and widely used voluntary benefits you can offer compared to other voluntary benefits like identity theft coverage.



Why Include Pet Insurance in Your Benefits Package?

Benefits to your Company

- **No cost to your company**
- **Automatic payroll deduction available**
- **Support for HR professionals**
- **Stability from backing by insurers**



Why Include Pet Insurance in Your Benefits Package?

Benefits to your Employees

- Comprehensive accident, illness and preventive care coverage
- Flexible plans accepted by all vets everywhere
- Benefits renew in full each year
- Affordable rates
- The policies and coverage are portable even if they leave the company
- They can sign up anytime for a policy
- Option to have premium deducted out of payroll (if approved by company)



Thank you!



Pet Health Insurance

Micro perspective

Laura Bennett FSA

Pet Insurance Product Profile

- Product types
- Covered and exclusions

Actuarial Approach

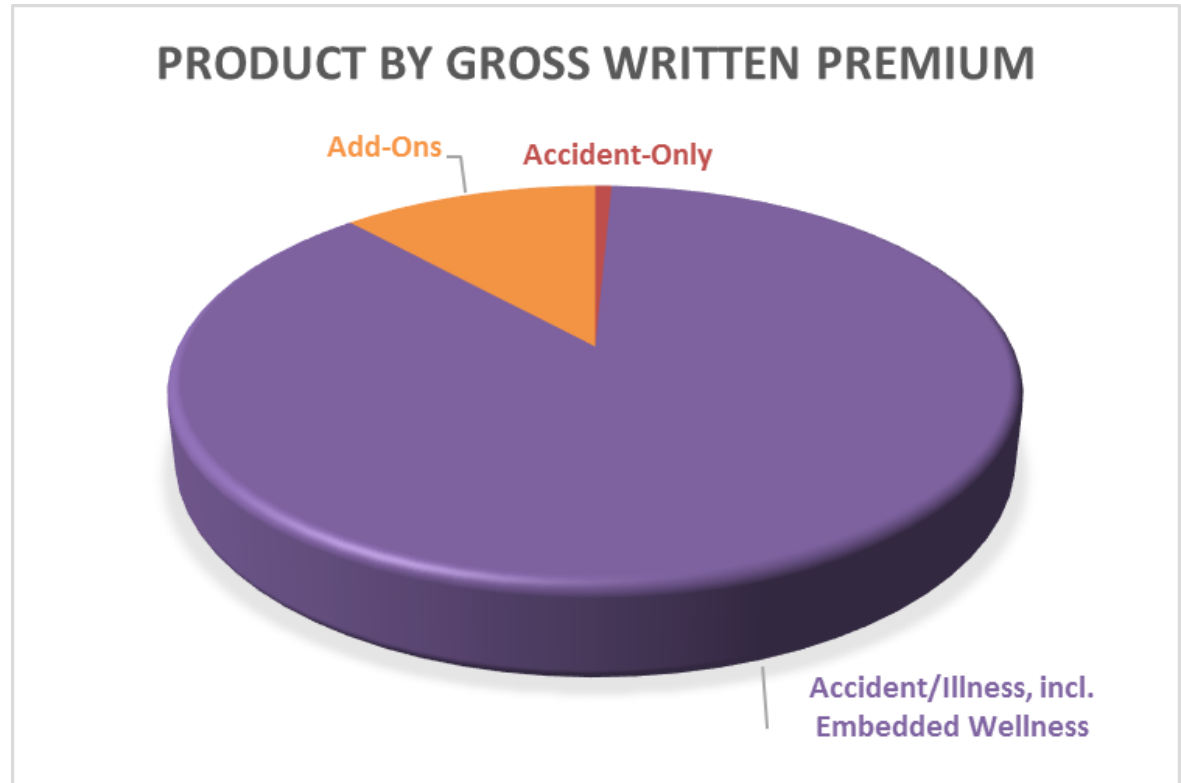
- Property/Casualty vs Life & Health

Pricing Considerations

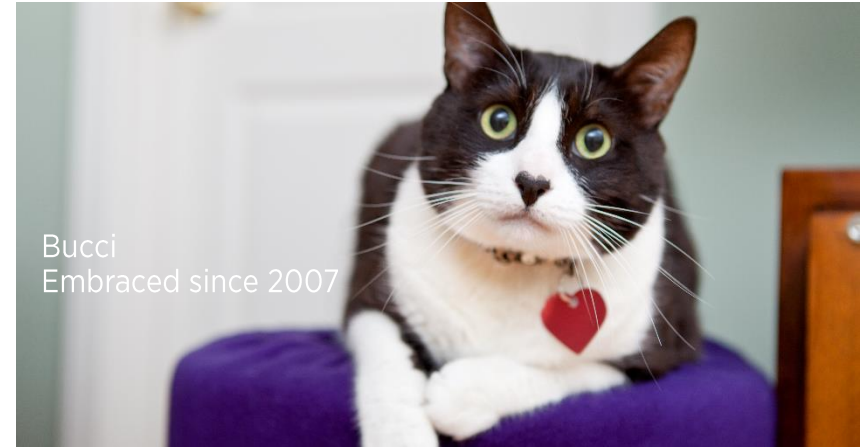
- Pricing risk factors
- Behavioral aspects
- Other interesting aspects

Product Types

- Accident/Illness dominates (87%)
- Minimal accident-only (1%)
- Add-ons (12%) include cancer and wellness coverage
- Not life insurance!



Accident & Illness - What is Covered



Typical Accident & Illness Coverage

- Primary care accidents & illnesses
- Hospitalization
- Surgery
- Prescription drugs
- Dental trauma
- ER and specialist care
- Diagnostic testing and imaging

What Can Vary By Provider

- Examination fee
- Breed-specific or hereditary conditions
- Chronic conditions
- Behavioral treatments
- Alternative therapies
- Dental illness
- Reimbursement method

Accident & Illness - What is Not Covered



Pre-existing Conditions

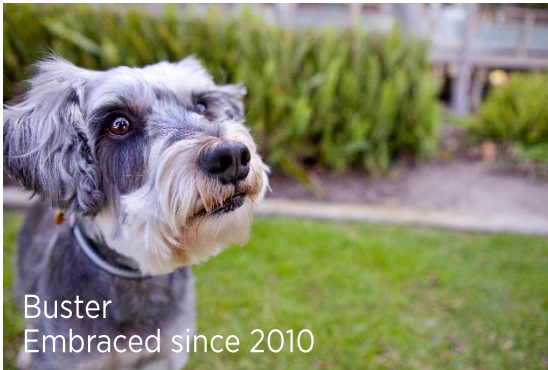
Those with symptoms prior to policy start or end of waiting periods

