

Pet Insurance

– Review establishment of Small Amount and Short-Term Insurance company -

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This is Torr – a very playful and rambunctious mixed breed of Maltese and Poodle who became my baby when I adopted him a year ago. He likes to play with his squeaky toy and he loves taking long walks. While he is a happy puppy, he has a few medical conditions that cannot go unnoticed. He has a skin condition on his belly that I need to apply a specific kind of topical cream every day. His ears are very waxy that they require frequent cleaning and checkups. He was also recently diagnosed with chronic renal failure – where his kidneys are failing. This means he has to be on a special diet and he needs to go through medical treatment to flush out the kidneys and bloodstream.

Although his kidney conditions are not fatal, it requires me to take him to the vet fairly regularly and buy specific food for him. The high cost of veterinary care and his special food always shock me no matter how many times I go see his vet. I asked the vet how other pet owners cope with their financial difficulties and the vet told me she has been noticing that more pet owners, especially in younger generations such as MZers (Millennials and Generation Z) are willing to put their pets' happiness and health before anything. Luckily, I have been putting aside a small amount of money since I started working for any emergency and when Torr was diagnosed with chronic renal failure, I decided to use my savings because I would rather eat ramen noodles myself than let Torr not get the medical treatment or food he needs.

My friends asked me if I purchased any insurance plan for Torr to help the monthly bills I get from the vet. However, I knew that the pet insurance options were limited in Korea and that the unregulated veterinary costs make it very difficult for me to personally look into and compare different companies' insurance plans for pets. I called my own insurance company to see if there were pet insurance available as having them packaged through one insurance provider would make things easier but unfortunately my insurance provider did not have an insurance product for pets.

Searching for the lowest price when buying Torr's food was nothing compared to finding the best

vet for him who offered both great medical treatment and affordable bills. I had to call multiple veterinary hospitals to compare their costs. The cheapest one I found quoted me \$1,000! Then I had to search online on how to get dogs to drink more water per Torr's vet's recommendation. All these little steps that I had to take care of were wearing me out that I wondered how nice it would be if there were an app that offered all pet related services at once.

My other friend recently moved into a pet friendly apartment in Seoul where the amenities for the building and its units are built with pet friendly materials and furniture. They even offered pet sitting services to those who were going out of town. My friend has a Pomeranian who constantly barks so her previous neighbors did not care for the fact that a loud dog was living in the same building. She chose the apartment because the apartment community was pet friendly and pet owner friendly. While the rent is costly compared to other apartments, she said this was the best decision she made for both herself and for her dog.

The pet owner population, especially in the MZ generation, is multiplying every year in Korea that we are seeing more and more examples of pet friendly services and infrastructure that are being built. As Korea is well known for its high-speed internet and IT network, I have no doubt that new technology driven services for pets and pet owners will be introduced soon. This will prompt insurance companies and pet products companies to update their roadmap to attract more users who would increase their spending to provide the best for their beloved pets.

My Torr is not just a pet but part of our family and I would definitely want to do everything in my power to ensure he lives a long, comfortable, and healthy life with us. I just cannot imagine putting a price on Torr's health. However, in reality, we cannot ignore the financial cost raising a pet as our own. It would be ideal if there were more affordable options available for pets including pets and pet related services. It would be even better if all these options and services are offered and packaged through one provider where I would be a loyal customer of!

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I. Executive Summary

A unique generation: MZers

MZ generations, or MZers, is a term that pairs two groups together: Millennials (born between 1981-1995) and Generation Z (born between 1996-2005). This unique generation has become a new customer target for the insurance industry to pay attention to as their needs and wants are significantly different compared to older generations. For example, MZers do not believe that everyone should get married. They are not as interested in creating a traditional form of families as older generations did and the number of DINK (Double Income No Kids) people living without children is increasing every year. Their main interest is to enjoy a rich and comfortable life and many of them include pets as their family. While the number of DINKs and pets are increasing year over year, there is a limited availability in the insurance market for MZers' needs.

According to MetLife.com's study in 2020 on pet owners' commitment to their pets, 73% of millennial pet owners answered they would go into debt to provide for their pet's wellbeing. 62% of millennial pet owners said they would put their pet's health before their own. Based on the recent shift in MZers' spending patterns, Kyobo is planning on establishing a small-amount & short-term insurance company to specifically provide pet insurance products as solutions.

