

LICENSING & REPORTING IN THE U.S. PET INSURANCE MARKET

JILL M. BISCO, PH.D. | STEPHEN G. FIER, PH.D.

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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 Premiums written for pet insurance have more than doubled for the period from 2013–2018. Most states in the U.S. and Washington, DC currently require that producers hold a property and/or casualty insurance license for the purpose of selling pet insurance. Pet health insurance consists of unique features and coverages that are not addressed through the property and/or casualty licensing process.

FINDINGS Pet ownership has become increasingly widespread in the U.S., with a recent survey finding that 67% of all U.S. households have at least one pet. While pet ownership continues to rise in the U.S., pet owners are faced with potentially significant medical costs to care for their pets. To reduce the financial strain associated with these medical expenses, owners have the option to purchase pet insurance, which covers medical costs associated with illness and accidents (with some covering wellness and preventative care as well). Although the market for pet insurance has experienced dramatic growth, only 2% of households with pets had pet insurance in 2017, which suggests that significant opportunity exists in this ever-evolving market.

The current nature of licensing for those selling pet insurance results in a situation in which agents may be unable to properly advise and educate consumers, which can adversely affect both insurance purchasers and the insurers offering this coverage.

Although pet insurance is currently included as one component of inland marine, there is reason to believe that it should be reported separately. An examination of U.S. property and casualty premiums written in 2018 (excluding accident and health) suggests that seven reported lines of business—burglary and theft, commercial auto no-fault, excess workers' compensation, fidelity, financial guaranty, private crop, and private flood—had premiums written that were lower than the \$1.3 billion in premiums written for pet insurance coverage.

CONCLUSION & RELEVANCE We recommend that limited lines licensing replace the current property or casualty license requirement as this would serve to better educate producers, protect consumers, and may expand the availability of pet insurance. States could require a licensing exam testing coverage specific to pet insurance and the insurance laws of the specific state. This would ensure that those offering pet insurance have training that is more directly related to the product that is being offered.

We also propose modifications in the reporting requirements for pet insurance. In particular, we recommend more robust reporting of pet insurance premiums through either the addition of a separate line item for pet insurance on insurers' financial statements or the creation of a new coverage supplement to the annual statements.

¹ American Pet Products Association, 2019. "Pet Industry Market Size & Ownership Statistics," accessed online at https://www.americanpetproducts.org/press_industrytrends.asp.

² Jenks, S., 2017. "Pet Insurance is the Latest Work Perk," The New York Times, accessed online at <https://www.nytimes.com/2017/06/07/well/family/pet-insurance-is-the-latest-work-perk.html>.

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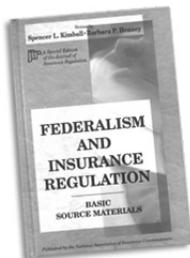
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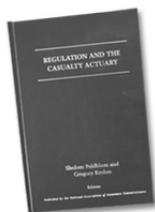
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Licensing and Reporting in the U.S. Pet Insurance Market

Jill M. Bisco, Ph.D.*
Stephen G. Fier, Ph.D.**

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 consumers, the insurance market, and other stakeholders. In this study, we discuss the pet insurance market and offer recommendations regarding both state insurance licensing requirements and reporting requirements that we believe will better serve consumers and improve market transparency. In particular, we advocate for the use of limited lines licensing for pet insurance, which we believe will enhance producer and consumer knowledge and increase the availability of coverage, which ultimately benefits the industry and consumers. Furthermore, we recommend more detailed reporting requirements as they relate to the pet insurance line of business to allow for a better understanding of both the market and the market's participants.

* Assistant Professor of Finance, University of Akron; jbisco@uakron.edu.

** Associate Professor of Finance, University of Mississippi; sfier@bus.olemiss.edu.

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).¹ 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 \$30,000,² representing a potentially devastating financial loss for pet owners (Healthy Paws Pet Insurance, 2018).³ 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 the 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 potentially substantial pet medical care costs is pet insurance, which is simply a form of health insurance for pets.⁴ 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 2013–2018.⁵ Although the market for pet insurance in the U.S. has experienced dramatic growth, only 2%

1. The American Pet Products Association (APPA) classifies 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 the health and well-being of their own pets, emotions often appeared to drive their decisions, with monetary 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.

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.

