

Digital Business

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 pets⁴ 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 millennials⁵ 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.⁷ 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.⁸ 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.⁹
 - › 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.¹⁰

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

The opportunities for pet tech are vast, from automated food dispensers and climate-controlled pet houses to pet doors with facial recognition.

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 business & technology themes



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:

- I **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.
- I **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.

2

Business model innovation: Look beyond traditional insurance

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

- I **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.
- I **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.

3

Distribution overhaul: Change how products get to the market

- I **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.

- I **Digital marketing:** Millennial consumers do not respond well to traditional advertising messages.¹⁴ 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.
- I **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](https://www.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.

4 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.

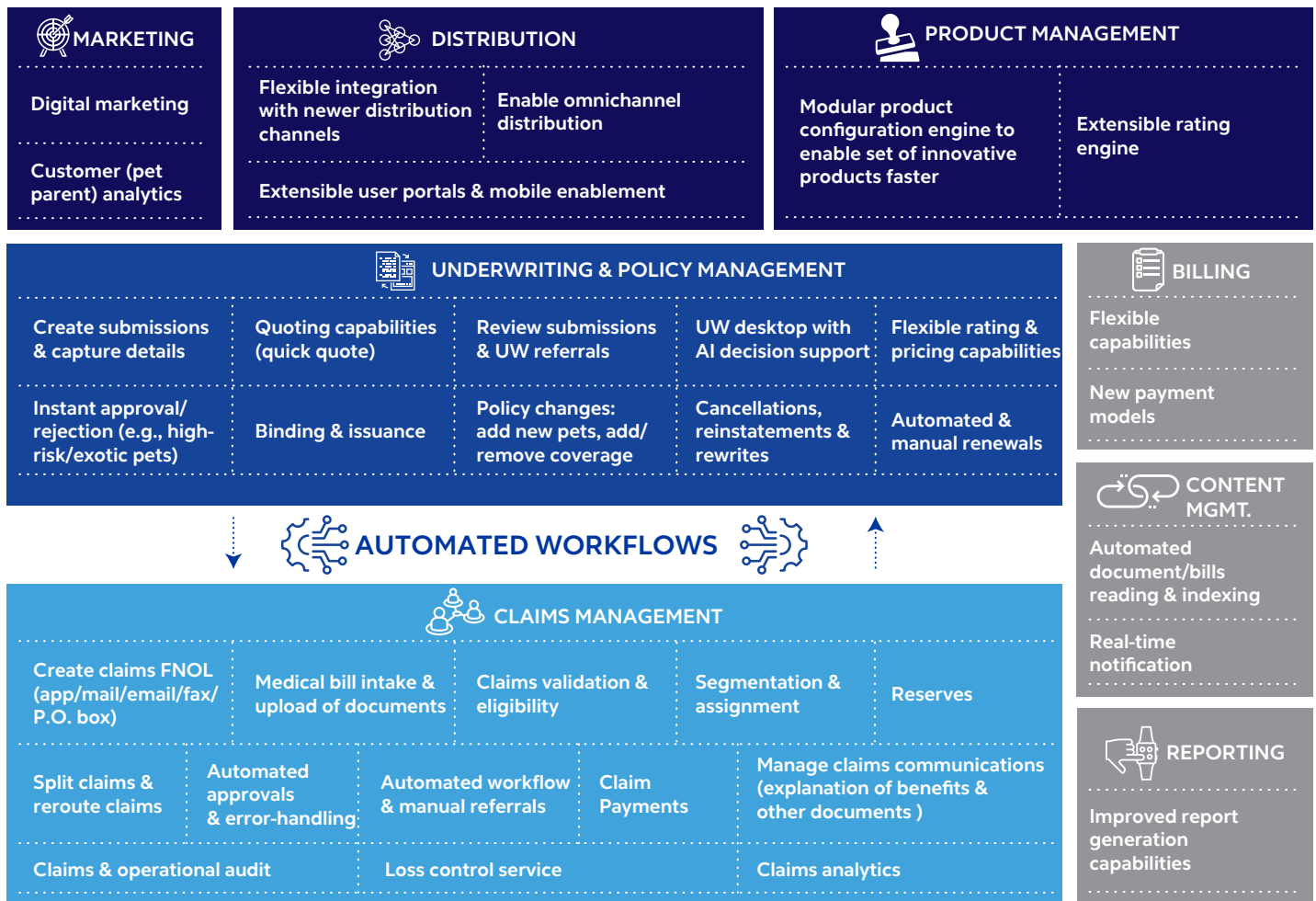
For pet insurers to effect this shift requires a human-centered design perspective. This involves identifying the personas of key stakeholders, tracking their user journeys and supplying relief for key pain points as well as opportunities for additional revenue streams across these journeys.