Kyobo's potential pet insurance app

Other insurance companies also own insurance apps. Why this app will allow Kyobo to stand out among its competitors is because Kyobo understands MZers and their needs. This app will not only offer insurance details and Kyobo's customer service, it will also offer a variety of pet related services including making appointments with nearby vets using GPS, compare prices of pet products, offering pet related services, provide helpful content to pet owners, create a community both online and offline where pet owners can exchange information. These are just a few ideas of many more Kyobo's app could offer. By creating an inclusive app that serves all pet owners' needs, Kyobo will attract more MZers where they could be introduced to other insurance products as they age. This cross-selling strategy will help Kyobo accumulate more data and customer feedback on what this generation really wants and needs. Kyobo could also gain revenue by partnering with pet product companies and animal hospitals on creating in-app promotions and advertisements. They could also be a leading company in testing and developing new pet related technologies such as pet nose print recognition. When pet owners look into getting pet insurance plans, Kyobo's outstanding pet insurance app and technologies will attract other generations, not just MZers.

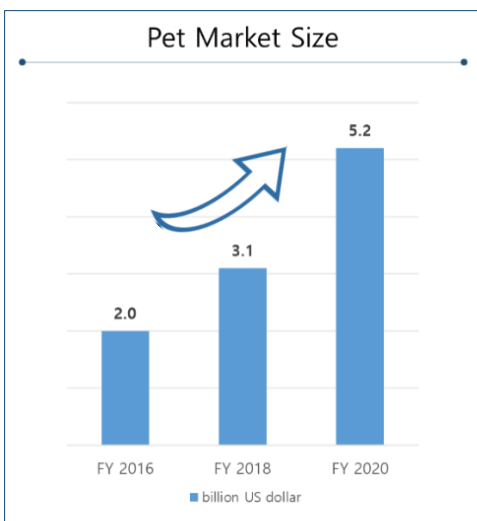
Instead of offering the insurance policies in a traditional format, Kyobo’s plan to build an app-based platform will encompass all pet related services that their customers can use at once. This new app will act as a gateway for MZers to join Kyobo and enjoy Kyobo’s other insurance products.

II. How much (\$) do you love your pet?

More and more MZers are choosing to remain unmarried because they are overwhelmed by the idea of starting their own family due to financial burden and other responsibilities. Instead, they choose to adopt pets as part of family. While most people are content with the idea of keeping a pet as part of their family, most of them do not notice the potential cost of paying for their pets’ food, toys, vet bills, and other miscellaneous supplies until they welcome a pet into their lives. As pets become an essential part of the family where approximately 15 million people are raising pets in Korea, the pet industry is on the rise.

By the end of 2020, 29.7% of 6.04 million households in Korea adopted pets. Now we have approximately 15 million people in Korea who have pets in their households. While pets were considered as “animals” before, they are now considered “family”. As a result, a new word “Pet Fam”, a combination of two words “pet” and “family”, became prevalent to describe those who raise pets as their own family. The number of Pet Fams who love and treat their pets as their own children is increasing.

Growing pet market size in Korea



※ source : Korea Institute for Industrial Economics Trades(2021)

25.1 % The ratio of Korean households keeps pets

36.6 % The ratio of pet owners who answered that it's difficult to deal with their pets' health problems

85.6 % The ratio of pet owners who agreed that “**pets are family**”

※ Source: KB Financial Group

YoY growth in Korean pet market

As more people treat pets like family more than just animals, the lifestyle of pets is also improving. Pets' well-being was not considered as important as it is now. There are TV programs that solely talk about how we better train pets and there is even a TV channel dedicated for pets for when pet owners leave to go to work during the day. Pets' health and happiness became very important in this day and age and there is a market full of customers waiting for pet-friendly products where Kyobo can enter that even big department stores in Seoul have dedicated a spot for pet supplies and clothes. "Pet + Learning" and "Pet + Luxury" are also new words that were formed to describe the current state of pet owners' spending patterns. New products and services for pet learning and luxury goods for pets are attracting more pet owners who are ready to spend more money on their pets' well-being.

Pet owner's commitment to their pets

As this new market for pet products grows, pet owners' needs and pain points are also introduced. The 2021 open survey of *Pet Trends Report*, one of the most recent studies on pet owners' demographics, said the highest percentage of pet owners' demographics lies in the 20s. 7 out of 10 people who raise pets say that the most difficult thing about raising pets is the associated costs. As vet bills or pet products prices are not regulated like those of people, it becomes difficult for some owners to be able to afford the best services and products for their pets. However, according to Metlife.com's survey in 2020, 73% of millennial pet owners would go into debt to provide for their pet's wellbeing and 62% of them say they would put their pet's health before their own. Kyobo's own financial group report on pet market showed that an average pet owner spent approximately \$450 on pet healthcare treatment over two years. These metrics show how dedicated and devoted pet owners are in their pets and allow us to imagine how big the pet market would become in a couple of years moving forward.

