

Features and Prospects in the Development of the Services Provided in the Field of Travel Insurance

Natalia Zaitseva and Lyudmila Chernikova

Federal State-Financed Educational Institution of Higher Education,
"Russian State University of Tourism and Service", village Cherkizovo,
Moscow region, Russia

Abstract: This article presents the results of a study on travel insurance and travelers as a relatively new type of insurance. Life and property insurance originated in ancient times, but the idea of travel insurance first occurred in the United States over 100 years ago. In studying the Russian insurance market, it was identified that the market for foreign travel insurance is closely related to the tourism market, as a significant number of those buying insurance products are citizens traveling abroad. Statistical analysis allowed the authors to conclude that the number of people leaving Russia has continued to grow over the past three years; and most of the travelers are tourists. The authors analysed the structure of claims made by Russian citizens to their insurance companies, finding that in the countries most visited by tourists, most claims relate to acute inflammatory diseases associated with hypothermia and overheating and trauma, bruises and sprains. The high risk group is those seeking 'active' tourism - visits to water parks, scuba diving, surfing, skiing, etc. Injury risks are also associated with road accidents during bus tours. This article presents the characteristics of new insurance products and describes the features of the services provided by Russian insurance for tourists. It describes the prospects for the development of insurance products such as luggage insurance, covering the risk of having to return early from a trip, as well as insuring one's apartment during the vacation. The article concludes by noting that the implementation of quality insurance protection in Russia requires changes in legal and regulatory documents, as well as in the work of insurance and travel companies.

Key words: Travel insurance • Insurance services • Insurance companies • Insured accident • Insurance protection • Insurance policy

INTRODUCTION

Travel insurance is a relatively new type of insurance, defined as a kind of insurance covering financial, medical or other related losses, incurred while traveling. Insurance policies cover these losses when traveling within a policy holder's own country or in a foreign country. The history of the origin and development of travel insurance is difficult to trace, though it is obvious that it based on the history of life and property insurance [1]. Currently, there is no clear definition of travel insurance, but as a rule, the concept involves providing insurance cover for tourists [2].

Travel insurance is directly related to life and property insurance, both of which originated in ancient times. Although they have been in existence for

thousands of years, many of the basic principles remain intact. The most important connection bringing together the insurance of the past and present is that insurance cannot be considered by the insured person as a source of enrichment. It can be only a way of obtaining compensation.

The idea of travel insurance was first implemented in the United States more than 100 years ago. The first insurance company to provide travel insurance was established on 1 April 1864 by James Batterson [3]. Clients were provided with travel insurance services covering death and injury while traveling by train or steamship. Since then, travel insurance has become a significant sector of the insurance market, providing cover of all types of risk and consisting of millions of insurance policies and collected premiums of more than \$1 billion [4].

Table 1: Percentage of respondents using insurance services [6]

	2005	2007	2011
Use insurance services	39	49	46
Do not use insurance services	61	51	54

Table 2: Russian citizens traveling abroad, millions of people [7]

	2007	2008	2009	2010	2011	2012	2012 in % compared to 2007
Total							
Millions, rubles	34.3	36.5	34.3	39.3	43.7	47.8	139
Growth rate from the year 2007, in %		106.4	100	114.6	127.4	139.4	
including							
Tourism							
Millions, rubles	9.4	11.3	9.5	12.6	14.5	15.3	163
in %	27.4	31.0	27.7	32.0	33.2	32.0	
Growth rate from the year 2007, in %		120.2	101.1	134.0	154.3	162.8	
Official trips							
Millions, rubles	2.2	2.0	1.3	1.3	1.4	1.2	55
in %	6.4	5.5	3.8	3.3	3.2	2.5	
Growth rate from the year 2007, in %		90.9	59.1	59.1	63.6	54.5	

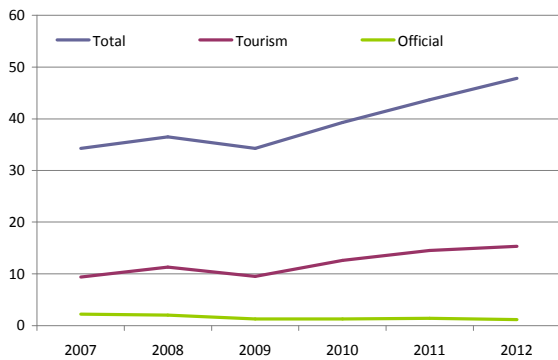


Fig. 1: Departure dynamics for 2007-2012, millions of people [7].