Key customer self-servicing capabilities



Source: Cognizant
Figure 2

Representative functional architecture for the modern pet-insurance core platform



Source: Cognizant
Figure 3

5 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



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.



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.



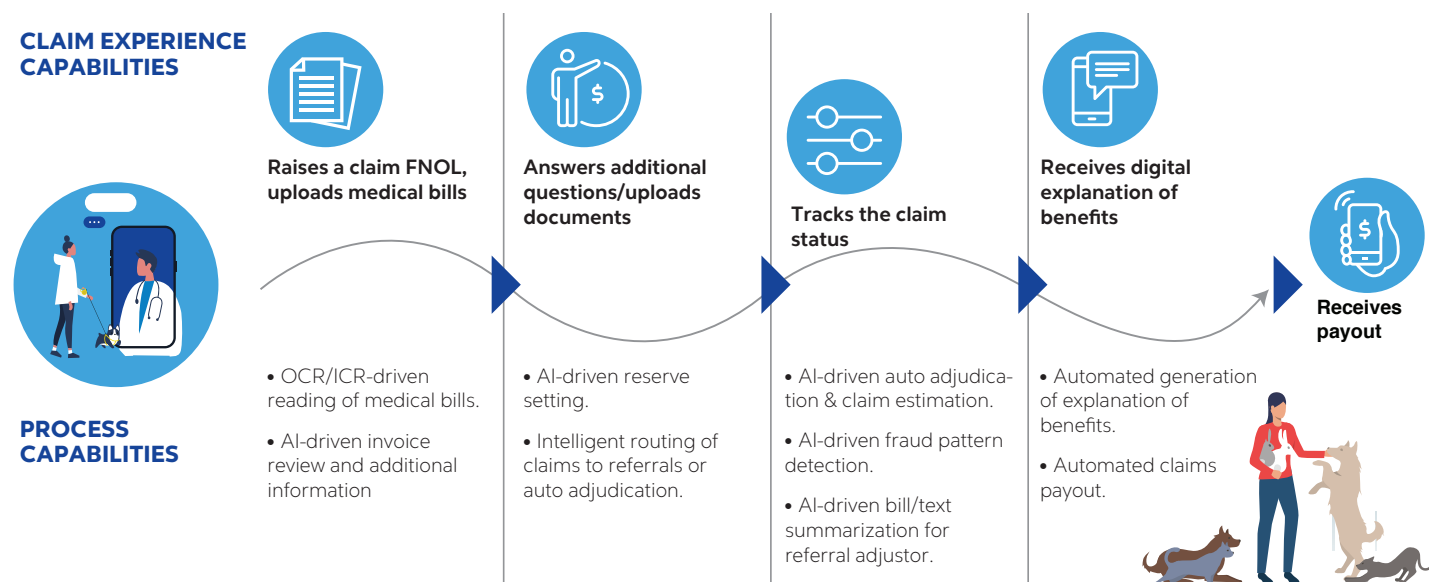
Policy Servicing

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

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.



Source: Cognizant
Figure 5

The question is, what to tackle first? Most of the new entrants in the pet insurance space are betting big on innovative claims experience capabilities as a key differentiator. With the success of this formula in other insurance lines, pet insurers are smart to shift gears on their claims experience as well. While keen industry competition drives this mandate, the shift also helps pare insurers’ large claims-processing expenses. Today’s claims process is cumbersome, with highly manual processing of paper bills and human-intensive adjudication. AI and advanced data analysis offer a great opportunity for pet insurers to upgrade both user experience and in-house efficiency. Figure 5 depicts a next-generation claims process, intersecting both front-end and process capabilities.

