

PET INSURANCE IN CANADA By Ingrid Sapona

Though people keep all sorts of animals as pets, this Trends Paper explores insurance available on only certain types of furry friends, namely:

- dogs and cats, which are the animals traditionally thought of as being covered by “pet insurance”, and
- horses.

If you’re interested in information on insuring chia pets or pet rocks, sorry, you’ll have to look elsewhere.

Before getting into any details, a brief explanation is in order about why equine insurance is being included in a Trends Paper on pet insurance. Indeed, the first thing Sara Runnalls, FCIP CRM, Vice President and head of the Equine Division at BFL Canada, said when I spoke with her about this paper is: “Most horse owners do not think of them as pets. Most keep horses to ride or show.” While it may be that owners don’t necessarily think of their horses as pets, since insurance is widely available that can help owners manage costly veterinarian care, it seems appropriate to include equine insurance. (In other words, in this paper we’re not considering insurance on race horses or horses used for commercial purposes.)

Market for Pet Insurance is Growing

Based on a measurement of gross written premiums, the North American Pet Health Insurance Association estimates that the pet insurance industry is a \$595 million market.¹ And yet, of the 14 million dogs and cats in Canada, less than 3% of owners have insurance on them.² Most experts in the Canadian pet insurance industry agree that this market is growing.

Dogs and Cats

As noted, the percentage of Canadian dogs and cats that are insured is quite low. By comparison, in the U.K. about 25-30% of pet owners have pet insurance and in Sweden 45-50% of pet owners have insurance.

Why the disparity? Hard to say, exactly. For starters, pet insurance has been available in Sweden for well over 100 years, and it’s been available in the U.K. since the 1950s. It’s only been available in Canada since the late 1980s. There’s also the perception that the pet insurance products that have been available have “disappointed” many pet owners and many pet owners have heard stories of people who have paid pet insurance premiums for years and when they went to make a claim, they were

¹“North American Pet Health Insurance is Strong & Growing,” report of the North American Pet Health Insurance Association, released July 7, 2014. <https://naphia.org/category/news/naphia-news/>.

² See: “The vast, untapped market of pet insurance,” by Jacqueline Nelson, published in the Globe and Mail, June 20, 2014. <http://www.theglobeandmail.com/report-on-business/pet-insurance-a-vast-untapped-market/article19276331/>

denied or they were unhappy with changes to the policy or premium at renewal time. Though denial of coverage is likely attributable to pet owners not understanding the terms of their policy, such incidents have contributed to a negative public perception.

“Another reason may be that pet owners don’t consider insurance,” says Debbie Stoewen, DVM, MSW, RSW, PhD, CEO (Care & Empathy Officer) at Pets Plus Us, a division of RSA Canada. “Pet owners often don’t believe anything bad will happen to their pet and don’t necessarily realize the costs of care, so they don’t ask themselves how they’re going to manage the costs, which is what pet insurance is all about,” she says. Stoewen also believes that our attitudes towards animals have been a factor in the relatively low inroad of pet insurance in Canada. “While Europe became urbanized, with animals becoming seen as ‘pets’, Canada was expanding its agricultural economy. Now with greater urbanization, our attitudes towards animals have also changed, and I expect, as pet insurance becomes more well-known, Canadians will seek health insurance for their pets just as much, likewise seeing them as an important part of the family, and expecting, therefore, a higher standard of care for them,” she says.

Another factor Stoewen points to is the lack of general knowledge about insurance coverage on pets. “Insurance can be hard for anyone to understand, and even harder when the options and plans differ from company to company. I think to a large extent, because of this, vets haven’t embraced insurance. So most vets don’t say to their clients ‘this is something you should consider to help manage the costs of care should your pet have an accident or become ill, that your pet can have the best of care with insurance, with decisions not weighed by how much you can afford, and that you’ll avoid ever being in the horrible position of having to consider euthanasia because you can’t afford the care’,” says Stoewen, a licensed vet who was in companion animal practice for 25 years. Stoewen thinks, however, that the younger generations of veterinarians may be more open to insurance. She says they’re keen on providing the very best health care possible and recognize the economic pressures such care can entail for clients.

Types of Coverage

The most common coverages available for dogs and cats are:

- accident coverage, and
- accident and illness coverage combined. This type of insurance is the most common insurance Canadian pet owners carry.

