

Breakout Session 2014

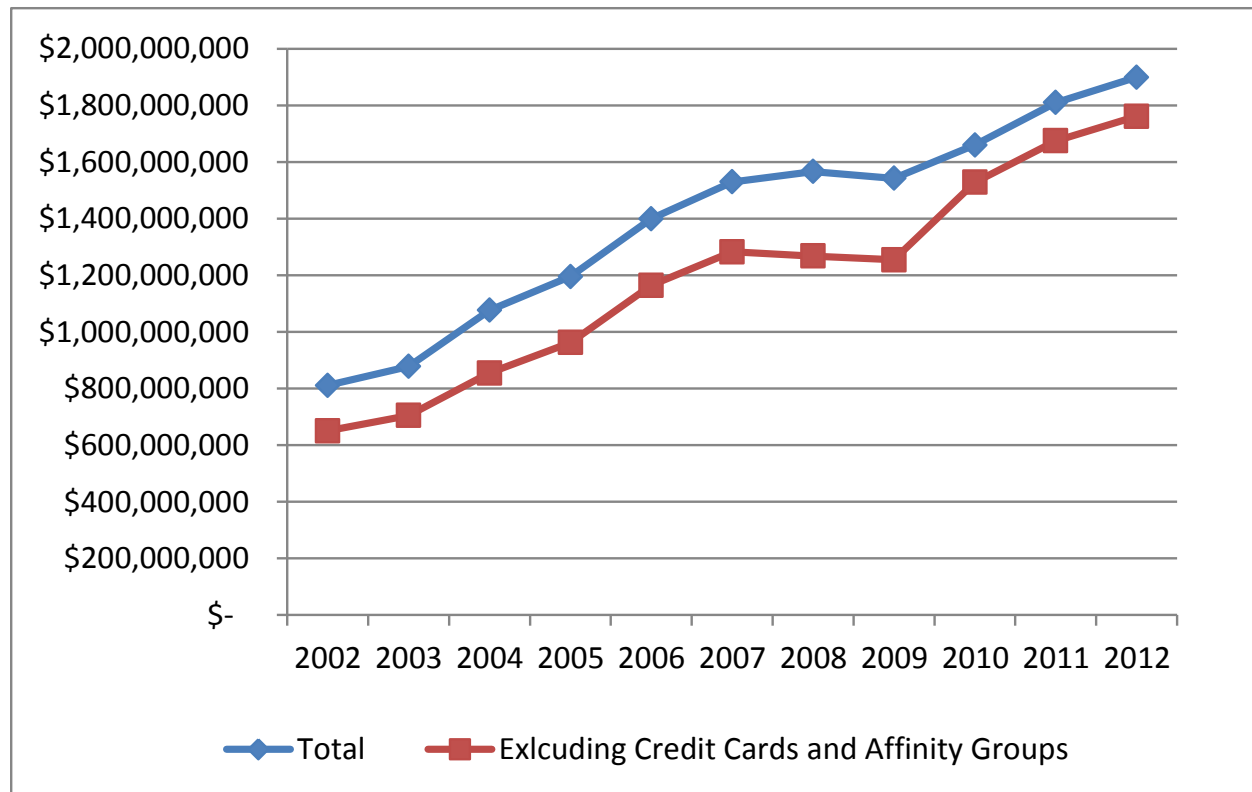
Avalon Actuarial, a division of Willis Canada

Agenda

1. U.S. Travel Insurance – 10-Year Recap
2. Global Travel Insurance Industry
3. U.S. Travel Trends
4. Global Travel Trends
5. Emerging Trends

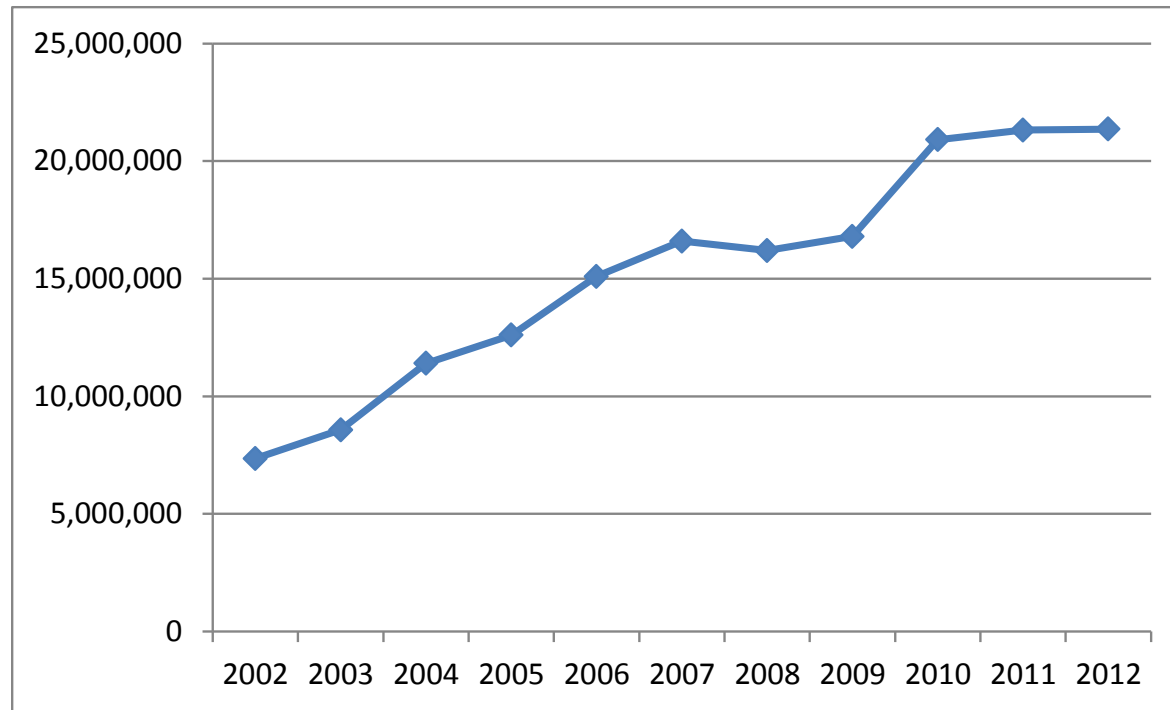
U.S. Travel Insurance 10-Year Recap

- **Total GWP** increased from \$811 million to \$1.9 billion from 2002 to 2012
- 134% overall increase (12.2% average annual growth)