7 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.¹⁵ 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.



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

- 1 "Pet Insurance Market value to hit \$10 billion by 2025: Global Market Insights, Inc.," Globe Newswire, Oct. 14, 2019, <https://www.globenewswire.com/news-release/2019/10/14/1928923/0/en/Pet-Insurance-Market-value-to-hit-10-billion-by-2025-Global-Market-Insights-Inc.html>.
- 2 "Lemonade is capitalizing on the burgeoning pet insurance market in the US," Business Insider, 2020, <https://www.businessinsider.com/lemonade-launching-us-pet-insurance-2020-2?r=AU&IR=T>.
- 3 "Why the Pet Insurance Industry is Booming," dvm insider, July 22, 2019, <https://www.dvm insider.com/why-the-pet-insurance-industry-is-booming/>
- 4 "How Millennials Spend on Their Pets," petbusiness.com, 2018, <http://www.petbusiness.com/How-Millennials-Spend-on-Their-Pets/>.
- 5 [https://www.dvm360.com/view/pet-health-insurance:-how-\(and-why\)-to-cater-to-millennials](https://www.dvm360.com/view/pet-health-insurance:-how-(and-why)-to-cater-to-millennials).
- 6 "Pet health insurance: how (and why) to cater to millennials," dvm360.com, 2020, https://www.pewresearch.org/fact-tank/2019/09/09/us-generations-technology-use/ft_19-09-03_digitaldividegenerations_1/.
- 7 "Current And Future Role Of Wearables In Healthcare," digitalistmag.com, 2020 <https://www.digitalistmag.com/customer-experience/2019/06/04/current-future-role-of-wearables-in-healthcare-06198759/> and Global insurer RSA has made its first external investment in a financial technology company – Pitpatpet, vettimes.co.uk, 2019, <https://www.vettimes.co.uk/news/rsa-invests-in-wearable-technology-firm/#>.
- 8 "Pet genomics medicine runs wild," nature.com, July 25, 2018, <https://www.nature.com/articles/d41586-018-05771-0>.
- 9 "Revolutionizing the Pet Medical Insurance Industry by Processing Claims in Seconds – Data Science at Trupanion," <https://www.dominodatalab.com/customers/trupanion/>.
- 10 Deb Smallwood, "8 Exemplars of Insurtech Innovation," Insurance Thought Leadership, Sept. 22, 2016, <https://www.insurancethoughtleadership.com/8-exemplars-of-insurtech-innovation/>.
- 11 "Pet Insurance: A good deal? Or a rip off?" Nbcnews.com, 2020, http://www.nbcnews.com/id/43916934/ns/business-consumer_news/t/pet-insurance-good-deal-or-rip/#.XuFSF0VKhPZ.
- 12 "Millennials are interested in buying non insurance complementary services or products from Insurers," Cision, 2019, <https://www.prnewswire.com/news-releases/survey-62-of-millennials-would-put-pets-health-before-their-own-300978756.html>
- 13 "Wellness Rewards for Routine Care," embracepetinsurance.com, <https://www.embracepetinsurance.com/coverage/wellness-rewards>.
- 14 "Millennials don't respond well to traditional advertising messages," Lyfe Marketing, 2019, <https://www.lyfemarketing.com/blog/marketing-to-millennials/>.
- 15 "Barks and bytes: the rise of wearable tech for pets," Guardian.com, 2018, <https://www.theguardian.com/lifeandstyle/2017/feb/03/wearable-tech-for-pets>.

About the authors



Chris Blatchly

Chief Digital Officer & Consulting Leader for Insurance, Cognizant

Chris Blatchly is the Chief Digital Officer and Consulting Leader for Insurance at Cognizant. He helps insurers harness the power of new technologies and the information it creates to build their capabilities and transform their businesses. As a former consulting partner, software company business unit leader and large company IT executive, Chris has a unique perspective on technology strategy and executing process-driven business change. He has a deep background in insurance and financial services, and has often been in the forefront of working with the latest technologies and successfully implementing them for his clients. Chris holds an MBA in marketing from the University of Toronto, a master's degree in economics from Western University and a bachelor's degree in economics from Trent University. He can be reached at Christopher.Blatchly@cognizant.com | www.linkedin.com/in/chrisblatchly-3981a39.



