

Travel Insurance

What's to know and what to
look out for



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It is acknowledged that professional members in their employed capacity, may be active market participants in their respective industries who may compete with each other as defined by competition law.

Participants are, therefore, reminded that in accordance with their competition law compliance obligations they should not:

- discuss any matter that may be perceived as being cooperation by competitors in a market to influence that market;
- discuss any matters that could be regarded as fixing, maintaining or controlling prices, allocation of customers or territories, coordinating bids and/or restricting output or acquisitions in any circumstances;
- share commercially sensitive information relating to their employer; or
- share information for an anti-competitive purpose.



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Introduction

- When we travel overseas and get sick or injured,
 - we expect to have the same experience that we have in Australia with the benefits of **our “good” and “free” public health system.**
 - This **typically isn’t the case overseas.**
- Overseas **care can be substandard** in many countries
- **High cost** to foreigners
- **Australian Government encourages travel insurance** to reduce the cost for our embassies, and ultimately the cost for the taxpayer.



Why is travel insurance so complex?

- Travel Insurance is a **gap product**. It fills the gap where your **domestic insurance policies** don't cover you.
 - Health insurance
 - Home Contents and Personal Items insurance
 - Car insurance
 - Income protection when your workers compensation doesn't apply
 - Liability insurance
- As a result, it is a **very complicated** product - but it is also a **very interesting** product and a real and **energising** challenge.
- Globally, **every market has different domestic insurances**.
 - some countries cover the travel medical costs under health insurance which means that travel insurance mainly needs to cover cancellation risk.



What is covered?

- **Trip Cancellation** - reimburses pre-paid, non-refundable expenses on cancellation of your trip due to your illness, your injury, or a death of a family member
- **Trip Interruption** - additional expenses incurred if you need to return home early due to the death of a family member or need to extend your stay as a result of a medical emergency
- **Medical Emergency** - medical and dental expenses and emergency medical transportation if you become ill or are injured during your trip
- **Emergency Evacuation** - cost of transportation to a hospital or to return home if you need emergency medical treatment
- **Funeral expenses and Repatriation** of your remains if you die



What is covered?

- **Lost, Stolen or Damaged luggage and personal items** reimburses cost of replacing
- **Travel Delay** covers additional expenses incurred if your trip is delayed due to say bad weather.
- **Accidental Death or Permanent disability benefits including income protection** from a debilitating injury if you have a serious accident
- **Assistance** - 24-hour helpline that can assist with emergencies, provide advice and help you find local medical facilities, and find with legal, and translation assistance
- **Vehicle Excess** refunded for damage to a rented vehicle
- **Liability** If you are liable for damages or injuries to someone (not associated with a vehicle)



What isn't covered?

- Travel insurance typically does not cover certain types of events or losses, which may include:
 - **Past and current medical conditions** unless a premium is paid
 - **Risky activities**: skydiving, scuba diving, extreme sports unless a premium is paid
 - **Alcohol** or drug-related incidents
 - **War** or civil unrest
 - Self-inflicted injuries such as **suicide** or attempted suicide
 - Travel Service Provider **insolvency**
 - **Cosmetic surgery**, elective medical treatment overseas, tattoos, and piercings
 - **Pregnancy** in later stages



Why is Australia an important market?

- Australia has a relatively large travel market
- A number of global players having their head offices here or otherwise very large business units
- There are a number of reasons for this:
 - **Prolific travellers**
 - **Big trips** leading to higher average premium
 - Few **reciprocal health** agreements



Major Players and Nature of Competition

- **Market is fragmented** and prices vary significantly.
- **No single dominant brand** from a customer mindset perspective.
- The main reasons being:
 - **White labelling** (e.g., Medibank, BUPA, Australia Post, NRMA, RACV)
 - In travel and airline **booking purchase paths** (e.g., Virgin, Qantas, Expedia)
 - Free inclusion on **credit cards** (CBA, NAB, ANZ, Westpac, American Express)
 - **Travel agent** distribution (Flight Centre, Helloworld)
- **Biggest** - Cover-More, Allianz Worldwide Partners and NIB which owns the World Nomads and TID brands and recently Europ Assistance.



Major Players and Nature of Competition

- **Average premiums are low** compared to other insurances
- **Price shopping** often isn't worth the effort
- **Price sensitivity increases age** where premiums increase.
- The **biggest accounts** by claim cost are
 - bank distributors
 - travel agents



What drives Claims?

- claims **driven by health** thus make up **86%** of the claims
 - **Medical** - **40%** of costs
 - **Cancellation** - **46%** of costs.
- **Other** items including luggage only represent 14%.