Both statistics and practice in recent years strongly attest to the fact that the tourism business is steadily growing. It is also obvious that the travel insurance market is closely related to the tourism market and that a significant number of citizens who travel abroad buy insurance products [5].

According to a study (a Russian survey in March 2011, 1600 people were polled in 140 villages in 42 regions of Russia. The statistical error rate does not exceed 3.4%) conducted by the National Agency for Financial Studies (NAFS), the number of those taking out insurance services has increased since 2005 by seven percentage points and in 2011 was 46% (excluding OMC) (Table 1).

According to the Federal Agency of Tourism (Table 2), the number of people traveling abroad has

continued to grow over the past three years and on January 1, 2013, the total outflow was 47.8 million, 9% higher than in 2011. Most of these departures were for excursions.

In 2012, the amount of Russian citizens' tourist trips out of the total amount of journeys made abroad was 32.0%; in 2011 it was 33.2%; in 2010 it was 32.0% and in 2009 it was 27.7%. In 2008 it was 31.0% and in 2007 it was 27.4%.

In 2012, the total number of travelers abroad was 15.3 million people, which is 6% higher than in 2011 (14.5 million). 2009 saw a significant slump in tourism-related departures: 16% compared to 2008 (about 9.5 million), versus 11.3 million in the previous year (Figure 1). The reason for this was the global financial crisis [8]. We should note that in 2010 the number of tourists departing exceeded the value of 2008 and 2009 by 12% and 33%, respectively.

The growth rate for Russian citizens going abroad for tourism passed the growth rate for total departures, while the amount of official trips has continued to decline over the period under consideration (Figure 2).

According to official Rosstat data, in the first quarter of 2012, Russian tourists made nearly 2.8 million trips abroad, which is 23% over the same period of last year. The country seeing the largest growth in the inflow of tourists from Russia is Egypt, receiving 404,800 trips. Second place goes to Thailand, with a slight increase to 337,300 trips. Third place goes to China (268,400 trips).

Table 3: The most dangerous countries for Russian tourists in 2011 [9]

Country	TD-Index	The volume of travel insurance payouts in January-August 2011 (thousand rubles).	The number of insured events with Russian tourists in January-August 2011 (units)
Turkey	280.2306	69,977.73	13,886
Egypt	149.9434	28,946.73	7,430
Thailand	137.8753	55,125.25	6,832
Bulgaria	46.3553	9,527.76	2,297
Spain	45.6893	22,931.96	2,264
Cyprus	44.8417	14,808.50	2,222
Dominican Republic	22.6025	14,562.98	1,120
Austria	20.7862	27,983.43	1,030
Greece	19.8377	15,946.95	983
Tunisia	18.5058	8,525.49	917

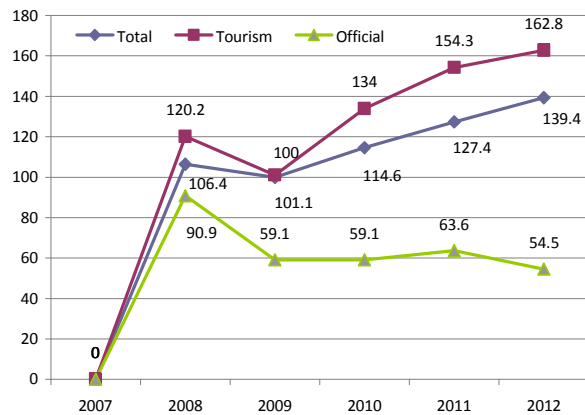


Fig. 2: Growth rate from the year 2007, in % [7]

The most popular vacation destinations for Russian tourists are Thailand, Egypt and Turkey, due to their availability and the possibility of receiving high quality services. Large departures of Russian tourists to these countries inevitably leads to an increase in the number of customer applications to insurance companies and as a result, a growth in the volume of insurance payouts being made, according to a study conducted by RBC. In ratings based on data on the insurance payouts of 11 of the largest travel insurance companies, covering 90% of the market, it was revealed which countries are most dangerous for Russians (Table 3).