Ramanujam Venkatesan

Property & Casualty Insurance Consulting Leader, Cognizant

Ramanujam Venkatesan is a Director for Cognizant Consulting's Insurance Practice, and leads the Property & Casualty (P&C) Insurance Consulting Practice. Ram has advised many insurance carriers across North America, Europe and Asia-Pacific. He has extensive experience in setting up venture strategies for leading companies across the globe. Ram is also a thought leader who has published many papers and articles about opportunities in the insurance industry. He has a postgraduate degree in management from the Indian Institute of Management (IIM), Indore, and a bachelor's degree in engineering from the University of Madras. Ram can be reached at Ram.V@cognizant.com | www.linkedin.com/in/ram-venkatesan/.



Vinodh Stanley Stephen

Insurance Consulting Manager, Cognizant

Vinodh Stanley Stephen is a Consulting Manager within Cognizant Consulting, focused on the insurance industry. Vinodh has worked with senior insurance executives across North America and the Asia-Pacific zone. His consulting experience includes business transformation advisory, innovation advisory, digital strategy, process change, operating model redesign, platform modernization and business case development. Vinodh has also conceptualized innovative solutions and published many thought leadership papers in the digital insurance space. He has a master's degree in

management from the Institute for Financial Management and Research (IFMR) and a bachelor's degree in engineering from Anna University. Vinodh also holds certifications from AICPCU and CII. He can be reached at Vinodhstanley.Stephen@cognizant.com | www.linkedin.com/in/vinodh-stanley-stephen-50206218.



Vinay Alexander

Senior Consultant, Property & Casualty Insurance, Cognizant

Vinay Alexander is a Senior Consultant within Cognizant Consulting's Insurance Practice. A certified AINS professional, Vinay has 10 years of experience working with multiple P&C insurers and brokers across Europe and North America in IT product development, functional implementation, business analysis, business process consulting and digital transformation. He received a PGPM in marketing and sales from the Great Lakes Institute of Management, Chennai. Vinay can be reached at Vinay.Alexander@cognizant.com.

www.linkedin.com/in/vinay-alexander-830301bb/.

Acknowledgments

The authors would like to thank Thomas Gukelberger, a Cognizant Assistant Vice President, and Mitchell Janoff, a Cognizant Consulting Director, for their thoughtful feedback and inputs in the creation of this white paper.

About Cognizant Insurance

Cognizant's Insurance Practice, one of our largest industry verticals, partners with insurers to evolve their business and technology landscapes and enable end-to-end digital transformation. Thirty-three of the top 50 U.S. insurers and seven of the top 10 global insurers rely on us to help manage their technology portfolios, comprising their life, annuities, and property and casualty insurance lines. From large-scale core system renovation to cutting-edge technologies like AI/ML, advanced analytics, blockchain and automation, we partner with enterprises to envision and build the digital insurer of the future. Learn more by visiting www.cognizant.com/insurance.

About Cognizant

Cognizant (Nasdaq-100: CTSI) is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps clients envision, build and run more innovative and efficient businesses. Headquartered in the U.S., Cognizant is ranked 194 on the Fortune 500 and is consistently listed among the most admired companies in the world. Learn how Cognizant helps clients lead with digital at www.cognizant.com or follow us [@Cognizant](https://twitter.com/Cognizant).



World Headquarters

500 Frank W. Burr Blvd.
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277

European Headquarters

1 Kingdom Street
Paddington Central
London W2 6BD England
Phone: +44 (0) 20 7297 7600
Fax: +44 (0) 20 7121 0102

India Operations Headquarters

#5/535 Old Mahabalipuram Road
Okkiyam Pettai, Thoraipakkam
Chennai, 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060

APAC Headquarters

1 Changi Business Park Crescent,
Plaza 8@CBP # 07-04/05/06,
Tower A, Singapore 486025
Phone: + 65 6812 4051
Fax: + 65 6324 4051