

Pet insurance: do the numbers still add up?

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The pet insurance sector is facing an uncertain future as increases in claims costs continue to force premiums up by around 10% per annum. As the price of cover rises year-on-year, insurers are concerned it will not be long before consumers are priced out of the market and premium income falls.

Yet, rather than the market slowing down, a number of players are looking to inject growth into their businesses by entering into partnerships with third-party distributors. The market has seen an increase in activity among larger composite insurers over the past couple of years, with a number of high-profile entries. Also, following the success Sainsbury's and Tesco have had in selling pet insurance policies, a number of other retailers have arranged partnerships and launched products on the market.

The market for cat and dog insurance grew significantly in 2015, as premium rates rose and product penetration increased. The main driving factor behind rising premiums has been the continued high rate of claims inflation. The average cost of a claim has risen significantly and continues to increase, primarily as a result of veterinary inflation.

Record claim levels

Figures from the Association of British Insurers (ABI) highlight a massive £1.8 million was paid out in pet insurance claims every day in 2015. The cost of the average claim exceeded £700, nearly three times the average pet insurance annual premium.

Also, during 2015 the number and cost of claims reached record levels:

- 911,000 pet insurance claims were made, up 9% on 2014, at a total cost of £657 million.
- The average claim was £720, yet the average annual pet premium was £241.
- Pet insurers dealt with 686,000 claims for dogs, up 11% on 2014. These claims cost £501 million (up 12% on 2014).
- Insurance claims for cats reached 193,000, an increase of 6% on the previous year, with a value of £105 million – an increase of 12% on the previous year.

Some reported claims inflation was running at an average of around 12%, which means, for the market as a whole, double-digit premium increases would be necessary for insurance companies

to ensure their books remained profitable.

Great news for the insurers, but do the numbers add up for veterinary practices? Does the percentage of insured clients impact on overall practice profitability?

If so, two questions arise:

- How well do we sell, or at least recommend, pet insurance?
- Do practices optimise the opportunity inherent in an insured client base?

The ABI goes on to state: “Only 1 in 4 of the 9 million dog owners and 1 in 7 of the 7.9 million cat owners are thought to have pet insurance”.

Figures in practice show an average of only 25% of clients have insured pets.

For the majority of British companion pet owners, this means one of three things:

- they don't understand the importance of insurance cover
- they haven't been told about insurance cover
- they have made the conscious decision not to insure their pet(s).

The benefits of pet insurance for the practice and pet owner are clear: insurance gives your clients the potential to take any financial concerns out of a decision regarding their pets' clinical care and will allow you to provide top-level elective and acute care in your practice on an ongoing basis.

But does this stack up financially and, if so, why aren't practices actively engaging pet insurance as a growth strategy?

Let's take the simple premise that to grow practice revenue you can only do three things:

- increase the number of clients
- get current clients to come in more often
- get current clients to spend more with you (ethically and professionally, of course)

Blackwell's Five-Minute Veterinary Practice Management Consult states: “Clients with pet insurance spend twice the amount of money on their pets during the pets' lifetime than owners without pet insurance,” confirming what many of us suspected. However, the size of this differential may be surprising.

It goes on to say: “In addition, owners with insured pets visited the vets more frequently... Insured animals are presented for a problem earlier in the disease process than uninsured animals... Insured animals are more likely to receive more expensive treatments associated with higher

quality care.”

These findings are supported in practice data from the Vet Dynamics Index and have been long supported in other veterinary sector data analyses, such as the Fort Dodge Index.

Why you need bonded clients

Every consultation raises four areas of potential concern:

- clinical outcome
- client compliance
- client experience
- cost implication

As a vet, you are only responsible for the clinical outcome and client experience. Your expectation is fees will be paid at the time of consultation. So, anything you can do to alleviate or improve the compliance or cost implications is going to make the whole consultation process more effective, efficient and enjoyable.

This is where bonded clients make all the difference to veterinary life. The “better” the client, the more easily these outcomes are achieved. Therefore, your ideal bonded client has insured multiple pets and belongs to the practice’s preventive pet health care scheme, which means they stay with you longer, come in more often and spend more money.