Data on Pets owners' commitment to their pets¹⁾

73% of millennial pet owners would go into debt to provide for their pet's wellbeing

62% of millennial pet owners say they would put their pet's health before their own

1) MetLife.com/Insurance

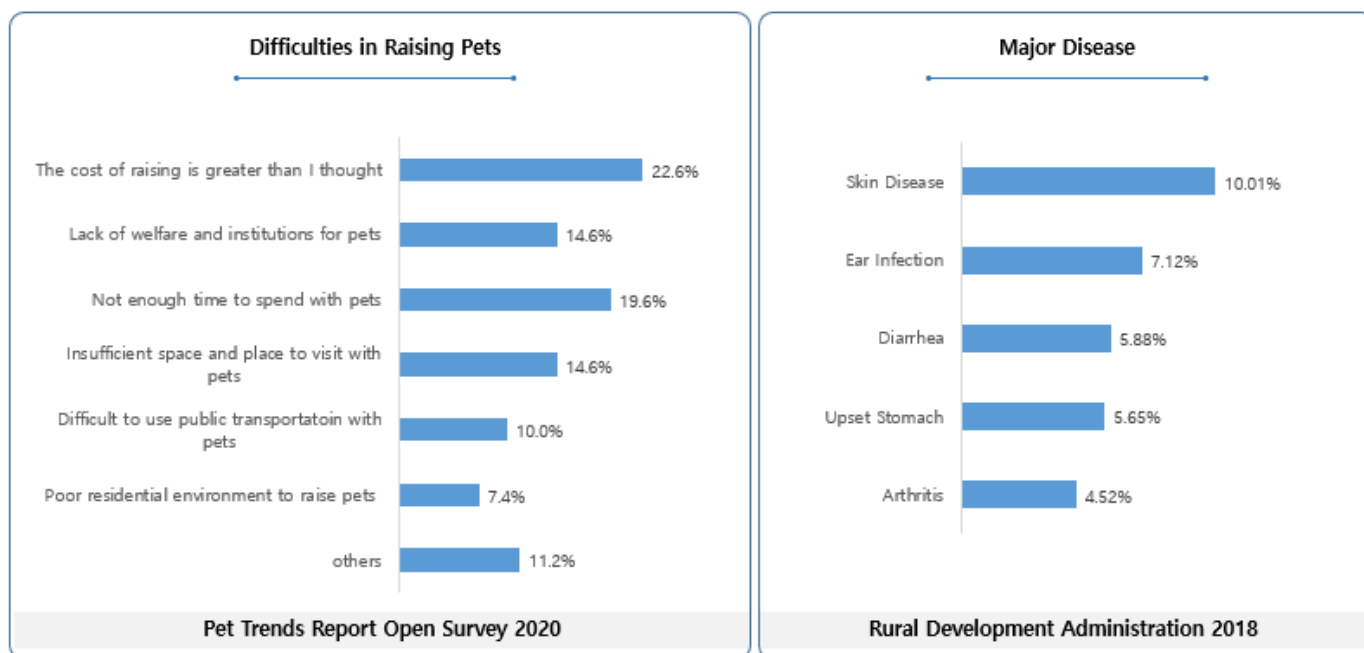


The Pet owners spent an average of \$450.00 on treatment over the past two years.

The number one cause of treatment costs is 'skin disease', followed by 'ear infection', 'diarrhea', and 'upset stomach.'

2) 2021 KB Financial Group Report on Pet

Pet Trends Report



III. What Kyobo could offer

Some of the biggest concerns for MZers in raising pets are unexpected costs and lack of information and resources. In order to attract more customers and to build a loyal customer base, Kyobo's pet insurance will have stand out to impress their potential customers. Kyobo's approach will have to be innovative and customized based on pet owners' needs. There is already an established line of insurance products that Kyobo can utilize when they underwrite and create new insurance policies for pet owners. As mentioned above, 7 out of 10 pet owners are MZers. If Kyobo succeeds in making MZers its customers, this will open up a big window for Kyobo.

Kyobo will need to understand and analyze MZer's spending patterns for their pets. According to the 2021 Open Survey from *Pet Trends Report*, medical treatment, insurance, and pet hotels were chosen as top 3 features pet owners wanted to see the market grow. Kyobo's insurance products

can cover unexpected costs of raising pets. As pet insurance is not well established yet in Korea like it is in the US or Japan, lack of insurance products and understanding are not helping pet owners in purchasing a new plan. They also do not know if the limited plans being offered are the right option for their pets' needs. Kyobo could offer value proposition by offering a variety of pet insurance products to pet owners through their own app.