Breeding

Pregnancy, delivery, whelping

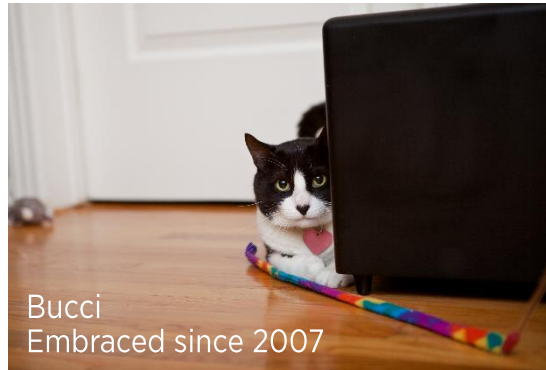
Cosmetic Surgery

Declawing, tail docking, ear cropping



Embedded Wellness

- Part of the insurance coverage
- Subject to policy parameters



Add-On Wellness Schedule

- Separate add-on
- Schedule of wellness coverage and payout



Add-On HSA-style Wellness

- Separate add-on
- Annual maximum with no sub-limits

Actuarial Considerations

Hybrid Product means Hybrid Approach

Life & Health

- Simple product design
- Table based

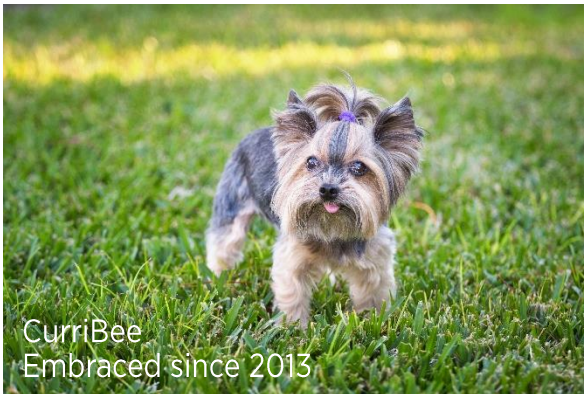
Property/Casualty

- Personalizable coverage
- Multiplicative risk-based models
- Generalized linear models
- Trend factors
- Rate-capping

“Human Health” + “Auto Insurance”

- Health inflation
- Dependence between coverage years
- Pet parent and pet behavior relevant

