

“Paws” and Decide – Is Pet Insurance in Your Future?

EXPLORING THE MARKET AND REGULATION OF PET INSURANCE



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Is your company considering a role in pet insurance. As the pet insurance market continues to grow at a rapid pace, regulators are taking notice and the NAIC has now issued a Model Regulation on this insurance. Let's explore the market and the regulator response.

What are the Market Facts?

Pet insurance is becoming more common in the United States. Many Americans adopted or purchased pets for companionship during the pandemic. In fact, approximately one in five households acquired a cat or dog between the onset of the COVID-19 crisis and May 2021, according to the American Society for the Prevention of Cruelty to Animals. The total number of insured dogs and cats has been rising by double digits although it is still a small number, covering between 2.5% and 3% of all pets. By comparison, up to 20% of pets are insured in some European markets.

Sales of pet insurance are growing at a fast clip. According to the North American Pet Health Insurance Association (NAPHIA), industry in-force gross written premium has more than doubled since 2018:

- 2017 – \$1.030 Billion
- 2018 - \$1.254 Billion, a 21.7% increase over 2017
- 2019 - \$1.558 Billion, a 16.7% increase over 2018
- 2020 \$1.986 Billion, a 27.5% increase over 2019
- 2021 – \$2.591 Billion, a 30.4% increase over 2020 which equates to a \$700 Million increase in premium over 2020.

There are now 4.41 million pets insured across the United States and Canada. According to the Humane Society of the United States, there are over 128 million homes in the U.S. that own pets, and some own multiple pets. This means

only a small fraction of the total number of pets are presently insured.

What are the Product Challenges?

As more pet owners bought coverage, complaints followed. They include: 1) consumer dismay over rising premiums, 2) disputes about what constitutes a preexisting condition which many policies exclude from coverage, and 3) waiting periods from two weeks to 180 days before claims could be incurred. Consumers expect pet insurance to behave more like the health insurance they are used to buying.

Why is there a Model Law?

The booming trend of pet insurance drew the attention of regulators. Prior to introducing an NAIC Model Pet Insurance Law in April 2022, the product had varying regulation and oversight.

Consumer confusion is the driver behind the new model law. The model will help people understand better what they are buying. Here are the highlights of what the Model Law does:

- Grants buyers the right to a refund within 15 days of purchase if they have not filed a claim;
- Allows insurers to exclude coverage of preexisting conditions, while placing the onus on the insurer to prove the condition was, in fact, preexisting;
- Prohibits waiting periods on coverage for accidents;
- Allows, in new policies, waiting periods of up to 30 days for illnesses or orthopedic conditions not resulting from an accident, and requires a provision to waive the waiting period if the pet is examined by a veterinarian;
- Prohibits a requirement that the pet be examined by a veterinarian before policy renewal;
- Prohibits requiring that the buyer participate in a wellness program, which is not insurance, before being allowed to purchase insurance;
- Prohibits the marketing and sale of wellness programs during the sale, solicitation or negotiation of insurance; and
- Requires producers to be appropriately licensed and trained.

Coverages that are available include:

- Accident only
- Accident and Sickness

Wellness plans are available but cannot be sold at the same time as pet insurance as they are not considered insurance.

It's important to note that this Model is not law, but rather states will decide to enact this Model or their own version.

What States have Pet Insurance Laws?

There are only two states in the country that have pet insurance laws – California and Maine.

California was the first state to adopt comprehensive legislation which took effect in 2015. California law focuses on clear disclosures to consumers. Some say the NAIC Model Law is patterned after the California law.

Maine became the second state to regulate pet insurance. The law becomes effective January 1, 2023 and follows the NAIC Model Law version before it was finalized. It contains more training requirements than the final NAIC Model Law.

Senator Heather Sanborn of Maine said a new law is necessary because “The paradigm under which pet insurance is regulated does not match consumers’ expectations about what coverage they will receive.”

Producer Training

Producer training requirements are being left to the states. Many health insurance brokers would like to be able to obtain an endorsement to their license that would enable them to sell pet insurance—so they could sell health insurance for the entire “family.” Allowing that may be possible even though pet insurance technically is regulated as property and casualty insurance, not health insurance.

Whether and how veterinarians may be involved in advocating particular insurance products is not addressed in the Model, but it is being considered separately by an NAIC working group that is reviewing licensing standards for people who sell pet insurance.

The Future

“Paws” and decide—does Pet Insurance have a future in your portfolio? The booming pet insurance market may be poised to help you achieve your marketing and sales goals, but it's important that we also understand that state regulators will continue to implement regulations to govern this coverage.

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