



# WHY DO I NEED TRAVEL INSURANCE?

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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 great public health system.

Unfortunately, in many countries - especially those unspoiled lesser developed ones, that isn't the case. They often don't have the same facilities or level of care. On top of that, for foreigners, it ends up being quite costly. There are people who have had health issues in the USA and found out that they now have a debt of many hundreds of thousands of dollars, which wouldn't be the case if they had adequate travel insurance.

The Australian Government through its Smartraveller initiative encourages Australians to buy travel insurance for their overseas trips. This also reduces the cost for our embassies, and ultimately the cost for the Australian taxpayer.

## WHY IS TRAVEL INSURANCE SO COMPLEX?

Travel Insurance covers so many things. Travel Insurance is a gap product. That is, it fills the gap of where your other Australian insurance policies don't cover you. Typically, these domestic policies don't operate overseas:

- Health insurance
- Home Contents and Personal Items insurance
- Car insurance
- Income protection when your workers compensation doesn't apply
- Liability insurance

### CONTACT



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As a result, it is a very complicated product - but it is also a very interesting product and a real and energising challenge for those in the travel insurance claims space. It is a thinking person's product.

Globally, every market has different domestic insurance products. For example, some countries cover the travel medical costs under health insurance which means that travel insurance mainly needs to cover cancellation risk.

## WHY IS AUSTRALIA A KEY WORLD MARKET?

Australia is a relatively large travel market in the world with a number of global players having their head offices here or otherwise very large business units, including Cover-More, NIB/World Nomads and Allianz.

There are a number of reasons for this:

- Australians are prolific travellers with a high rate of trips per capita.
- Australia is an island and travelling anywhere is often a long way, and those trips cost a lot. The premium to protect them is thus higher. Australia is therefore a high average premium per policy market.
- Other countries have reciprocal health which means that one country's local public health system will provide cover (as in Europe). This means the average premium to go to a reciprocal health country is lower. Australia has very few reciprocal health agreements with other countries, meaning the average premium here is higher.



## WHO ARE THE MAJOR PLAYERS AND NATURE OF COMPETITION?

The major players in the Australian market include Cover-More owned by Zurich Insurance, Allianz Worldwide Partners owned by Allianz Group and NIB which owns the World Nomads and TID brands.

The market is fragmented and prices vary significantly. There is no single dominant brand from a customer mindset perspective. The main reasons being:

- White labelling of products through other trusted brands (e.g., Medibank, BUPA, Australia Post, NRMA, RACV)
- Products being bought 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)

The biggest accounts in the market by claim cost are the bank distributors followed by the travel agent segment.

Average premiums are low compared to other classes of insurance. Price shopping often isn't worth the effort. Price sensitivity increases with age where premiums increase.

## WHAT DRIVES CLAIMS IN TRAVEL INSURANCE?

Many people would know that travel insurance typically covers luggage, travel disruptions and cancellations.

Figure 1 (Mental Health - a Case Study with Lessons for Travel Insurance, Actuaries Institute General Insurance Seminar 12-13 November 2018 ) shows overseas medical incidents and associated repatriation of individuals represents 40% of the cost.

Cancellation costs represent around 46% of costs. Interestingly health-related benefits make up 86% of the claims associated with travel insurance while other items including luggage only represent 14%.

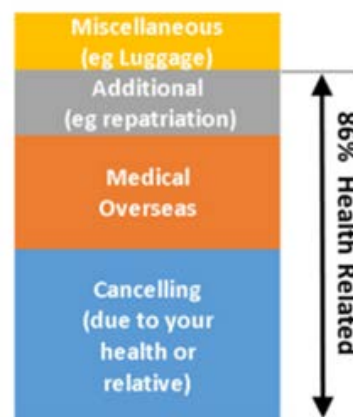


Figure 1: Breakdown of Travel Insurance Claims Costs

<sup>1</sup> Prepared by Bill Konstantinidis and Michael Storzhev,



## WHAT IS COVERED BY TRAVEL INSURANCE?

Travel insurance typically covers a variety of events that may disrupt your travel plans, such as trip cancellation, trip interruption, medical emergencies, lost or stolen baggage, and emergency evacuation.

- Trip Cancellation reimburses you for pre-paid, non-refundable expenses if you need to cancel your trip due to your illness, your injury, or a death of a family member
- Trip Interruption covers 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 covers medical and dental expenses and emergency medical transportation if you become ill or are injured during your trip
- Emergency Evacuation covers the 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
- Lost, Stolen or Damaged luggage and personal items reimburses you for the cost of replacing lost or stolen baggage and personal effects
- Travel Delay covers additional expenses incurred if your trip is delayed due to say bad weather. Though sadly mechanical issues with the transportation are often excluded
- Accidental Death or Permanent disability benefits including income protection from a debilitating injury if you have a serious accident during travel
- Many policies come with a 24-hour helpline that can assist with emergencies, provide advice

and help you find local medical facilities, and find with legal, and translation assistance

- if you are liable for damage as a result of an accident or theft to a rented vehicle the policy will refund you the vehicle excess
- If you are liable for damages or injuries to someone (not associated with a vehicle) you have personal Liability coverage

## WHAT ISNT COVERED BY TRAVEL INSURANCE?

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 for additional cover
- Risky activities: skydiving, scuba diving, extreme sports unless a premium is paid for additional cover
- 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



## WHAT ARE THE CHALLENGES FOR INSURERS?

- Customer value – Commission rates can be high ranging up over 50%. This poses a potential customer value issue with the implied loss ratios being below 50%. What is a reasonable Loss Ratio?
- Optimisation – Is it fair to simply increase and decrease premiums in response to demand?
- Coverage gaps in conflict with customer expectations such as declined claims related to airline mechanical breakdown
- Claims turnaround and Automation – Travel is a highly seasonal business which peaks around the European summer. This leads to volatility in staffing needs over each year and a need for accurate volume forecasting. With the return to travel, claims turnaround has been a challenge for the industry. Automation is a possible solution, but with a higher risk of fraudulent claims making automated suspect claims flagging solutions a necessity.



- Medical discrimination – Do you have the analysis to defend your price discrimination to a regulator? Particularly in relation to disabilities like Down syndrome. Can you defend your product discrimination in relation to pregnancy?

## COVID

- Covid was a shock to the travel insurance industry. With the government mandated travel bans, this meant that travel ceased and by association the need for travel insurance evaporated. This led to many companies either shutting up shop or reducing their staff by as much as 90%, decimating the industry. It has been very heartening seeing the return to travel with flight capacity approaching pre-2019 levels.
- One risk that is not covered is government-imposed travel bans resulting in loss of any non-recoverable trip costs on cancellation
- Covid is an area that is still being treated with caution by travel insurers and coverage in this space varies a lot with very limited ability for travel insurance companies to buy adequate reinsurance cover for Covid.

## ABOUT PFS

PFS Consulting is an actuarial and risk consultancy. It provides insight, foresight and oversight and always seeks to leave its clients better placed after engagement than they were before. One of the keys to PFS's success is that its approach embodies some of the core actuarial perspectives and attributes outlined above.

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