Pricing risk factors



Policy Parameters

- Maximums & deductibles
- Reimbursement percent
- Add-ons

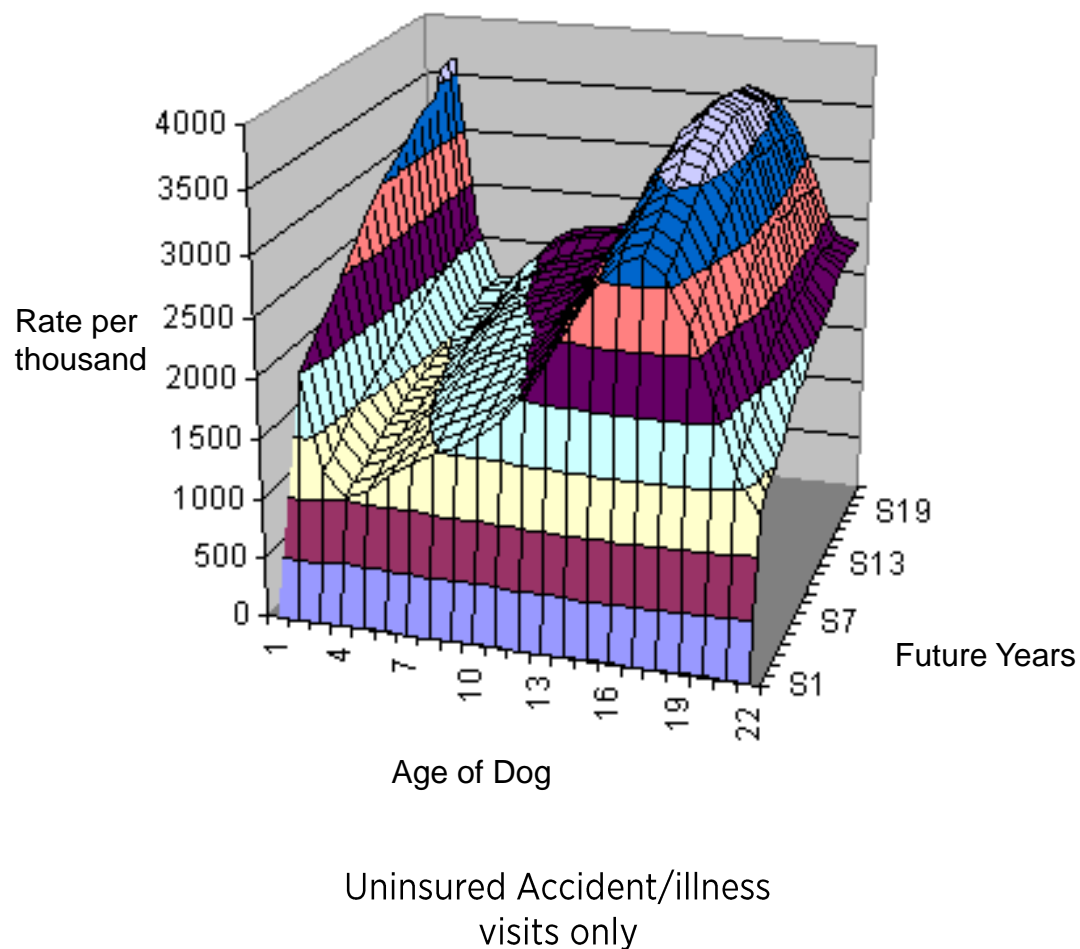
Pet Factors

- Species & breed
- Age & sex
- Spay/neuter
- Multiple pets

Pet Parent Factors

- Location
- Premium modality & frequency

Behavioral considerations



Source: Embrace Pet Insurance raw veterinary data 2003

Moral Hazard

People behave differently with insurance than without