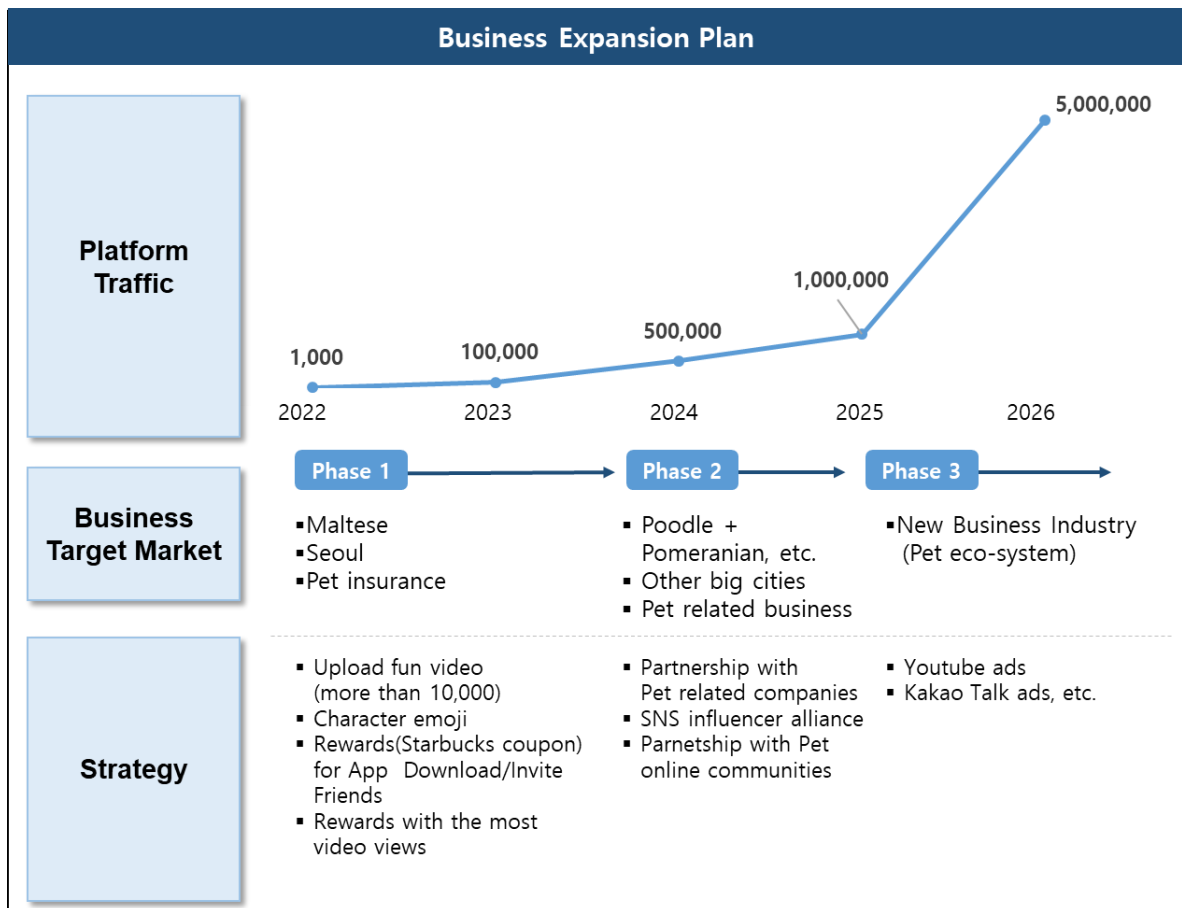
A one-stop platform

Kyobo's plan is to build a new ecosystem for pet owners where pet owners' question and needs will be answered and actioned through Kyobo's pet insurance app. Kyobo's new pet insurance app will not only plan and sell various products to meet pet owner's needs, but they will also provide frustration-free services that enable insurance coverage and subscriptions, provides information needed to maintain pets' well-being, and direct billing from hospitals to Kyobo through a one-stop platform.

This one-stop platform will be where pet owners find solutions to any question they have including adopting, pet sitting, dog walking, grooming, feeding, training, and of course, medical needs among many other. Using the latest technologies, Kyobo to partner with 3rd party vendors who offer relevant services to pet owners. Advertisements and promotions on the app will be generate profits for Kyobo and open up new business opportunities for Kyobo. From pet adoption to pet funeral, every step of pets' lifecycle could be accessed and requested on Kyobo's one-stop platform.

