TRADE SECRET - CONFIDENTIAL

February 17, 2023

To whom it may concern,

We are writing this memo to expedite our recent filing under state tracking number R2023000657. This memo is intended to address any concerns the department may have with either the timing (being filed so quickly after approval of R2022003721) or the amount of rate increase we are proposing. We hope that this memo can offer more context and better explain our rationale attached to the current filing addressing the technical issues with our first submission. The current filing being R2023000657.

American Pet Insurance is a mono-line insurance company that underwrites products solely in the Pet Insurance line of business. Our largest product Trupanion has been available in North America for over 20 years. Our mono-line approach allows us to focus all our actuarial resources studying to keep on top of emerging cost of care trends, veterinary industry developments and pet health changes over time. Veterinary care for pets is changing and developing at a very rapid rate. Similar to human health, the vet industry has access to improved technology for diagnostics, more advanced surgical techniques and strong competition to both attract and keep top-tier talent, to name a few examples.

The Trupanion product has two specific product and pricing elements that make it unique.

1. We don't try to control the cost of vet care – We pay the full amount of the invoice (minus any member cost sharing) and we don't have fee schedules, visitation limits or line item benefit caps. This means that as the cost of veterinary care goes up our claims go up proportionally. In fact, our claims often increase faster than inflation because by having our product, pet owners are able to say 'yes' to better care for their pets, instead of opting for lower cost and potentially less effective treatment methods.
2. We don't increase rates automatically as pets age – We are unique in this. All our competitors will automatically increase premiums for individual pets as they age by using an attained age pricing curve. In contrast, we have no automatic increases built into our rating formula. Every rate increase over time is based on claims experience and must be reviewed and approved by the Department. Absent approved rate changes by the state we cannot (and do not) change a pet's premium over time.

Because our claims costs are sensitive to veterinary inflation and because we have no way to increase rates absent approvals from the state we find it's important to monitor our experience closely, submit filings frequently and rely on timely approvals from the department.

The most recently approved filing R2022003721 was a resubmission of R2022000861, submitted on 3/1/2022 which included the following data points to develop our rate indication:

Experience Period:	Jan 1, 2021 - Dec 31, 2021
Experience Period LR:	69.6%
Claims Trends YoY:	6.7%
Projected Rating Period LR:	76.4%
Target Rating Period LR:	62.2%
Proposed Increase:	6.4%

This filing was approved on 11/14/2022. We proposed an increase at this time that was in line with medical trend despite being quite a bit lower than our indicated rate need. The 6.4% was a result of

keeping our base rate change relatively low and focusing our rate factor adjustment in risk categories that needed refinement. We appreciate the collaborative nature of the Department and had many strategic communications about what we were trying to accomplish with your team. When we submitted this filing we felt that best way to get both a much needed risk category refinement along with an expedient review and approval was to limit our overall increase and keep our category refinements under 30%. The 6.4% is a result of updating our risk factors on a very small percentage of our pets. This is demonstrated in our rate change histogram from R2022003721, close to 85% of our book received less than 10% increase on their rates.

American Pet Insurance Company
New York: Personal Inland Marine / Pet Insurance
Trupanion Program - Pet Health Insurance - Effective: July 1, 2022
Experience period from January 1, 2021 to December 31, 2021
RT-2 (Histogram of Policyholder Rate Changes)

Table 1 - Histogram of policyholder impact by % change

Rate Change Range	Policy Count	% of Policies	Cumulative % of Policies
Less than -30%	0	0.0%	0.0%
-30% to -20%	8	0.0%	0.0%
-20% to -10%	31	0.1%	0.1%
-10% to 0%	5,264	13.2%	13.3%
0% to 10%	28,445	71.6%	84.9%
10% to 20%	1,766	4.4%	89.3%
20% to 30%	4,235	10.7%	100.0%
Over +30%	0	0.0%	100.0%
	39,749	**100.0%**	

During the eight months it took the department to review R2022000861 (approved as R2022003721) inflation rose to unprecedented levels within the Vet Services Industry. As you can see from the following CPI data points from the US. BLS, in 2022 inflation nearly tripled.

12-Mo Ending	Vet. Services CPI% *
Nov. 2018 - Nov. 2019	4.7%
Nov. 2019 - Nov. 2020	3.5%
Nov. 2020 - Nov. 2021	3.4%
Nov. 2021 - Nov. 2022	11.0%

*Source: https://www.bls.gov/bls/news-release/cpi

As mentioned before, CPI is only one component of our medical claims trend. On top of unit cost increases, we also see increased costs related to improved treatments and diagnostics and higher utilization of services. As you can see from our own data our claims per pet rose to 13% during the last few months of 2022, nearly double what it was the prior year.

		NY			
Year	Quarter	Petmos	Paid	Paid PPPM	PPPM Trend
2021	3	119,796	$6,846,682	$56.48	5.5%
2021	4	120,195	$6,941,864	$56.88	5.6%
2022	1	120,353	$7,549,759	$58.76	8.5%
2022	2	121,195	$7,534,304	$59.96	7.0%
2022	3	122,575	$8,268,831	$62.55	10.7%
2022	4	124,218	$7,926,024	$64.05	12.6%

While we appreciate the departments concern over the quick turnaround between the submission of R2023000657 and the approval of R2022003721. The data in filing R2022003721 was based on CY 2021. Regardless of how long it took the Department to review the filing, the data is now stale. We feel it is prudent and financially responsible to update our pricing for more recent data and projected loss trends, especially this environment of record high inflation.

With our more recent data and updated experience period we include the following data points to support our filing:

Experience Period:	Oct 1, 2021 - Sep 30, 2022
Experience Period LR:	69.3%
Claims Trends YoY:	12.6%
Projected Rating Period LR:	80.3%
Target Rating Period LR:	62.2%
Indicated Rate Change	30.5%
Proposed Increase:	22.2%

We understand that there will be a small number of pets (less than 3%) that will receive an increase with this filing of >30% and this would be no different than what our competitors can do by moving their base rate up to 29.9% and then allowing their attained age curve to increase a pets premium an extra 5% - 15% on top of that in a given year. Again, we don't have those same automatic increases built in.

We acknowledge the department had concerns about our filing just a few weeks after our last approval and that our approach to the frequency of our filings is different than what the Department sees from our competitors. In light of the information presented above, we are resubmitting this rate request for approval and implore the Department to review and approve in a timely manner.

If you would find it helpful we'd be willing to get on a call to discuss this in person. Please don't hesitate to reach to us with the contact information included below.

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February 17, 2023
Date

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February 17, 2023
Date