The TD-Index is an indicator depending both on the number of insured events and on the total number of people who traveled abroad. According to Table 3, Turkey achieved the highest index value, with a considerable margin over the following positions. The next two places belong to Egypt and Thailand. The list of ten most dangerous tourist destinations for Russians in 2011 finishes with Austria, Greece and Tunisia.

The largest amount of payouts on travel insurance (Figure 3) for the period from January to August 2011 goes to Turkey (70 million rubles), Thailand (55 million rubles) and Egypt (29 million rubles). Of the ten most dangerous tourist destinations for Russians, the smallest travel insurance payouts went to Bulgaria and Tunisia, 9.5 and 8.5 million, respectively.

The leader in the number of insured events with Russian tourists for the period from January-August 2011 (Figure 4) is Turkey, with about 13,900 cases, followed by Egypt with 7,400 cases and Thailand with 6,800 cases.

We should note that, despite the fact that after Thailand and Egypt, the largest number of payouts falls to Thailand; Egypt has a higher number of insured events. Therefore, we can state that, in comparison with Egypt, the occurrence of claims in Thailand happens less frequently, but the cost of those claims for insurance companies are much more expensive. This may be due to the high cost of treatment in Thailand or to the serious nature of the insurance claims being made.

In terms of terrorism and war (so-called global 'hot spots'), the most dangerous countries are Somalia, Pakistan and Iraq. The greatest increase in the threat of terrorism has occurred in Iran, Libya, Uganda, Egypt, Nigeria and Yemen. Many insurance companies are unwilling to provide insurance cover in these countries and as such, many travelers change their plans and choose to travel in Europe.

Insurance companies provide a wide range of insurance cover and services for tourists, though the programs offered by individual insurance companies do not differ from each other. Typically, insurers try to provide an exclusive service or special conditions in the services they offer in order to increase the attractiveness of their products (Table 4) [10]. For example, Renaissance Insurance Group offer its customers a new option dubbed

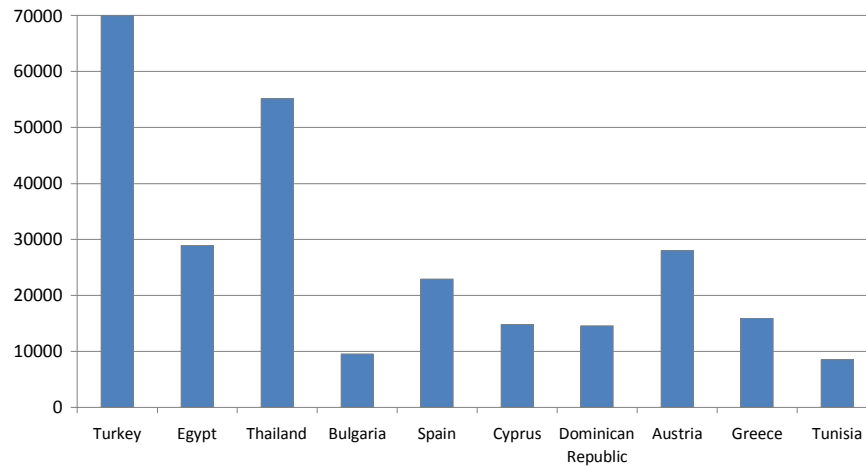


Fig. 3: The amount of payouts for travel insurance in January-August 2011 (thousand rubles).

