

Pet insurance: understanding the current state of play

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Pet insurance is a complex product that has to be sold and administered according to a legal framework. Veterinary surgeon Stephen Dixon gives an insight to the present state of the market and some of the key issues.

THE PET INSURANCE market continues to evolve and competition between insurance companies is as strong as ever, despite the gloomy economic background.

In 2010, the total amount paid to insurers as premiums increased by 9.5 per cent to £587m; this growth was primarily due to increases in the cost of premiums as opposed to increase in absolute numbers sold. Pet populations in the UK have remained broadly static and product penetration (the number of pets insured) seems to have levelled off at a figure between 25-35 per cent of all pet owners. Encouragingly, more than 50 per cent of dogs are insured; however, the figure drops to just one in three for cats.

Datamonitor's report on the pet industry in 2011 is due out in November and is expected to show these trends continuing, with a reported increase in the total amount paid – gross written premiums (GWP) – of 11.6 per cent to £655.1m. To put this in context, the veterinary sector as a whole generates revenue of about £2.5b.

Analysts forecast that by 2015 the pet insurance industry will have achieved a GWP of more than £900m. This will be driven by the increased cost of premiums as underwriters attempt to keep one step ahead of claims inflation.

Claims inflation

Claims inflation continues to be the main driving force for increased premiums, with insurers reporting annual increases of six to 10 per cent in the cost of claims they receive. To a certain extent, this is inevitable as treatments become more sophisticated and the applied technology advances; however, the burgeoning referral market and its associated high costs fuel a disproportionate amount of the claims inflation.

There have also been insurance market, leaving thousands of policyholders stranded without cover. Any new insurer would automatically exclude pre-existing conditions if approached to provide insurance for these unfortunate pet owners.

There were a large number of complaints to the Financial Ombudsman Service (FOS) as both companies had advertised “lifelong cover” in their web promotions. In July last year, Lloyds backed down and agreed to maintain cover for more than 4,000 pet owners with Lloyds TSB or Halifax reinstatement policies.

One consequence of this ruling has been a more cautious approach to describing policies as “life cover” or “cover for life”, with many companies now using “reinstatement” or “per year” to describe this type of policy.

It is widely acknowledged that understanding of pet insurance policies is generally poor. A survey of the clients who visited our practice revealed that almost 90 per cent of those with a 12-month policy did not fully appreciate the restrictive nature of their cover.

The trend by some companies to go down the route of appearing to promise more, but actually delivering less, will result in increased levels of “bad claim” experience by clients. In 2010/11, 438 complaints were made to the FOS about pet insurance and although this represents just 0.2 per cent of all FOS complaints, by 2011/12 the number had risen to 554 – an increase of more than 25 per cent.

The complexity and widespread variation of policy terms and conditions make it very difficult for consumers to understand and compare policies, especially given that most insurance providers are unable to offer specific insurance advice. One of the consequences of the FSA’s overhaul of the insurance industry in 2005 is reluctance by many vets to engage with pet insurance. There is uncertainty about the boundaries of responsibility in giving advice and administering claims.

Broadly speaking, practices fall into four categories in the way they deal with insurance:

- **Authorised or directly authorised:** These practices are allowed to advise clients which company to insure with and administer all aspects of insurance claims.

Currently, only a handful of practices in the UK have chosen this route.

- **Appointed representatives:** These practices are “tied in” to one insurer, the majority with Petplan (which in this instance is the “authorised” party). They cannot recommend any other company, although they can make generalised comments on policy types. They can administer all aspects of insurance claims for the company they represent, but they are limited in what they can do for the claims involving other insurers.

Approximately 2,000 practices in the UK have this designation.

- **Introducer appointed representatives (IAR):** The only difference between this group of vets and the unauthorised group below is that IARs can give out client activated free cover notes. In doing so, the client’s details are recorded and passed on to the insurance company.

Approximately 500 practices in the UK currently do this.

- **Unauthorised:** This category covers the remaining practices, the majority in the UK. They can only give general advice regarding policy types and have insurance leaflets in the waiting room for clients to take if they wish. They cannot recommend specific products and are restricted in their contact with insurers to providing requested information.

