The New Age of Pet Insurance: Barking up the Right Tree

The needs of pet owners present a high-growth opportunity for insurers to create new products and cross-sell existing services. Here’s how insurers can embrace new strategies and align their products, distribution, underwriting, claims and operations to tap into this market.
Executive Summary

In the midst of COVID-19, pandemic puppies and kind kittens have emerged as go-to companions to get us through the extended public healthcare crisis. This is one important reason pet insurance is touted to be the next hot growth segment for personal insurance carriers, as the global market is projected to surpass $10 billion by 2025 and grow 6.7% annually.\(^1\) Examples of traditional insurers and recent entrants in this market include:

- New-age pet insurers, such as Waggel (UK), Figo Pet (U.S.) and Petplan (Australia), with innovative and customer-centric business models.
- Established insurtechs that have added pet insurance offerings. For example, Lemonade is set to add pet insurance to its existing offering of homeowners and renters’ insurance.\(^2\)
- Combinations through mergers and acquisitions, such as NSM Insurance Group acquiring Embrace Pet Insurance; private equity firm Warburg Pincus buying Petplan; Synchrony acquiring Pets Best; and MetLife acquiring the PetFirst program.

The pet insurance market is evolving quickly, with most innovations focused on meeting the following trends:

- **Customer dynamics and disposition:** The customer landscape has changed, with millennials now the largest segment of pet parents. They own more pets (about 35% of total pet ownership)\(^3\) and spend more on their pets\(^4\) than any other generation, as they serve organic foods, buy flavored medications, hire services, host pet parties and bring their pets on vacations. About 61% of millennials\(^5\) are willing to make financial trade-offs to afford pet care. They also lead the charge in tech adoption,\(^6\) and expect quick service. Such factors highlight the demand for customer-centric services that include personalized, nurturing communications and an interactive, immersive experience.
Pet techs and massive data: Pet-oriented technologies (pet tech), such as wearables, are addressing increasing concerns around pet health and security. The pet tech market includes activity monitors, GPS trackers, RFID sensors, accelerometer sensors, etc. Wearable technology has already demonstrated value in the life and health insurance spaces, with health professionals using wearables like smart or implantable devices for patient monitoring, diagnostics and drug delivery. It’s only a matter of time before it makes deeper inroads in the pet insurance market too. The opportunities for pet tech are vast, from automated food dispensers and climate-controlled pet houses to pet doors with facial recognition. Pet genomics is another growing field. These types of devices and sensors help support a data-driven approach to underwriting and claims processes.

Innovation by insurtechs: These digitally native companies are bringing new capabilities to the pet industry, with a focus on enhancing the customer experience. Their primary focus in pet insurance is in three areas:

› Direct to customer distribution, such as the quote aggregator Policygenius.
› Focus on a digital claims process: A wave of emerging companies such as Petplan, Embrace and Trupanion are providing innovative digital experiences, especially in the claims process.
› New solutions: Digital solution providers are looking to collaborate with insurers to enhance the customer experience for insureds through value-added services in partnerships with insurers. For example, Figo Pet Insurance offers the Figo Pet Cloud – a cloud-based service that enables real-time pet GPS tracking, medical records management, mobile claims filing, social pet profiles, a pet-friendly business locator, vaccination and appointment alerts via a smartphone app.

This white paper covers the diverse trends and themes insurers should consider as they plan their entry or expansion in the pet market.

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Seven key themes for next-gen pet insurers

The rise of millennial pet owners and the growing use of pet tech wearables are two key areas that will drive future decisions and bring forth a range of considerations.

As insurers plot their pet strategies, they should keep in mind the following seven themes (see Figure 1):

1. **Product innovation: Change when, what and how pets are insured**

   - **Key disruptions**
     - Rise of Millennial Customers
     - Rise of Pet Tech & Explosion of Data
     - Need to Reduce Loss and Expenses

   - **Business imperatives**
     - Improve customer reach through strategic partnerships with vets, pet services, employers, breeders, kennel clubs.
     - Improve quote conversion through marketing, personalization & newer product models.
     - Improve pet-parent experience & retention.
     - Data-driven underwriting & reduced premium leakage.
     - Data-driven claims adjudication & reduced claims leakage.
     - Reduce claims frequency & severity through continuous & contextual loss prevention.