U.S. Travel Insurance 10-Year Recap

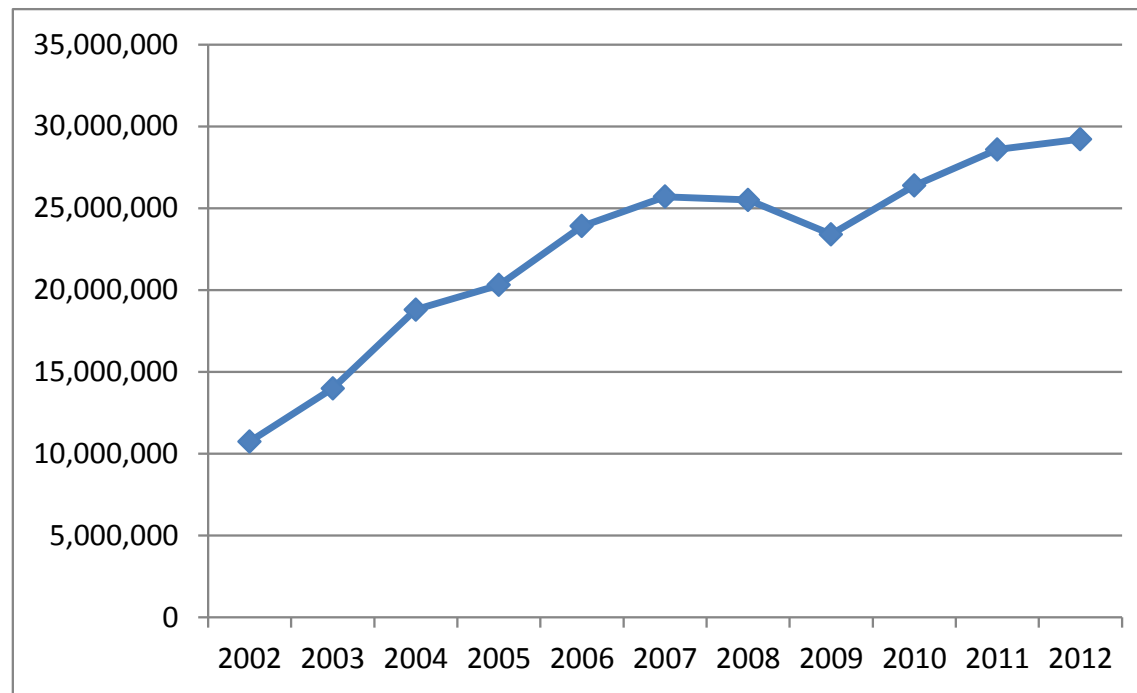
- **Total Policies** increased from 7.4 million to 21.3 million from 2002 to 2012
- 190% overall increase (17.2% average annual growth)



(*) Excluding Credit Cards and Affinity Groups

U.S.Travel Insurance 10-Year Recap

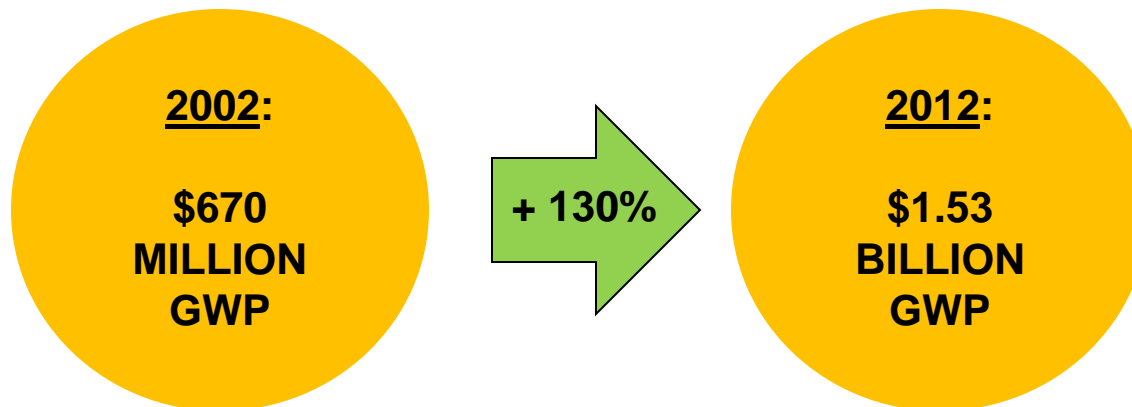
- Total **Number of Insured Persons** increased from 10.7 million to 29.2 million from 2002 to 2012
- 172% overall increase (15.6% average annual growth)



(*) Excluding Credit Cards and Affinity Groups

U.S. Travel Insurance 10-Year Recap

- **Trip Cancellation Package** remains the top-selling travel insurance product in the U.S.



Trip Cancellation Packages represent approximately 80% of the total premium volume

2002: 82.2%

2012: 80.5%

U.S. Travel Insurance 10-Year Recap

Premium volume per distribution channels

2002		2012	
Wholesale Markets (Cruise and Tour Operators)	\$328 M	Wholesale Markets (Cruise and Tour Operators)	\$529.5
Traditional Travel Agencies	\$300 M	Traditional Travel Agencies	\$450 M
Online Agencies, Suppliers, Brokers/Aggregators	\$23 M	Online Travel Agencies and Airlines	\$447.2 M
Credit Cards, Affinity Groups, Brokers and Other	\$160 M	Credit Cards & Affinity Groups	\$138 M
		Internet Aggregators, Brokers, Other	\$232.6 M
		Direct to Consumer	\$105.7 M
Total	\$811 MILLION	Total	\$1.903 BILLION

U.S. Travel Insurance 10-Year Recap

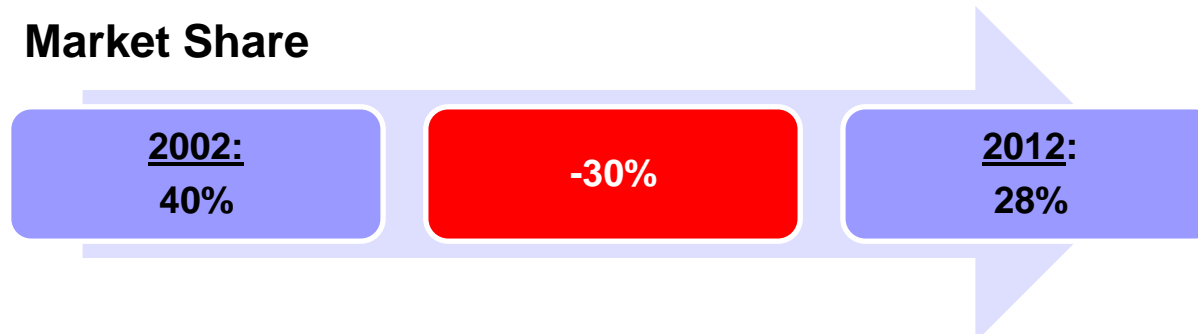
- Changes in distribution channels

Wholesale Markets (Cruise and Tour Operators)