The pet insurance market in the U.S. continues to grow, but as it does so, regulatory concerns surrounding producer licensing have arisen (NAIC, 2017). As it currently stands, most states in the U.S. and the Washington, DC require that insurance producers hold a property and/or casualty insurance license for the purpose of selling pet insurance. While many states have settled on the use of property and/or casualty licenses for pet insurance producers, we question whether these licenses are most appropriate for pet insurance. Pet health insurance consists of unique features and coverages that are not addressed through the property and/or casualty licensing process. The current nature of licensing for those selling pet insurance results in a situation in which agents may be unable to properly advise and educate consumers, which can adversely affect both insurance purchasers and the insurers offering this coverage.⁶ To address this issue, we argue that the use of limited lines licensing to replace the current property or casualty license requirement would both further serve to protect and educate consumers, as well as improve the current availability of pet insurance. Furthermore, with the increased prevalence of pet insurance in the U.S., we recommend more robust reporting of pet insurance premiums through either the addition of a separate line item for pet insurance on insurers' financial statements or the creation of a new coverage supplement to the annual statements. This enhanced disclosure would allow for a better understanding of the state of the pet insurance market and the firms participating within this market.⁷

This study is organized as follows. First, we provide an overview of the history of pet insurance, the common features found in pet insurance policies, and the current state of the market in the U.S. Next, we discuss the challenges associated with licensing as it pertains to the pet insurance market and propose a solution, which we contend addresses many of the shortcomings that currently exist. Following our argument in favor of what we believe to be a more reasonable approach to pet insurance licensing, we then discuss the need for greater transparency and financial reporting in the U.S. pet insurance market and offer a conclusion.

6. As of 2019, California is the only state that currently has laws related to pet insurance and the use of "clear language" in the policies (Lau, 2019). The general absence of these types of laws can create further confusion among consumers and a lack of understanding of the coverages afforded by these policies.

7. Note that the purpose of this study is neither to advocate for nor against the purchase of pet insurance. Rather, our intent is simply to examine two important aspects of insurance regulation that we contend warrant additional consideration as the pet insurance market continues to grow. The decision to purchase coverage is often based on a variety of factors, including the cost of insurance, the breadth of coverage, the type of pet, the financial position of the consumer, etc. A general recommendation regarding the purchasing decision is both beyond the scope of this article and highly dependent on the aforementioned factors.

History and Status of Pet Insurance

Pet insurance has a rich history that spans over 125 years, back to when the first pet insurance policy was issued for horses and livestock in 1890 (NAPHIA, 2019a).⁸ Over 30 years after the issuance of the first pet insurance policy, a policy was issued for a dog in Sweden, which was then followed by similar coverage in Britain in 1947. In 1982, the first pet insurance policy was underwritten in the U.S. for the dog appearing on the TV show “Lassie.” Since the policy issued for Lassie, the popularity of pets and pet health insurance has grown significantly in the U.S. The percentage of U.S. households with pets is estimated to be somewhere between 50% and 68% (Brulliard and Clement, 2019), and the pet health insurance market now boasts premiums written in excess of \$1.4 billion (NAPHIA, 2019b).⁹

While the coverage that is afforded by pet insurance varies by insurer, the North American Pet Health Insurance Association (NAPHIA) reports that in 2018, “98 percent of insured pets were covered either through accident and illness insurance or an Insurance with Embedded Wellness plan” (NAPHIA, 2019b). Accident coverage may cover costs associated with events such as a pet being struck by a vehicle, broken bones, and snake bites while illness coverage may include arthritis, cancer and allergies (Walker, 2016; PetInsuranceQuotes.com, 2019). Covered expenses associated with accidents and/or illness can include the cost for x-rays, surgery, medication and hospitalization (PetInsuranceQuotes.com, 2019). Wellness and preventative plans also exist and may cover expenses associated with annual exams, various tests (heartworm, blood, etc.), teeth cleanings, and vaccinations (Jones, 2019). Finally, some insurers also offer accident-only policies, which are significantly less expensive than accident and illness policies. The NAIC reports that accident-only policies can cost 60% less than policies that cover both accident and illness (NAIC, 2019a).

A variety of policy provisions and features are commonly found in pet insurance, including deductibles (per incident or annual), copayments, waiting periods, limits (per incident and/or policy aggregate), and exclusions for pre-existing and “breed-specific” conditions (Walker, 2016; NAIC, 2019a).¹⁰ The policies are generally one-year policies and rates are based on factors such as the type of pet (cats tend to be less expensive than dogs); the breed, age and health of the pet; the cost of veterinary care where the insured lives; the deductible; policy limits; and coinsurance (Carns, 2019; Insurance Information Institute, 2019; NAIC,

8. The discussion of the history of pet insurance is based on information obtained from NAPHIA, which can be accessed at <https://naphia.org/industry/history/>.