Expanding the business and building the pet ecosystem

How can Kyobo's one-stop platform expand its business and build a reliable pet ecosystem? Kyobo will prioritize securing traffic based on differentiated services provided in Seoul region with a certain breed. Then they will gradually expand the business to other regions in Korea with different breeds to achieve 1,000,000MAU (Monthly Active Users) of traffic. To effectively activate the platform, Kyobo will select first few regions to offer online/offline communities that will allow them to achieve their market targets step by step. Ultimately, network traffic over 100,000 MAU and its effects within the platform will introduce new business opportunities like both direct and indirect strategic investments including partnerships with third party vendors in the pet industry, much beyond financial and network driven opportunities. This new cycle of pet ecosystem will increase competitiveness through partnerships with external stakeholders that both Kyobo and their customers could benefit from.



IV. What makes Kyobo different from other existing pet insurance companies?

Offers a variety of pet insurance products.

Our standard insurance (Essential Plus) plan will include basic healthcare services, third party liability, accidental cover, and illness cover for pets but we will also offer other innovative and perhaps customized plans for new customers in need of specific insurance products to lead the market through product differentiation. We could also offer complimentary consultation calls with new users who have questions before purchasing an insurance plan.

1. Health Insurance Coverage

Essential	Essential Plus	Premium	
\$ 10.00/month Optional benefits NOT included	\$ 30.00/month Includes coverage for Accident & Illness Exam Fees	\$ 50.00/month Includes coverage for Accident & Illness Exam Fees And Rehab	
Coverage	Essential	Essential Plus	Premium
Accidents, Illnesses, Cancer, Hereditary Conditions, Emergency Care, Surgeries & Rx Meds	✓	✓	✓
Accident & Illness Exam Fees		✓	✓
Rehabilitative, Acupuncture & Chiropractic Coverage			✓

2. Other coverage details

- a. Adoption Insurance (microchip, Breed detection test, DNA test, etc.)
- b. Funeral Insurance
- c. Lost & Found Insurance
- d. Protect from abuse Insurance
- e. Outdoor Activity Accident Insurance (surfing, hiking, driving, etc.)

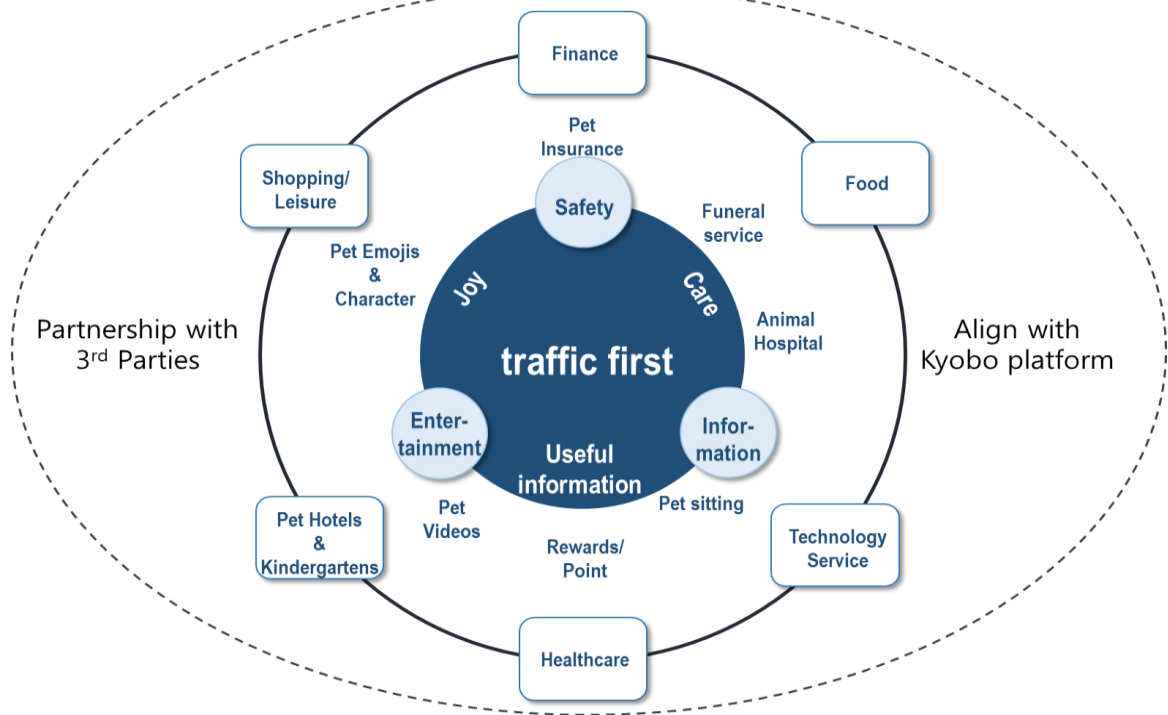
Builds on/offline community where pet owners can interact