Premium Volume



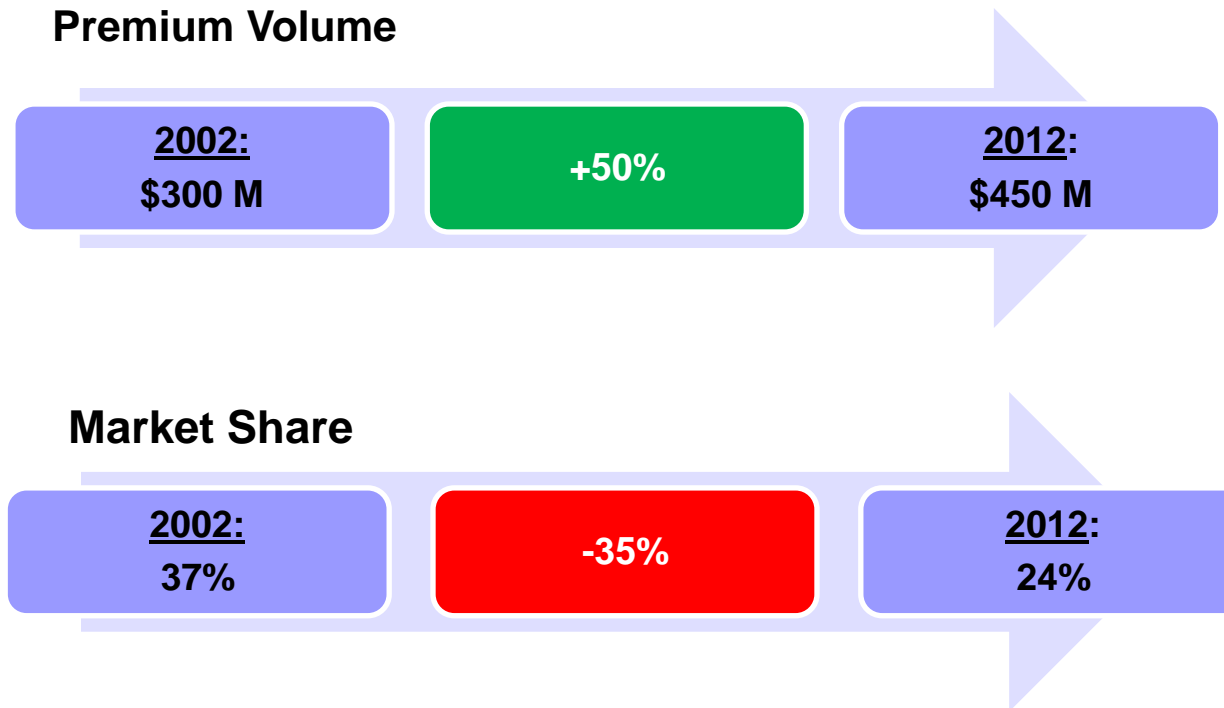
Market Share



U.S. Travel Insurance 10-Year Recap

- Changes in distribution channels

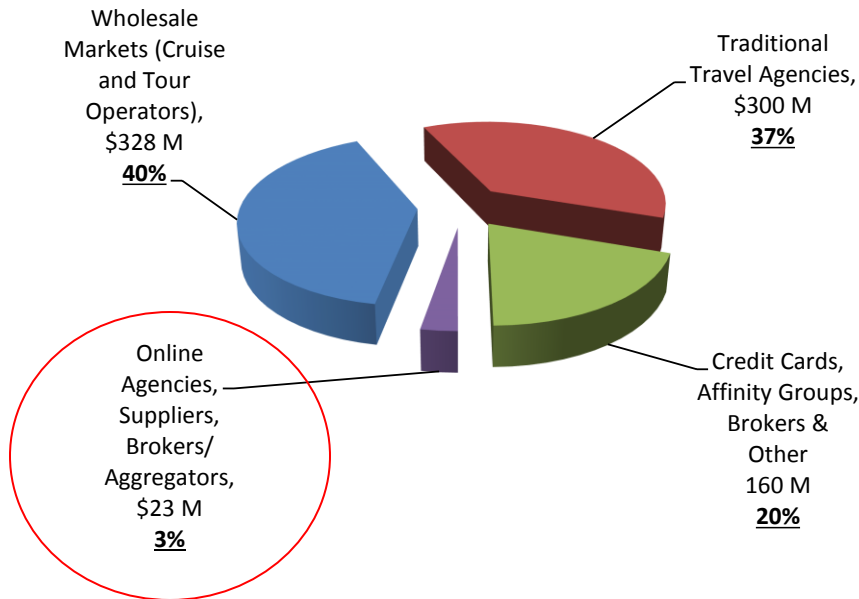
Traditional Travel Agencies



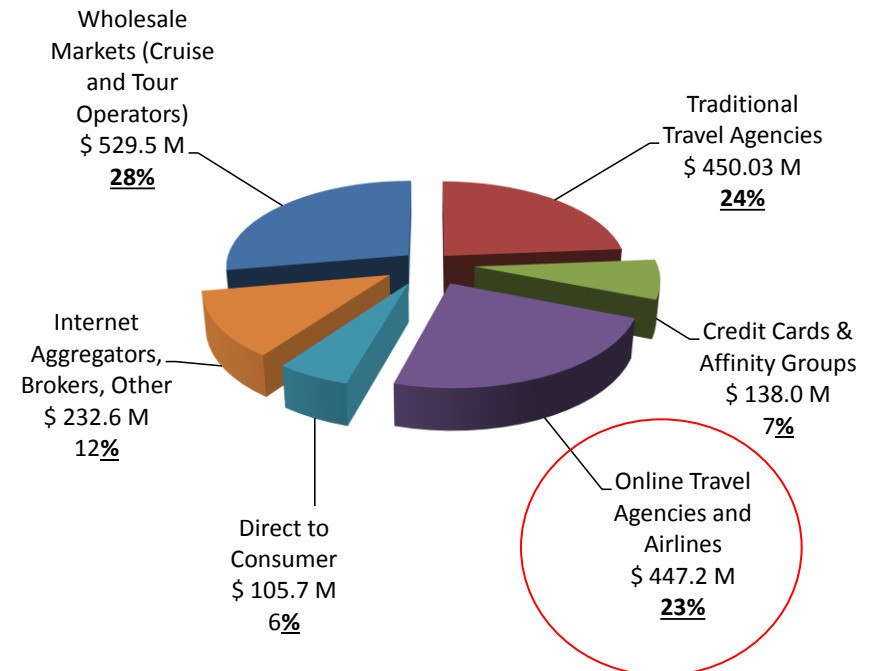
U.S. Travel Insurance 10-Year Recap

- The biggest trend in distribution channels has been the increase in market share for **Online Travel Agencies**