9. As discussed by Brulliard and Clement (2019), estimates for the percentage of U.S. households with pets vary dramatically across different surveys. The statistics that we include are based on the sources referenced, which vary, but it appears reasonable to assume that the number of households with pets is somewhere between 50% and 70%.

10. For example, in 2011 the Veterinary Pet Insurance Company excluded spinal muscular atrophy for Rottweilers and bloodhounds and histiocytic ulcerative colitis for French bulldogs (Veterinary Pet Insurance Company, 2011).

2019a). While there may be some similarities in terminology when comparing pet insurance to the health insurance individuals purchase, one significant way in which they commonly differ is the method of reimbursement. In particular, while health insurance policies generally pay the medical care provider directly for medical services, many pet insurance policies require the insured to pay the medical care provider—i.e., veterinarian—and then request reimbursement from the insurer (Juliff, 2014). This difference is important, as it requires a pet’s owner to initially bear the financial burden of potentially large medical expenses for their pet, which could cause substantial financial strain on the insured.

The market for pet insurance has been steadily increasing since its arrival in the U.S., which is driven in-part by the increased prevalence of pets in U.S. homes, as well as the increasing costs associated with veterinary services.¹¹ According to Zurich (2019), other reasons for the increasing demand for pet insurance beyond the increasing costs of veterinary care include: 1) “an increase in the family-like status of pets in households”; and 2) the increased use of pet insurance as an employee benefit (discussed below). One way to capture the growth of this market is through an examination of gross premiums written, which are presented in Figure 1. As illustrated in Figure 1, during the period from 2013–2018, there has been a steady increase in premiums written, from a low of almost \$500 million in 2013 to a high of \$1.3 billion in 2018, suggesting that premiums have more than doubled over this 6-year period.¹² Consistent with the growth in premiums, as evidenced by Figure 2, there has also been an increase in the number of pets that are insured by pet insurance, with a total of 1.42 million pets insured in 2018. Both Figures 1 and 2 suggest that not only is the market growing, but opportunities for further growth exist.¹³

While the market for pet insurance continues to grow, in 2017 it was estimated that only 1–2% of dogs and cats were insured in the U.S. (Jenks, 2017).¹⁴ Taken together with the previously discussed figures, it seems that while there is plenty of opportunity for growth in the market, consumers remain hesitant to purchase this coverage. Commonly cited reasons for the relatively low take-up rate include high premiums, questions regarding whether such coverage is necessary, and a lack of awareness regarding the coverage.¹⁵ While there is often speculation as to why consumers choose to purchase (or not purchase) pet insurance, there is limited

11. The 2019–2020 APPA survey reports that 67% of U.S. households own a pet, which represents an increase of nearly 20% since 1988 when the survey was first administered (American Pet Products Association, 2019).

12. Values reported in both Figures 1 and 2 are obtained from the NAPHIA annual State of the Industry reports.

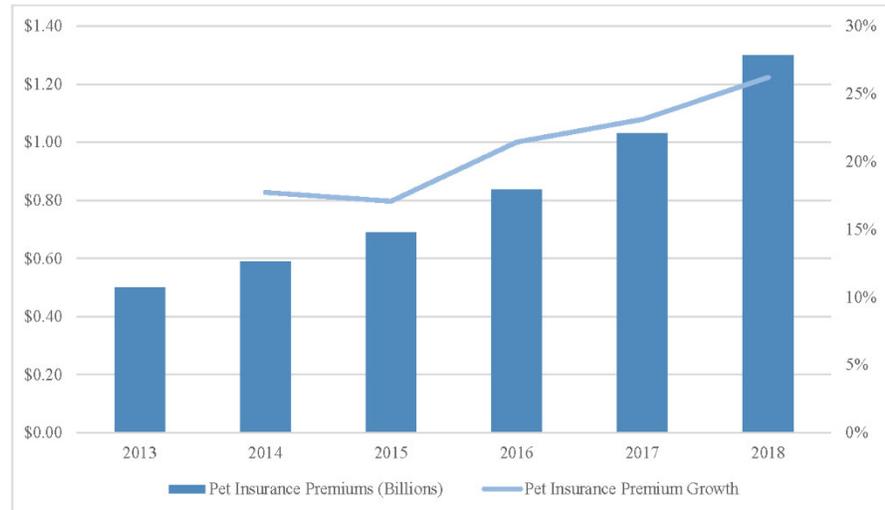
13. While some data are available, which allows us to track premium growth rates, little data is available regarding the number of insurers participating in the pet insurance market. However, a recent report estimates that the market consisted of at least 11 insurers as of 2017 (Jenks, 2017).

14. While the take-up rate is relatively low in the U.S., the NAIC recently reported that approximately 25% of pet owners in the United Kingdom (UK) had pet insurance (NAIC, 2019a).