Though dog and cat insurance is a form of property insurance, it uses some concepts (like co-pays) that are more common in health insurance.

Most policies have a relatively short waiting period before coverage takes effect (for example, 48 hours for accident coverage and 14 days for illness coverage).

Some companies also offer coverage for preventive care. Pets Plus Us, for example, offers a “Wellness Care” product, which is not insurance *per se*. It is a product designed to help smooth out the costs owners typically incur for routine veterinary services. There is a specific list of services that can be included – things like deworming, flea treatment and prevention, spaying and neutering, annual vet exams, and vaccines. The services listed are based on the age of the pet. The premium is basically based on the services the pet owner selects. The program pays out a maximum benefit per policy year and there is no co-pay or deductible.

Dogs and cats can be insured at any age, but most owners begin to insure their pet when it is young. Indeed, some owners think there is no point in taking out insurance on an older animal because exclusions for pre-existing conditions are more likely.

Accident Coverage

Accident coverage generally pays the costs, up to a maximum, associated with medically necessary veterinary services provided to treat a pet for injuries caused by an accident. The specific costs covered depend on the policy, but they generally include the cost of examination, diagnostic procedures, hospitalization, treatment, surgery, prescription medicines required as a result of the accident, and some alternative therapies. As the name implies, accident coverage does not cover illnesses, non-essential services, routine, or elective procedures.

Most accident policies have a co-pay (or co-insurance amount), which means the pet owner pays a portion of the covered costs (typically 10-30%). As well, there is usually an annual deductible. On some accident policies the maximum coverage is a per year amount, while on others it is a per accident amount.

Some policies offer additional benefits (subject to separate limits) for things like: cremation or burial, the cost of advertising and rewards to recover a lost pet, and even costs for boarding kennel or cattery fees incurred if the owner is hospitalized.

Premiums for accident only pet insurance generally are a flat amount that differs by species (in other words, there are different rates for dogs and for cats), but does not differ by breed, location, or age of the animal.

Illness Coverage

In this section we look at illness coverage for dogs and cats, but keep in mind that illness coverage is not available on its own – it's always combined with accident coverage.

Illness coverage is for expenses related to treatment of a pet for sickness, disease, and injuries. Most policies have a separate maximum for illness coverage. The maximum can be on a per illness basis per year, or simply a maximum amount per year, regardless of the number of illnesses the pet is treated for in the year. Like accident coverage, illness coverage is subject to a co-pay and a deductible. Pre-existing conditions are not covered.

There are three factors/risks underwriters take into account in determining premiums for illness insurance: species (cat or dog), breed, and postal code, according to Randy Valpy, Top Dog at Pets Plus Us. Premiums are based on these three factors, as well as the co-pay chosen and the deductible chosen. "Dogs tend to be more expensive because they fall ill and cost more to treat than cats. Certain breeds are also more prone to illness," notes Valpy.

Postal code of the insured is relevant because vet costs vary in different places. "A Toronto vet is going to have more overhead to cover than a vet working in Rosetown, Saskatchewan, for example," says Valpy. There are no provincial rules regarding veterinarians' fees, but there are guidelines. "Each province has its own fee guide that is put together with the assistance of the CVMA [Canadian Veterinary Medicine Association] and the economist at the OVMA [Ontario Veterinary Medicine Association]. That said, veterinarians in Canada are not required to follow the fee guides, though many do," notes Valpy.

Though insurers usually say in their marketing materials that the animal's age is not a factor, indirectly it is. When a pet hits certain age thresholds, the deductible automatically increases. As well, because pets are more likely to take ill as they get older, the insurance risk increases. Different insurers take different approaches toward this risk. Pets Plus Us has something it calls the 4Life Guarantee, which means that the premium does not change because of the pet's age. Of course, even with the 4Life Guarantee, premiums can go up on the anniversary date due to inflation in vet fees. Other companies apply a claims risk management practice that can result in an adjustment to the premium based on the claims history, which is likely to be impacted by the animal's age.

The age of the pet can also come into play in terms of enrollment requirements. For example, PC Pet Insurance (which is provided by Western Financial Insurance Company) requires that for enrollment of dogs eight years or older, and cats 10 years or older, the owner must provide the pet's complete medical history as well as the results of a physical examination that took place within two months of the application.