2002

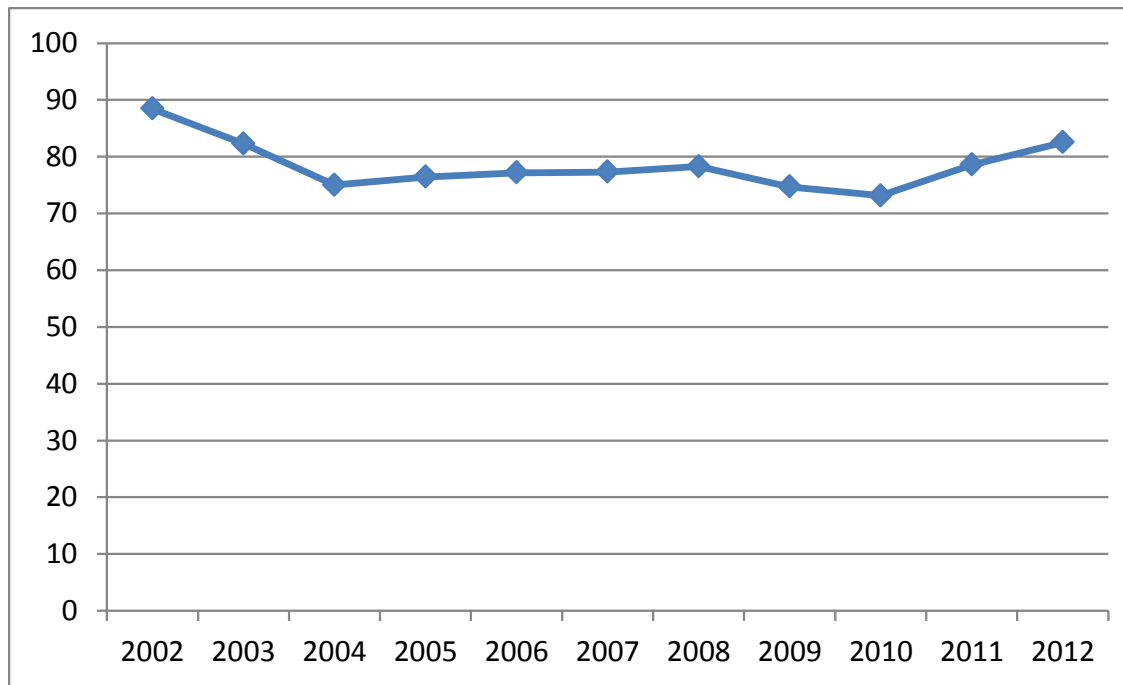


2012



U.S. Travel Insurance 10-Year Recap

- Average premium per policy (weighted) in 2002: \$89
- Average premium per policy (weighted) in 2012: \$82



(*) Excluding Credit Cards and Affinity Groups

U.S. Travel Insurance 10-Year Recap

What have we seen? Some discussion points...

- More and more consumers gaining awareness around the need and value of travel insurance (sparked by events such as 9/11, SARS, natural disasters, volcano ash, political uprisings, severe weather conditions, cruiseline troubles, etc.)
- An industry that experienced year over year growth except one year (2009 during the economic downturn). The industry's growth was mainly due to an increase in the number of insured persons as opposed to an increase in premiums (average premium stagnation)
- Travel insurance becoming more mainstream, establishing itself as a standard line of insurance
- Stability in the product offering; Trip Cancellation Packages still the main driver
- Growth in technology – creating new travel insurance distribution channels
- A shift in distribution – significant growth in Internet sales, online channels increasing

U.S. Travel Insurance 10-Year Recap

What have we seen? Some discussion points...

- Consolidation of some distributors – Changes in the Travel Agencies segment
- Shift in consumer purchase motivation

In a recent survey conducted by Allianz Global Assistance, customers were asked to name the top reason for purchasing travel insurance:

- 46% buy it to protect against losing their pre-paid trip costs if they have to cancel their trip
- 37% buy it to obtain coverage for medical emergencies while traveling.
- 9% to protect against trip interruption
- 2% for luggage delays or loss
- 1% for travel assistance
- 6% for other reasons

U.S. Travel Insurance 10-Year Recap

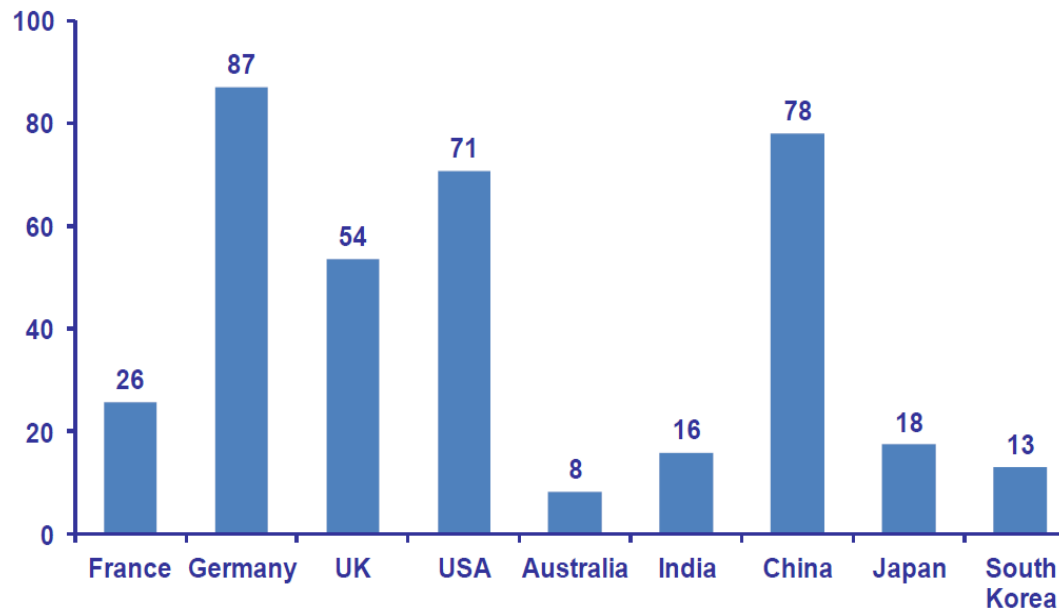
What have we seen? Some discussion points...

- Increased regulatory oversight and concerns
 - Regulation was and still is an industry concern, particularly in the last 2-3 years with the increased scrutiny around insurers and more significantly around distributors
 - More state involvement in how products are sold/purchased
 - According to the UStiA Market Survey prepared in 2005, the main concerns in the industry were:
 - Regulation (46% of the participants ranked it 1st)
 - Profitability (36% of the participants ranked it 1st)
 - Sales/Growth (18% of the participants ranked it 1st)
 - Last year, when asked if the regulatory climate would be friendlier in 3 years:
 - 77% of respondents disagreed or strongly disagreed

Global Travel Insurance Industry

- The global market for stand-alone travel insurance and assistance was estimated to be worth USD 11.9 billion in 2012, with around 200 million policies sold
- By 2016, the market is expected to be worth USD 14.7 billion, with policy sales increasing to around 243 million.