15. A survey by Lendedu.com found that 44% of respondents did not know that pet insurance coverage existed (Today’s Veterinary Business, 2019).

academic research into the factors that may 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.¹⁶ 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



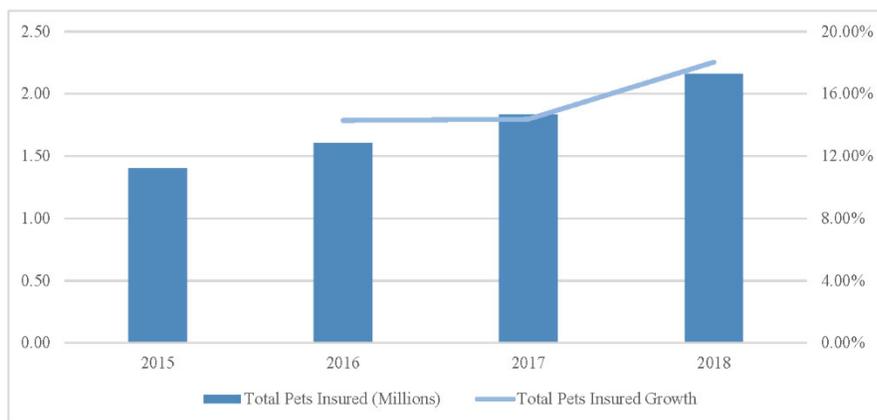
Source: Data for the creation of Figure 1 are obtained from the North American Pet Health Insurance Association's (NAPHIA's) annual State of the Industry reports. Values reported on the primary (left-hand side) vertical axis represent total pet insurance premiums written in billions. Values on the secondary (right-hand side) vertical axis represent the percentage change in the pet insurance premiums written from year $t-1$ to year t .

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 of the 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 NAPHIA 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 $t-1$ to year t .

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 then we’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.”¹⁸ Taken together, the results suggest that various aspects associated with cost and product knowledge are significant factors that influence pet insurance demand.

Although there are clearly financial and non-financial impediments to growth in the pet insurance market, the fact remains that the market has continued to grow over the past six years. Given the continued growth of this market, it is important to understand how exactly the product is marketed to consumers. While differences will clearly exist across insurers, the product is commonly marketed through animal shelters, pet stores, veterinary clinics, and word of mouth (NAIC, 2019a). Since those selling pet insurance are currently required to carry an insurance license for property, casualty or both, these entities are likely unable to sell the policies, and sales are limited to licensed representatives of the insurer. For instance, a veterinary clinic may have brochures for one or more pet insurers, but it is unable to sell the product because it has no licensed producers. In this case, those desiring pet insurance would need to find a producer or contact the insurer directly, potentially online.

One of the more unique ways in which the product is sold is through offering pet insurance as a form of employee benefit. Employers in tight competition for employees are able to offer the coverage to employees as a way to differentiate themselves. While once uncommon (Hoyman and Duer, 2004), it was reported in 2016 that at least 5,000 companies in the U.S. were offering such a benefit, including well-known firms such as Microsoft, Hewlett-Packard and T-Mobile (Fisher, 2016).¹⁹ The Society for Human Resource Management (SHRM) states that 15% of U.S. employers now offer pet insurance as a benefit. In 2019, it was noted that pet insurance is “one of the fastest-growing areas of coverage out there” (Dickler, 2019; Schiavo, 2019).

One could argue that the appropriate way to market and sell pet insurance is to mirror that used in the individual health insurance market. Individuals and families have historically obtained their health insurance through an employer as a benefit by purchasing it from an insurance agent that maintains a health insurance sales license, or through Medicaid (Kaiser Family Foundation, 2018; LaVito, 2018). More recently, with the implementation of the federal Affordable Care Act (ACA), individual and family health insurance policies can also be purchased through the Health Insurance Marketplace. The distribution channels to purchase or obtain pet insurance are similar to these options for individual and family health insurance. We do not argue a change in the methods used as part of the distribution channel for pet insurance; however, we believe that a change in the licensing for those that sell pet insurance and the financial reporting for this market would allow for an expansion in the sale of pet insurance.

18. The stated percentages represent weighted averages calculated by the authors based on values reported in the study.

19. As evidence of the growing importance of pet insurance as an employee benefit, MetLife acquired PetFirst Healthcare in 2019, which will allow MetLife to “add the policies to its menu for employers’ group-benefits programs” (Scism, 2019).

