

Consuming Pet Insurances: Buying Financial and Medical Safety

AIJA KAARTINEN,
SUVI NUUTINEN, MINNA AUTIO
*Department of Economics and Management,
Faculty of Agriculture and Forestry
University of Helsinki*

Increasing business – the pet market

Pet-related industry, products and services are an ever-increasing business (Tesfom and Birch, 2010, 898; Syrjälä et al. 2014, 22). In the United States, pet related business, including the pet food industry and pet-related services, has grown tenfold since the end of the 1990s (Chen et al., 2012, 117). Consumption on pets and related products (including food) in Finland in 2012 was 14 times the value of the consumption in 1975; consumption on veterinary and other services for pets had quadrupled (Statistics Finland 2014). Thus, studies and statistics show that pet owners spend more money on their pets than ever.

In Finland, one-third of households have at least one pet, the most common being a dog (Nurmela 2012, 38–41). Pets have a particular place in the pet owner's heart and life, and owners are deeply engaged with their pets. The relation

between owner and pet helps them to gain mental and physical well-being and happiness (Holbrook et al. 2001, 1–3). Pets are also referred to as beloved family members which significantly influences how their owners spend their leisure time and money (Nuutinen 2014, 45). Scholars claim that pets play many different roles in the lives of consumers, including status symbols, friends, family members or work buddies (Hirschman, 1994, 617–619; Beck & Katcher, 1996, 73; Holbrook, 2008, 546). Although pet owners are committed to their pets, people are aware that pets are animals and not humans comparable to children or spouses (Hirschman, 1994, 618; Holbrook, 2008, 546; Holbrook et al. 2001, 1; Nuutinen, 2014, 45–46).

In the following, we provide an understanding of the consumption habits of pet owners in the context of the pet insurance market (Nuutinen 2014). The results are based on qualitative analysis of



interviews with 37 dog owners collected in Finland in 2013 and in 2014. The data shows that when owners make pet-related consumption decisions, their pet's well-being has a key role in the process (see also Syrjälä et al. 2014).

Pet welfare and veterinary care

Previous studies show that the characteristics of the human-animal bond affect the consumption choices of pet owners (e.g., Belk 1996, 128; Chen ym. 2012, 119; Jyrinki 2010, 31–35). Pet owners make major financial decisions concerning the welfare of their pets during their lifetime, including health care, food, and other supplies (Holbrook, 2008, 546). Nowadays, consumers are willing to spend on the welfare of their pets (including food, services), and for their veterinary care (Brockman et al. 2008, 397). Unlike human family members in most countries, pets do not have public health care.

According to Paul and Skiba (2012, 88) pets could have medical and surgical treatment as complex and developed as humans do. Many pet owners think that their pet family member should have the same chance of survival in the case of sickness and injury as human family members do (Syrjälä et al. 2014). This means that the costs of treating pets are increasing. Pet owners are willing to take out health insurance in order to secure the best possible medical

care for their pet even when they could not afford to pay for it from their regular income or savings. The increased costs of veterinary care have affected the increasing popularity of pet health insurance and veterinary discount plans (Paul and Skiba, 2012, 90).

According to McConnell and Drent (2010, 2), Swedish companies offered pet insurance in the 1890s. However, there are only a few studies on this subject (e.g., Paul & Skiba, 2012; McConnell and Drent 2010), and the whole industry has grown mainly in the 2000s. In the United States, pet insurance came onto the market in the 1980s (Paul & Skiba, 2012, 90). In the following, we will shed light on how Finnish consumers think about pet insurance.

The consumer heuristics of pet insurances: simple rules for everyday life

Consumers apply everyday principles – techniques for making choices that find a satisfactory solution via mental shortcuts – when they make decisions on whether or not to take out insurance for their pet (Nuutinen 2014). The concept of the mundane reason helps us to understand how people act in their everyday lives (Pollner, 1987, 1–13; Timonen, 2002, 35–36). Traditional economic theory is based on the assumption that economic behaviour is rational (Simon 1978, 2). This the-

ory assumes that people have unlimited information about the choices available when making decisions.

Timonen (2002, 35) has pointed out that theory of bounded rationality explains better how people use mundane reasoning in everyday practices like consumption choices. The theory of bounded rationality assumes that people try to make the best possible choices within a reality where time, knowledge and other resources are limited (Simon, 2000, 25). When people make decisions they use different kinds of heuristics (rules of thumb) which are simple rules in our mind's toolbox that help us to make choices in a faster and easier way (Todd and Gigerenzer, 2000, 727). People usually have limited information in reality and use these rules of thumb, such as "buy cheap, buy twice" to make decisions in their lives.

