



Subject: Non - Life Insurance - PPP

Chapter: **Product, Underwriting &
Claim settlement 1
Retail Product Lines – Travel
Insurance**

Category: Notes

Travel Insurance

Travel insurance is a type of insurance that covers the costs and losses associated with traveling. Many companies selling tickets or travel packages, give consumers the option to purchase travel insurance, also known as travelers insurance.

Some travel policies cover damage to personal property, rented equipment, such as rental cars, or even the cost of paying a ransom.

It is frequently sold as a package called Travel Protection Plan.

Coverage often includes 24/7 emergency services, such as replacing lost passports, cash wire assistance, and re-booking canceled flights.

What is covered?

Common coverages that may be included in these packages are:

- **Trip Cancellation:** Reimbursement of costs previously paid, and not otherwise refunded, for a trip canceled prior to departure.
- **Trip Interruption:** Reimbursement of additional costs, or of unused prepaid costs (e.g., excursions, hotel, etc.), incurred due to returning from a trip earlier than expected.
- **Travel Delay:** Reimbursement of costs incurred because travel did not occur at the time expected.
- **Baggage Damage or Loss:** Payments to replace personal items damaged or lost while on a trip.
- **Baggage Delay:** Reimbursement of additional costs incurred to replace personal items that did not arrive at the intended destination when expected.
- **Emergency Medical or Dental:** Reimbursement of unexpected medical costs incurred due to injury or illness while traveling.
- **Emergency Evacuation:** Providing specialized transportation (e.g., air ambulance), typically in response to a medical emergency or severe medical need.
- **Repatriation of Remains:** Providing transport for an insured who dies during travel from the travel destination to a family-designated funeral home.
- **Rental Car Collision Damage:** Reimbursement of amounts paid to a rental car agency due to damage to, or loss of, a rental car.

Numerous other types of coverage may be offered, either on a reimbursement basis (i.e., insurance pays according to specific costs incurred) or as an indemnity benefit (i.e., insurance pays a fixed amount when a specific travel disruption occurs, such as tarmac delay, carrier change in itinerary, etc.).

For most products, each of the coverages associated with travel insurance has specific triggers ("covered reasons") that limit the range of events that will result in reimbursement. These triggers can vary widely among carriers and between policies for each carrier. For example, one policy might provide coverage when only the traveler becomes ill, while another policy might also provide coverage when the traveler's relative, traveling companion, or caregiver becomes ill.

Overlap with other insurance

Another characteristic of travel insurance is the potential overlap with other insurance products. For example, automobile insurance may provide rental car collision damage insurance, homeowners insurance may cover lost or damaged baggage, and health insurance may cover emergency costs while traveling. Even in cases where a traditional policy may provide a benefit, travel insurance remains distinctive because it only covers exposures related to travel, and is usually tied to a specific trip.

Product Attributes

The overwhelming majority of travel insurance purchases are for a specific trip ("per-trip" policies), although annual travel plans are available and purchased by some consumers. Per-trip policies exhibit a number of differences from policies in traditional insurance lines of insurance, described below.

Intermittent

Per-trip coverage generally begins when the traveler purchases the policy and ends when the traveler returns home. This is much different than the standard approach of maintaining continuous coverage for most lines of insurance. Consequently, policy periods may range from only one day to multiple years in length.

100% New Business

Because per-trip policies are bought specifically for the trip being taken at the time, renewals are not applicable. For each trip taken, the travel insurance consumer would need to purchase a new policy. This results in 100% of policies considered to be new business. Even consumers who purchase travel insurance from the same insurer every time they travel are considered new business from the perspective that each trip is different and has a different probability and expected severity of a loss occurrence. Further, because each trip is different, it often is the case that the coverage purchased is different, even when buying a policy from the same carrier for coverage purchased on a previous trip. This is in clear contrast to traditional lines of insurance,

where policies usually may be renewed continuously from one year to the next, often with the same carrier and with the same coverages. For travel insurance, each individual purchase is an independent decision, and, as noted elsewhere, the choice of carrier is often determined by how the consumer purchases travel.

This new-business feature has a number of implications with respect to rate analysis and the consumer/company relationship, such as:

- No opportunity for renewal discounts for consumers;
- More heterogeneity of data used in actuarial analyses; and
- Relatively low consumer loyalty to specific travel insurers.

Discretionary

As mentioned above, policies in most traditional P&C insurance lines may be renewed continuously, often because that insurance coverage is mandated either by law or by a lender. For example, automobile liability insurance is mandatory by law in most states and automobile physical damage coverage is required by most lenders. Such requirements to carry insurance to cover travel do not exist, thus making its purchase completely at the consumer's discretion.