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 requirements are determined at the state level, most states have required that producers possess a property and/or casualty license for the purpose of selling pet health insurance products. If the purpose of requiring insurance producers to hold licenses is to ensure some minimal understanding of the products that are being offered and to ultimately protect the consumer,²⁰ then requiring a license, which does not touch on topics that are relevant to the sale of pet insurance, such as coinsurance for health products or the typical features found in health insurance policies, seems inconsistent with the goal of consumer protection. Furthermore, it is argued that the current approach to licensing for pet insurance reduces the availability of coverage and removes key moments for purchasing, such as when purchasing the pet or seeking veterinary services. As discussed below, we argue that the requirement of a limited lines license would both further serve to protect and educate consumers and improve the current market in a number of ways. Second, as it currently stands, insurers offering pet insurance are not required to disclose information concerning pet insurance in a manner that can be used to more fully ascertain the state of the market. Rather, insurers are currently required to record pet insurance data as a component of inland marine, resulting in situations in which data for pet insurance is combined with data for other coverages such as jewelry, fine art, property in transit, event cancellation, and travel coverage (NAIC, 2019d). Given the expectation that premiums written in the U.S. could climb to \$2 billion in 2022 (Smith, 2018), we believe that a separate line-item for pet insurance should be introduced into the annual statement or that the completion of a new coverage supplement be required. In the next sections, we discuss licensing in the pet insurance market, as well as reporting requirements for this unique line of business.

Pet Insurance and Licensing

Insurance is regulated at the state-level in the U.S., and each state regulates the licensing categories for insurance producers in that state. While each state has discretion regarding the categorization of insurance licenses, the most common categories (NAIC, 2005) are as follows:

1. Accident and health or sickness – Insurance coverage for sickness, bodily injury or accidental death, and may include benefits for disability income.

20. The NAIC (2019c) states, “State insurance departments oversee producer activities as part of a comprehensive regulatory framework designed to protect insurance consumer interests in insurance transactions.”

2. Casualty – Insurance coverage against legal liability, including that for death, injury or disability, or damage to real or personal property.
3. Life – Insurance coverage on human lives, including benefits of endowment and annuities, and may include benefits in the event of death or dismemberment by accident and benefits for disability income.
4. Other – Any other line of insurance permitted under state laws or regulations; i.e., limited lines.
5. Personal lines – Property and casualty insurance coverage sold to individuals and families for primarily noncommercial purposes.
6. Property – Insurance coverage for the direct or consequential loss or damage to property of every kind.
7. Variable life and variable annuity products – Insurance coverage provided under variable life insurance contracts and variable annuities.

There does not appear to be any question as to whether a producer selling pet insurance should be licensed, but questions do arise regarding the *type* of license that should be held by the insurance professional. In Table 1, we present state-by-state licensing requirements for producers selling pet insurance.²¹ As evidenced by Table 1, the states generally require producers to hold a property license, a casualty license, or both. The problem that arises when most producers are required to hold property or casualty insurance licenses stems from the fact that pet insurance is a form of health insurance. If insurance professionals are charged with educating potential consumers regarding health-related topics but are licensed and trained to understand and sell products related to issues such as property damage and legal liability, one must question whether they are in fact well-positioned to assist consumers. As discussed previously, a true understanding of pet insurance requires a sales professional to understand potentially complex topics, such as coinsurance (as it relates to health and not property), waiting periods, pre-existing conditions, exclusions, deductibles, and benefits. While these concepts should be familiar to any insurance professional, the way they apply to a pet health insurance policy may be vastly different than what a property or casualty producer is familiar with. This is of particular importance given that consumers often do not understand common conditions, such as coinsurance, in their health insurance policies. For instance, Loewenstein et al. (2013) find that only 34% of survey respondents understood the concept of coinsurance, while only 14% of respondents could correctly answer four questions related to health insurance deductibles, copays, coinsurance, and out-of-pocket maximums. Even more worrisome is the fact that while consumers could not correctly answer questions about the various provisions affecting the costs associated with health insurance, most respondents believed that they understood the aforementioned concepts; therefore, greater education regarding these provisions is necessary. If consumers lack knowledge regarding these provisions in

21. The information contained in Table 1 was obtained through correspondence with each state's insurance regulatory agency.

their own health insurance policies, presumably this lack of knowledge also carries over to their understanding of pet insurance.

