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# **OPTIMUM RE. TRAVEL INSURANCE SEMINAR**

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**September 23, 2010**

**Trip Cancellation & Interruption:  
Catastrophe Risks**

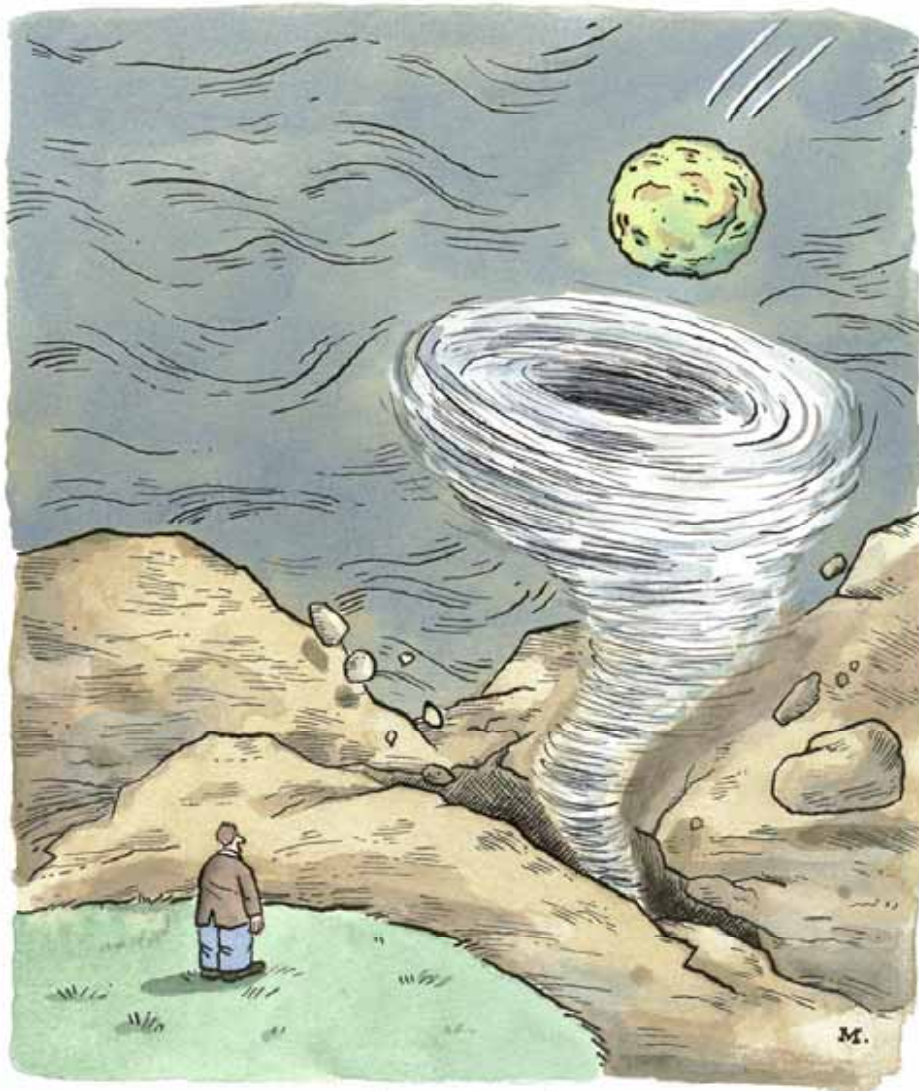
Most trip cancellation and interruption coverages involve personal problems (health and unexpected events for an individual) that disrupt travel.

In recent years, though, we have seen many events that affect large numbers of unrelated people, which also disrupt travel.

What we are discussing today is the second group which we will term **catastrophe risks**.

# AGENDA

- 1 What are catastrophe risks?
- 2 What do Canadian travel insurers generally cover?
- 3 What is done outside of travel insurance by the travel industry and government?
- 4 What can the travel insurance industry do going forward – opportunities?



*The dreaded earthquake - enhanced tornado being hit by a radioactive meteor event.*

# TYPES & EXAMPLES OF CATASTROPHE RISKS?

## 1 Violence and Terrorism

911, London, Spain, **Thailand**

## 2 Weather Events

Hurricane Katrina, Snowstorms (Toronto February 08 & January 09)

## 3 Other Natural Disasters

**Icelandic Volcano**, South East Asia Tsunami , Earthquakes in Haiti, Chile

## 4 Pandemics

**SARS**, H1N1

## 5 Default of Travel Provider

Mexicana, **Jetsgo**, Skyservice, Canada 3000, Conquest

# WHAT DO TRAVEL INSURANCE POLICIES COVER?

- We looked at 7 plans issued by major providers from the Avalon survey. Our survey monitors most of the major Canadian travel plans and provides not only premium rates but coverage comparisons, medical questionnaires, etc.
- According to the contract, what risks are covered and what are the limits?
- Policies usually (all 7 surveyed) provide coverage for a catastrophe involving a natural disaster, dread disease or terrorism using a trigger of a travel advisory issued by the Canadian Department of Foreign Affairs and International Trade

# TRAVEL ADVISORY

Typical wording is:

“A written formal notice by the Department of Foreign Affairs and International Trade of the Canadian government after the purchase of your insurance, advising Canadians not to travel to a country, region or city originally ticketed for a period that includes your trip.”