Early Years Like Human

Young to middle age pets just like humans

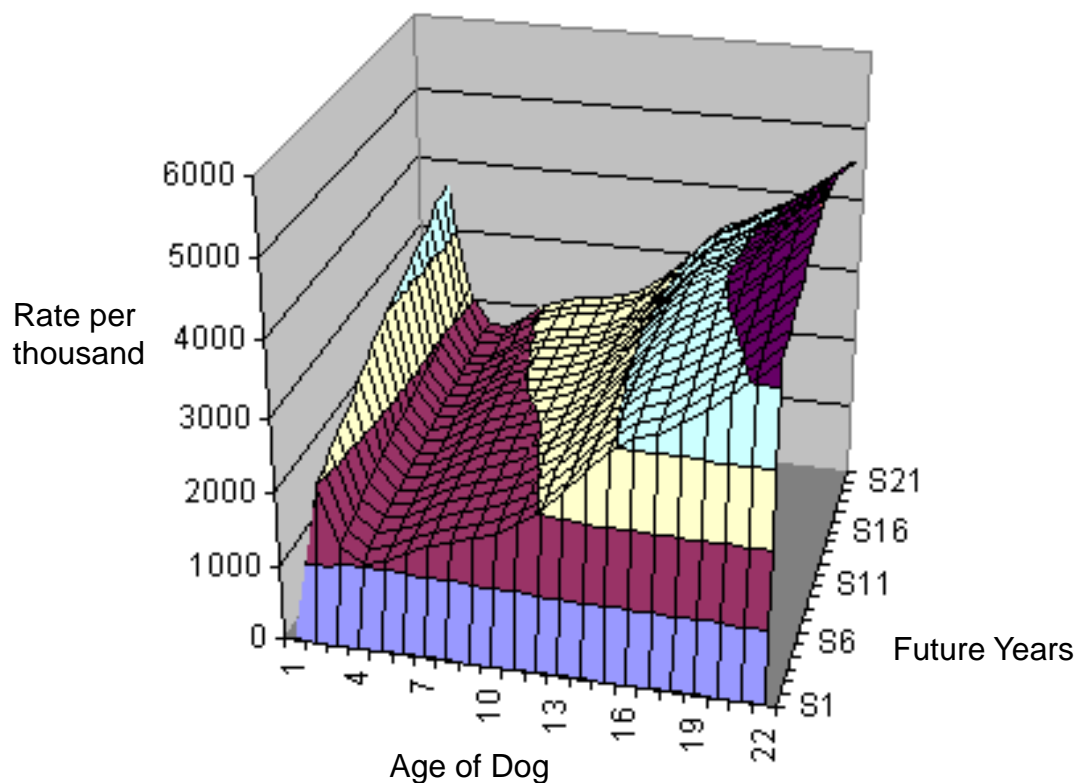
Older Years' Drop-Off

Key difference between pets and humans

Pets are not Human

Choice of care and euthanasia has big impact

Insured Population



Presumed Insured
Accident/illness visits

Source: Embrace Pet Insurance raw veterinary data 2003

Moral Hazard