**Table 1:
Pet Insurance Licensing Requirements by State**

State	Limited Line	Required License(s)	State	Limited Line	Required License(s)
Alabama	No	P, C	Montana	No	P
Alaska	No	P	Nebraska	No	P
Arizona	No	P	Nevada	No	C
Arkansas	No	C	New Hampshire	No	P
California	No	P, C	New Jersey	Yes	LL
Colorado	No	P	New Mexico	No	P
Connecticut	No	P, C	New York	No	P, C
Delaware	Yes	LL	North Carolina	No	P
District of Columbia	No	P, C	North Dakota	No	P
Florida	No	P, C	Ohio	No	L, H, P
Georgia	No	P	Oklahoma	No	P
Hawaii	No	C	Oregon	No	P
Idaho	Yes	LL	Pennsylvania	No	P
Illinois	No	C	Rhode Island	Yes	LL
Indiana	No	P, C	South Carolina	No	C
Iowa	No	P	South Dakota	No	C
Kansas	No	C	Tennessee	No	C
Kentucky	No	P, C	Texas	No	P, C
Louisiana	No	P	Utah	No	P, C
Maine	No	P	Vermont	No	P, C
Maryland	No	P	Virginia	Yes	LL, P, C
Massachusetts	No	P	Washington	No	P
Michigan	No	P	West Virginia	No	P, C
Minnesota	No	P	Wisconsin	No	P
Mississippi	No	P	Wyoming	No	P
Missouri	No	P			

Note: Data were hand-collected based on correspondence with each state’s department of insurance (DOI). The column titled “Limited Line” identifies states that use limited line licensing for pet insurance. P = Property, C = Casualty, H = Health, L = Life, and LL = Limited Line.

Given the potential challenges that exist due to requiring property and/or casualty licenses for the purpose of pet insurance sales and that such license requirements may create an unnecessary barrier to entry, therefore reducing the market for pet insurance sales, we support the idea that states should consider the use of a limited lines license that would be specific only to those individuals that sell pet insurance. As detailed by the NAIC (2018), “[a] limited line of insurance is a line of insurance that covers only a specific subject matter.”²² As of 2018, the NAIC recognized four core limited lines, including car rental insurance, credit insurance, crop insurance, and travel insurance. While pet insurance is not among one of the four core limited lines, states have the authority to create non-core limited lines, which could include pet insurance.²³

22. According to NAIC Producer Licensing Model Act (#218), a limited line of insurance means those lines that are defined by state statute or those lines that the insurance commissioner recognizes as a limited line.

23. Pet insurance is given as an example of a potential non-core limited line in the NAIC’s 2018 *State Licensing Handbook*.

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 this in 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 with the NAIC guidelines for the states to issue insurance producer licenses. These guidelines state that although examinations are not generally required for limited lines, it is acceptable for examinations to be required for specific areas (NAIC 2018).

Additionally, fees associated with limited lines licenses may be the same or lower than licensing fees associated with the major lines, meaning states would have the ability to set fees at a level that does not result in a reduction in licensing-related revenue while also encouraging greater participation in the market. For instance, Rhode Island charges the same licensing fees for pet insurance limited lines as it does for major lines; however, in New Jersey, the licensing fee is half of what is charged for major lines (National Insurance Producer Registry, 2019). Those states requiring the property and/or casualty exam could continue to charge the same licensing fee for the limited lines licensing or reduce the charge. An increase in the number of producers may occur due to the reduced barrier to entry (e.g., new licenses held by veterinarians and pet shelters), and this might offset any reduction in fees.

Beyond improving consumer understanding of the pet insurance product, which we believe will result from producer training that is specific to pet insurance, the use of limited lines licenses could also increase competition in the market, as well as the availability of pet insurance coverage. By replacing the need to obtain a property and/or casualty license to sell pet insurance with the less restrictive requirements that can come with limited lines licenses, consumers would be able to purchase this coverage directly from veterinarians, animal shelters, pet shops, etc. that choose to acquire a license.²⁴ Assuming that the general relationship between supply and demand holds for the pet insurance marketplace, greater competition and availability of coverage in the market could result in a reduction in premiums, which is a primary reason given as to why individuals do not purchase the coverage, and potentially result in greater product innovation. From the insurer's perspective, this approach also represents even greater opportunities to reach potential consumers and increase overall sales. In all, we believe that the use of a limited lines licensing

24. We acknowledge that a potential conflict of interest may occur if veterinarians sell pet insurance for the purpose of receiving commission or selling additional services. Other such cases exist in limited lines (e.g., gap insurance sold by auto dealers, car rental insurance sold by rental agencies, and credit insurance sold by bank representatives).

approach to pet insurance could potentially benefit consumers, producers, insurers and other stakeholders.