The majority of practices, regardless of categorisation, probably take the view that knowledgeable and informed insurance advice and administration is a necessary part of their customer service.

Insurance fraud

Underwriters are now devoting more resources to detecting insurance fraud. Although primarily focused on client fraud they are becoming increasingly aware of the potential for vets to commit insurance claim fraud.

So-called “hard fraud” (claiming for procedures not carried out or grossly inflating charges for insured clients) has predictable routes of investigation and is straightforward to condemn.

What can be termed ‘soft fraud’ is more difficult to detect. This may involve judicious editing of computer records to delete an inconvenient comment in the history. There may be considerable pressure from the client and a certain empathy with their plight. Bad policies, with unreasonable exclusions, can create a sense of moral justification in a pressured and emotive situation.

As vets we appreciate that veterinary medicine is not always straightforward and there are many points of ambiguity and uncertainty. The interface between the veterinary world and the strictly defined insurance world leaves margins for varied interpretation that can be exploited.

The future

There has been some consolidation of the pet insurance industry in the past two to three years. The three main underwriters command more than 75 per cent of the market share. At the moment, claims inflation is being tracked by premium increases and the numbers of pets insured seems to be holding up in these challenging times. However, it seems unlikely the market can support this sort of rise in premiums indefinitely.

Apart from freezing or discounting our fees, what else can we do as vets to support the pet insurance market? Whatever we may feel personally about pet insurance, many of our clients depend on its existence to keep their pets. We can help them understand this complex market so their decisions about who to insure with are informed.

We should also recognise the relationship between insurance company and vet is, at least partly, symbiotic. Those of us who actively encourage pet insurance do so because we are all too aware of the problems that can arise when complex or serious cases are combined with limited funds.

However, if our active encouragement can also help increase the total number of pets insured, then premiums may not have to rise so sharply.

Put simply, if more pets are insured then smaller rises in premiums will be necessary for the insurance companies to maintain their margins.

What do you need to do?

If your pet is currently requiring long-term medication, the next time you visit your vet you will need to ask him or her for a repeat prescription. Then, follow these simple instructions:

1. Order and pay for your medication online at www.

██████████ or call them on ██████████

2. Post or fax/scan your prescription to ██████████

██████████

3. They will need your medication and confirmation invoice by first-class post when they receive your prescription.

4. Send us your invoice with self-administered claim form that you will receive with your invoice, and valid claim forms will be paid as usual.

The ██████████ team are ready to help if you need assistance.

Figure 1. A (redacted) extract from a letter sent to a client by an insurance company.



IMAGE: John Morris

Type of policy	Positive points	Negative points	Easy description
12-month	<ul style="list-style-type: none"> • Preferable to no insurance cover • Generally cheaper premiums • One excess per condition 	<ul style="list-style-type: none"> • No long term cover for illness or extended injury • No option of cover with another provider once 12 month period/ limit reached • Often a low policy limit 	<ul style="list-style-type: none"> • One “pot” of money per condition • Cover is only available for 365 days from onset of condition, regardless of allowance usage • Fund limit is exhaustive
Maximum benefit	<ul style="list-style-type: none"> • Usually a higher policy allowance • No time restrictions with regards to condition cover 	<ul style="list-style-type: none"> • Single available allowance per condition • Policy limit per condition is exhaustive • Some companies charge an excess upon annual renewal 	<ul style="list-style-type: none"> • One “pot” of money per condition • Fund limit is exhaustive • Fund limit is not time restricted
Reinstatement	<ul style="list-style-type: none"> • Variety of policy limits (£1,000 – £12,000) • No time restrictions regarding cover • Full policy limit becomes available upon annual renewal 	<ul style="list-style-type: none"> • Limit is inclusive of all conditions per policy year • Excess every renewal per condition 	<ul style="list-style-type: none"> • One “pot” of money for all conditions per policy year • The pot will refill to the limit every policy year regardless of usage in the previous policy year • Reinstatement policies that extend a high policy limit (above £6,000) provide a sound investment for long-term financial protection

Table 1: The three main types of pet insurance policy