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EXCERPT

NAIC Pet Insurance White Paper Released and Pet Insurance Model Act Under Development

Pet insurance is receiving increased attention from insurance regulators. As Americans increasingly purchase insurance to help cover their pets' veterinary bills, the NAIC is taking a closer look at an insurance marketplace that until recently was treated sparsely and inconsistently by state insurance regulators. In 2019 the NAIC released a pet insurance white paper entitled, *A Regulator's Guide to Pet Insurance* and also began the development of a pet insurance model law.

Background

Pet insurance provides accident and illness coverage for pets. Although pet insurance is similar in many ways to human health insurance, it is classified and regulated as property and casualty insurance. Unlike traditional property and casualty insurance, however, pet owners purchase pet insurance for reasons other than purely monetary reasons –to protect their pet's health as well as to help manage the cost of veterinary bills. Coverage options vary by insurer. Most pet insurers write coverage for cats and dogs only, but at least one carrier offers coverage for exotic pets, such as reptiles and birds. Pet insurance coverage is concentrated in large urban areas, with New York and California being the largest markets.

The first pet insurance policy in the United States was issued in the early 1980s, and the market has grown significantly since that time. According to the NAIC white paper, there was a 23.2% increase in premium volume in 2017 from 2016, compared to only a 4.7% increase over the same time period for the property and casualty market as a whole. The direct written premium for pet insurance in the United States, was also approximately $640 billion in 2017.

State insurance laws and regulations that apply specifically to pet insurance are sparse and inconsistent. Currently, California is the only state with insurance laws that specifically govern pet insurance. As of this date, a pet insurance bill has been introduced in New York, but has not yet been enacted. Most states require a property and casualty insurance producer license to sell pet insurance policies, but a few states—Idaho, New Jersey, Rhode Island and Virginia—allow pet insurance to be sold under a limited lines license. By way of illustration, a limited-lines license is a license that a travel agent, for example, would need to sell travel insurance, while a full property and casualty license is required of producers selling homeowners or auto insurance.

The NAIC's increased attention to the regulation of pet insurance is due, at least in part, to recent enforcement actions against a large pet insurer. In 2013 the Washington Office of Insurance Commissioner began monitoring a pet insurer for suspected use of unlicensed producers and eventually initiated a targeted market examination of that insurer. Ultimately, the pet insurer and its affiliates were fined by regulators in Maine, Kansas, Missouri, Massachusetts and Washington. The alleged violations included using unlicensed and unappointed producers, issuing unfiled policies, charging unfiled rates and paying unlawful inducements. In light of the growing popularity of pet insurance, these recent enforcement actions have led state insurance regulators to consider whether additional initiatives are warranted to regulate pet insurance and protect consumers.

NAIC White Paper

The NAIC white paper provides a history of the pet insurance market, outlines different approaches states have used to regulate pet insurance, and identifies "a number of concerns that might be served by development of a model act." Such concerns include:

1. **Marketing of pet insurance under brand names.** It is common for pet insurance policies to be marketed under a brand name rather than the legal name of the insurance company that is actually underwriting the policies. This practice creates confusion for consumers, insurance agency employees, TPAs, veterinary clinics, hospitals and for regulators. Such practices, including failing to prominently identify the underwriting insurer, are susceptible to violations under state insurance laws prohibiting unfair trade practices.
2. **Insufficient disclosure to consumers.** There is often insufficient disclosure with respect to key policy terms, such as annual and lifetime limits and exclusions for congenital conditions and pre-existing conditions.
3. **Using unlicensed producers to market and sell pet insurance.** Pet insurers often contract with licensed insurance producers, but those licensed producers may use unlicensed, unappointed call center employees in their business operations. Moreover, pet insurers frequently partner with unlicensed veterinary clinics and use them and their employees to market pet insurance. These activities may violate state producer licensing laws.
4. **Regulatory oversight of pet insurance rate and form filings.** Some of the pet insurers and their branding entities are using unfiled policy language and rates. There is further concern about the use of premium waivers, satisfaction guarantees, unfiled discounts and pre-dispute arbitration clauses.
5. **Lack of data related to pet insurance.** Pet insurance data is not reported separately from other types of insurance. For example, while pet insurance mostly provides accident and health coverage or accident-only coverage for pets, it is classified for regulatory purposes as property and casualty insurance. It is reported on line 9 of the NAIC property and casualty statutory financial statement, which is for inland marine insurance (a category that includes various other types of coverages). Because pet insurance premium is reported together with other inland marine insurance coverage, it is hard for state insurance regulators to determine the exact premium volume for pet insurance. In addition, pet insurance is not separately identified in most state complaint databases which makes it difficult to track trends in pet insurance consumer complaints. The inability to analyze data specific to the pet insurance industry presents an obstacle for state insurance regulators to understand the current state of the pet insurance industry.
6. **Difficulties posed for reciprocal producer licensing.** Most states require a full property and casualty producer license to sell pet insurance, but a handful of states permit pet insurance to be sold by producers holding a limited lines license. If a producer who holds only a limited lines license for pet insurance in its home state applies to become licensed in another state that does not have a limited lines license for pet insurance, that producer may, depending on the state's reciprocity rules, be granted a property and casualty producer license, with the limitation that the producer's authority is restricted to the authority granted by its resident state. For example, Idaho issues a resident limited lines producer license for pet insurance, but Washington does not. If Washington would issue a non-resident property and casualty producer license to the Idaho resident, this producer would be restricted to the authority granted in Idaho. However, it will not be visible on the face of the license that it is restricted to pet insurance, and licensing databases will only show that the non-resident license has been issued for the property and casualty line of authority.

NAIC Pet Insurance Model Act

At the NAIC Summer Meeting, the Property and Casualty Insurance (C) Committee formed a Pet Insurance (C) Working Group to draft a model law or guideline to establish appropriate regulatory standards for the pet insurance industry. The working group has been discussing a draft of a Pet Insurance Model Act, which is still undergoing review and revision. Comments on the draft have been submitted by both state insurance departments and interested parties from industry, such as the American Property and Casualty Insurance Association and the North American Pet Health Insurance Association. The model act drafting process is expected to extend well into 2020 and beyond.

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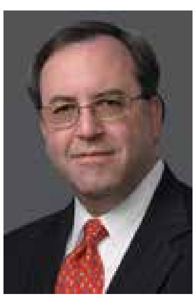

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