1. Provides customized data that other users are looking for
2. Serve as a platform where users can interact and exchange information users can interact and exchange helpful information
3. Gather live feedback from users on improving content and features on app

Offers pet related services in partnership with multiple vendors and vets

1. Provides convenient services such as animal daycares, specialized education and training institutions for pet agility, pet cafes, pet swimming pools, and etc. through other vendors that sell pet products and services
2. Provides promotional events and products to better serve customers
3. Creates emoticons and sells pet related products and goods

Pet Ecosystem

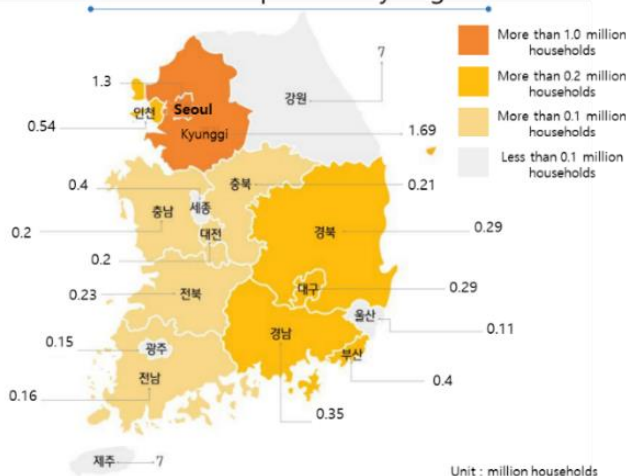


V. How can Kyobo lead the pet insurance market?

Target specific customers

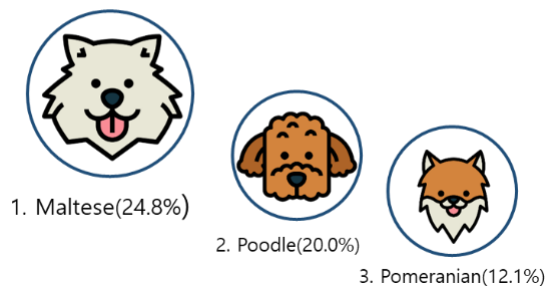
Targeting a specific customer base or region before expanding should be Kyobo's next move to drive traffic. Before expanding, we will focus on Seoul as Seoul has the highest pet owner population density in Korea. We could also further narrow down pet breeds by targeting a Maltese dog breed for an example as Maltese dogs are the most popular breed in Korea. Furthermore, we could partner with local animal shelters in Korea to provide more essential services and insurance plans for volunteers, new pet adopters, and existing owners.

Pet Owner Population by Region



※ Pet Trends Report Open Survey 2020

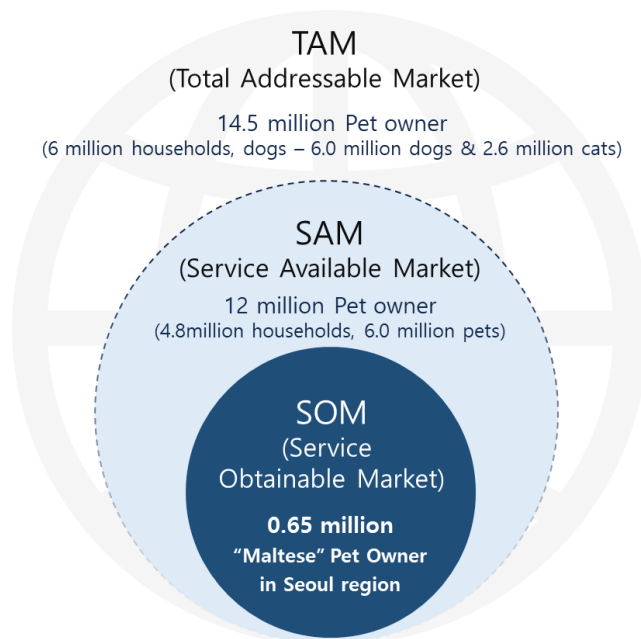
Top 3 Most Popular Dog Breeds



※ Pet Trends Report Open Survey 2020

Understand metrics to drive traffic

It is also important for Kyobo to keep in mind specific metrics before expanding the business. SOM (Service Obtainable Market) would be approximately 0.65 million pet owners before we could expand to SAM (Service Available Market) of approximately 12 million pet owners, followed by TAM (Total Addressable Market) of approximately 14.5 million pet owners. Targeting specific audience group allows Kyobo to accumulate useful and customized information for customer value proposition and customer acquisition.