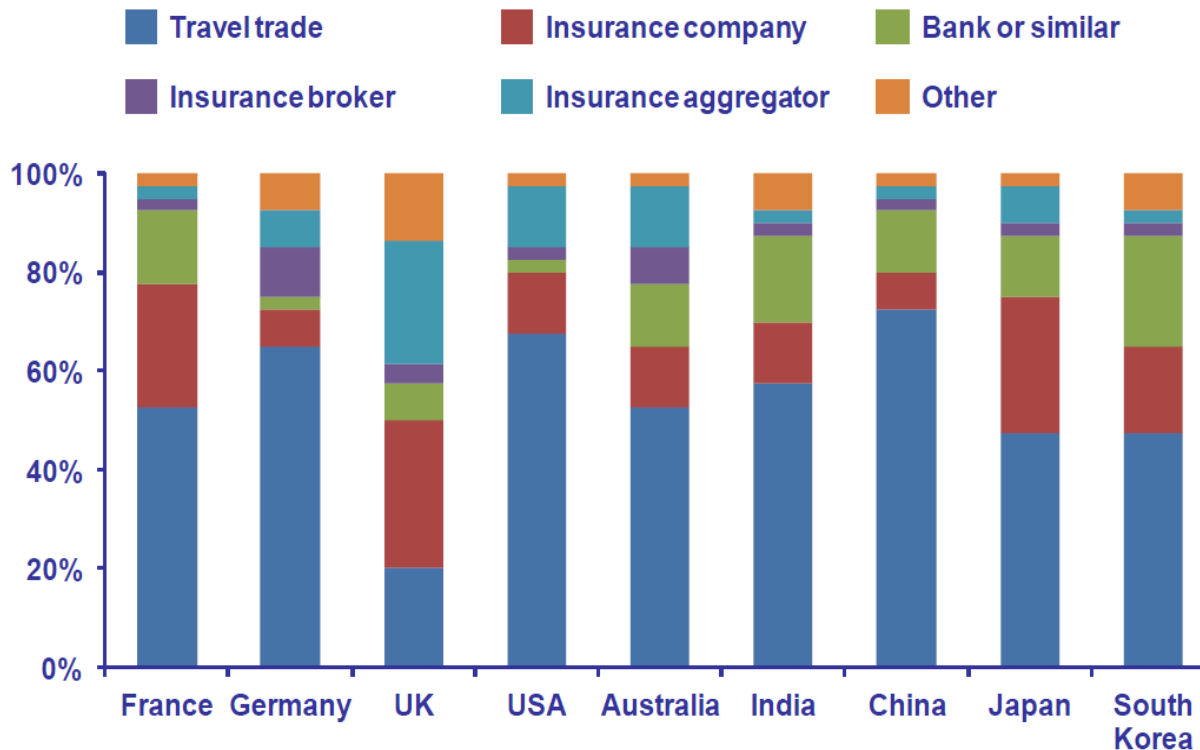
Relative size of outbound travel markets
Estimated number of foreign trips lasting one night or more, 2012 (million)



Source: Finaccord

Global Travel Insurance Industry

- Distribution channels used for travel insurance



Source: Finaccord

Global Travel Insurance Industry

Even mature markets struggle with lack of awareness

■ UK

- 24% of travellers holidaying abroad in 2012 were uninsured
- 16% of consumers mistakenly believe that travel insurance is unnecessary
- Only 12% of travellers read all their insurance documents
- 82% of young British travellers admit to taking part in more adventurous behaviour when on holiday
 - 50% of all British travellers don't check that they're covered before an adventurous experience

Source: Finaccord

■ Canada

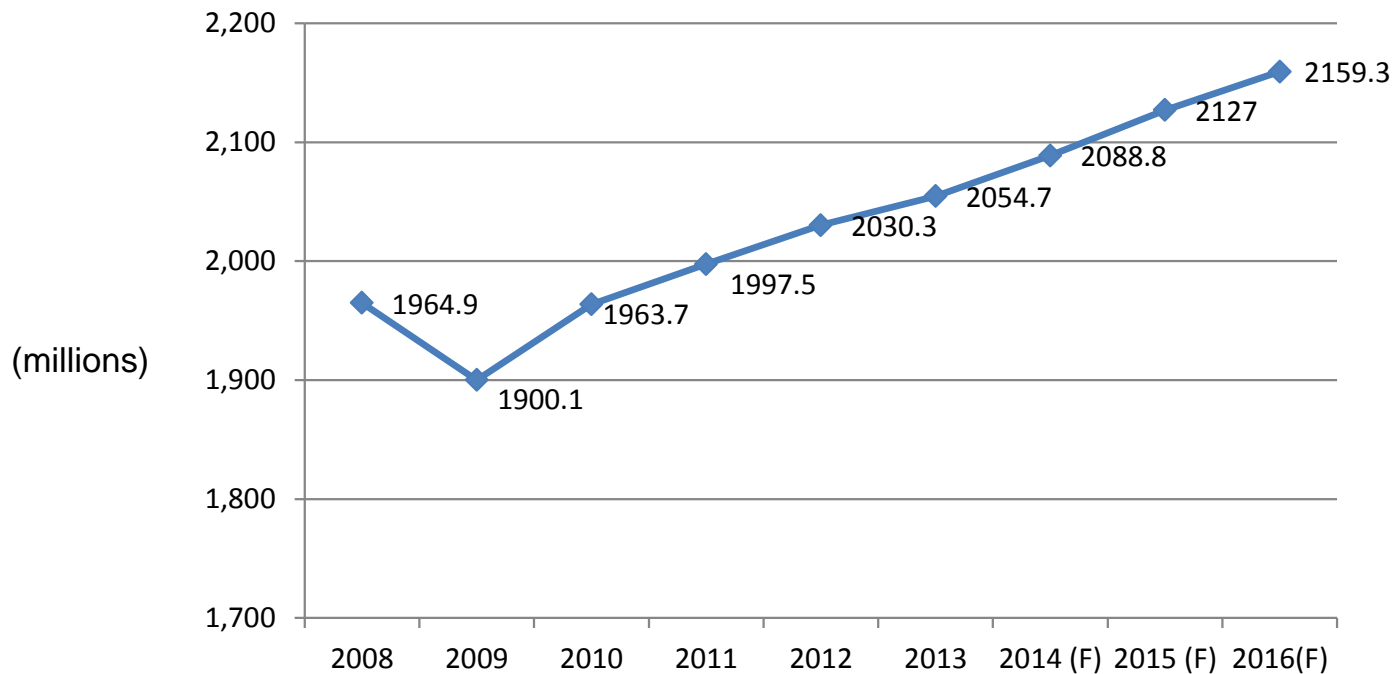
- 44% of Canadians aged 18 to 34 who have travelled to the U.S. in the last two years say they don't typically insure themselves before they travel (29% never/15% rarely).
- 34% of young Canadians 'agree' (9% strongly/5% somewhat) that they don't need to buy travel insurance to travel to the U.S. because their provincial health plan will cover their medical costs
- 44% say that, before they travel, they take the time to understand what their travel insurance covers.

Source: Ipsos Reid poll

U.S. Travel Trends

- Domestic Travel in the U.S.

