

TheACTUARY

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Big birds and little pups

WE RECENTLY TOOK DELIVERY OF TWO NEW additions to our family. Two puppies who, according to dog life expectancy, will live for 12 or so years, no doubt squandering endless, happy hours barking at the sheep that live outside our patio doors and slowly eating through my shoe collection and my husband's ties.

Anyway, being risk-averse and very proud of our two little pups, I decided to purchase some insurance against the loss of the dogs, via accidental death or through natural causes (the shoes and ties are covered already under the home contents plan). However, after spending some time looking for doggy life assurance policies, I gave up. The only policies on offer in the UK cover vet fees with an assurance equal to the market price of puppy in the event that they go missing for more than 45 days, or are ploughed down by a speeding car. So, excepting exotic insurance policies such as those offered by Lloyd's, no insurer is willing to insure me against the death of my dogs. Presumably this is because the market is not big enough to pool the risk or that the risk is considered too prone to moral hazard as heartless customers may decide to neglect the dogs on the basis that they have the insurance and then claim, making a profit. Insurers may also be concerned about the issue of anti-selection, where individuals who live on a busy road may be more likely to purchase the life assurance than those living in the middle of the countryside. Personally, I believe that we may be missing an opportunity to create a product here, my reasons being as follows.

Let's consider the size of the market. Although no market exists at the moment, a large-enough market could be created in order to pool the risks. For example, it is likely that one of the large supermarkets would be willing and could shift a few of these policies. Failing that we can always turn to a certain property heiress who, having successfully created a market for dog nappies, must be able to push a few life insurance policies as well.

I don't think that the moral hazard reason is valid, no matter how many shoes my dogs chew. Abusing an animal is a criminal offence with fines of up to £20,000 or a prison sentence, and so surely the law provides enough deterrent against individuals murdering an animal for the sake of claiming a few thousand pounds from an insurance policy.

All this made me consider whether other gaps in the insurance market exist. The US Patent and Trademark Office currently has seven applications pending for divorce insurance products. Arguments against launching this product have focused on insurance being viable only for a risk that you cannot control,



and getting divorced is a choice and so not coverable. In many situations this is not the case for individuals and, given the rising divorce rates in the UK, there may be a genuine market if the product is worded correctly. A key variable to measure in setting pricing assumptions would be probability of divorce. A commonly quoted statistic is that one in three marriages ends in divorce; however, using this rate for all would not reflect an accurate probability and further underwriting would be needed to assess an individual's expected claim rate. No doubt rates would vary by sex, postcode, term of relationship at marriage, length of marriage, number of children (or dogs), and age. Other factors may also come into play, and I would encourage the inclusion on the proposal form of the date and make of last car purchased. Premiums for 43-year-old males driving new Porsches or Audis would be loaded accordingly.

Turning to insurance policies already available, a large insurer has just published its top ten most bizarre claims during 2006. This list features a number of strange and weird claims, including one from a couple that stated that they thought Big Bird must have flown into their patio doors causing them to smash. Whether this was a typo or they were actually claiming that a large man in a yellow costume had propelled himself into the kitchen I do not know. If it was the latter, they only state that they think that this was the case, and had not witnessed the event. What made them form this conclusion, I wonder?

Further strange behaviour was exhibited by one woman who claimed that 'I was taking my hamster to the vet only to realise that when I arrived there, it had chewed through my handbag and escaped'. Whether this was a claim for the hamster or the bag I do not know. However, given my experience in trying to cover the dogs, I imagine it was for the bag. Anyone who can shed light on this, please write in.

 MARGARET DE VALOIS