



By
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CANCEL FOR ANY REASON (CFAR)

WHAT IS CFAR?

CFAR (Cancel for Any Reason) is a policy that covers you for cancelling your travel arrangements. You can do it for any reason.

FIXING A CUSTOMER PROBLEM

During Covid I could cancel my hotel room for any reason up to 24 hours before and if I have the right type of flight I can cancel that for any reason as well. That was a great benefit and gave me confidence that when I booked my travel if I got Covid or there was a Covid outbreak I wouldn't lose my money.

We can contrast this arrangement with the concept of CFAR. The customer may have paid a premium for the flexibility of a hotel booking and if they cancelled the hotel would lose the booking. The main difference I see is that the service provider can then re-sell my booking whereas for the insurer there is just a claim with the only mitigant being the co-insurance percentage and any excess that may apply.

LISTENING TO YOUR TARGET MARKET

Designing products that match the needs of your target market has rightly increased in focus largely through the Product Design and Distribution Obligations. ASIC have signalled the importance of aligning a product with its target market by demonstrating gaps in insurer target market statements and publicising these.

Customer complaints and declined claims in travel insurance clearly identify customer problems around claims for cancellation costs. Not all cancellation claims are covered due to exclusions. If you spend a couple of hours reading your Product Disclosure Statement (PDS) you might be able to ascertain that there are cases where your cancellation won't be covered. The reality is that most people don't read the PDS and purchase on the basis of brand and the trust that goes with it.

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You might find that your cancellation claim isn't covered for a number of reasons:

- You didn't declare my medical conditions that resulted in my claim
- Your elderly parent was in a nursing home and had a health deterioration
- Your father had been in hospital recently and that condition deteriorated and you had to stay and help
- Your mother died but they live in Canada
- You broke up with your boyfriend you were going to travelling with
- Your best friend from school announced his wedding day while you were supposed to be overseas
- You lost your job and financially you can't afford to travel
- Your pet got sick and you had to stay and look after them
- Your old neighbour who was like a second mother to you died and you have to go to the funeral
- Your father was murdered and you wanted to be there for the trial of the accused
- You changed your mind about travelling
- There was a terrorist attack and you don't feel safe and don't want to travel

These all seem reasonable yet based on which policy you choose most aren't likely to be covered.

HISTORY OF CFAR IN AUSTRALIA

CFAR was introduced into the Australian market in 2018 by Zurich owned Cover-More with the benefit being a reimbursement of up to 75% of non-refundable expenses, up to a total of \$10,000.

It became very popular at the start of Covid-19 when it began to impact travel around the world. Attachment rates of the CFAR option were high particularly in the first quarter of 2020 with travel agents selling it to appease customers who were concerned as to how long the Covid crisis would last.

As Covid spread around the world, the borders began to close. Flights ended up being cancelled and significant claims numbers were lodged resulting in unprecedented catastrophic losses.

The product was withdrawn from the market in March 2020.

WHAT ARE THE CONTROLS IN THE WORDING AND WHY?

Percentage Reimbursement

- With a 75% reimbursement back to the customer still bears a 25% loss so they still have some skin in the game.

Time Periods

- There are usually time periods in relation of what costs are covered eg costs paid within the last 48 hours. This ensures that if you bought your trip 6 months ago you aren't simply buying the cover today knowing that you are about to cancel, thus avoiding antiselection.
- Typically you need to ensure you cancel your trip 48 hours before travel this avoids risks around last minute change of mind where cost recovery is low or not having an appropriate visa.

Benefit Limit

- The benefit is usually capped to avoid significant accumulation.



WHAT IS THE INSURER CONSIDERATION?

CFAR by its nature implicitly covers things that may typically be excluded in policies such as Pandemic, Terrorism, Active Volcanos, known impending Natural Disasters, Serious illnesses, War, Nuclear events, Insolvency, Border closure, Government Change, Change of Mind, Relationship breakdown, Redundancy.

CFAR by its nature covers all risks. Some of these risks are standard exclusions in reinsurance contracts eg War, Nuclear, Pandemic. There is thus a challenge in getting reinsurance cover for CFAR exposure.

Is it an insurance product? Is it fortuitous?

How do you reduce the chance of significant accumulated losses?

How do you monitor emerging risks that could impact CFAR? How do you manage the cover in response to an obvious emerging risk like a pandemic, volcano or extreme weather? Can your remove cover or stop sales?

WHY IS CFAR GOOD FOR THE CUSTOMER?

- It provides customer piece of mind knowing confidently that they can cancel their policy for any reason, and they won't lose all their money.
- The product is simpler than the normal cancellation benefit and thus can simplify the purchase process so the customer truly understands what they are buying.
- The customer can get paid faster as it simplifies the claims process as they don't need to demonstrate the reason for the loss, just the quantum.
- They don't need to fill in a long claim form.
- The customer doesn't need to provide their extensive private medical history or that of an impacted relative to justify a payment.
- It provides cover for known events such as a volcano ash cloud in Bali which can be embargoed and excluding from coverage for many years.

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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