Total Domestic Person-Trips (*)

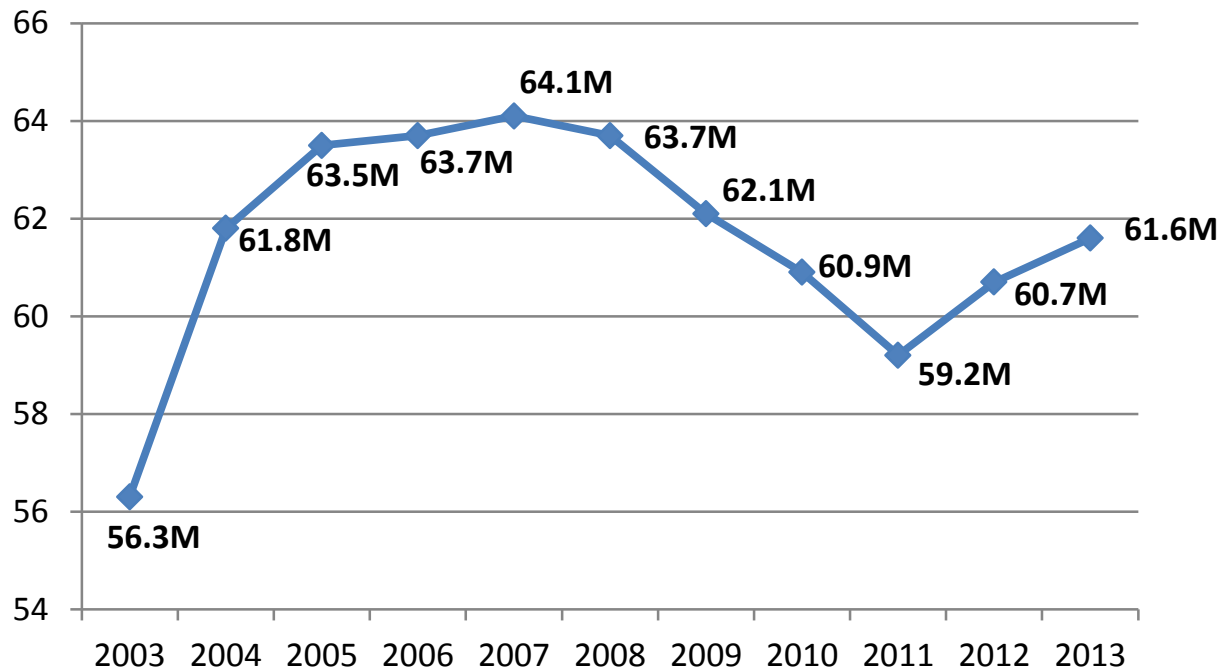


(*) One person trip of 50 miles or more, one way, away from home or including one or more nights away from home.

U.S. Travel Trends

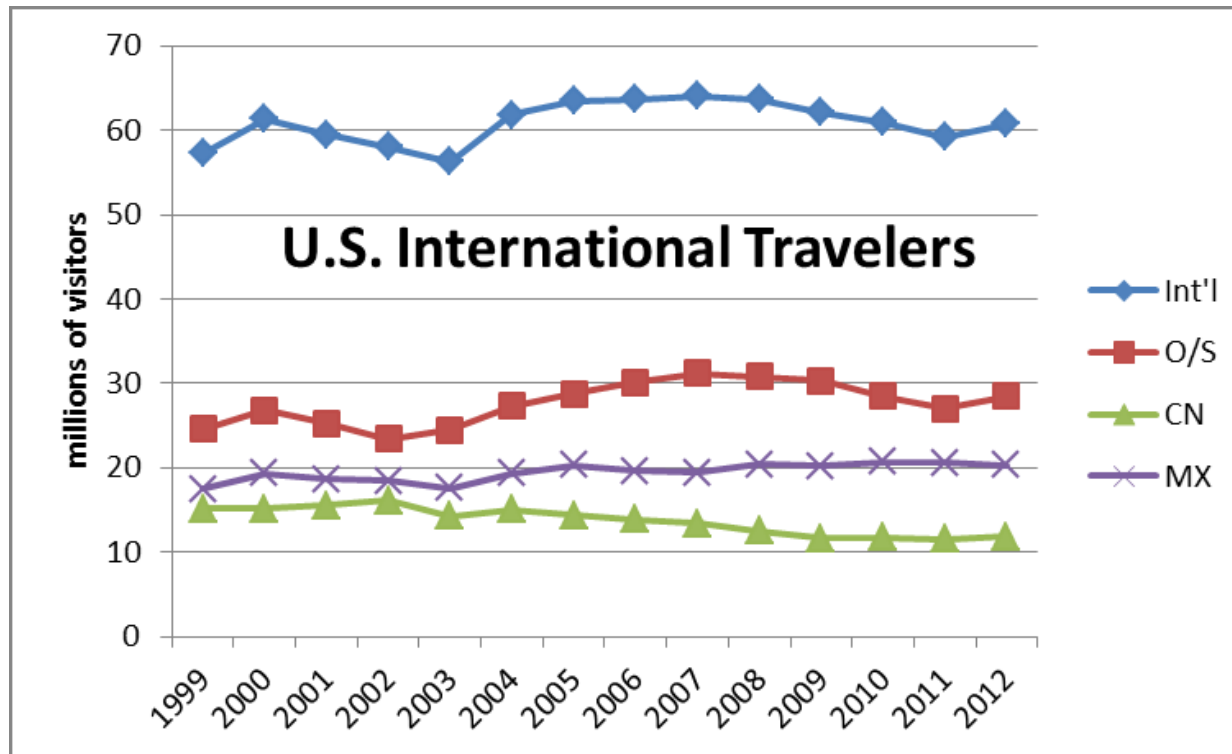
- The outbound market has slightly increased in the last 2 years

Number of foreign trips by U.S. residents 2003-2013



Source: U.S. Department of Commerce

U.S. Travel Trends



- The top countries are visited by Americans are Mexico (20.5 million), Canada (12 million), the UK (2.5 million), the Dominican Republic (2.3 million) and France (2.1 million).

Source: U.S. Department of Commerce

U.S. Travel Trends

- US travel to overseas markets totaled 29.0 million in 2013 (up 2%), and US travel to North America markets totaled 32.5 million (up 1%)

Region	
Overseas	29.0 million
Europe	11.4 million
Caribbean	6.5 million
Mexico	20.5 million
Canada	12.0 million

- Business travel generally accounts for 12-15% of foreign trips by US residents in a given year
- U.S. business travel spending is predicted to increase by 6.9% in 2014, with growth largely driven by domestic rather than international travel, with
- Consumer confidence is up right now, and that's really helping drive the overall U.S. economy and its recovery

Source: U.S. Department of Commerce

U.S. Travel Trends

Profile of US Traveler Visiting Overseas Destinations (2012)

Region and Main States	
Middle Atlantic (New York, New Jersey, Pennsylvania)	26%
South Atlantic (Florida, Georgia, Virginia, Washington DC., Maryland, North Carolina)	18%
Pacific (California, Washington)	15%
West South Central (Texas)	10%
East North Central (Illinois, Ohio, Michigan, Wisconsin)	10%
West North Central (Minnesota)	6%
New England (Massachusetts, Connecticut)	6%
Mountain (Arizona, Colorado)	5%