This results in several effects:

- Greater need to identify effective distribution mechanisms. Because customers might not always know to seek out the coverage, insurers must find ways to bring coverage offers easily within customers' reach.
- Greater effort and expense by insurers to educate consumers to highlight the value of travel insurance and encourage them to purchase travel insurance.
- Greater risk of adverse selection—increased risk that consumers who are more likely to experience a compensable loss are more likely to purchase the insurance.
- Potential for increased consumer price sensitivity. Because travel insurance is not required, consumers' acceptable price point for their risk/reward tradeoff may be lower for travel insurance than for mandatory coverages.
- Potential for confusion with respect to the treatment of pre-existing medical conditions. In contrast to major medical health insurance plans, pre-existing medical conditions may be excluded from coverage under travel insurance. Many products contain provisions that waive this exclusion under certain circumstances, allowing many claims for pre-existing medical conditions to be covered, but not necessarily all such claims.

Relatively Low Premiums and Loss Ratios

Another way that travel insurance differs from more traditional lines of insurance is its relatively low premiums. For instance, average annual premiums for private passenger automobile insurance are about \$900⁴ while the average travel insurance premium is around \$70.5

The low premium level is a cause of relatively high expense ratios because of the fixed nature of some operational expenses for travel insurance. The claims tail is short, which means that there is little to no investment income available, as is often the case in other lines, implying a need for a relatively higher underwriting profit. Compensation paid to travel insurance distributors is often higher than in traditional insurance, both due to the nature of the distribution mechanism, as described in "Distributor Perspective" on page 10, and the fact that all business is new business, as

described in "100% New Business" on page 13. The combined effect of these forces is that travel insurance tends to generate low loss ratios compared to other lines of business at comparable profit levels.

Take-All-Comers

Consumers of typical P&C insurance such as automobile or homeowners are nearly always subject to underwriting eligibility requirements of the insurer. In the event of rejection by an insurer, the consumer would need to seek coverage from another carrier or go uninsured. In contrast, travel insurance policies are usually sold on a take-all-comers basis without application or individual underwriting. Two primary reasons for the take-all-comers approach are convenience and cost. First, travel insurance is most often offered to the consumer in conjunction with the purchase of a trip. It would be inconvenient for both the consumer and the travel provider to interrupt the purchase of the trip to navigate a formal application and underwriting process. Second, due to the low cost nature of travel insurance, it may not be cost effective for the insurer to individually underwrite each policy, partially due to the additional administrative processes for handling underwriting exceptions and denials which may result. Instead, travel insurance is sold to anyone who wishes to buy it and insurers manage their underwriting risk through product design and pricing.

Cancellation Provisions

Generally, most personal P&C insurance policies can be renewed, canceled by the insured, or canceled by the insurer. Additionally, the written premiums for these policies usually earn on a pro-rata basis from policy effective date to policy expiration. Travel insurance tends to have special treatment for each of the above situations.

Travel insurance policies have unique qualities that impact policy cancellations: They are nonrenewable (except for rare renewable annual policies), usually are non-cancelable by the insurer, have unusual premium earning patterns, and often have "Free Look" provisions that allow the policy to be canceled within the first several days after purchase with a full refund of premium.

Cancellation by the insurer: Except in cases of fraud, etc., travel insurance policies are not cancelable by the insurer. Travel insurance is provided without individual underwriting, for short policy terms and sold on a single use basis. Because of these features, as well as the nonrenewable nature of travel insurance and average severities often being fairly low, there is less exposure to the insurer for carrying unprofitable policies with no recourse.

Cancellation by insured: As noted above, many travel insurers sell their policies with a Free Look provision. Generally speaking, after this Free Look period the policy is nonrefundable. Nevertheless, cancellation policies vary by carrier and some states require carriers to provide mid-term cancellation provisions for travel insurance.

Risk Classification

The purpose of risk classification is to segment insured's into groups with similar exposure to loss for purposes of rating. Rates differ by segment in proportion to expected loss. In travel insurance, insured's can be segmented based on many different criteria.

Insurers may not receive the information necessary to segment risks by risk classification. For example, when travel insurance is purchased at point-of-sale as an integrated part of the travel sale, limited information may be provided to the insurer, such as only the trip cost and number of travelers. As a result, travel insurance rating manuals must be flexible enough to allow for averaging across multiple risk characteristics or to allow the use of a default rating factor when information for a particular risk classification is not available. Various packages offered to a single insured may differ in terms of risk classifications used.

Some classification criteria are based on policyholder characteristics. However, most criteria used to classify risks for travel insurance are based on characteristics of the trip. Travel insurance is typically a multi-coverage package product and the rate for each coverage within the package can be impacted by different criteria, or by the same criteria to a different degree. As a result, risk classification plans often vary by coverage.

The following are common risk classification criteria used in travel insurance.