There are 4 levels of advisory. The two most serious are “avoid non-essential travel” and “avoid all travel.” Presumably both trigger an insurable event.

# AVALON SURVEY FINDINGS

## Terrorism

- One policy surveyed does not specifically include as a travel risk. It would be included under their travel advisory risk with no apparent limits
- There are also nuclear, chemical and biological exclusions
- Payouts are usually (and should be) limited for each covered risk, for each act of terrorism and for all events in a calendar year as follows:

Company →	1	2	3	4	5	6
Covered %	100%	100%	50%	100%	50%	100%
Limit per event	\$1 m	\$2.5m	\$5m	\$2.5m	\$5m	\$2.5m
Limit per year	\$2m	2 events	\$10m	\$5m	\$10m	\$5m

# AVALON SURVEY FINDINGS

## Natural Disaster

a) At home

Principal residence covered by 6 of 7

b) At destination

- Usually covered by a travel advisory clause.
- Destination specifically covered by 3 of 7

# AVALON SURVEY FINDINGS

## Pandemics

- Typically covered by travel advisory clause
- Otherwise not specifically covered.
- There may be no coverage for Canadian destinations as they may not be covered by a travel advisory. For example, an epidemic in Calgary might not obtain coverage for flights from other Canadian cities



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# AVALON SURVEY FINDINGS

## Default of Supplier

- May not be included or included only on specific plans (some insurers may not cover all plans with tripcan)
- May be restrictions such as not on a travel supplier alert list or bankruptcy declaration must be at least 14 days after booking
- Limits vary considerably. From our sample:

Company→	1	2	3	4	5	6	7
Per person	\$10000	\$1000	\$7500	\$3500	N/A	None	\$7500
Per supplier	\$1m	None	\$2m	\$1m		None	\$2m
Per year	\$5m	None	\$5m	\$3m		None	\$5m

# AVALON SURVEY FINDINGS

## Weather

- All 7 cover if delayed for at least 30% of travel duration due to weather delays
- May be covered by a travel advisory if it turns into a natural disaster (e.g., floods in Pakistan)

# WHAT IS DONE BY THE TRAVEL INDUSTRY AND GOVERNMENT?

Travelers

Insurance companies

Governing authorities

Travel service suppliers

I will cover these with reference to 4 specific catastrophes: Thailand, SARS, The Iceland Volcano and the Jetset Default

# THAILAND

## Civil unrest & commotion

November 26<sup>th</sup> 2008 (civil unrest boils over)

- Citizens of Thailand storm the airport
- Airport is shut down & travelers are stranded
- Travel becomes unsafe in all areas of Thailand

# THAILAND

## Civil unrest & commotion

Let's look at a specific scenario:

A Canadian tour group becomes stranded in the middle of a civilian uprising which appears to be evolving into a civil war.

# THAILAND

## Civil unrest & commotion

How did this situation get resolved

- Travel agent, Insurer, Embassy & Locals team up
- After 8 days travelers are flown to Hong Kong
- Canadian Consulate pays 1 hotel night in HK
- Air carrier accepts original tickets back to Canada
- Canadian group finally arrives home safely

# THAILAND

## Civil unrest & commotion

What was the cost of this event

<b>Cost per person</b>	<b>Insured</b>	<b>NOT Insured</b>
Cost of original trip	9500.	9500.
Extra cost due to uprising	3501.	3501.
Amount paid by insurer	- <b>3501.</b>	- <b>0-</b>
Total cost of this trip	9500.	13001.

Other amounts paid(Hotel in Hong Kong – paid by Canadian Consulate)

Note: Numbers above represent average of numerous claims presented

# THAILAND

## **Civil unrest & commotion**

**Firstly, travelers should always buy TCI!**

Traveler should find out if insurer provides:

- Ongoing support and information
- Coverage for unexpected travel catastrophes
- Availability of Assistance by Telephone/fax/e-mail

Today, insurers must be prepared to deal with this.

# SARS

- **WHO Travel Advisory (April 23<sup>rd</sup> 2003)**
  - Sars breaks out in CHINA
  - Cases are imported into Toronto
  - WHO advisory warns against travel to Toronto

Advisory wrongly defines Toronto as a source and exporter of SARS!

# SARS

## Immediate Effects of the WHO Advisory

1. Creates an atmosphere of fear in Toronto
2. Business & leisure travel into Toronto drops 80%
3. Canadian travelers abroad are asked to return home

Fear, anxiety and paranoia causes many inbound and outbound travelers to immediately cancel their trips!

WHO PAYS?