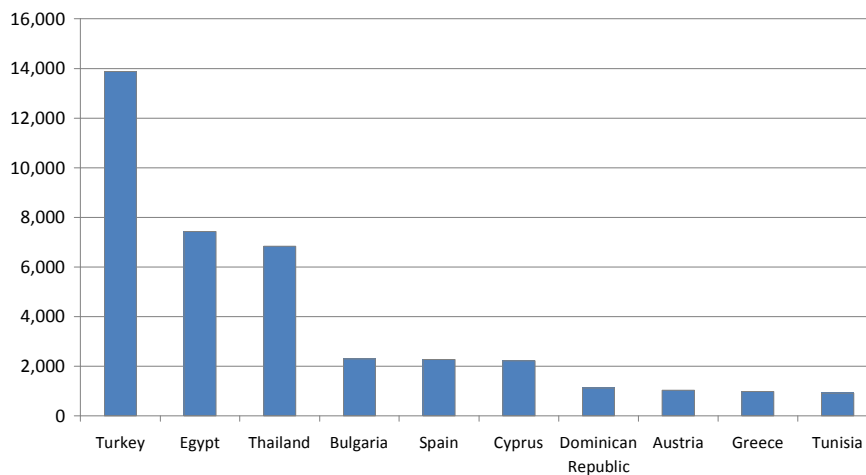


Fig. 4: The number of insurance claims made by Russian tourists in January-August 2011 (individual claims)

"concierge service." This service is actually a projection of leading European trends in the Russian market. By calling the telephone number in their insurance policy, Clients can receive free information in Russian on the city they are visiting, advice on which routes to take or attractions to visit and legal support and counsel regarding offenses and arrests.

According to Renaissance Insurance Group, there has been a recent increase among customers in interest regarding luggage insurance, covering the risk of having to make an early return from a trip and insuring apartments whilst away. Alfa Insurance Company has noted a significant increase in insuring against "not-traveling". According to data from Alfa, in every 100% of health insurance policies sold, 25% insure against "not-traveling" and 10% insure against accidents and civil liability.

In the insurance company RESO-Guarantee, the most traditional insurance areas of medical and travel expenses

are most popular, with second place now being occupied by travel insurance covering the risk of "not-traveling".

As the travel insurance market has formed over the years, a dozen federal insurance companies have emerged as the major players. Due to this competition, the average market cost of an insurance policy today for travelers is low and not at all comparable with the potential damages that could be paid out (for example, travelers going abroad have insurance cover costs from 0.45 to 1 euro per day, depending on the insurance program, while the amount for which they are insured is 30,000 Euros). Moreover, the price of a standard insurance package for travelers going abroad, developed by the majority of insurers long before the financial crisis, has remained at the same level. As such, we can conclude that competition in the travel insurance segment has led to companies seeking to develop new and exciting products, improve services, expand sales channels and seek other ways to increase market share.

Table 4: New insurance products and features in the services provided for Russian tourists

Insurance company	Description
Alfa Insurance Company	Alfa allows people to buy a policy guaranteeing the policyholder that they can receive a visa for any country within 5 minutes. The policy can be delivered by email and is accepted in all embassies.
ROSNO ¹	ROSNO offers a policy called 'Allianz Travel', which covers the costs of obtaining emergency medical and medical- transportation services in connection with acute illness or injuries, including: outpatient or inpatient medical treatment, emergency dental care (acute dental pain), transportation to hospital, medical evacuation back to the country of origin, the purchase of prescribed drugs, telephone calls with the customer service department regarding the claim, the return of children to their home country if emergency hospitalization occurs to the parents during a holiday, a visit from a relative to the insured person if they are hospitalized, early return from a trip in the event of emergencies.
VSK	The ability to include additional risks in the insurance policy: sports for professionals and enthusiasts, active rest (scuba diving, skiing, surfing, etc.), insurance against trip cancellation, loss of baggage, emergency dental services, etc.
ERV	Provides an annual "Business Trip" package, which includes medical and medical-transportation expense insurance, life insurance covering accidents during a trip, insurance covering third person's civil liability and baggage insurance.
Ingosstrah	Offers the "Platinum Winter" package especially for those who love active-rest breaks abroad (skiing, etc.). This includes reimbursement for sports injuries. The policy for a single trip lasts up to 30 days.
Oranta Insurance	Oranta developed complex programs that cover all of the possible situations the company's customers may face abroad. Customers can choose programs specifically designed taking into account the characteristics of the host country, type of vehicle in which they plan to go on a trip and the duration of the trip.
Renaissance Insurance	Despite the fact that treatment can sometimes be expensive, the overall insurance cost for trips is quite small. Insurance costs on average around 1 Euro per person, per day. The exact cost obviously depends on the individual's requirements and the specifics of the planned trip. For example, if a customer likes active rest breaks or winter sports, the cost of the policy will be more expensive. The insurance policies offered can be purchased for durations ranging from 3 days to 180 days in one year. This is the total number of days a client is allowed to be on a trip. If a customer travels many times a year, the insurance will only be valid when traveling. For example, if one of the insurance company's clients travels for 10 days, then returns home for a month and then leaves for another 14 days, the policy is flexible and allows that person to take out insurance and be covered for the 24 days spent traveling.
Rosgosstrakh	Rosgosstrakh sells reliable travel insurance. In addition, the company offers insurance for those who like to use their own car for travel: "Green Card" and special insurance covering accidents. In addition, there is a program called "Guest" for policyholders with guests from other countries.