   - **Strategic themes**
     1. **PRODUCT MODEL INNOVATION**
        Transform the traditional product models to incorporate changes like pay as you live, episodic insurance.
     2. **BUSINESS MODEL INNOVATION**
        Check new product models/innovations & explore newer growth avenues through ancillary services.
     3. **DISTRIBUTION OVERHAUL**
        Enable agents to sell better & build strategic partnerships for greater reach.
     4. **DIGITAL USER EXPERIENCE ENHANCEMENT**
        Transform user journeys & experiences through digital solutions addressing users’ pains & gains.
     5. **CORE MODERNIZATION**
        Modernize legacy systems to better enable better processes, digitalization, product/business model innovations & business scale.
     6. **DATA/AI-DRIVEN PROCESS RENOVATION**
        Leverage data & AI to enable intelligent processing, greater automation & decision support for stakeholders.
     7. **LOSS PREVENTION SERVICE CHANGE**
        Provide real-time loss-prevention services for customers to enable better user experience & reduce claims.

Source: Cognizant

Figure 1
Consumers may question whether pet insurance provides good value for the money spent. Some might view pet insurance as costly and confusing: they may be unsure which procedures are covered (based on their pet’s breed), what exclusions exist and how costs might rise as the pet ages. Consumer Reports recently concluded that pet owners pay more in premiums over time than they would paying for medical bills directly.11 Plus, many consumers do not think they need pet insurance. All told, these combined factors weigh heavily on the buying decision.

This presents an opportunity for insurers to create compelling, innovative product offers, wrapped in a personalized omnichannel experience. Recommended offerings include:

1. **Risk-based or pay-as-you-live policies**, where additional premiums or discounts are calculated based on the pet’s lifestyle as measured through wearable sensors or other activity-monitoring devices.

2. **Event-based or episodic insurance** that covers specific time-bound activities such as an adventurous weekend trail walk.

With such models, insurers can underwrite risks previously deemed uninsurable and offer point-of-need prices.

### Business model innovation: Look beyond traditional insurance

A digitally enabled approach to product innovation can lead to new business models, such as:

1. **Peer-to-peer (P2P) insurance**: Millennials share many common interests in various social networks and they generally have a higher risk tolerance than older age groups, which suggests they would be open to joining online communities. P2P insurance brings together groups of like-minded people to cross-insure their pets and share refunds from their premiums based on claims made.

2. **Cross-selling complementary services**: Millennials are more open to buying or using adjacent or complementary non-insurance services/products from their insurers, as demonstrated by their adoption of wellness offerings.12 For example, customers of Embrace can add onto the company’s Wellness Rewards plan to get reimbursed for the pet’s routine care or preventative steps to avert emergencies.13 Insurers can find prime opportunities to launch complementary services such as service aggregation, pet food delivery, telemedicine, etc. Insurers looking to break into the pet insurance field could potentially capture market share through such services.

### Distribution overhaul: Change how products get to the market

1. **Direct-to-consumer (D2C) transformation**: The personal insurance space has seen a shift toward direct buying as customers embrace ecommerce and as products become simpler. With similar trends driving the pet insurance space, it is inevitable that pet owners would turn toward the D2C model. The recent success of pet-care comparison sites like Chewy or PetSmart is an early indicator of this emergent trend. Insurers should strive to adopt a more targeted, omnichannel, digitally-enabled distribution model to align with this new buying paradigm.
**Digital marketing:** Millennial consumers do not respond well to traditional advertising messages. Rather, millennials are known to follow only brands they trust. In addition, they expect their insurers to connect with them through their preferred digital channels. Pet insurers should thus look to build trust and connect with millennial customers through a tailored digital marketing strategy. A great way to engage this segment is to embrace online and social media platforms like Snapchat, Facebook, YouTube, Instagram, etc. For example, sharing informational videos about pet care within these channels is a potential way to keep customers engaged and connected. Such videos could cover topics such as how to clean your dog’s ears, which vaccinations are required based on a pet’s age, or how to keep a pet safe during seasonal weather/temperature swings, to name just a few. Insurers should aim to morph from being sellers of insurance who also provide pet care information, to being pet care experts that also offer pet insurance.

**Ecosystem-driven distribution:** Insurers should look to deliver synergistic value by collaborating with the other members of the pet care ecosystem: retailers, veterinarians, employers, animal shelters, breeders, pet health payment providers like pet credit cards, and pet care savings plans. By partnering with such channels, insurers can better establish the true value of pet insurance and achieve more revenue and market penetration than solo efforts. Bundled offers (i.e., liability insurance bundled with pet buying, or discounts with pet food partners on insurance purchases) can help drive such collaborations. Growing interest in the pet insurance sector from other players in the pet world also provides insurers partnering opportunities. For example, Petco recently acquired petinsurancequotes.com, an online pet insurance comparison site, reflecting its intention to expand beyond pet supplies into pet insurance.