Pet owners need to make many difficult decisions about pet insurance: first, they need to decide whether to take the insurance or not. Then, if they have decided to do so, they need to choose the most suitable insurance policy amongst the selection provided by the insurance companies. Pet owners make both of these decisions in the context of everyday life, using mundane reasoning in a situation in which time and knowledge are limited. Certain heuristics, ways of reasoning and making arguments in decision-making, help them to find the best choice for their needs.

Buying safety and ease

According to McConnell and Drent (2010, 1) insurance exists because bad things happen, even to those who mitigate risk. Insurance is a financial service product that supplies security in everyday life. If something unexpected or/and bad happens – for instance, if one's pet gets ill or injured – people usually need money. Pet insurance is one way to cover expenses and ensure treatment.

Nuutinen (2014) has identified four different insurance heuristics which are related to decision-making processes of pet owners: safety oriented, routine-like, economic calculation and insurance concentration. These heuristics encapsulate different ways of reasoning and argument by pet owners in making consumption choices in pet insurance markets.

A first rule of thumb is safety orientation. By taking out the insurance, pet owners seek security both for their pet and for themselves. According to the interviewees, it is well known that the medical expenses of the pet might be very high in the case of sickness or injury (Nuutinen 2014, 68). The pet might become sick or injured unexpectedly, so that the owner might not have prepared himself or herself for such unpredictable events by saving enough money. As a female interviewee (age 40) says: "The dog insurance is so expensive that I haven't

had any financial gain from it... but then I have the safety... And I really pay gladly, in order to get the best possible care for the dog, if something happens to it.”

In the safety-oriented heuristic, the meaning of safety is twofold, including both a medical and a financial aspect. First, by taking out the insurance, the pet owner strives to ensure that his or her beloved pet family member will be able to have the best treatment available. Second, the pet owner strives to secure his or her budget, so that unexpected veterinary expenses do not overwhelm the household finances. (Nuutinen 2014, 67–71).

Routine heuristics mean that people take out insurance for their pet because they are used to having insurance policies for all their family members or property. Insuring everything and everyone is customary, something that one is supposed to do. This means that these people take all the insurance they can because it is routine consumption behaviour for them. A female interviewee (age 40) argues: “Well, we didn’t really ponder it a lot, as we anyway have insured ourselves and everything else, so we have insured the dog as well.” People using this kind of heuristic for their mundane reasoning will not use much time or other resources for making decisions about insurance. This is a straightforward and easy way to make the decision. (Nuutinen, 2014, 76-79).

Doing calculation and concentration

The *economic calculation* heuristic is about pet owners calculating cost as against benefits – when deciding whether to insure their pet or not and which insurance policy and insurance company to choose. The interviewees considered that the benefit of the insurance should be greater than the cost. Money has a key role in this way of reasoning. The pet owners will have to conduct a risk analysis, comparing the security the insurance will provide with the money “invested” in the insurance. The resources, available time, knowledge and skills of the pet owners impose certain limits and preconditions on the calculations they are able to make. (Nuutinen, 2014, 79–85). A female interviewee (age 25) explains her reasoning: “We have been calculating how much the insurance would cost in a year. Nero could have like two operations before it would pay off, or of course it depends on how bad it was.”

The insurance concentration heuristic is a common phenomenon related to insurance markets (Pahkamaa 2012, 23). According to the interviewees, pet owners strive to concentrate all their household insurance in a single insurance company in order to get multi-policy discounts or bonuses. Getting a pet insurance policy through the same company that has insured the pet owner’s human

family members and/or property is also a quick and easy way to make the decision. There is also the benefit of being acquainted with the procedures of a familiar insurance company. (Nuutinen, 2014, 71–76). A female consumer (age 21) indicates the benefits of choosing the same company: “Yeah, I do have dog insurance and it is included in a package together with my own insurance and home insurance... To have all [the insurance] in the same place will be cheaper in the end.”

Pet owners are consumers who rationalise their consumption choices pertaining to insurances. The mundane reality and the operational environment have an effect on the consumption choices of the owners. The heuristics of pet insurance which are identified may help us to understand what ways of acting are common to pet owners consuming insurance. Safety oriented, routine and economic calculation heuristics are related to the first phase of decision-making – whether to take the insurance or not. The insurance concentration heuristic, which is associated with the second phase of the decision-making process, explains the consumers’ reasoning after deciding to take out the insurance, considering the selection of a suitable insurance policy that de facto determines the selection of the insurance company from those available. The economic calculation may be involved in both phases.

Conclusions

Pet owners are more conscious consumers nowadays than they used to be, prefer quality pet food and supplies and invest in their pet’s welfare. The welfare of loved pets seems to be a top priority, which has an influence on the consumption habits and decisions of pet owners. We have presented four heuristics that people use when they decide whether or not to insure their pet. Using these heuristics, pet owners are trying to make choices which are the best for them considering the limited time and knowledge they have when making decisions.