# SARS

1. Fear & paranoia is not an insurable risk except insofar as an insurance policy offers a change of mind benefit. This is usually limited as insurers don't want to be on the hook for what may be an uninsurable event. (and the WHO press release was incorrect)
2. So, who paid?
  - A. The insurer?
  - B. The provider of travel services?
  - C. The travelling passenger?

Travelers were generally left holding the bag!

# Volcanic Eruption

Iceland April 14 2010

## Event

1. Volcano erupts near Reykjavik Iceland
2. Ash spews 9 miles into the atmosphere
3. Cloud is 2100 miles long & 1400 miles wide

# Volcanic Eruption

Iceland April 14 2010

## Effects

1. European & transatlantic flights cancelled
2. Air carriers are grounded for 8 days & more
3. Millions of travelers are forced to interrupt their trips

# Volcanic Eruption

Iceland April 2010

Crisis is twofold

Grounded carriers & Crisis management

- Procrastination of EU & IATA

- A. 1 million passengers stranded

- B. 7 million passengers affected

# Volcanic Eruption

Iceland April 2010

What was the resolution

1. Some airline carriers undertake test flights
2. EU is pushed to open skies with restrictions
3. Traveler options and rights are muddy at best

# Volcanic Eruption

Iceland April 2009

The outcome

1. Days of despair for millions of travelers
2. Situation made worse by delay of action plan
3. IATA calls this the worst air carrier disaster ever

# Volcanic Eruption

Iceland April 2009

## Conclusion

- Some airlines paid - some did not
- Some insurers paid – some did not
- This event clearly outlines that governing authorities need to refine crisis management.
- The resulting financial gaps need to be addressed

# DEFAULT

## Travel Supplier default

Affects 2 types of travelers

1. “In transit” travelers
2. “Future” travelers

# DEFAULT

## JETSGO Bankruptcy

- Announcement: 11 march 2005
  1. JETSGO Airline ceases all activities
  2. JETSGO seeks creditor protection
  3. JETSGO leaves 17000 pax stranded

# DEFAULT

## JETSGO Bankruptcy

### Department of Transport Release

For passengers already in transit:

- Make arrangements with other carrier
- Contact your travel agent
- Contact provincial authorities QC, ON, BC

For those who have not yet travelled:

- Contact your travel agent
- Contact your credit card company
- Contact provincial authorities in ON, QC. BC.

# DEFAULT

## JETSGO Bankruptcy

- The Reality

For passengers in transit:

1. JETSGO was not an IATA carrier
2. JETSGO tickets had no value to IATA carriers
3. Travelers really had to pay again for tickets

# DEFAULT

## JETSGO Bankruptcy

### The Reality

For travelers who had not yet left:

1. Where were tickets purchased?  
(Internet / Travel agent / Directly)
2. How were tickets paid?  
(Cash / check / credit card)

# DEFAULT

## Refund Options

1. Credit card companies
2. Travel Insurance Policy
3. Trustee in Bankruptcy
4. Compensation funds

# DEFAULT

## Travel Compensation Funds

There are only 3 Provinces that have compensation Funds and they cover travel services sold in that province by a registered travel retailer or wholesaler, and which, are subsequently not delivered to the purchaser :

ON = 5000 pp up to \$5 million per event

BC = 5000 pp up to \$2 million per event

QC = totality pp up to \$3 million per event

The compensation funds are last payers

The process can take weeks, months or years

# GAPS IN COVERAGE

## Default

Consumer: does insurer cover; what are limits?

Insurer: what kind of reinsurance is available; is there (partial) retained risk?

# GAPS IN COVERAGE

## Terrorism/Violence

### **Consumer**

- Usually coverage is included subject to limits of insurer
- Exclusions (biological, nuclear, chemical)
- If away, need for advice and assistance as well as insurance

### **Insurer**

Reinsurance (non-medical catastrophe)

Insurers need to limit coverage

# GAPS IN COVERAGE

## Weather/Natural Disasters

### **Consumer:**

- Weather is usually covered by “greater than 30% of trip duration delay” clause
- Can also be triggered by travel advisory
- Travel advisory may not cover problems within Canada
- Need advice and assistance, if away

### **Insurer:**

Reinsurance (non-medical catastrophe)

# GAPS IN COVERAGE

## Pandemic

### **Consumer:**

- Fear factor (change of mind benefit)
- Dependent on travel advisory
- What if the problem is within Canada (SARS)

### **Insurer:**

Change of mind is not an insurable event

Reinsurance (non-medical catastrophe)

# Challenges

Are travellers willing to pay for additional coverage?

If sufficient numbers of travellers are not interested in enhanced coverage, can reinsurance be arranged for small volumes?

# The Opportunity

Most insurers have had to react to the catastrophic events of the past 10 years: they were often unprepared. But lessons have been learned. For example, better terrorism policy wording has been developed following 911. Going forward the travel insurance industry has the opportunity:

- to provide better insurance coverage for catastrophic incidents that interrupt travel while maintaining manageable risk.
- to meet customers expectations by clarifying what is covered and what isn't.
- to provide information and assistance for those in danger and distress.

.....and charge the extra premium for the extra benefits and risk.