

The future of pet insurance

The basic concept is simple – you pay a monthly sum to an insurance company and if your pet is unfortunate enough to fall seriously ill or have an accident, the insurance covers the costs of the veterinary bills. The client has their bills paid, the vet earns his or her salary, the pet makes a recovery and the insurer should, in an ideal world, still be in profit. If only it were so simple.

Pet insurance has made a huge difference to animal health and welfare and the ability of owners to care for their pets; however, the challenges and issues now facing pet insurance are causing worry to owners, veterinary surgeons and insurers alike and pet insurance is becoming a victim of its own success.

Strained system

The principle of insurance is that the premiums of the many pay for the claims of the few. This principle is being strained in the pet insurance market to the point where it is beginning not to work effectively – with over 30 per cent of pet insurance policy holders submitting claims compared with the 15 per cent of household policies and the 22 per cent of motor policies upon which claims are made.

Add to this the strides made in animal medicine and surgery, such as diagnostic imaging, specialist surgical procedures, joint replacement surgery, prosthetic limbs, specialist drugs – the list goes on and they are never cheap. The advances in veterinary medicine come at a very high price for the client and, by default, the insurer.

Owner expectations continue to rise – fuelled to no small extent by TV programmes of the ‘supervet’ genre – and they will understandably demand the best treatment for their pet, often unaware of the real cost, and in the process run up high veterinary bills which inevitably have the knock-on effect of increasing insurance premiums.

Diagnostic work-up is far more prevalent in today’s veterinary world, where litigation sits on every vet’s shoulder and clients demand investigative action even when a ‘wait and see’ policy might be more appropriate. This also pushes up veterinary costs. And a new issue has begun to emerge whereby some members of the veterinary profession – and some owners – see euthanasia as a failure and consider that life should be preserved at all costs. This can lead not only to vastly increased veterinary fees but also to animal welfare issues.

All these factors combine to lead to an increase in the cost of pet insurance that will soon be unsustainable. We have reached a point where a significant number of clients feel unable to afford pet insurance and just ‘hope for the best’ or consider ‘self-insurance’ – putting money aside each month to cover veterinary fees and any emergencies.

Moral dilemma

The Association of British Insurers has reported that over the last 10 years, the average pet insurance claim has increased by 96 per cent – from £386 in 2007 to £757 in 2017. Even taking inflation into account, this is still a rise of 50 per cent. Overall, the industry premiums were £1.1 billion in 2017, with indicative loss ratios of around 70 per cent, meaning that the claims settlements to pet owners are highly significant.

We would seem to have something of a moral dilemma. Do we have a highly priced product available to the few, which enables treatment that is superior to that available to most pets; or do we have an affordable insurance product that offers the majority of pets good cover for most conditions, but not for those requiring ‘supervet’ treatment? It is fair to suggest that it is these ‘super’ and advanced medical treatments that are responsible to a large extent in pushing up premiums to all, even though they are used by only a few.

Insurance providers have been discussing the viability of their industry for a number of years as they have watched veterinary fees rise and, at the beginning of this year, Agria Pet Insurance invited guests from across the veterinary profession to discuss the issues facing the industry. It was suggested by Robin Hargreaves – who chaired the discussion and is a veterinary consultant for the firm – that there may well be a future where clients would reach the limit on what they would be prepared to pay to insure their pet which, by default, would then limit the treatment options and cover that insurers could provide.

Many veterinary practices – in particular referral practices – rely quite heavily on income from insured pets, but escalating treatment costs are threatening this income source. One of the reasons for rising vet bills is centred on ‘defensive medicine’, which can result in massive bills for relatively healthy animals, with cases being ‘worked up’ unnecessarily – arguably amounting to overtreatment.

It was acknowledged that most vets who overtreated genuinely believed that they were doing the right thing for the animal and were not just finding a way to generate more income; however, there was also general agreement that overtreatment was now commonplace and the biggest reason for escalating insurance claims.

Crunch time

We seem to have reached an impasse. The many reasons why vets overtreat can all be justified if necessary, and the likelihood of reducing this practice significantly – at least in the short term – is small. The problem is that, during this time, the final crunch may come, and the sustainability of pet insurance could flounder.

Clients and insurers are currently in a vicious circle of escalating vets bills that, in turn, generate escalating insurance premiums – although we should not place all the blame at the door of veterinary practices. Maybe insurance companies should not be willing to insure animals for the very expensive treatments? Maybe paying out for operations costing many thousands of pounds is not something insurance companies should be considering – no matter how hard and contentious this option might be?

Perhaps the health and well-being of the majority of pets is more important than fulfilling the unrealistic expectations of the owners of a pampered few? ■