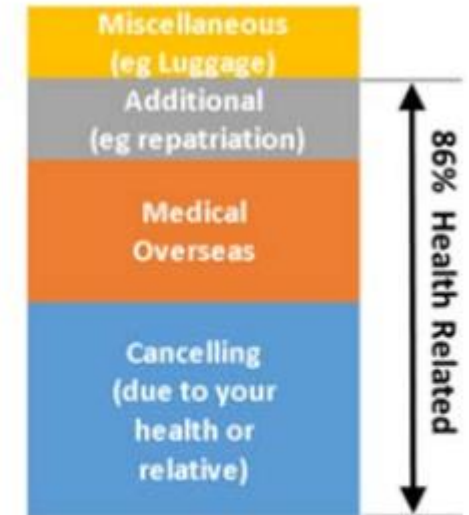


Figure 1: Breakdown of Travel Insurance Claims Costs

¹ Prepared by Bill Konstantinidis and Michael Storozhe



Why is it a volatile class?

- Many **different underlying covers** so pricing is subject to a **variety of risk drivers**.
- **Every travel policy is unique**, driven by differing risk factors specific to the individual travellers and the nature of their trips.
- Each policy has a **different ratio** of coverage **pre-trip** which is exposed to cancelation risk versus **on trip** medical and other benefits.
- Mainly **single trip purchase product**, very small proportion of policies are annually renewable. Portfolio actions are seen very quickly. You **can't rely on a lazy renewal book**.
- Health events can result in **very large claims especially with older people** with existing medical conditions in **high cost jurisdictions like the USA**.
- Exposed to **catastrophes both domestically and internationally**. Past examples include volcano ash clouds, pandemics, tsunamis, hurricanes and cyclones.



Drivers of Pricing

- **Type of coverage** – Basic Policies usually only cover medical expenses while other policies are comprehensive
- **Destination** – Medical cost **expensive in United States**. Countries which have **reciprocal health** agreements with Australia like the UK have lower claims costs. Some countries are riskier due to the level of personal safety, hygiene, and sanitation. **Trekking in Nepal - altitude sickness** or **Bali a bad case of gastro**.
- **Age** - Health problems correlated with age. Older people more likely to have an incident, and their recovery is slower and the claims cost is likely to be higher. Higher premiums for older travellers.
- **Length of trip** The longer the trip is, the higher the premium will likely be. There is a logical link here, the more travelling you do the more time you are exposed to something happening, so hence the price is higher.
- **Lead time** before a trip. The further in advance a policy is purchased, the greater the potential that one's personal situation could change and something could happen to disrupt a trip, such as the emergence of a medical issue.
- **Excess** a relatively low average claim sizes around \$1,000 to \$2,000. Most excesses ranging from \$200 to \$300 level. The higher the excess the cheaper the premium.



Drivers of Pricing

- **Cruise**

- more **expensive to insure**.
- **Close proximity** of people increases the risk of illnesses such as **norovirus**.
- **Evacuation from a cruise ship** can be more difficult and expensive.
- Inclement weather or technical issues can cause a cruise ship to be delayed or rerouted - additional costs as **many policies provide benefits for missed ports**.
- **Unfavourable cancellation terms** returning little in terms of refunds.
- Cruising is subject to the **swells of the seas** and is more exposed to risk of accidents such as **slip and falls**.

- **Existing medical conditions**

- **higher chance of health problem pre trip** resulting in cancellation
- **higher chance of health problem on trip** requiring medical treatment
- **Higher-risk conditions** - include cancer, heart conditions, neurological disorders, respiratory conditions and autoimmune disorders.
- Most insurers have a **medical rater** to assist in pricing risk - backed up by the experience of medical practitioners - though their **risk appetite will place limits on the risks they will cover**.



Drivers of Pricing

- **Adventure Activities**

- skiing, snowboarding, motorcycling, scuba diving, bungee jumping, sky diving and mountaineering.
- Different policies will **include certain activities** and either **exclude activities** or **charge tiered pricing** for select activities.

- **Motorcycling**

- is a risky activity even in Australia.
- motorised vehicle collision will be more significant than a normal slip and fall.
- Foreign road conditions - **poorly maintained** roads, **lack of road signs**, **different driving habits**, **obedience to road rules**, driving on **other side of road**

