



Institute
and Faculty
of Actuaries

IFoA Covid-19 Action Taskforce (ICAT) for General Insurance Pricing Actuaries

Case Study: Travel Insurance

November 2020

Acknowledgements

We would like to thank all the members of the ICAT *“Effects of a changing risk profile base on the pricing and availability of insurance products”* volunteer group who have provided valuable insights and contributions in generating and reviewing output:

- Yashasvi Tak (Lead Author)
- Amerjit Grewal (Chair)
- Gemma Dawson
- Stavros Martis
- Gurinder Aulakh
- Jenna Wang
- Jignesh Suba
- Rakesh Gupta
- Kirsty Howitt (Reviewer)

If you have any questions please reach out on our LinkedIn Page: <https://www.linkedin.com/company/ifoa-covid-19-action-taskforce-impact-on-gi-pricing>

Travel Insurance and the current outlook

Travel insurance policies provide coverage for cancellation of flights or accommodation, loss/theft of possessions or medical expenses when abroad (holiday or business trip). Typically sold as single trip, annual or backpacking policies, covering one person or multiples.

Types of coverage

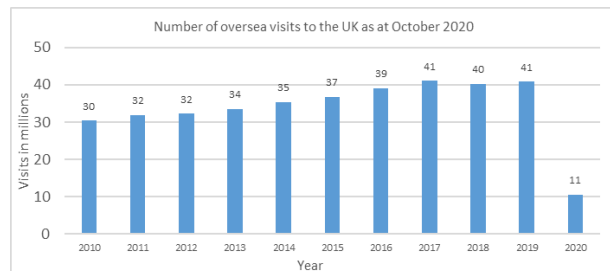
The below mentioned are the primary coverages typically sold under travel insurance:

- Trip cancellations and delays in travel and accommodation
- Cancellation/interruption due to sickness, injury or death of family member
- Health and medical emergencies expense cover, including repatriation
- Loss/delay of baggage/luggage
- Legal expenses cover
- Personal liability

The below mentioned are add-ons sold under travel insurance:

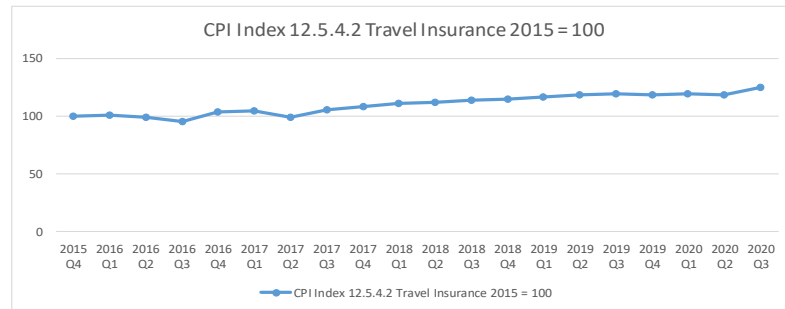
- Cruise Cover: Covers the specific activities and risks associated with a cruise holiday. For example, missed port departure, cabin confinement, itinerary change, cruise interruption, unused excursions
- Cancel for any reason (CFAR): Allows travellers to cancel their trip for any reason that is not otherwise covered in their base plan with terms and conditions applied.
- Flight accident coverage
- Hospital of Choice Evacuation upgrade
- Business: Equipment, money, extra PA and baggage delay
- Adventure and sports activities
- Over 65's and underlying medical conditions

Current Pricing Environment



There has been a significant drop in overseas visitors to the UK and vice versa, with 2020 showing signs of having fewer journeys than over the last decade.

However the reduction in trips is not causing a reduction in prices. Prices in the UK have steadily increased since 2017 and jumped at Q3 2020, due to a combination of increased risk and uncertainty and supply/demand changes due to COVID-19.



Travel Insurance in the news

- Several travel insurance providers such as Churchill and DLG offer pro-rata refunds to customers who halted traveling due to the pandemic and wanted to cancel their policy
- Policies bought before the pandemic are likely to cover COVID-19 related claims unlike newer ones, which creates a risk if customers still plan on traveling
- Conversely, new COVID-19 exclusions in policies help manage uncertainty and therefore reduces the price hikes of travel insurance products being quoted
- International students and executives are now being told they will need to buy compulsory travel insurance policies before going abroad
- Worry as to coverage if you travel to a country which then gets 'banned' or no longer on the advised list of destinations set by the FCO / other governments
- Second lockdown has resulted in a ban on unnecessary travel – but some airlines are refusing to refund customers
- Standard policies do not cover refunds if airlines go bust however this is becoming increasingly likely

Why Flybe collapse means you should check your travel insurance smallprint: A third of holidaymakers wouldn't be covered if an airline goes bust

Ryanair refuses to refund November flights

NATIONAL GEOGRAPHIC
Five things you need to know about travel insurance in the age of coronavirus

With much of the world declared off-limits in recent months by the UK government, and travel corridor confusion ever present, insurance companies are starting to offer policies for those determined to keep travelling during the pandemic.