Age—Exposure to loss for trip cancellation, trip interruption, emergency medical expense and emergency evacuation varies by age. Older insured's typically have higher expected losses than younger insured's, reflecting that older insured's are more likely to sustain injuries or contract illnesses that affect travel before or during their trip than younger insured's. The majority of trip cancellations and trip interruptions result from illness or injury to the insured. As a result, many travel insurers vary their base rates for trip cancellation, trip interruption, emergency medical expense, and emergency evacuation by age, typically charging more for older insured's.

Trip Cost—Manual rates for trip cancellation and trip interruption are often quoted as a rate per \$100 of trip cost or coverage limit. However, the rate per \$100 may not be uniform across all trip costs or limits.

Trip Length—The exposure to loss for trip interruption, emergency medical/dental coverage, and emergency evacuation increases with trip length, because the longer insured's are on a trip, the more exposure the insured's have to potential illness or injury that would cause them to interrupt their trip or require medical attention/evacuation. As such, insured's are often grouped by trip length, and insured's traveling on trips of longer durations may be charged higher rates for these coverages than travelers on shorter trips.

Destination—Exposure to loss varies by destination for nearly all travel coverages. However, the impact of destination on expected losses is not uniform across coverages. Destinations that require multiple flight connections may increase the exposure to travel delays or baggage delays. Similarly, conditions at some destinations may affect the exposure to loss due to trip cancellation or trip

interruption, such as locations prone to natural disasters or severe weather; or emergency medical, such as locations prone to disease. Therefore, insured's may be grouped by destination for purposes of rating and the rating factors by destination group may differ by coverage.

Departure Window (or Booking Window)—The amount of time between the date travel is booked and the date insured's depart on their trip is often referred to as the departure window. The length of the departure window impacts expected losses for trip cancellation coverage: The longer the departure window, the longer the exposure period for trip cancellation. Insurers may group insured's by length of departure window and differentiate rates by group, charging more for longer departure windows.

Departure Month/Travel Season—Exposure to trip cancellation losses varies by departure month and/or travel season mainly due to weather, which is typically a covered cause of trip cancellation. As a result, insurers may group insured's by departure month and charge more for trip cancellation coverage when insured's depart in winter or during hurricane season. Departure month may also affect expected losses for baggage delay and travel delay, perhaps because delays may be more common during peak travel months like June and July (summer vacation) and November and December (holidays). Therefore, insurers may apply rate differentials by departure month for these coverages that differ from those that apply to trip cancellation coverage.

Number of Destinations—Multiple-destination trips are more likely to require multiple travel segments on common carriers, which increases the exposure to travel delays, baggage delays, or loss/theft of baggage. Insurers may, therefore, group insured's by the number of destinations for purposes of rating these coverages, charging more for insured's whose trips involve multiple destinations.

There is potential for correlation between risk characteristics in travel insurance. For example, trip length and trip cost are likely to have some correlation because longer trips typically cost more due to daily expenditures like hotel rooms and rental cars. Similarly, destination and trip cost may be correlated as overseas travel is likely to result in higher flight costs. It is advisable to consider the potential for these correlations, measure them, and account for them in the selection of rating factors by risk characteristic.

What's not covered?

- Warfare
- Pre-existing ailments
- Sporting injury during travel
- Pregnancy
- When the tour operator cancels trip

Types of Travel Insurance Policies

Domestic travel insurance

Domestic travel insurance is an insurance offered to customers for travel within India. It is a policy which protects the policy holder in case of problems while travelling. It provides coverage for medical emergencies during the course of travel, permanent disability and death, baggage loss, travel delay and personal liability. Any Indian citizen travelling within India can purchase domestic travel insurance. Foreigners, who have work permit to work in India, can also purchase Domestic Travel Insurance for travelling within India.

The Domestic Travel Insurance Policy is non-refundable.

International travel insurance

It is very important to buy International travel insurance before embarking on a foreign trip for any purpose. It provides protection against unseen medical and non-medical emergencies during the course of the trip. Any traveler who is below 85 years of age needn't undergo the medical check up for the purpose of buying International Travel Insurance. It helps in being worry free on a foreign trip.

The policy gives coverage for medical expenses overseas, hijack, baggage and travel delays, repatriations/evacuation to India, and loss of travel documents/passport besides the usual coverage offered in normal travel insurance.

Travel Accident Insurance

The purpose of this insurance is to provide term life and accidental death and dismemberment protection for you and your family. This covers unexpected and sudden losses that occur because of travel or flight accidents. Some other emergency assistance benefits might cover baggage loss, evacuations, medical and dental expenses, pre-existing medical conditions and repatriation. The benefits apply while you are on a trip that is insured or during the coverage period. This type of trip insurance is ideal for frequent world travelers, particularly those who visit risky regions.