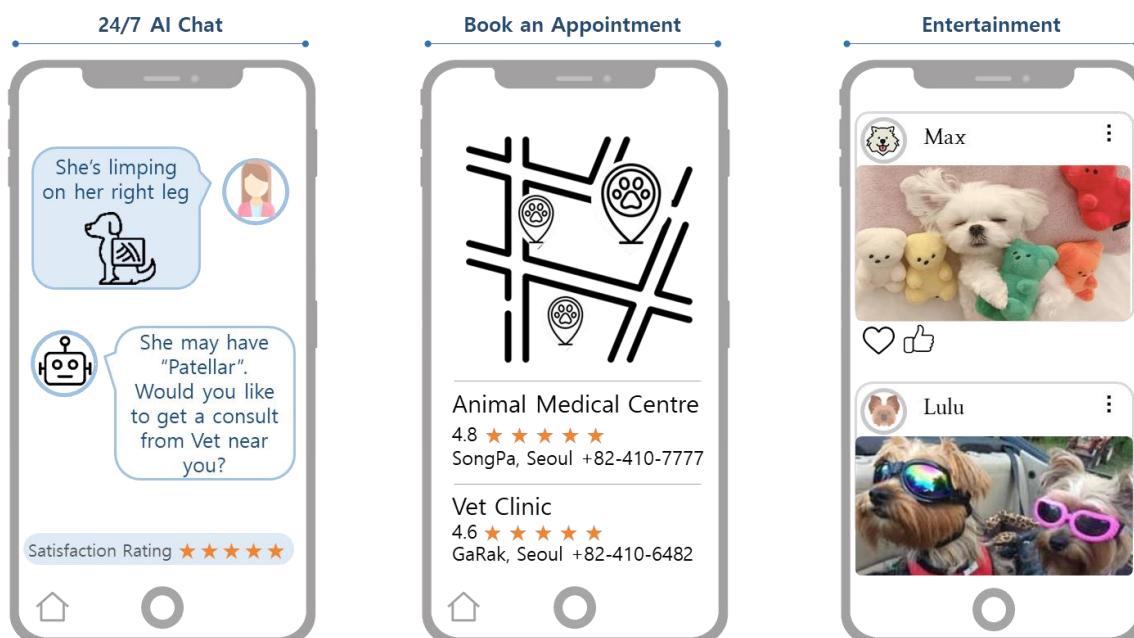
※ Source: Ministry of Agriculture, Food & Rural Affairs, 2021 Korea Pet Industry Report(KB Financial Group)

Data collection and analysis

Kyobo's app, once built right, will be used on daily basis by pet users on their phones. Once the users provide consent for the app to start collecting data, Kyobo's algorithms and big data will capture and analyze customers' information based on region, age, gender, pet breed, and spending patterns among many other fields. Kyobo's app could track and analyze information and data gathered through professional service providers like veterinarians, online platform companies, consulting services using AI, Big Data analytics, GPS location service providers, and many more to make a more inclusive app that provides accurate information. This collection of data will provide customized recommendations for pet users when looking for specific services. The data collection and analysis will become the cornerstone of Kyobo's underwriting policies on pet insurance and other insurance lines.

Dedicated customer service

While pet owners often have many questions when raising pets, it is not always easy to find the right answers to their questions as each pet is different based on pets' size, age, breed, and personality. Pet owners also do not always know what the best insurance products are for their pets and their needs. Kyobo's data collection on each user's spending patterns and pets will allow Kyobo's customer service teams to provide useful consultations and recommendations. As it is difficult to know exactly what type of services pet insurance products provide, Kyobo will have to train their customer service teams with the information and data obtained during consultation calls and surveys so they are able to give the right recommendations. They could also build an AI chatbot customer service feature based on the collection of data to provide seamless customer service 24/7. Kyobo's dedicated and knowledgeable customer service will attract more customers.



VI. Conclusion

In conclusion, this paper elaborated on Kyobo's potential pet insurance app and further discussed Kyobo's marketing strategies on introducing their pet insurance. We can study the social and demographic changes in this world when we look at MZers' spending patterns. MZers tend to spend money on enriching their current moments in life including improving their pets' health and well-being. This opens up a new market for the insurance industry where Kyobo wants to create an inclusive app for pet insurance that offers exactly what pet owners need. This platform will not only provide pet insurance details but also will include pet services, a platform for pet product

shopping, and a community that brings together Kyobo's customers on exchanging valuable information on pets. If this new app platform truly serves its purpose of providing the best and most convenient services to pet owners, this new generation will likely join Kyobo's other insurance products as they age proving Kyobo's cross-selling strategies. As establishing a user-friendly pet insurance product line would naturally allow Kyobo to gain a new customer base, it will be Kyobo's mission to enter and lead the pet insurance market moving forward.