¹ Since April 2012, the JSC Alliance insurance company has incorporated the insurance companies ROSNO, Progress-Garant and SAK Alliance into its own brand

Table 5: The largest travel insurance companies in 2011 [9]

Company	The number of travel insurance policies purchased from the company in January-August 2011	The number of insured events covering Russian tourists in January-August 2011	Payouts amounts for travel insurance in January-August 2011 (thousands rubles.)
Ingosstrakh	2,675,892	22,512	192,665.0
ROSNO	1,000,984	7,697	96,775.7
VSK	607,066	16,036	108,116.68
Alfa Insurance Company	267,055	2,712	26,054.0
Rosgosstrakh	175,925	2,612	19,491.0
Zurich	84,743	1,395	8,736.0
Pomosh'	51,323	289	4,559.0
Pervaya Insurance Company	44,500	452	7,690.0
Soglasie	21,347	479	12,727.87
PARI	17,257	56	1,892.7
NSG	9,112	73	854.0

In the market to insure Russian tourists visiting places of interest in Russia, the market leaders in terms of the number of travel insurance policies issued, in terms of the number of insurance claims with Russian tourists and in terms of the the travel insurance payout amounts made are Ingosstrakh, ROSNO and VSK (Table 5). Ingosstrakh, by a significant amount, is the market leader in all these

positions: the number of travel insurance policies purchased from the company for the period January–August 2011 was 2,675,892; the number of insurance policies covered in the same period was 22,512; and the payout amounts for travel insurance in January–August of last year amounted to 192.7 million rubles.

Table 6: Maximum one-off insurance payouts of travel insurance in January-August 2011 [9]

Country	Insured event	The amount of payouts for travel insurance	Insurance company
France	Injuries when skiing	Hospitalization and surgery costs: 47 185 Euros, the cost of returning to Russia: 107 200 rubles.	VSK
Turkey	Cardiac arrest in a 71 year old man	50000 dollars	Pervaia Insurance Company
France	Injuries when skiing	30000 Euros	Rosgosstrakh
Bulgaria	A woman hit under a boat while swimming	30000 Euros	Rosgosstrakh
Ireland	pneumococcal meningoencephalitis	The cost of treatment: 24,480 Euros, the cost of returning home: 30,000 Euros	ROSNO
Switzerland	Diabetic coma, diabetes (firstly diagnosed), a child 10 years	637,5 thousands rubles	PARI
Germany	Acute inflammation of the abdominal cavity	309,000 rubles	Zurich

When studying the ratio between the number of insurance claims submitted by Russian tourists with the number of issued insurance policies for the insurance companies VSK, Zurich and Soglasie, the following emerged: that in these insurance companies, for each policy issued, there were more insurance events occurring than in other insurance companies.