Pet insurers should look to build trust and connect with millennial customers through a tailored digital marketing strategy. A great way to engage this segment is to embrace online and social media platforms.
Digital user experience enhancement: Transition from customer satisfaction to customer delight

Traditionally, price has been the main differentiator in the pet insurance market. With the rise of millennial customers, however, pet insurers are increasingly impelled to differentiate through an enhanced customer experience. Capturing the attention and loyalty of this segment can be challenging. Insurers need to simplify and digitize customer journeys across digital channels, and to delight customers with a 360-degree selection of value-added services beyond mere insurance. Figure 2 depicts a representative set of front-end capabilities that pet insurers will need to provide.

For pet insurers to effect this shift requires a human-centered design perspective. This involves identifying the personas of key stakeholders, tracking their user journeys and supplying relief for key pain points as well as opportunities for additional revenue streams across these journeys.

Key customer self-servicing capabilities

- View product information.
- View reviews.
- Get quotes.
- Compare quotes.
- Buy policy.
- Buy with pet credit cards & other innovative payment solutions.
- View policy information.
- Download policy document/ID.
- Buy complementary services (pet food, accessories, wearables).
- Provide pet care service options (like nearby day care, sitting centers, grooming centers, training, pet parks, etc.).
- Virtual coaches: pet food requirements, health tips, manage pet medical history (vaccinations, medications, routine checkups, tests), medicine alerts.
- Schedule appointments (vets, pet services).
- Monitor pet activity through wearable devices & suggest preventive care recommendations.
- Gamification/rewards to motivate owner to keep pet active & healthy.
- Collaborate with peers & share information.
- Access to animal control agencies, shelter organizations & rescue groups.
- Fill claims.
- Upload documents/bills.
- Track claim status.
- Automate claims FNOL with network vets.
- Create safety perimeters & track pet location.
- Self-servicing policy servicing capabilities like policy changes, cancellations, additional coverages.
- Add pets & change coverage.
- Renew policies.
- Store pet-related documents like medical bills, photos & medical records.

Source: Cognizant
Figure 2
Core modernization: Shed the legacy

Legacy core systems of existing pet insurers were built, patched and upgraded to support traditional manual processes. These aging systems are bound to affect the flexibility and scalability that are required for success. Insurers have to reimagine and modernize their core systems, rules and processes to promote flexibility, agility, innovation and speed-to-market. The “core” of this effort should revolve around business capabilities, as this will ensure that the derived technical capacities will best align with business outcomes. Figure 3 presents a representative functional architecture for a pet insurance platform.
Key business capabilities for pet insurers include:

- Flexible configuration of products/coverages; support white labeling of products.
- Flexible rules engine, one which allows ratings, business rules and workflows to be easily configured and tuned.
- Flexible rating, pricing and billing capabilities to support newer products.
- Unified dashboard view of all claims and relevant policy details for adjusters to process claims more accurately.
- Integrated case histories to provide an integrated view of customer interactions.
- Automated quote generation, policy binding, billing and claim processing workflows.
- Seamless integration with external interfaces/systems.
- Document management capabilities including scanning and capture/storage.
- Automated generation of omnichannel customer communication documents including explanations of benefits and all correspondence.
- Support for all desired payment modes.
- AI- and analytics-driven risk management and claims auditing.
- Timely reporting capabilities (monthly or quarterly).

Data-driven process renovation: Unlock the power of data

Pet insurance carriers can accelerate their digital evolution with advanced AI, which will enable them to automate core capabilities in new ways, such as the following:

- Intelligent process automation (IPA) will enable the direct issuance of low-value/low-risk policies and the straight-through processing of low-value claims. IPA will also help integrate optical character recognition (OCR), intelligent character recognition (ICR) and deep learning technologies. Some examples: reading unstructured scanned medical bills and intake claim documents, creating an automated FNOL, setting an automated initial reserve and assigning the best-fit claim adjustor, if required.
- AI will enable machine-learning-based decision support for underwriters and claim adjustors.
- AI coupled with intelligent automations will also allow carriers to continuously mine case and claim data to identify fraud and security risks in real time.

Figure 4 (next page) shows some of the use cases in the pet insurance value chain that data/AI can help enable.
Key AI-enabled use cases across the pet insurance value chain

**Underwriting**
- Create intelligent pet risk profiles based on policy submission, pet parent social/online data, vet records & other data sources.
- Underwrite analytics based on similar pets (breed, age, state/location).
- Recommend optimal coverage limits, copays & price.
- Automated UW for applicable cases.