Pet Insurance Reporting

U.S. insurers are required to complete mandatory annual statutory reports that provide detailed insight into each firm's operations. Relative to many industries, the U.S. property/casualty (P/C) insurance industry is one that requires a significant amount of disclosure, and the disclosed information affords state insurance regulators, consumers, ratings agencies, and other stakeholders the ability to assess various facets of the industry. However, while insurers are required to provide a voluminous amount of detail regarding firm operations each year, the manner in which data are reported and aggregated can reduce the transparency, which is necessary for a more complete evaluation of the market. In the case of pet insurance, while insurers are required to report data pertaining to pet insurance, the data are ultimately included as part of the inland marine line-item that is found in the NAIC annual statement, and it is not reported on its own (NAIC, 2018).^{25,26} The NAIC defines "inland marine" to mean:

Coverage for property that may be in transit, held by a bailee, at a fixed location, or movable goods that are often at different locations (e.g., off-road constructions equipment), or scheduled property (e.g., Homeowners Personal Property Floater), including items such as live animals, property with antique or collector's value, etc. These lines also include instrumentalities of transportation and communication, such as bridges, tunnels, piers, wharves, docks, pipelines, power and phone lines, and radio and television towers. This does not include motor vehicles licensed for use on public roads. (NAIC, 2019d)

Although pet insurance is currently included as one component of inland marine, there is reason to believe that it should be reported separately. An examination of U.S. P/C premiums written in 2018 (excluding accident and health) suggests that of the over \$666 billion premiums written, seven reported lines of business—burglary and theft, commercial auto no-fault, excess workers'

25. The Uniform Property & Casualty Product Coding Matrix requires that pet insurance plans be considered inland marine for reporting purposes (Code 9.0004, "Pet Insurance Plans").

26. Although it is possible that an insurer will only write pet insurance, as is the case with American Pet Insurance Co., many insurers—i.e., Nationwide and Farmers Insurance—selling pet insurance write additional inland marine coverage. In this case, with the current reporting structure, it is not possible to determine how much of the reported inland marine insurance is directly attributable to pet insurance. We also believe that this will become a greater problem as the market continues to grow and additional insurers begin to enter this market.

compensation, fidelity, financial guaranty, private crop, and private flood—had premiums written that were lower than the \$1.3 billion in premiums written for pet insurance coverage.²⁷ While we certainly do not argue that the seven lines of business mentioned above should not be reported on by insurers, we do believe that erring on the side of transparency is important, particularly for a line of business that continues to grow. Although recommending greater disclosure for a specific line of business may seem extreme, such measures have been taken in the recent past. For example, the NAIC began to require separate disclosure for private flood insurance beginning in 2016 in the annual statement’s “States Pages.”²⁸ The NAIC stated that disclosure of private flood insurance was done “[i]n recognition of this growing market” (NAIC, 2019b). At the time of the new disclosure, the total amount of direct premiums written attributed to private flood insurance by U.S. insurers was approximately \$376 million. As of 2018, direct premiums written attributed to private flood insurance was roughly \$643.8 million, which is far less than the current premiums written by pet insurers. Furthermore, the NAIC began to require U.S. P/C insurers to disclose information about cyber insurance through the Cybersecurity and Identity Theft Insurance Coverage Supplement, starting with the 2015 annual statements. The NAIC (2016) stated that the purpose of the new supplement was “...to gain information and understanding about the cybersecurity insurance markets...” This new supplement provides valuable information about these increasingly important lines of business, including data pertaining to the number of policies in force, premiums written and earned, and incurred losses and loss adjustment expenses. A similar mandatory supplement appeared in NAIC annual statements in 2011, which required insurers to report information regarding directors’ and officers’ insurance. The NAIC and state insurance regulators have clearly demonstrated a willingness and ability to develop and require new supplements to insurer statutory filings to increase transparency and understanding of growing markets. We believe the cost of data collection and disclosure should be minimal for insurers, and the potential benefits of these additional disclosures should easily exceed costs.

If new reporting requirements for the pet insurance line of business were to be required, we believe that it could occur in one of two ways. One approach could be to add a new line-item to the annual statements that specifically breaks out the pet insurance line of business. The statutory NAIC annual statements completed by U.S. insurers require detailed information at the line-of-business level, including premiums written (direct and net), premiums earned, reinsurance assumed and ceded, and losses incurred. This information is provided both at the aggregate level and the state-level.²⁹ Furthermore, insurers are required to complete an “Insurance

27. Authors’ calculation based on “Grant Total” data obtained from the “States Pages” using the NAIC InfoPro database. Total premiums are calculated, excluding accident and health lines 13, 14, and 15.1 through 15.8.