Travel Medical Insurance

General health insurance doesn't protect you when you travel abroad, but travel medical insurance acts as a sort of extension to cover medical, dental and evacuation costs during your travels. This trip insurance is very affordable because it doesn't cover a host of other incidentals such as trip cancellations. However, some plans include benefits for delayed or lost baggage or delayed trips. You can usually purchase travel medical plans for a single trip or multiple trips over a certain period.

Medical Evacuation Insurance

This type of plan focuses on covering the cost of evacuations and repatriation. If you are hospitalized while traveling with your family, it may cover the cost of an emergency medical reunion and the return of any minor children home. Some plans may also provide term life and AD&D benefits to protect your family as well as coverage for lost luggage, adventure sports and trip interruptions.

Package Travel Insurance

Compared to travel accident, evacuation and medical insurance plans, package travel insurance is much more comprehensive, which is why it's the most commonly purchased. Package plans are customized according to the different needs of various travelers. A typical plan includes coverage for evacuations, luggage problems, medical and dental costs, returning minors home, and trip cancellations, delays and interruptions. Some plans also cover adventure activities, credit card and passport services, identity theft assistance, pet care, pre-existing medical conditions, rental car collisions, roadside assistance and sports equipment.

Annual and Specialty Travel Insurance

Annual travel insurance is similar to package travel coverage, but instead of covering a single trip, it covers all of your trips for an entire year. Some of these plans are renewable. Specialty travel insurance provides coverage for certain aspects of a trip, such as car rentals and term life, to supplement the benefits that you already receive. This type of plan is ideal when you are concerned about a specific risk.

In general, you need travel medical insurance for medical emergencies and package travel insurance to cover trip cancellations. Since the specific benefits or coverage differ so much between plans and providers, it's important to read the terms and conditions of each before buying trip insurance.

Actuarial Perspective

Exposure

Exposure is generally the quantity used to determine relative level of risk. For example, in automobile insurance, exposure is often measured in "car years," which is the exposure to loss of one car insured over the course of a 12-month period. In commercial general liability, exposure is sometimes measured in terms of the insured's annual revenue, sales, receipts, square footage, and so forth. Travel insurance also differs from many traditional lines because exposure is not uniformly defined among insurance companies and also because the exposure base can vary among different coverages on a single policy

Some potential exposure measures in travel are number of trips, number of travelers, trip days, or trip costs. For example, for rental collision damage insurance the number of rental days is typically the preferred exposure because coverage doesn't begin until the car is rented and ends when it is

returned. For a policy including only pre-trip cancellation, exposure would be limited to the time from when coverage is purchased until travel begins, so trip cost would be a more meaningful measure of exposure than number of trip days, because there is no risk exposure to pre-trip cancellation while the insured is traveling.

Although exposure will vary among coverages on a travel insurance policy, oftentimes the policy is quoted at a composite price (e.g., percentage of trip cost) for convenience. This treatment can create challenges for the actuary analyzing travel insurance data for coverages with exposures that don't typically vary with trip cost, such as emergency medical coverage.

Premium

Premium data can be organized and analyzed on an insurance purchase date, departure date, or other basis depending on the goals of the analysis. As with exposure, an actuary may vary the organization of premium data based on the coverages being analyzed. For example, premium data for emergency medical coverage may be organized by departure date to coincide with the beginning of the exposure period. Similarly, an actuary might organize premium data for trip cancellation by insurance purchase date because this is the beginning of the exposure period.

Loss

An important consideration in analyzing loss data, particularly for calculating loss ratios, is an accurate matching of earned premium and incurred losses. As with other types of insurance, matching can be done at the policy level or by matching exposure period to accident period. As noted above, travel insurance presents unique challenges in defining exposures, and, therefore, presents similar challenges in matching loss experience to those exposures.

Another consideration in deciding which approach to use is the level of granularity and completeness of various data elements. As noted elsewhere, travel insurance is distributed in many different ways, with each manner of distribution allowing for more or less data capture at the insured or policy level. Sometimes the ideal manner of matching premium and loss data is not possible because the data elements that would facilitate the matching are not available.

Claim Settlement

In case you are admitted to a hospital, you can follow these steps,

After hospitalization, the insured or someone on behalf of insured can call the insurance service provider.

A valid insurance certificate number, name of hospital, its proper address and telephone number and the name of treating doctor has to be provided. If possible, the total amount of medical expenses incurred and necessary information should be divulged to the insurance provider.

Then, the insurance provider will extend a guarantee of payment to the hospital. After that, the expenses covered by the policy will be settled directly with the hospital.

In case of loss of baggage, you need to collect :

- The claim form
- Copies of boarding pass / baggage tags, tickets
- PIR report(obtained from airline authorities)
- Copy of correspondence with airline authorities
- Details of compensation received from airlines
- After you inform the airline about the loss and file a complaint about the same , obtain a claim form, attach necessary documents and send that to the insurance provider.



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