Some pet owners seem to be safety seekers who want to ensure health care for their pets in every situation as well as their own opportunity to manage the high costs of veterinary care (Brockman et. al. 2008). Some pet owners make their consumption choices on the basis of routine. They insure everything which they can because they are used to doing that. Pet owners also make economic calculations when deciding whether to take out the insurance or not. Concentrating all insurance in a single insurance company affects the consumers’ selection of insurance company once the decision to get the insurance has been made.

These heuristics are not necessarily executed separately, but they are often linked to each other. All of these heuristics share the pet owners’ notions

that insuring his/her pet should be easy and effortless, profitable or cost-effective, and insurance should provide safety for the pet and the owner (Nuutinen 2014, 87). In line with Jyrinki (2000), we conclude that pet owners present themselves as quality and price conscious consumers whose top priority in their actions is the welfare of their pets. Thus, a pet's welfare is the key factor for the consumption choices of pet owners in both the commodity and insurance markets.

REFERENCES

- Beck A. and Katcher A. 1996. *Between Pets and People: The Importance of Animal Companionship*. West Lafayette, Indiana: Purdue University Press.
- Belk, Russel W. 1996. "Metaphoric relationship with pets." *Society and Animals* 4 (2): 121–44.
- Brockman B. K., Taylor V. A. and Brockman C. M. 2008. "The price of unconditional love: Consumer decision making for high-dollar veterinary care." *Journal of Business Research* Vol. 61 (5): 397–405.
- Chen A., Hung H., and Peng N. 2012. "A cluster analysis examination of pet owners' consumption values and behavior – segmenting owners strategically." *Journal of Targeting, Measurement and Analysis for Marketing* Vol. 20 (2): 117–132.
- Hirschman E.C. 1994. "Consumers and Their Animal Companions." *Journal of Consumer Research* Vol. 20 (4): 616–631.
- Holbrook M. 2008. "Pets and people: Companions in commerce?" *Journal of Business Research*. Vol.61 (5): 546–552.
- Holbrook M., Stephens D., Day E., Holbrook S., and Strazar G. 2001. "A Collective Photo Essay on Key Aspect of Animal Companionship: The Truth About Dogs and Cats." *Academy of Marketing Science Review* Vol (1): 1–17.
- Jyrinki H. 2010. *Lemmikinomistajan monet kasvot – Moniparadigmainen tutkimus kuluttajasubjektista lemmikkeihin liittyvässä kuluttamisessa*. Vaasa: Universitas Wasaensis.

- McConnell C. and Drent D. 2010. "Enabling Best Care: How Pet Insurance Can Help." *Veterinary Economics* Vol.51 (4): 1-4.
- Nurmela J. 2014. "Joka kolmannessa kodissa asuu lemmikki." *Tieto&trendit*. Helsinki: Tilastokeskus 2/2014: 38–41.
- Nuutinen S. 2014. "Koiranomistajat kulutusvalintoja ja vakuutuksia järkeilemässä: Laskelmointia, rutiinia ja turvanhakuista keskittämistä". Working Papers nro 78, University of Helsinki: Department of Economics and Management.
- Pahkamaa, M. 2012. "Vakuutus- ja pankkiasiakkuuksien keskittämisen merkityksellisyys ja asiakkaan kokeman arvon rakentuminen bancassurance –perusteisessa uskollisuusohjelmassa – case: OP-Pohjola". Master's thesis, University of Tampere: School of Management.
- Paul D. and Skiba M. 2012. "A Qualitative Overview of the Health Insurance Market for Pets." *Journal of Marketing Development and Competitiveness* Vol.6 (1): 88–95.
- Pollner M. 1987. *Mundane reason: Reality in everyday and sociological discourse*. Cambridge – New York: Cambridge University Press.
- Simon H. A. 1978. "Rationality as process and as product of thought." *The American Economic Review* Vol.68 (2): 1–16.
- Simon H. A. 2000. "Bounded Rationality in Social Science: Today and Tomorrow." *Mind & Society* Vol. 1 (1): 25–39.
- Statistics Finland 2014. Private consumption expenditure 1975–2013.
- Syrjälä H., Kuismin A., Kylkilahti E. ja Autio J. 2014. "Aina Tassun parhaaksi: Arvon kokeminen lemmikkikulutuksessa." *Kulutustutkimus.Nyt* Vol. 8 (1): 22–44.
- Todd P. and Gigerenzer G. 2000. "Précis of Simple heuristics that make us smart." *Behavioral and Brain Sciences* Vol.23 (5): 727–780.
- Tesfom G., and Birch N. 2010. "Do They Buy for Their Dogs the Way They Buy for Themselves." *Psychology & Marketing* Vol.27 (9), 898–912.
- Timonen P. 2002. *Pyykillä – arkinen järkeily ja ympäristövastuullisuus valinnoissa*. Kuluttajatutkimuskeskus. Kerava: Savion Kirjapaino Oy.