28. Prior to 2016 private flood insurance was included as part of “Allied Lines” (NAIC, 2019b).

29. These data are largely located in the various “Underwriting and Investment Exhibits” located in the NAIC annual statements. State-level line of business data is located in the annual

Expense Exhibit,” which further breaks out line-specific data, including loss adjustment expenses, agents’ balances, other underwriting expenses, and profit/loss values. All of this information can be used by consumers, state insurance regulators, intermediaries (brokers and agents), and researchers to evaluate individual insurers, as well as the market as a whole. This data allows one to ascertain the market’s financial performance, the size and growth of the market, and more explicitly evaluate the firms that are offering this coverage. This additional disclosure would increase transparency for the aforementioned stakeholders and allow for more data-driven decision-making.

Although a significant amount of data is captured at the line-of-business level in the insurer statutory filings, we do recognize that while pet insurance is a rapidly growing market, it still consists of a relatively low number of insurers. Given that few insurers currently participate in the U.S. pet insurance market, an alternative to adding a line-item in the NAIC annual statements for the pet insurance line of business would be to require a supplemental disclosure regarding this particular line. As noted previously, the NAIC has required separate disclosure of line-specific information through the required completion of supplements to the annual statements. While not as detailed as some of the information that is contained in the annual statements, these supplements can still provide details on premiums written and earned, direct losses paid and incurred, and in the case of pet insurance, the number and type of pets insured. It could also ask additional questions, such as whether the pet insurance is offered as part of a group; i.e., as an employee benefit. Although the information on a supplement may be limited, it would still provide greater transparency about the state of the pet insurance market.

Conclusion

Pet ownership in the U.S. has grown by over 20% over the past three decades, with reports suggesting that over half of all households have at least one pet (Kestenbaum, 2018). As pet ownership rises in the U.S., there has also been an increase in the demand for pet insurance, with total premiums exceeding \$1.3 billion in 2018 and expectations that pet insurance premiums will surpass \$2 billion by 2022 (Smith, 2018).³⁰ While the pet insurance market and the products that are offered continue to evolve over time, concerns have arisen regarding consumer education and ultimately the most appropriate approach to licensing those individuals selling these products.

statement’s “States Pages,” and this section includes detail for both the U.S., its territories and its possessions.

30. It is currently estimated that only approximately 2% of pets in the U.S. are insured by pet insurance (Jenks, 2017). Expectations regarding future market growth are attributed to a variety of factors, including increases in the cost of pet medical care, pet ownership, and awareness of the pet insurance product.

Because insurance is regulated at the state-level, there is no single licensing approach that is employed, but in 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, such as coinsurance, copays, deductibles, preexisting conditions, etc., are much more similar in nature to health insurance than they are to P/C insurance. Evidence suggests that many consumers lack basic knowledge regarding these different provisions in the health insurance market (Loewenstein et al., 2013). Given the unique characteristics of health insurance provisions, we contend that the required property and casualty licensing exams do not ensure that agents are properly prepared to sell pet insurance in a knowledgeable manner.

Given the aforementioned concerns, we advocate for the use of limited lines licensing rather than property and/or casualty licensing for the purpose of selling pet insurance. This is an approach that has already been adopted by five states, and we believe it best serves both consumers and the industry. In particular, we propose that producers must carry a limited lines license and that earning a license requires the completion of an examination that focuses more explicitly on standard features of the pet insurance product. This would increase the likelihood that the insurance sales professional has a more complete understanding of the product and can share that knowledge with consumers. We believe this approach would also increase the availability of coverage in the market and potentially reduce the price of insurance, both of which would ultimately benefit both the industry and the increasing number of pet owners.

In addition to advocating for the use of limited lines licensing for pet insurance, we also suggest greater reporting requirements as they relate to pet insurance. As it currently stands, information regarding pet insurance is reported in the NAIC's annual statutory filings as a component of inland marine insurance. The aggregation of data does not allow for a clear understanding of the current state of the pet insurance market or of its participants. Additionally, given the continued growth of the pet insurance market, we argue that it is important to increase its level of transparency. We propose that more detailed reporting could be achieved either through the addition of a separate line-item for pet insurance in the annual statements or through the use of a supplemental disclosure, similar to those recently used for directors' and officers' insurance and cyber and identity theft insurance. Taken together, we believe that the use of limited lines licensing and increased disclosure of the pet insurance line of business will benefit state insurance regulators, consumers, and other stakeholders as more pet owners rely on this potentially important coverage.

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Cummins, J. David and Richard A. Derrig, eds., 1989. *Financial Models of Insurance Solvency*, Norwell, Mass.: Kluwer Academic Publishers.

Manders, John M., Therese M. Vaughan and Robert H. Myers, Jr., 1994. “Insurance Regulation in the Public Interest: Where Do We Go from Here?” *Journal of Insurance Regulation*, 12: 285.

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