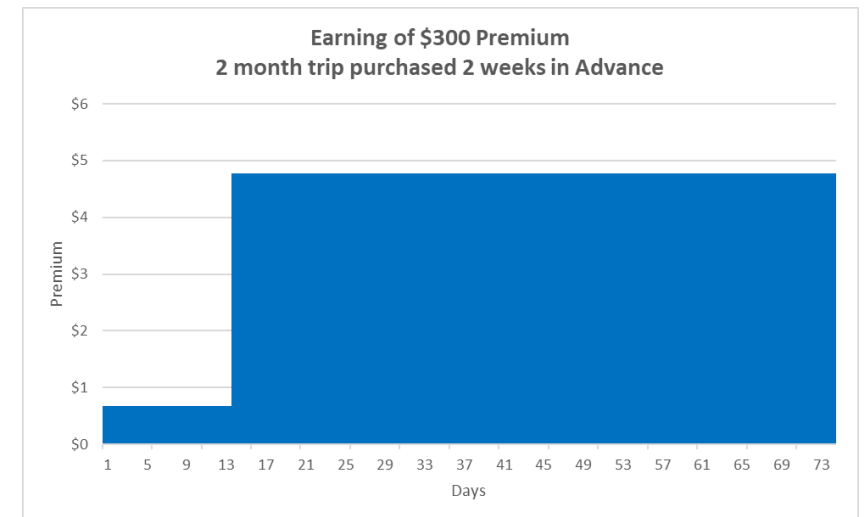
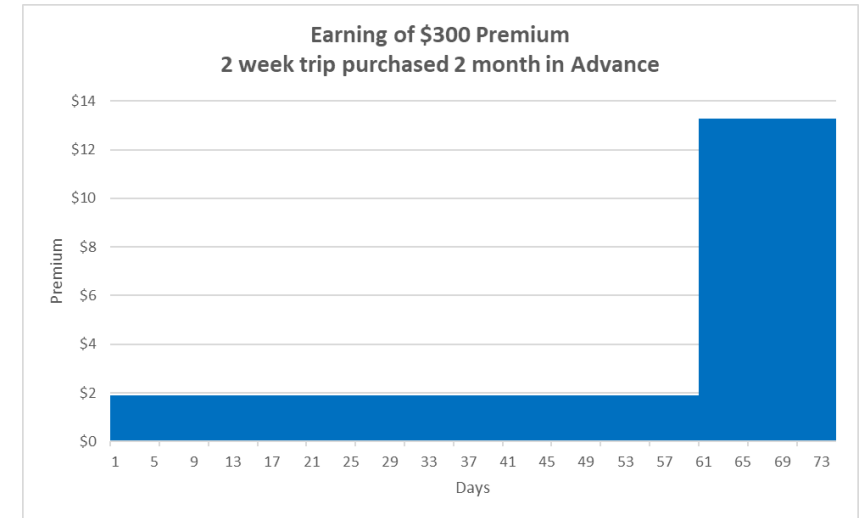
- **Winter sports**

- prevalence of claims in relation to **knee and ligament issues**.
- riskier activities like **heliskiing** can generally be purchased at a higher premium.



Earning Pattern Challenges

- **Underwriting period.** Can book a trip up to 1.5 years in advance for a year 1 year long trip which means it could be up to 3 years until you see the claims experience
- **Variable length and characteristics**
- **Earning** pre trip is different to on trip
- **Each policy has a different mix**



Currency, PML and Global impacts

- **Locally** we know we are exposed to cyclones in the North, storms and bushfires – These events could lead to a lot of cancellations
- **International Events** have an impact – you need to consider so many different scenarios eg Terrorist attack, Hurricane, Tsunami, Pandemic
- When you set your premium vs when someone travels **currency moves**



Challenges for Insurers

- **Customer value – Commissions** high, with some over 50%. What is a **reasonable loss ratio**?
- **Optimisation – Fairness/Legality** of simply increasing and decreasing premiums in **response to demand**
- **Rise of Aggregators** –operated in this space for many years and over time may increase market share.
- **Medical discrimination**
 - Need to **prove to a regulator** that the level of discrimination is justified
 - Need **analysis to defend** your price discrimination
 - Particularly in relation to **pregnancy** and **disabilities like Down syndrome**.
- **Question Sets**
 - **Less questions** driven by the desire to keep the purchase path simple
 - may lead to **customer understanding issues**.



Challenges for Insurers

- **Coverage gaps** in conflict with customer expectations such as declined claims related to airline mechanical breakdown
- **Claims turnaround and Automation**
 - **high seasonal peaks** around European summer.
 - Volatility in **staffing needs**.
 - **Claims turnaround** has been a challenge.
 - **Automation** is a possible solution.
 - Higher risk of **fraudulent claims**. Suspect **claims flagging solutions** is a necessity.



Sick friends and relatives

- **Medical raters** detailed questions to classify into a risk category
- In Australia there are two major medical rating algorithms
 - Verisk used by much of the market
 - NIB has a proprietary algorithm
- Having problems getting coverage?
 - AllClear - Covers significantly higher risks
 - Cover-More has a higher risk appetite than many players
 - NIB sometimes covers conditions that other raters don't
 - Call the medical team