Source: International Trade Administration – U.S. Department of Commerce

U.S. Travel Trends

Profile of US Traveler Visiting Overseas Destinations (2012)

- 12% of leisure travelers used a prepaid package
- 52% of leisure travelers pre-booked lodging

Sources for booking lodging	
Directly with lodging establishment	19%
Internet Booking Service	13%
Travel Agency Office	9%
Corporate Travel Dept.	6%
Tour Operator/Travel Club	5%
The Airline	1%
Other	3%

- 66% of leisure travelers traveled alone
- 33% of leisure travelers traveled with their spouse/partner or family/relatives

Source: International Trade Administration – U.S. Department of Commerce

U.S. Travel Trends

Profile of US Traveler Visiting Overseas Destinations (2012)

- Advance trip decision time and airline reservation time increased to an average of 96 days and 66 days prior to departure, respectively in 2012, up slightly when compared to 2011.
- Although over a third booked directly through the airlines (36%) a majority booked via either an internet booking service (28%) and/or the travel agency (22%).
- The average length of trip (number of nights) outside the United States decreased to 18.3 nights in 2012
- As an information source for trip planning, airlines were most used (50%) along with online travel agencies (OTA) (31%) and conventional travel agencies (22%).
- 6% of travelers were on their first international trip, however repeat travelers increased
- 50% of U.S. travelers are women (in 2000, women were 39% of U.S. outbound.)

Source: International Trade Administration – U.S. Department of Commerce

U.S. Travel Trends

Profile of US Traveler Visiting Overseas Destinations (2012)

- Average international airfare per visitor, per trip, was \$1,420 USD, up 5% from 2011
- Average expenditures (travel payments) per visitor, per trip, while overseas were \$1,575, up 19% from 2011.

Source: International Trade Administration – U.S. Department of Commerce

Global Travel Trends

- International tourist arrivals (overnight visitors) worldwide exceeded the 1 billion mark for the first time ever in 2012
- There were **1.035 billion** tourists crossing borders in 2012, up from 995 million in 2011.
- Asia and the Pacific recorded the strongest growth with a 7% increase in arrivals, followed by Africa (+6%) and the Americas (+5%).
- International tourist arrivals in Europe, the most visited region in the world, were up by 3%.
- Forecasts prepared by the World Tourism Organization (UNWTO) point to growth of 3% to 4% in international tourist arrivals for 2014

Source: finaccord.com

Global Travel Trends

International Tourist Arrivals (Million)

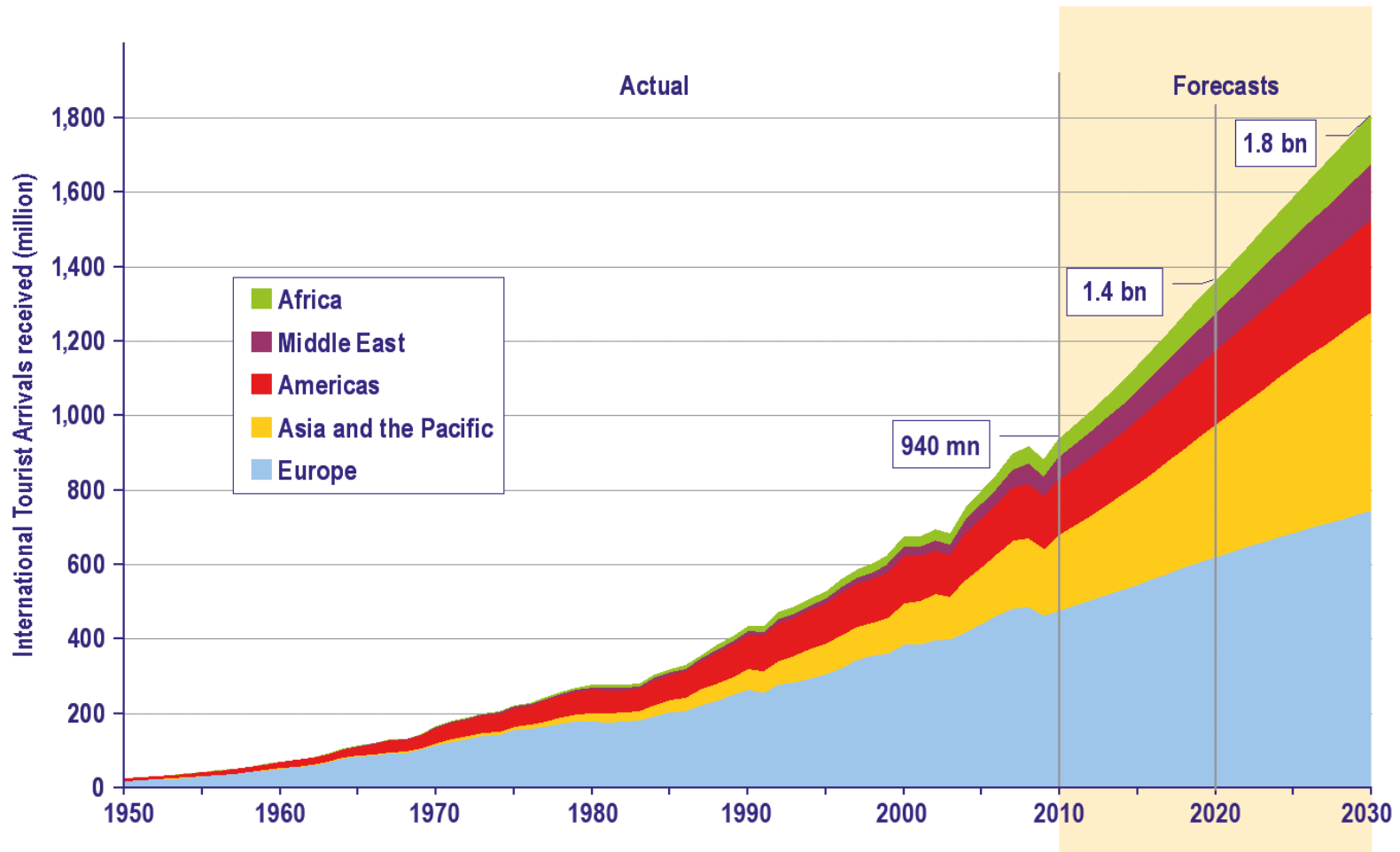
	2011	2012	Change
France	81.6	83.0	1.8%
United States	62.7	67.0	6.8%
China	57.6	57.7	0.3%
Spain	56.2	57.7	2.7%
Italy	46.1	46.4	0.5%
Turkey	34.7	35.7	3.0%
Germany	28.4	30.4	7.3%
United Kingdom	29.3	29.3	-0.1%
Russion Federation	22.7	25.7	13.4%
Malaysia	24.7	25.0	1.3%

← Expected to increase to 83.9M in 2018

Source: World Tourism Organization (UNWTO)

Global Travel Trends

UNWTO Tourism Towards 2030: Actual trend and forecast 1950-2030



Source: World Tourism Organization (UNWTO)

Global Travel Trends

Three trends to watch for:

1. **China**

- The Chinese government's latest 5-year plan aims to encourage cruise holidays, a relatively new concept for Chinese consumers.
- Leading industry sources predict that China will become the second largest global cruise market after the US by 2017.
- Potential for businesses to market luxury cruises to high-yield Chinese customers, who travel to the U.S.