Exclusions

When it comes to exclusions for certain conditions, the underwriting approach insurance companies take varies. Some insurers assess the risk at the time they extend coverage. So, for example, when someone applies for Accident & Illness coverage from Pets Plus Us, the insurer asks for the pet's veterinary records upfront so that they can determine whether there are any pre-existing conditions or exclusions. Other insurers assess whether a condition is excluded based on a pre-existing condition at the time a claim is made. (In other words, it isn't until a claim is made that the insurer asks for the medical records to assess whether the illness existed prior to the time of the claim.)

Because there are some conditions pets can fully recover from, exemptions for pre-existing conditions can be temporary or permanent. If the insurer deems a pre-existing condition temporary, the insurer might set an exclusion period (for example six to 12 months) and at the end of the period, based on a review of the medical history during the exclusion period, it may lift the exclusion.

In addition to exclusions for pre-existing conditions, it's quite common for pet insurance policies to have exclusions for things like nuclear incidents and war, as well as risky activities the owner did not disclose at the time of application (for example, if the animal is used for commercial guarding or organized fighting).

Additional Coverages

During the course of a dog or cat's life, it's not uncommon for dental care issues to come up, and the cost of canine and feline dental care can be high. Insurance coverage is available for certain types of pet dental care. Though some policies automatically include coverage for dental care up to limit, dental coverage is usually an optional extension.

Like human health care, veterinary medicine has come a long way and many special treatments and therapies are used in treating pet health issues. Illness policies usually cover prescribed "alternative therapies", things like hydrotherapy, chiropractic, massage, acupuncture, and homeopathy, as well as certain "behavioural therapies", which are therapies to treat behavioural problems that are due to an underlying medical condition. There is usually a separate annual limit for each category of therapy. The cost of medical devices that the pet may require and that a vet prescribes are often also covered to a specific amount.

Discounts

Discounts are often available for dog and cat owners who have multiple pets insured by the same company. To qualify for a discount, owners generally must have at least three pets insured with the same company. The amount of the discount depends on how many pets are covered, though there is a maximum discount of about 15%.

Though many insurance companies that write pet insurance also provide other property insurance, at this point, Canadian pet owners do not get bundling discounts on their other property insurance because they have a pet policy with the same company (as they might, for example, if they have home owners and auto insurance from the same carrier). Rod Cunniam, Interim President & COO of Western Financial Insurance Company, thinks such discounts may be explored in Canada in the future. "We're looking for opportunities related to that, though I couldn't say what the outcome will be," he says.

Sales Channels

Five Canadian insurers offer pet insurance on dogs and cats. Most people purchase dog and cat insurance directly on-line or by phoning call centres.

Some insurers sell pet insurance under only one brand, for example RSA's pet insurance is Pets Plus Us. Other insurers sell pet insurance under a variety of brands. For example, Western Financial Insurance Company's master brand is PetSecure but it also underwrites policies for others under what Cunniam describes as "white label arrangements" with various companies and organizations, such as CAA and PC Financial. "When aligning with white labels, we have to ensure that our PetSecure offering is meaningful to the customer and that they are open to the purchase opportunity. To do this, we partner with people who have a captive audience and who are looking to deepen relationships with their clients as trusted service providers," says Cunniam.

In terms of building awareness of the need for, and benefits of, pet insurance, the industry looks to what Cunniam calls "influencers": veterinarians, breeders, shelters, and humane societies. Stoewen of Pets Plus Us agrees, pointing out that such folks help promote pet insurance because they "want to recommend – and provide – the best health care possible and they recognize the costs to pet owners, so they see the value of insurance."

Horses

It's difficult to say how many horse owners have insurance on their horse, but BFL Canada's Runnalls thinks it's a very small percentage. "Most horse owners don't think of a horse as an investment and even if they do, they don't think about insurance on it," Runnalls says. Part of the reason it's nearly impossible to tell what percentage of horse owners have insurance relates to the simple fact that it's hard to say how many horses there are in a region. "The horse industry loves to go underground," says Runnalls. The last study she's aware of relating to the number of horses in York Region, for example, was done about 12 years ago.