A strategy to increase uptake of pet insurance in conjunction with preventive health care plans clearly provides us with a way to improve practice performance and increase revenue dramatically, simply by increasing the number of bonded clients, rather than searching for more clients; and, in doing so, improve the quality of care for the patients and clients.

Consequently, a clear business and clinical argument exists for your practice to take a critical look at how you offer insurance initially and how you manage your insured clients. By developing and communicating a joined-up strategic approach you can optimise the value of the 25% insured client base, while the 75% of uninsured clients have the potential to become more bonded, hopefully more grateful, and more profitable.

Managing insured clients

Advances in veterinary medicine have increased the availability of new drugs and technology to diagnose and treat pets. These advances are often expensive and, although beneficial to your patients, can lead to increases in veterinary fees. Pet health insurance may help reduce your clients’ financial worries about caring for their pet.

Insurance offers the opportunity to inform, educate and delight your best customers, while practising the very best medicine. This creates a virtuous circle, meaning you can retain patients and clients, as well as attracting a healthy and steady level of new, ideal clients.

Insurance should be dealt with in the context of an overall credit and debt policy and provide one method of helping clients pay for veterinary treatment; it should also be included in your written and website terms and conditions.

Your surgery needs to be authorised by the FSA to discuss and recommend any particular insurance policies.

Managing claims

A clear policy for the management of insurance claims is essential and should include the following:

- A request for information needed at time of consultation – for example, which company and whether or not it is a direct claim.
- A telephone call to the insurance company to confirm policy details.
- Invoice and collect the excess, ensuring the claim form has been signed if a direct claim.
- Invoice and claim monthly.
- Refuse to direct claim for companies with bad history.

Having clear guidelines for clients who are insured improves claims efficiency and removes misunderstanding at a time when emotions and money can be a recipe for disaster.

Educating uninsured clients

While you will never convert all of your non-insured clients, if your team could focus its attention on those who don't know – or understand – the importance of insuring their pets, you can dramatically drive up your insured client base.

This, of course, involves “selling” and recommendation of pet insurance and there are plenty of reasons this doesn't happen consistently in practice. Typically, these are we are too busy and we suffer from the fear, guilt and obligation around selling, even if this prevents many practices from thriving in a commercial world.

The most common question pet owners ask about pet insurance is: “Is pet insurance worth it?” It's a valid question, but essentially people only buy insurance of any kind to help them pay for large, unexpected or unplanned expenses for which they would have trouble paying for out of their own pocket.

Education requires communication – and more than we think. Poor communication, and a lack of appropriate training combined with the very real pressures and unrealistic expectations felt on the reception desk and consulting room, can result in a poor level of service and education.

The real cost to the profession, and your practice in particular, of this huge population of uninsured potential patients is massive. A healthy percentage of your client base being covered by insurance will enable you to not only better treat your patients, but to also better educate your clients and help them understand the real value you, as a veterinary professional, can deliver for them and their pets in their interactions with your practice.

This will, in turn, lead to exceptional clinical care, bonded and loyal customers, as well as the very best marketing you can have – the goodwill of existing clients and the subsequent recommendations that inevitably follow.

The insurers' perspective: Simon Wheeler, Agria

In Sweden, 80% of dogs are insured. An enviable position, which is due largely to vets recognising their pivotal role influencing clients' pet health choices.

So, helping new clients decide to insure their pet and make an informed choice about the type of policy must be a critical task for every UK veterinary practice.

The decision benefits both pet and practice.

Research commissioned by Agria in summer 2016 concurs with the earlier findings by Blacks and Fort Dodge. Insured pets are worth more than twice as much to a practice's top line than the uninsured.

As well as removing cost barriers to seeking advice as soon as a problem is suspected, footfall is increased with more than 50% more visits made by insured dog and cat owners – and more chances to merchandise and prompt preventive visits.

However, *Veterinary Times* (VT46.23) published the results of a survey suggesting 8.5% of pet insurance claims were rejected because a condition was deemed to be pre-existing and 16% declined simply because the chosen policy didn't cover the treatment needed.

This highlights two huge considerations. Firstly, the importance of insuring new pets as soon as possible and, second, making sure your clients choose the most appropriate policy so cover is as comprehensive as possible and treatment is not constrained.