(Source: Euromonitor)

2. **Youth on the move**

- The UNWTO forecasts that annual global arrivals by young travellers (aged 18-30) will reach 300 million by 2020
- According to recent research by Expedia, travellers aged 18-30 take an average of 4.7 trips a year, exceeding the 3.6 trips by those aged 30-45 and 2.9 trips by those aged 46-65.
- Those young travellers book travel, share their trips on social networks, and read and write online reviews used for trip planning (mainly on their smartphones or tablets)
- They look to take advantage of services such as mobile concierges at hotels and peer-to-peer accommodations and travel services, such as ride-sharing, which often relies on a smartphone app.

(Source: UNWTO, Expedia, CTC Research)

Global Travel Trends

3. The «sharing » economy

- Rental accommodation sites such as Airbnb, HouseTrip and HomeAway connect travelers with sellers who are willing to rent out their private residence
- Great way to save money for cost-conscious consumers
- Young travellers are keen users of these services, while budget-conscious families, eager to stay and cook together in home-like accommodations
- Mobile technology and social media have made it possible to match supply and demand over a network much wider than one's immediate family and friends.
- Social networking and online reviews remove the anonymity from the transaction and increase trust
- There are also economic benefits: users of peer-to-peer accommodation tend to stay in a destination longer and their spending in local neighborhoods allows tourism revenues to reach new areas of the economy

(Source: Euromonitor, CTC Research)

Emerging Trends

Some discussion points...

- It is expected that airfares will be nearly flat in Canada and the United States in 2014 (source: Carlson Wagonlit Travel Price Forecast), driven by:
 - a highly consolidated and fiercely competitive landscape
 - stable projected oil prices

- Other dynamics that may have an impact in 2014 include:
 - The American Airlines-US Airways merger becoming fully operational (American, United, Delta and Southwest control 85% of the U.S. market). For now, experts say they don't necessarily foresee airfares rising as a result of the merger
 - The spectacular rise of the 3 Gulf carriers: Emirates, Etihad and Qatar. 2012 saw these airlines acquiring strategic stakes in low-cost carriers and national carriers around the world. These carriers will look to expand into North America, both directly or indirectly through partnerships
 - In 2013, 79 million people flew in or out of the U.S on non-U.S. based air carriers (source: United Healthcare)

Emerging Trends

Some discussion points...

- Possible increase of low-cost domestic air tickets (long weekends to visit family and friends more attractive)
- Rise in Adventure Travel
- Rise in Food Tourism (worldwide tours focused on the production and consumption of food)
- Rise in multigenerational family travel (e.g. Disney, Cruises are popular for multigenerational trips)
- Rise in Med Evac options
- Baby boomers and empty-nesters driving some trends as they travel more frequently and are becoming more adventurous in their destinations abroad
- International travel: longer trips, higher policy costs
- New initiatives in product offers? Will the popularity of mobile devices and advances in technology shape different products? Is there a need for creative and/or simpler inexpensive products?

Emerging Trends

Some discussion points...

- Rise of social media for insurance content – Hoping to shift from more of a complaint resolution vehicle as it is currently to a vehicle for consumer education/awareness and to help market the industry as a whole
- Increased education around policy terms
- More focus on the importance and value of travel assistance
- Travel Agencies: a segment in transformation

Last year's USTiA Market Survey conducted by Avalon showed that 54% of respondents believed that there would be more **exits** in the traditional travel agencies space, and 46% believed there would be more **mergers**.

- Online agencies: still growing

Last year's Survey showed that 75% of respondents believed that there would be more **entrants** in this space

Emerging Trends

Some discussion points...

- Mobile Travel
 - The rise of smartphones and tablets provide great potential. For now, going online using a desktop PC remains the preferred choice for completing travel tasks.
 - 90% of passengers think technology helps when travelling (SITA – Airlines IT Trends Survey), notably for:
 - storing boarding passes
 - performing check-in
 - receiving flight status updates
 - Some interesting statistics from the UK (2010 stats)
 - In 2010, World Travel Market (UK event for the global travel industry) predicted that mobile computing would provide the most popular access to the web in 2012.
 - Mobile travel bookings accounted for 15% of all reservations in 2010, up 69% from 2009 when only 9% used mobile.
 - Skyscanner's (global travel search site) overall traffic comes from mobile (which includes tablet/iPad devices) and the company predicted that traffic from mobile would overtake traffic from the main site, if not in 2012, then within the next couple of years.

Emerging Trends

Some discussion points...

- Mobile Travel

Smartphone penetration and airline mobile adoption

	2010	2013
Smart phone penetration (*)	28%	76%
Check-in (**)	28%	61%
Sell tickets (**)	18%	58%
Flight info (**)	45%	51%

(*) % of travellers (not population at large)

(**) % of airlines with apps

Source: SITA – Airlines IT Trends Survey

Emerging Trends

Some discussion points...

- Mobile Travel: potential for travel insurance providers
 - Ability to provide all policy services via mobile device
 - More post departure product need for purchases done immediately before traveling.
 - Ability to market to more audiences. Increased opportunity/demand for real-time services during a trip (translation services, transportation planning/itinerary changes, directions, nearest services, etc.)
 - Ability to provide real time advertising on travel-related apps
 - Full integration of texting as a customer service channel, side-by-side with phone and e-mail, further pushing mail and fax out
 - Because of the “single serving” approach of the travel insurance industry to its customers (non-renewable policies), the ability to leverage mobile technology could be somewhat muted

Emerging Trends

What does this mean for the Travel Insurance Industry?

- Expect further industry growth
 - Continue improving consumer awareness
 - Continue educating consumers on the need for travel insurance
 - Continue educating distributors on best practices for the sale of travel insurance
 - Still a lot of room to grow and increase penetration rate

- Potential for product innovations
 - Simplified coverage
 - Core products with basic coverage; option to enhance, depending on clients' specific needs
 - Free coverage for kids
 - Assistance and Concierge services
 - Improve travel medical offer

Emerging Trends

What does this mean for the Travel Insurance Industry?

- Work within the constraints of regulation
 - Will licensing standards be standardized?
 - Will agents one day have the ability to offer travel insurance products to clients outside their own state?
 - Lots of issues still pending

- New technologies – mobile devices
 - Adoption will be gradual with not all mobile innovation embraced equally
 - Purchase currently not occurring much
 - Potential is beyond just the purchase of insurance
 - Post departure service and assistance
 - Mobile will be different from web capabilities