Types of Coverage

The main type of coverage on horses is mortality insurance, which can be either Full Mortality (similar to a commercial all risks policy) or specified perils. A number of optional extensions can be added to the full mortality policy, the most common of which are:

- surgical coverage,
- combined medical and surgical coverage, and
- disability or loss of use coverage.

Full Mortality Coverage

Full mortality coverage pays when a horse dies as a result of an accident, sickness, or natural causes, including when a horse is put down by a vet for humane reasons. It also covers theft of the horse. Horses are insured up to an agreed market value, typically to a cap. (For example, Henry Equestrian Insurance can provide insurance for valued horses of high value, the Henry Equestrian Plan (HEP) insures horses up to \$250,000.) The premiums rates depend on the insurer and they are a percentage (typically ranging from 2.5%-5%) of the horse's value.

The insurable value of a horse is based on a number of things, such as original purchase price and the actual cash value (ACV). "If the client has just bought a horse, we would use the purchase price as the insurable value" says Lori Young, Registered Insurance Broker with Henry Equestrian Insurance Brokers (HEIB). "If an owner would like to insure their horse for more than the purchase price, a Professional Justification of Value form would be required with details regarding the horse's show records,

cost of training, current performance level, all based on the opinion from a professional in the industry – such as a trainer or coach that is familiar with the market of buying and selling horses,” says Young.

BFL’s Runnalls agrees that, “Lots of things can come into play when establishing a horse’s actual cash value. We look at things like what the horse does, its competition record, if it’s a young horse, we might look at who its parents were, and even the stud fee paid that led to its birth might be considered,” she says. And, since horses can appreciate over time, it’s not unusual for owners to seek to increase the amount of their full mortality coverage based on the increased value of the horse. “People can increase the value mid-term or on renewal,” says Runnalls. “To do so they might provide a letter from an independent trainer or horse show judge, for example,” she says.

Full mortality insurance is available on horses as young as 24 hours old and can be maintained on horses for however long the owner wants the insurance, though at a certain age (typically about 16 years old) the rate is increased, and eventually (at around 19 or 20 years of age), full mortality coverage will no longer be offered. In this case, the owner may elect to purchase Specified Perils cover, which is available for any age of horse. As well, insurers typically don’t write new full mortality policies on horses that are over 16 years old. With specified perils coverage, the perils typically included are similar to those in other commercial policies, for example, fire, flood, lightning, and theft, as well as some perils that are unique to horses, such as accidental shooting, attack by a wild animal, collision with a vehicle, collapse of bridges, culverts, trestles, and so on, and death caused as a result of transporting the horse.

Mortality policies (both full mortality and specified perils) are often packaged to include additional coverages, such as:

- Personal liability – this covers the owner in the event the horse causes bodily injury to someone other than the owner, or for property damage caused by the horse. Coverage is normally \$1 million, but owners can purchase additional coverage;
- Reimbursement of death costs – this covers things like as post mortem examination and disposal fees, up to a specific amount;
- Guaranteed renewal; and
- Waiver of depreciation – the waiver typically applies to the first two years.

Of course, not all full mortality policies include additional coverages, nor do all owners want additional coverages.

Surgical Coverage

Surgical coverage pays for surgery and related medical expenses incurred because of injury, illness, or disease up to the policy’s specified limit. It provides limited coverage for diagnostic tests, after-surgery care, and follow-up treatments. The coverage does not include surgery expenses incurred in relation to a pre-existing condition. The premium for surgical coverage is a flat rate and it is subject to a deductible. Surgical coverage is generally not available on older horses (typically those over 16 years old).

BFL Canada’s Runnalls points out that surgical coverage without major medical coverage does not make sense for horse owners who live in an area where there are no facilities to perform equine surgery. “If the horse has to be transported to someplace far away to have surgery, there’s always the question of whether the horse will survive the transport. Since most vets go to where the horse is, the reality for many owners is that the only type of surgery that will be done is whatever the vet can do on-site. So surgical only coverage may not be particularly helpful,” says Runnalls.

Major Medical Coverage

Though the name varies by insurer, this type of coverage pays for surgery and medical expenses incurred for the horse due to injury, illness, or disease up to the specified limit. Like surgical coverage, major medical provides limited coverage for diagnostic tests, after-surgery care, and follow-up treatments. The coverage does not include surgery expenses incurred in relation to pre-existing conditions. The premium for major medical coverage is a flat rate and claims are subject to a deductible. Like surgical coverage, major medical coverage is generally not available on older horses.