Appendix - Foreign Pet Insurance Company Cases

[U.S] Trupanion

(Unit : thousand, million in \$, %)

		2013	2014	2015	2016	2017	2018	2019
PET	Registrations	182	232	292	344	423	521	647
	Growth Rate	42.2	27.5	25.9	17.8	23	23.2	24.2
Operating Profit	Amount	83.8	115.9	147.0	188.2	242.7	304.0	383.9
	Growth Rate	51	38.3	26.8	28	29	25.3	26.3
Net Income	Amount	-8.2	-21.2	-17.2	-6.9	-1.5	-0.9	-1.8
	Growth Rate	1.2	158.5	-18.9	-59.9	-78.3	-40	100

[Japan] Anicom

(Unit : million in ¥)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Premium	0	6,441	9,003	10,858	13,592	15,781	18,087	21,733	25,370	28,068	31,290	34,535	39,105
Asset Management Revenue	25	31	70	85	103	258	106	521	745	489	418	383	498
Acquisition Cost	0	5,616	5,541	7,146	9,797	11,451	13,449	15,921	17,394	18,968	21,771	24,072	27,213
SG&A Expenses	602	2,775	3,082	3,347	3,450	3,671	3,938	4,493	5,998	6,806	7,974	8,479	10,346
Net Profit	-90	-1,286	124	225	265	531	383	912	1,709	1,788	1,391	1,597	1,251

Trupanion, a US Pet Insurance Company, founded in Canada in 2000 before entering the US market in 2007, has grown its operating profit by 20% each year with its competitive edge in providing various guarantees and convenient payment systems. Trupanion has a company value of approximately 3.5 billion US dollars.

Japan introduced the Small Amount & Short-term Insurance Company in 2006 and currently has 8 Pet Insurance companies. Among them, Anicom Group started as a company specializing in Pet Insurance, expanded its business to five affiliates, and became approximately 1.0 billion US dollars in market capitalization.

Japan's Pet Insurance market only had a 3~5% subscription rate a few years ago, but it increased up to 10% in 2019 and is continually growing each year by 1%.

Appendix : Pet Insurance Products in Korea

	Term of Insurance Premium	Coverage	Underwriting	Riding
Meritz Fire&Marine "Petpermint"	<ul style="list-style-type: none"> • 3 yrs. • \$ 37.00/month 	<ul style="list-style-type: none"> • Operation : \$1,800/surgery • In-patient tx : \$135/day • Out-patient tx: \$135/day 	<ul style="list-style-type: none"> • Association of Clinical Animal Hospitals (no registration required) 	<ul style="list-style-type: none"> • patellar(kneecap) • dental treatment
SamgSung Fire&Marine "AnyPet"	<ul style="list-style-type: none"> • 1yr • \$ 34.00/month 	<ul style="list-style-type: none"> • 70% of Medical Expense 	<ul style="list-style-type: none"> • Summit one of <ul style="list-style-type: none"> - Animal Registration - Inoculation certificate - Sales contracts • 2 Photos 	<ul style="list-style-type: none"> • skin disease • septal joint surgery • death consolation etc.
Hanwha Non-life "PetPlus"	<ul style="list-style-type: none"> • 1yr • \$ 33.00/month 	<ul style="list-style-type: none"> • Operation : \$1,350/surgery • In-patient tx : \$135/day • Out-patient tx: \$135/day 	<ul style="list-style-type: none"> • Summit one of <ul style="list-style-type: none"> - Interns/External Identification - Animal Registration 	<ul style="list-style-type: none"> • oral disease • joint disease etc.
DB Non-life "Petsafe"	<ul style="list-style-type: none"> • 1yr • \$ 34.00/month 	<ul style="list-style-type: none"> • Operation : \$1,350/surgery • In-patient tx : \$135/day • Out-patient tx: \$135/day 	<ul style="list-style-type: none"> • Inscription photo • Animal Registration 	<ul style="list-style-type: none"> • liability etc.
Lotte Non-life "MyPet"	<ul style="list-style-type: none"> • 1yr • \$ 29.00/month 	<ul style="list-style-type: none"> • Operation : \$450/surgery • In-patient tx : \$45/day • Out-patient tx: \$45/day 	<ul style="list-style-type: none"> • Animal Registration • 3 Photos 	<ul style="list-style-type: none"> ※ For small dogs, patellar/slab joints are excluded

* Statistics based on Maltese born in 2019.1.1