

Commentary

Summer of Mayhem Will Compound the Travel Insurance Market's Woes in 2022

DBRS Morningstar

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Marcos Alvarez
Senior Vice President, Head of Insurance
Global Financial Institutions Group
+34 662 976 415
marcos.alvarez@dbrsmorningstar.com

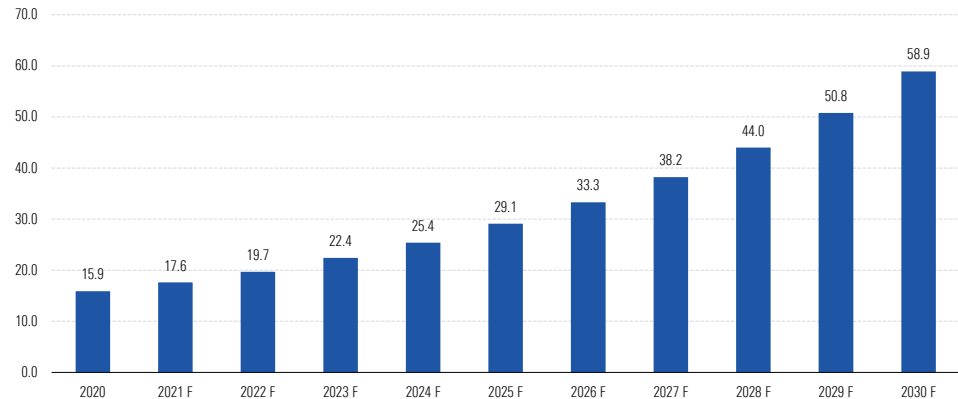
Elisabeth Rudman
Managing Director, Head of European FIG
Global Financial Institutions Group
+44 20 7855 6655
elisabeth.rudman@dbrsmorningstar.com

Key Highlights

- The rapid increase in travel demand has hit airlines with an unprecedented number of cancelled and delayed flights due to extreme staffing shortages, increased operational requirements, and fleet reductions during the pandemic.
- This material increase in flight cancellations and delays, as well as baggage losses, will likely make travel insurance unprofitable in 2022, compounding the problems experienced by the travel insurance business since the beginning of the pandemic.
- Despite a substantial increase in travel insurance losses, the overall impact on insurance companies' financial strength should remain manageable given their high degree of diversification.

The global travel insurance market's gross premiums written reached \$17.6 billion in 2021 (see Exhibit 1) following a significant contraction in 2020 amid the initial impact of the global Coronavirus Disease (COVID-19) pandemic, which restricted domestic and international travel during most of the year. Nevertheless, DBRS Morningstar expects that travel insurance gross premiums written will continue growing during the rest of the decade, reaching almost \$60 billion by 2030. This trend is supported by the substantial growth in the tourism industry globally and increased awareness among holidaymakers of the need to protect their travel plans, which has been facilitated by the rising availability of travel insurance products through digital channels. Government requirements for mandatory travel insurance when applying for a visa are also driving up the demand for this product.

Exhibit 1 Global Travel Insurance Market Size (USD Billions)



F = forecast.
Source: Statista.

With many airlines and airports around the world facing extremely high levels of flight cancellations and delays in recent months, we expect that the travel insurance industry will experience combined ratios over 100% because of the increase in insured losses, making this business line unprofitable for most insurance companies in 2022. Major global players in the travel insurance industry include Allianz SE; American International Group, Inc.; AXA SA; Berkshire Hathaway Specialty Insurance; Assicurazioni Generali S.p.A.; Travel Insured International; USI Affinity; and Zurich Insurance Group. However, most travel insurance is underwritten by large insurance companies with solid product and geographic diversification, which mitigates the risk of failure due to abnormally high travel insurance losses in a given year.

What Is Covered Under Travel Insurance Policies?

Travel insurance is a type of insurance for risks associated with travelling. In particular, travel insurance provides partial or total financial protection for expenses or losses incurred as a result of unexpected events during domestic or international travel, such as trip cancellations and delays, loss of luggage, and emergency medical services. Travel insurance protection typically kicks off on the first day of travel and lasts until the policyholder returns home.

The following are some of the standard coverages included in travel insurance policies:

- **Trip Cancellation:** Reimbursement of costs previously paid and not otherwise refunded by the provider for a trip cancelled before departure.
- **Trip Interruption:** Reimbursement of additional costs (for instance, the cost of changing a return flight) or unused prepaid costs (such as car rentals, hotels, and excursions) incurred as a result of returning from a trip earlier than expected.
- **Travel Delay:** Reimbursement of costs incurred because travel was not initiated/finalized at the time expected.
- **Baggage Damage or Loss:** Payments to replace personal items damaged or lost while on a trip.
- **Emergency Medical or Dental:** Reimbursement of unexpected medical costs incurred as a result of injury or illness while travelling.
- **Medical Evacuation and Repatriation:** Coverage of costs related to medical emergency transport to licensed medical facilities in the home country and repatriation of remains.
- **Rental Car Collision Damage:** Reimbursement of payments to a rental car company as a result of damage to, or loss of, a rental car.
- **Legal Expenses:** Financial compensation to third parties if the policyholder damages others' property or causes injury.

However, protections provided by travel insurance policies can vary widely from one insurance company to another or change depending on the jurisdiction in which the policy is underwritten. For instance, some coverages can be offered on a reimbursement basis (for example, the insurer pays according to the costs incurred) or on an indemnity basis (the insurer pays a fixed amount per type of claim). Moreover, the triggers (covered reasons) of specific coverages on travel insurance policies can be very different among insurance companies. Although some insurance state regulators in the United States have started to encourage policy wording standardization across the industry following recommendations from the National Association of Insurance Commissioners, travel insurance remains unregulated in most jurisdictions. Additionally, travel insurance policies can provide primary coverage or complement other products such as home or car insurance.