Pet Parents spent 30-40% more per year with pet insurance than without

Later Years' Assumption

Assumed continuous increase in visits

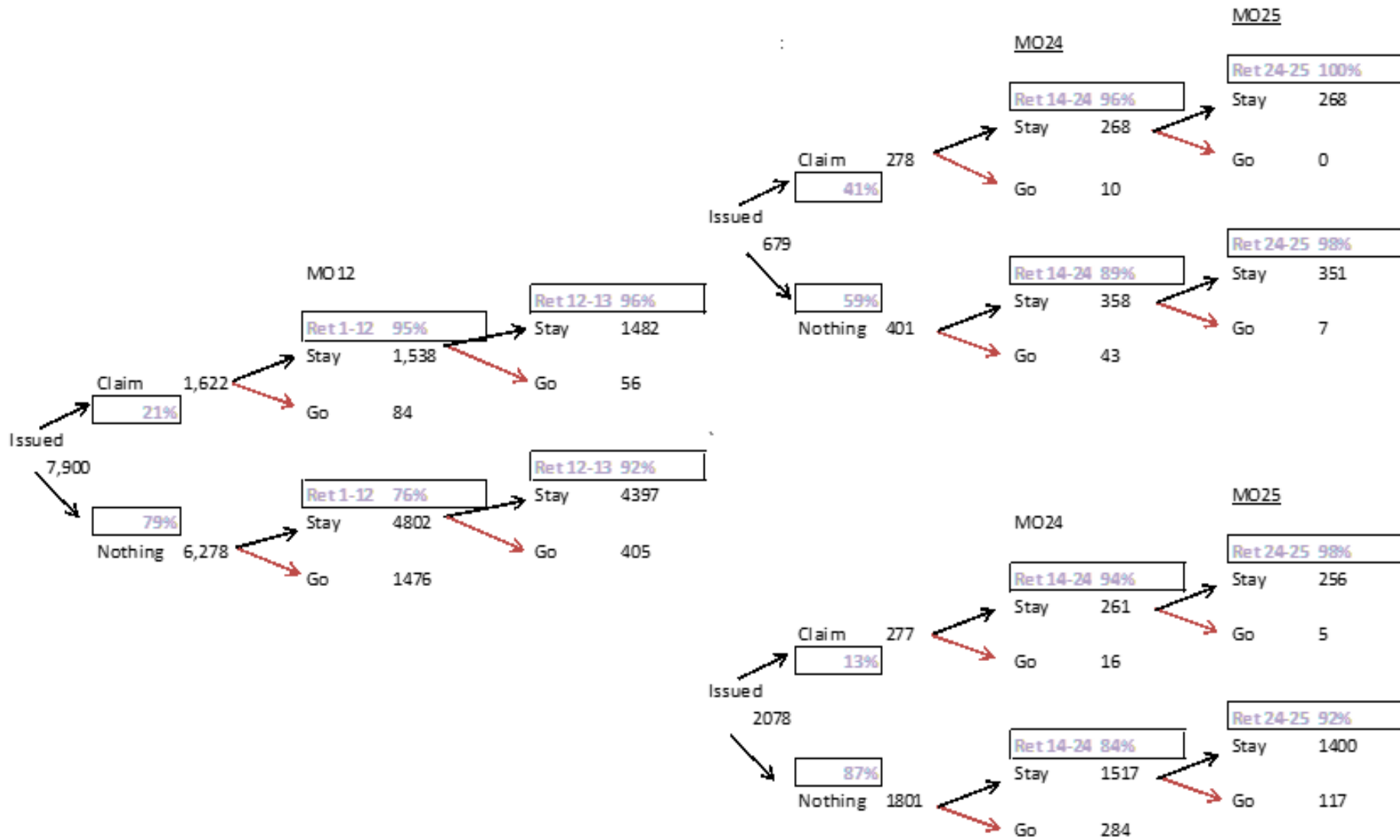
Actual Results Level Off

While max care could be given, sometimes it's not

Pets are Still not Human

"Doing the right thing" still has an impact

Retention Is Key



Thank you!

Laura Bennett FSA, CEO & Co-Founder

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