**Claims**
- Read unstructured documents like pet photos/videos, determine potential illnesses & assist advanced reserving, segmentation & adjustor assignment.
- Leverage OCR/ICR/deep learning to automate intake of hospital/vet bills & other documents.
- Assimilate medical records & categorize pets’ medical reports.
- Apply pet claims analytics for adjudication.
- Employ pattern-based advanced fraud detection.
- Integrate with pet IoT devices & generate loss prevention alerts.

**Policy Servicing**
- Mobile/online chatbots to help in pet policy servicing.
- Automate pet policy servicing workflows.

**Distribution**
- Multichannel analytics & opportunities to cross/up-sell pet coverage.
- Identify cross-sell/unbundling opportunities with existing personal insurance customers.
- Prospect scoring & analytics for agents.

**Source:** Cognizant

Figure 4
The reconfigured pet claims journey
Cutting-edge technologies such as AI and advanced analysis enhance and simplify the user experience, while concurrently enabling claims-process automation and heightened efficiency.

Loss prevention service change: From indemnification to prevention
Finally, another potentially strong differentiator for pet insurers is loss prevention services. Pet owners two overriding concerns are their pets’ health and security. One way that pet insurers can continuously engage with their customers and better promote safety are device- or sensor-driven alerts – which, by reducing injury claims, can in turn translate into premium discounts.

The growing use of devices and wearables provides a great opportunity for insurers. Recent investments by RSA insurance are a harbinger of things to come.11 By enabling their systems to integrate with third-party wearable-device data (pets’ activity level, heart rate, bowel movement frequency, etc.), pet insurers will gain significant insights. They can continuously monitor these data streams and pass contextual recommendations...
Representative real-time loss-prevention scenarios

Three stories that show how pet wearables and owner apps work in conjunction to help ensure the animal’s health and welfare.

**Lassie has been wearing an IoT wearable for over a year. John monitors the stats on his phone via an IoT app.**

John receives an alert about Lassie on reduced activity levels, fewer burnt calories over the last quarter & a possible skin disease. The pet insurance app sends John an alert to please consult a vet to manage diet & provide any needed treatment for a skin disease.

John takes Lassie to the vet, who confirms that Lassie is indeed obese & has a developing skin disease. The vet administers corrective actions, reducing the chance of an obesity-related illness or a skin condition & preventing a potential claim.

**John gets an alert on his phone from the pet insurance app & IoT app about Lassie’s unusual activities/patterns – an abnormal heart rate & an increase in her anxiety level.**

John immediately checks the live feed from the WiFi camera installed in his house, and sees that Lassie is lying hurt and her leg is bleeding. John rushes home while monitoring the live feed and health levels.

John reaches home, quickly stops the bleeding & takes her to a vet. A major issue is averted as John is able to administer critical & timely treatment.

**John & Lassie are walking in the park. Lassie is spooked by some commotion, and runs away. John is unable to find her.**

John checks the app for location details. The app provides an accurate location of where Lassie is and a live update of Lassie’s movements.

John uses the live tracking features on the app to locate Lassie: they are reunited.

Source: Cognizant

Figure 6

to the pet owner to help improve their pet’s health; doing so means a proactive approach to reducing probable claim losses, versus the traditional reactive approach. Insurers could further track pet parent activities by integrating with social and online data, stay abreast of the pet’s risk ecosystem and deliver contextual wellness recommendations. For example, insurers could issue mobile alerts to the pet parent during a vacation trip with the pet in tow, alerts such as wellness information based on climate conditions, nearby pet clinics or pet care centers, water/calorie intake parameters and potential health hazards. Gamification can help deliver an even more vivid experience.

See Figure 6 for several such loss-prevention scenarios.
Conclusion

The pet insurance market is ripe with significant untapped opportunity as evidenced by changing customer dynamics, the advent of pet technology and entry of insurtech players. Insurance carriers that take advantage of these developments to innovate with new customer-centric insurance products and services by driving a holistic digital strategy will be tomorrow’s market leaders. This journey will not be easy given the challenges of updating legacy processes, modernizing archaic systems and changing consumer behaviors. Designing a lean, cost-effective and digital-enabled operating model is critical, as insurers reimagine the future of pet insurance.

Endnotes

14 “Millennials don’t respond well to traditional advertising messages,” Lyfe Marketing, 2019, https://www.lyfemarketing.com/blog/marketing-to-millennials/.
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