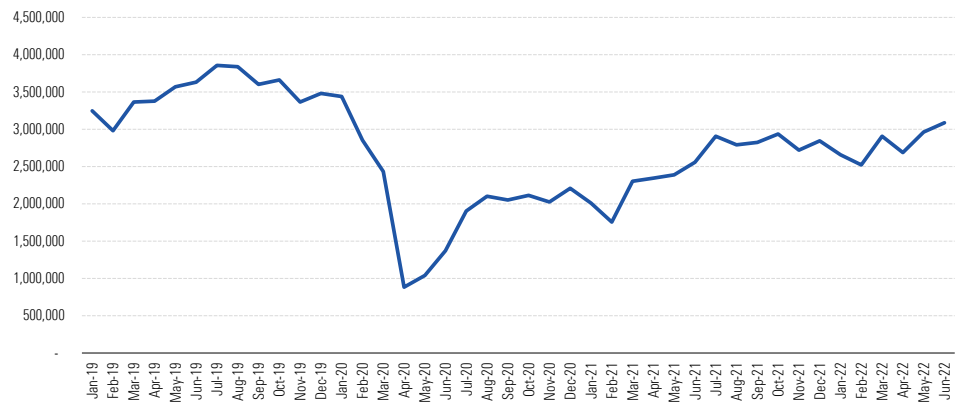
Similar to other insurance products, travel insurance policies generally exclude losses under certain circumstances or only cover them for an extra cost. For instance, pre-existing medical conditions and civil unrest are rarely covered; travelling to countries or regions that the policyholder's government recommends avoiding is also typically excluded. Additionally, pandemics are typically excluded from

these policies. However, some insurance companies have recently started to offer new products protecting travellers against coronavirus.

Massive Flight Cancellations and Delays Will Negatively Affect Travel Insurers’ Profitability

With vaccination coverage reaching almost two-thirds of the global population and coronavirus cases significantly down from the peak at the beginning of 2022, business and leisure travel demand has resumed. The summer holiday season in the Northern Hemisphere has brought additional challenges for airlines and airports around the world, with thousands of cancelled and delayed flights due to extreme staffing shortages, labour actions, increased operational requirements, and fleet reductions during the pandemic. These factors have driven airlines around the world to cancel an unprecedented number of flights in recent months. For instance, Air Canada recently announced that it would cancel more than 9,500 flights over July and August, representing approximately 15% of its scheduled flights during the summer, one of the largest cancellation actions among global airlines this year. Airlines and airports have also been unable to handle increased amounts of luggage in the past few weeks, which has led to delivery delays and losses.

Exhibit 2 Number of Commercial Flights



Sources: DBRS Morningstar and Flightradar24.

Although passenger volumes are still below 2019 pre-pandemic levels, as indicated in Exhibit 2, North American and European travellers have faced the harsh reality of massive flight cancellations and delays since May 2022. In DBRS Morningstar’s view, this material increase in flight cancellations and delays, as well as baggage losses, will make travel insurance unprofitable for most insurance carriers in 2022.

This will compound the problems experienced by the travel insurance business since the beginning of the pandemic, as insurance companies were initially hit by a jump in claims and then by the collapse of global travel, which considerably decreased demand for this product. Even if airlines manage to accommodate passengers with cancelled flights at a different time or fully refund the ticket cost, travel insurance policies are likely to be triggered. In such cases, many policyholders will claim under their trip cancellation or trip interruption coverages any related nonrefundable travel costs such as connecting flights with a different airline, as well as prepaid hotels and car rentals. Flight and baggage delays will

also trigger financial compensation under most travel insurance policies, further increasing travel insurance companies' loss ratios.

Impact of Travel Insurance Losses on Insurers' Credit Profiles

Although we anticipate that the travel insurance business will be unprofitable for most companies this year, losses should remain manageable given insurance companies' high degree of diversification across different business lines. For most of the largest travel insurance providers, travel insurance typically accounts for less than 5% of their total gross premiums written. The relatively low contribution of travel insurance to overall revenues will help mitigate the impact on insurance groups' credit profiles.

We expect that travel insurance will become more expensive in the short term, given the mounting losses generated by numerous flight delays and cancellations. Some travel insurance companies could also stop providing trip interruption and cancellation coverages for some time, focusing more on the medical side of the business. However, we believe that such a strategy will be only a temporary restriction as airline and airport performance improves over the upcoming months. However, some insurance companies could exit or substantially decrease their exposure to the travel insurance business, given the volatility in profitability since the beginning of the pandemic. Moreover, a resurgence in coronavirus cases could force governments to reintroduce travel restrictions, which would negatively affect the demand for travel insurance.

Related Research

- [*Ukraine Conflict Adds Uncertainty to Otherwise Supportive Interest Rate Outlook for Euro Area Insurers*](#), May 23, 2022.
- [*Cyber Warfare Following Russia's Invasion of Ukraine Likely To Drive Up Claims for European and North American Insurers and Reinsurers*](#), March 9, 2022.
- [*War, Weather, and Coronavirus Create Headwinds for Reinsurers Following Strong 2021 Results*](#), March 4, 2022.
- [*The Global Supply Chain Crisis Exposes the Limits of Business Interruption Insurance*](#), November 2, 2021.
- [*Global Reinsurers Post Record Earnings in H1 2021 but Face Headwinds from Catastrophe Losses and Coronavirus Litigation*](#), September 29, 2021.
- [*The Suez Canal Blockage Is Likely to Have a Limited Impact on the Global Insurance Industry*](#), March 30, 2021.

Note:
All figures are in U.S. dollars unless otherwise noted.

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