Coronavirus travel insurance: who will cover me?
We explain whether you'll be covered to claim with new lockdown restrictions in place

Going abroad for studies? Here's why you must buy student travel insurance

How has Travel Insurance been affected by COVID-19?

Increase in cancellations (travel providers)

During the first lockdown customers were stranded abroad whilst on holidays due to increased travel restrictions.

More cancellations due to government interventions e.g. mandatory lockdowns or quarantines

Rebates

Some travel insurers are returning premiums to policyholders given travel restrictions made trips impossible during the coverage period. The rebates aimed to partially refund customers and persuade them not to wholly cancel their policies.

Economic downturn

COVID-19 has resulted in thousands of job losses or reduced working hours. This has left people with less disposable income and therefore demand for holidays (and travel insurance)

Increase in cancellations (policyholders)

Many airlines require COVID-19 testing before boarding is allowed. This means increased cancellations arising where the insured has tested positive



Impact on business travel

Increased popularity of working from home, better technology e.g. zoom and reduced company budgets means international travel for business meetings is becoming harder to justify, resulting in a significant drop in premium.

Increased claims severity

Medical expense claims have increased during the pandemic due to policyholders having contracted COVID-19 whilst abroad.

This is now being partially offset by the fact there's now fewer travellers overall and therefore frequency of these claims has dropped since the initial peak.

Will this change as people start traveling in Q3 and Q4?

Change in demand for niche customers and FCA signposting

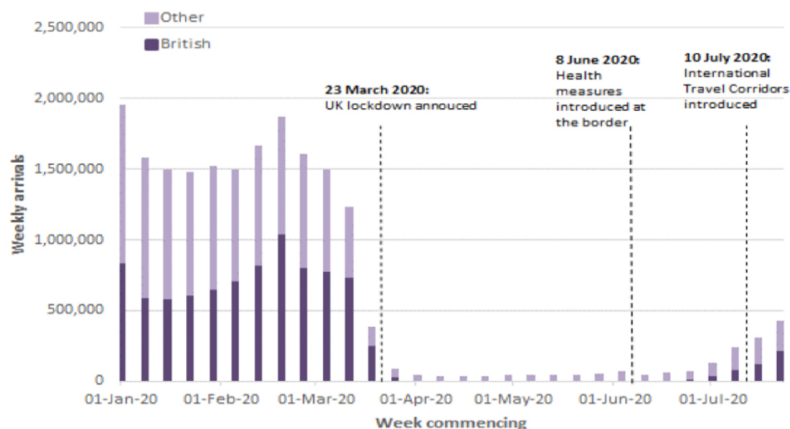
Over 65's and policies for pre-existing medical conditions (PEMCs) have seen a drop in demand given these policyholders are shielding or deferring travel. FCA signposting (see slide 9) into PEMCs has been delayed but will affect revenue from this subclass further

Lack of travel means fewer renewals

Frequent travellers who might usually renew policies are now holding off given the uncertainty surrounding further travel restrictions and how the pandemic will unravel in the future.

We will look further into the changing landscape on the next slide

How has change in demand already affected price?



The chart above shows the change in consumer travelling over 2020. It can be seen that there was a significant drop almost immediately after the first lockdown in the UK and a small increase only started when travel corridors were introduced.

Although only a few months, the impact of the restrictions has a significant and detrimental impact on the industry which is already evident. For example, airlines have furloughed or laid off staff, fears for the financial health of airlines (and some airports).

Impact of COVID-19 on the market forces and the price :

Based on the significant drop in demand the impact on the industry has been severe:

Immediate Impact during/post first lockdown

- Reduced supply due to insurers pulling out of the market due to huge losses
- Reduced demand (both business and personal) due to global lockdown norms and ability to work from home endorsed by employers

Current Situation

- Supply starting to increase again as insurers adapt to the 'new norm' e.g. some insurers are now offering specific COVID-19 related coverage
- Lockdown fatigue means some people are still wanting to go on holiday and therefore demand is picking up. For example before the announcement of the second lockdown passengers could be seen on social media and news outlets trying to book holidays.

Price Speculation

- Increased risk and uncertainty due to COVID-19 is resulting in insurers raising prices.
- There is also a lack of supply in the market (due to recent losses) and increased demand (policyholders wanting medical coverage, cancellation coverage) which further amplifies this.
- However, the overall price change is being dampened given commercial reasons e.g. insurers wanting to retain their market share are avoiding material price hikes which could result in customers going elsewhere.
- Post lockdown it is likely that demand will pick up and prices may rise e.g. when people become more confident in travelling again but now see Travel Insurance as a vital purchase. Therefore insurers who didn't pull out of the industry could benefit.

How will the Travel landscape change as a result

For actuaries and policyholders

Pricing

Data, modelling & other challenges

- Lack of data for deploying new pricing based on new demands and t&c's
- Deploying a new pricing models will take time to test and signoff. Therefore need to seek alternatives in the short term. E.g. temporary measures such as loading or discounting the final price may be a practical way to adjust premiums.
- Each pandemic will be unique in its own way and hence, changes in the GLM for future pandemic covers based on COVID-19 might not justify the use and robustness of the model
- TCF is a principle which should continue to apply. Pricing actuaries need to be careful to justify their pricing to both public and the regulators while balancing it against the business plan of the insurers.