It should be noted that, according to the Federal Tourism Agency, insurance companies in the years 2007 to 2011 paid Russian tourists compensation totaling more than 130 million rubles. 80% of complaints related to the provision of substandard services: being placed in a substandard hotel, having the number of vacation days reduced by early arrival or late departure from the hotel, or were related to food poisoning. In addition, in 2010, 3,800 violations were identified by tour operators, according to the estimates of Rospotrebnadzor.

Table 6 shows the insured events with the highest one-time payouts of travel insurance. The highest one-off insurance payout to Russian tourists occurred in France after a tourist received a skiing injury. The tourist was insured by the insurance company VSK.

We should mention the insurance company "TIT", which has been operating in Russia since 1993 and , unlike other insurance companies, gives priority to other areas of insurance, such as insuring the liability of tour operators and travel insurance. The original aim was to provide insurance cover to the civil aviation industry. At present, the company insures aviation risks, provides property insurance, cargo insurance, vehicle insurance, insurance of various types of professional liability, voluntary health and accident insurance, travel and diver's insurance, insurance covering inabilities to go on a trip and tour operator liability insurance.

According to the data published by Renaissance insurance, in most popular tourist countries, 33% of all calls are complaints related to ARD (acute inflammatory

diseases associated with hypothermia and overheating). A frequent cause of these problems is the carelessness of tourists themselves, such as the foolish use of air conditioning. The second most frequent type of claim relates to injuries, with a share of 32% (injuries, bruises and sprains). The high-risk groups are fans of outdoor activities: those who visit water parks, participate in scuba diving, surfing, etc. Injury risks can also be associated with accidents on bus trips. 26% of medical consultations are associated with food poisoning, according to Renaissance. The remaining insurance claims relate to stings, allergies, heart attacks, strokes, dental pain, etc. In exotic countries, the situation is different: 51% of all appeals are complaints related to colds and infections, 19% relate to injuries, bruises and sprains and 14% are for diseases of the digestive system.

This analysis of the insurance cover provided to Russian tourists leads to the following conclusion: the travel industry is continuing to evolve at both the national level and globally and this is increasing the need of tourists for insurance protection. The positive trend in the number of departures of Russian citizens abroad continued over 2009-2011. The most dangerous countries are also the most popular countries for recreation. It is also clear that the number of insurance policies taken out to cover tourists heading abroad is higher than the number of policies taken out for internal travel in Russia. There is a high 'insurance culture' level among the Russian population now and the presence of insurance companies that specialize exclusively in travel insurance and insuring tour operators, confirms this.

In summarizing, the results of this study show that there is a need to implement high quality insurance protection in Russia and a need to make legal and regulatory changes, as well as changes in the work of insurance and travel companies.

REFERENCES

1. MaClannel, D., 1976. The tourist: a new theory of the leisure class. New York: Schocken Books.
2. Schmidt, C.J., 1997. The Guided Tour, Insulated Adventure. Urban Life, pp: 7.
3. Lew, A.A., C.M. Hall and D.J. Timothy, 2008. World Geography of Travel and Tourism: A Regional Approach.
4. Pearce, P., 1982. The Social Psychology of Tourist Behavior. Oxford: Pergamon.
5. Chernikova, L.I., 2010. Insurance and risk in tourism. Moscow: Publishing house Academy.
6. <http://nacfin.ru>-the official website of the National Agency for Financial Studies (NAFS). Free access mode. (Date of access 01.07.2013).
7. <http://russiaturism.ru/> - the official website of the Federal Tourism Agency of the Ministry of Culture of Russian Federation. Free access mode. (date of access: 19.06.2013).
8. Zaitseva, N.A., The Forecast of Development of the Hotel Business in Russia as a Promising Direction of Business Expansion of International Hotel Chains. Middle East Journal of Scientific Research, 14(3): 328-334.
9. <http://rating.rbc.ru>-the official site of RBC. Free access mode. (date of access 01.07.2013).
10. Chernikova, L.I. and N.M. Feyzrahmanova, 2012. Modern tendency of insurance protection of the tourists interests in Russia. Theoretical-practical and informational-analytical collection "Financial analytics: problems and solutions, 29(119): 33-39.