

CUNA MUTUAL GROUP
CUMIS Insurance Society
Bivvy – A Pet Health Insurance Policy

Actuarial Memorandum – Form Number PH001-1221CT

Introduction

CUMIS Insurance Society is submitting for approval this rate filing supporting our Bivvy Pet Health Insurance Policy providing Accident and Sickness coverage for Dogs, Cats, and other Family Pets. The product was first introduced in Connecticut in January 2020. This actuarial memo and filing updates our policy language, increases the base rate from its originally filed level to a new level which we have been using in other states in late 2020 and 2021 expansion filings. The filing will also include the rating basis for expanding coverage to other family pets listed in endorsement PH001-R31-1221. The increased base rate level will only apply to customers who purchase after the effective date and implementation of this filing. We will manage the existing cohort of policyholders at their current rate level. The cohort is small enough that it will not significantly impact the products financial sustainability. It also feels like the correct way to handle customer expectations and will limit any negative consumer reaction to either us or to you as regulators for those consumers.

Overview of Actuarial Memo: We have limited data at this point and little meaningful data to support the assumptions being made in this actuarial memorandum. We have put controls in place that limit the overall liability and are backed (Owned by) in this testing by CUNA Mutual Group – CUMIS Insurance Society. Through testing, we know consumers have expressed a need for this protection of their Dogs Cats and other Family Pets, that they understand the limits being placed on the product designs and that they find value in the coverage at the price points supported by the filing.

Rule 1.0 Policy Form
Form Number PH001-1221CT

Description of Product

This product provides for consumer reimbursement of fees associated with unplanned pet care expenses for Accident & Sickness, for dogs and cats at the provider of choice for the consumer. There is an optional wellness care endorsement which offset the cost of some level or routine pet care.

The design utilizes pet lifetime limits, annual limits, per incident limits, per claim deductible, annual deductibles, and coinsurance options. The product is mainly offered direct to consumer through digital marketing techniques and is supported by other traditional awareness campaigns (Radio, billboard, and TV advertising). It will also be made available to employees by employers through employer communications. The employee however will purchase coverage through the direct-to-consumer channel. A consumer will be offered 1-3 different product combinations at any point in time. Certain product combinations will not be offered. The product is renewable annually.

CUMIS Insurance Society maintains the right to underwrite the business and determine certain pets and pet owners are not eligible for coverage. Initially, it is not our intent to underwrite nor specify rating by breed, age, or geography of the pet. Breed is used in one design to determine

the size of dog, utilized in rates by size.

Premiums are charged monthly to the consumer with discounts for payment frequency other than monthly.

Support for increased Base Rate

In the original filing – the stated loss ratio objective was 65% and that remains our target loss ratio. Early indications, which comes from a limited amount of data is that the year two or renewal experience is elevated – by a factor of almost 100%. Meaning the renewal business is experiencing almost twice the claim dollars (both severity and incidence) when compared to the experience we see in the first policy year. We used these insights in many states in filings done in the second half of 2020 and throughout 2021 to increase the base rate from \$16.58 to the current base rate of \$21.55. That represents a 30% increase in the base rate.

The combined experience for all states written under the \$16.58 base rate plan follows as does the specific data for the state of xxx.

	Premium	Claims	Loss Ratio
States on \$16.58 base rate manual	\$4,617,153	\$2,617,948	56.7%
Connecticut detail	\$447,833	\$290,860	64.9%
Inception to date data as of 11/4/2021			

The overall loss ratio for this cohort would grow quickly beyond the target loss ratio of 65%. While we do not intend to modify existing rates – we are using this insight to price the prospective book of business by increasing the base rate to our new standard of \$21.55.

Rule 2. Premium Determination

Rating Methodology

This product is innovative for both CUNA Mutual and for the industry due to limited nature of benefits, the low-cost options compared to existing carriers and the intention to treat all pets equally versus determining product pricing by age, breed, and geography. There is very little historical experience to use in the determination of base rates.

The product has both severity and frequency risk. We have utilized a lognormal simulation with data inputs from our existing customer base where a mu factor of 5.0 and a Sigma factor of 1.0 are utilized. The product limits seek to balance these risks and to develop a rating plan that anticipates an expected loss ratio of 65% over an assumed 4-year span of coverage. Any given plan of insurance will develop a loss ratio based on its fixed and variable expense load. The loss ratio is not part of the rating equation. Our initial starting point for building claims expectations are based on the following two assumptions. The starting basis of all rate options is monthly claim cost of \$21.55 per insured pet.

- Claim incidence of 31%
- Claims severity of \$208 per approved claim

Expense assumptions utilized in the pricing (modify the loss ratio assumption but allocate cost appropriately between higher limit and lower limit products – which have generally equal