The next slide covers modelling challenges in terms of loadings and rating factors in detail

Policyholders

Need new products / change in existing ones?

- Pandemic-related coverage will be on the top of mind for travellers at this moment and in the coming future – but isn't widely available yet
- CFAR (Cancel For Any Reason) coverage might become more common which will include cover from the future pandemics too

Transparency on clauses

- Clarity / transparency on clauses will be of main interest to policyholders. For example, if the policyholder was already abroad before pandemic was declared, will the repatriation costs will still be covered? FCA signposting will play a role in this for some policies
- Explanation of the changed policy wordings to be made more clear. For example, exclusion related to countries where you can/cannot travel

Long term considerations

Future lockdowns

- Further holidays could be cancelled resulting in an uptick in claims frequency

Boom in the industry

- Demand likely to increase in the long term as people will realise the importance of travelling with insurance (it is an optional purchase but the pandemic has raised awareness of the need to have it)

Consumer Sentiment

- Travel insurers face reputational risk due to claims disputes and if seen as being unwilling to pay out or offer coverage eg PEMC's policies are being withdrawn

Loss of revenue for certain products

- Business travel becoming increasingly unpopular as working from home continues. This will severely affect insurers offering such products
- Similarly insurers offering cruise, over 65's or PEMCs might pull out entirely given the increased risks and/or lower demand

Rating Factors & loading considerations

Rating Factor	Post COVID-19 change?
Vaccinated or not?	This COULD be a future rating factor as if you've been vaccinated for COVID-19 then the likelihood of claims might be better aligned to pre-pandemic levels, making policies cheaper for those customers
How many times have you had COVID-19?	This COULD be a future factor as some people are affected by 'long covid' where they are unable to fully recover, or keep getting re-infected and thus weakening their immune systems
Blood group considerations?	Recent studies suggest people with blood group type O may have less risk of COVID-19 infection and severity of the illness. This COULD be a future consideration.
Existing Medical conditions	People with underlying medical conditions will be charged much more than earlier due to increased risk of contracting COVID-19 and also increased medical expenses that will be incurred for the treatment. This could include having to declare if you are 'clinically extremely vulnerable' ie deemed high risk regardless of age.
Age	Younger people have been shown to have stronger immunity and therefore multi-person policies and over 65s cover might become even more expensive
Location	Travel location for the upcoming trip will be important to ascertain whether the location is against the government advice, if the place is amongst the countries where the spread of virus is the highest.
How in advance policy is purchased	The earlier the policy is booked ahead of travelling the greater the risk of cancellations (thus increasing chance of a claim). This is even more relevant during COVID-19 due to lockdowns
Type of Coverage / add-ons	CFAR (Cancel For Any Reason) is becoming increasingly popular but insurers might be unwilling to offer it without significant price hikes. But question arises on how to model potential losses given COVID-19 has affected countries differently

Additional pricing considerations

- **Expense loading:** Pricing actuaries should also assess changes to policy expense loadings. Lower business volumes could mean insurers no longer cover their fixed expenses and therefore such loadings need to be revised.
- **Business plan:** Change in demand and rates mean companies might struggle to meet business plan targets. As more data comes to light, business plans might change and therefore pricing assumptions would also need to change.
- **Need for explicit loadings for COVID-19 as a short-term fix?** Question on what % assumption to apply
- **Hardening RI market:** RI rates are hardening and there is less capacity further increasing prices. This would have a knock-on effect on rates charged to customers

Future considerations



Climate change is contributing to increased natural disasters and catastrophes. This is resulting in an increase in demand for specialised covers.

For example, cruise cover where there are delays due to hurricanes in GOM.

This will ultimately contribute to an increase in revenue over the long term horizon.



Learning from past events

9/11 attacks, 2008 recession, volcanic eruptions all affected the travel insurance industry e.g. severe drop in passengers wanting to travel.

However the industry was able to bounce back and therefore some insurers might absorb losses in the short term whilst the pandemic plays out.



FCA Signposting

Not yet implemented however insurers will be required to make clear to customers what exclusions are in place.

In the case of PEMCs (Pre-Existing Medical Conditions) where coverage is withdrawn, firms will be required to provide a link to other sources of cover for customers.



New products

Some companies e.g. Staysure have started selling COVID-19 policies showing the industry is already adapting.

Given medical information is used heavily in travel it makes it more likely that rating factors will evolve to allow for COVID-19 over time e.g. vaccination status as discussed on last slide. Could result in new products indirectly.



New revenue

Some countries rely heavily on tourism and are offering free travel insurance or contribution to any medical costs whilst visiting their country.

Some cruise companies are now offering free travel insurance for 2021 bookings. These new distribution channels will help generate new premium revenue for insurers during these turbulent times.

The views expressed in this publication are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this publication and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this publication.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this publication be reproduced without the written permission of the IFoA.