Owners are expected to disclose pre-existing conditions on a declaration of health that they submit with their application. Underwriters review the application and will contact the veterinarian or agent named on the declaration for further information, if necessary. Some pre-existing conditions give rise to permanent exclusions, for example, chronic conditions. Exclusions for conditions that horses can generally recover from can be removed with proof that the horse has not had another occurrence of the condition within a specified period.

Additional Coverages Available

Tack and equipment used for riding can be costly, so many insurers offer coverage for it. Some full mortality policies automatically include coverage for a specified amount for tack and equipment (typically about \$2,000). If such coverage is not automatic, it's usually an optional coverage that can be added for a small premium. And, recognizing that people who own horses often enter them in equestrian competitions, at least one insurer – BFL Canada – also automatically covers \$500 of equestrian competition withdrawal expenses.

Disability (or "loss of use") is another endorsement owners can purchase. This applies if the horse is totally and permanently disabled by a sudden, external, accidental and violent incident and does not require destruction for humane reasons, but will never return to the level of performance it was intended for. Typically the coverage pays out a percentage of the insured value (normally 50%). So, for example, if the horse was a show jumper but after an external accident that the horse recovers from it is no longer able to jump, the disability coverage would pay. The cost for this coverage is a percentage of the insured value.

World Wide/Air Trip Transit/Berserk coverage is also available. "Quite a few of our clients purchase horses overseas and fly them to Canada. With this additional coverage, the horse would be covered while it is overseas, during transit (by ground and air), and for the unlikely event that the horse needs to be euthanized during the flight," says HEIB's Young. The cost for this coverage is a percentage of the insured value.

Discounts

Owners with multiple horses sometimes take out "herd policies" rather than policies on each horse individually. (The number of horses required to have a herd policy varies.) Herd policies offer full mortality coverage based on the individual insured values of the horses, says HEIB's Young. As well, under a herd policy the owner can add blanket coverage for medical and surgical coverage up to a specific amount each year.

So, for example, if an owner has five horses under a herd policy with \$10,000 coverage for medical and surgical and during the year one horse requires surgery that costs \$4,000, a second horse requires medical treatment due to an accident and that treatment costs \$2,500, and a third horse falls ill and requires medical treatment that cost \$4,000, assuming none of the claims related to pre-existing conditions, \$10,000 of claims will be covered under that policy, subject to the deductible. Or, say the first claim made that year is for colic surgery on one of the covered horses and the surgery costs \$12,000 (assuming the horse had no history of colic), the policy would pay \$10,000, subject to the deductible – the remaining \$2,000 would not be covered, nor would any other surgical or medical costs incurred that year for any of the horses covered under the herd policy.

Every herd policy is underwritten on its own merits, so the cost, deductibles, and coverages vary.

Sales Channels

Equine insurance is normally purchased through a broker who specializes in such insurance. As with dog and cat insurance, horse owners usually begin the process by submitting a request for a quote on-line.

Since insurance on horses is not mandatory, one of the challenges the industry has is in educating owners about the availability and benefits of such coverage. Owners often get information about equine insurance from others in the horse industry, including breeders, trainers, coaches, and so on. Many horse owners are first introduced to the concept of horse insurance when they join an equine provincial service organization (such as the Ontario Equestrian Federation) through which they may automatically get, as a member benefit, personal liability insurance for their non-commercial involvement with horses. Indeed, many owners join such organizations just to take advantage of insurance programs offered through them, not only for the liability insurance provided automatically, but also for discounts on other types of equine insurance.

Conclusion

More and more people in Canada are recognizing the benefits of the human-animal bond. As a result, pet owners are increasingly seeking medical treatments and care that is similar to the type they would get for a family member. Fortunately, veterinary medicine has evolved and there are more and more sophisticated diagnostics, interventions, and therapies available. Of course, such care can be quite expensive. Unfortunately, unlike human health care in Canada, the cost of pet health care is not paid for from the public coffers. As a result, pet owners facing the high cost of vet bills are sometimes faced with difficult decisions regarding the type and length of medical treatment they can afford for their pet. Recognizing that there is a need (and therefore a market), the insurance industry has responded with insurance products that can help owners deal with the financial risks of pet ownership.

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