

# Tourism Insurance Market, Risks and Prospects: The Case Study

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## ABSTRACT

**Purpose:** According to the global pandemic conditions, tourism and therefore, travel insurance market face new challenges. This study is aimed to determine appropriate approaches that will contribute to the tourism development during and post-pandemic period.

**Design/Methodology/Approach:** Tourism insurance is one of the most important elements of travel planning, that protects tourists from certain financial risks and wastage that can occur during traveling. Expenditure can be minor, such as a delayed luggage, or significant - a medical emergency overseas. Within pandemic conditions, emergency medical care, which will cover Covid -19 has become inevitability part of insurance packages being offered. The design of the article includes secondary data review, theoretical explanations and empirical evidence (survey) regarding insurance updates in the travel sector, development of proposals for the future tourism development in Georgia without significant excess or outcomes from the pandemic conditions.

**Findings:** Ideas and examples are proposed to enhance knowledge in adapting insurance in accordance with the requirements of this modern situation, with an aim to continue developing tourism in the future.

**Practical Implications:** Several approaches have been identified in terms of enhancing the quality of tourism services, which is most important in relation to this pandemic period.

**Originality/Value:** This is a first attempt at describing and identifying issues related to the Georgian tourism sector in terms of travel insurance adaptation to the Covid-19 conditions. It is a valuable piece of information for tourism product makers to adopt the article's proposals for the improvement of future tourism development.

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## 1. INTRODUCTION

Tourism is one of the most important sectors of the world's economy. Many countries are trying to develop their tourism industry with the aim of economic development and increased fame. Tourism has become a significant part of the national economy development of country of Georgia.

Tourism service design includes diverse domains, with one of the most important being travel insurance services. The Global Code of Ethics for Tourism, adopted by the UNWTO General Assembly in October 1999 in Santiago, Chile, stated that tourism professionals, should work with

public authorities to take care of the safety of tourists, such as, accident prevention, health and food hygiene for those who request their services; they must ensure that adequate insurance and assistance systems are in place.

According to the global pandemic conditions, diversity and new challenge-oriented travel insurance has become an urgent necessity in the designing of tourism packages. Travel insurance is a good financial risk management service, that allows travelers to avoid financial costs and have losses reimbursed in the event of an emergency. The most beneficial covers on a travel insurance policy –are namely, coverage for trip cancellations, medical emergencies, travel delays, and luggage protection.

There is a correlation between increased tourist flows, enhanced demand on travel and travel insurance usage, so far as travel insurance services are part of tourism packages. Consequently, it is becoming very important to increase the demand for tourism purpose travel. The previous year (2020) can be said to have been inactive in terms of tourism and, therefore, travel insurance realization.

The stagnation caused by the pandemic led to a corresponding reduction in tourism activities, which was reflected in the economic setting. Mito (Japan Travel Guide) has put on the agenda the promotion and resuscitation of the tourism industry, with the modification of travel insurance packages and coverage services covering Covid-19.

## **2. LITERATURE REVIEW**

There are various types of insurance covers currently used in the travel business: accident risks, medical risks, travel cancellation insurance, transport delay insurance, personal property insurance, car travel insurance, etc. The essential type of insurance in tourism is the medical insurance, which covers the basic costs of urgent medical services, specifically, transportation of the patient, the cost of drugs, or fatal accident coverage. The Tourism Industry, together with its dependent sectors are often susceptible to various hazards, which result in risk concerns. Insurance is recognized as one of the risk management strategies (Galvani et al., 2020; Ozen & Grima, 2020).

Due to the Corona Virus, the tourism industry suffered significant losses. Consequently, losses impacted persons and companies, including insurance companies (Huebner, A. 2020). During the pandemic, insurance companies suffer significant losses caused from the economic stagnation in many countries, and from the necessity to pay insurance compensations to people (including travelers) and companies (Ehlers 2020). Insurance companies draw conclusions from the current situation and take actions to verify offered insurance products

and, consequently adjust them to market needs and potential subsequent pandemics that are likely to happen in the future (Kizielewicz, 2020).

A pandemic risk insurance program, which is supported by the government, can be part of the remedy project to manage infectious disease risks, to provide stability to businesses and organizations. It is very important for stakeholders to work together to improve national and organizational sustainability, that will help to better forecast and restrain future pandemics(Marsh 2020).

### **3. RESEARCH METHODOLOGY**

The paper is adopting a methodology based on secondary research. According to this approach, one needs to perform several steps towards processing information. The first step includes the development of the research question and consequently, the research question is - What is the effect Covid-19 had on Tourism insurance market? The second step of this research approach is to detect the data set, leading to the third step which is to analyze and evaluate the data. The fourth step is to prepare ideas and conclusions. The secondary research approach implies reviewing literature reviews such as, textbook reviews, encyclopedia, journal article reviews, web pages, published academic journals, government documents and statistical databases. Based on this it is possible to gather all the required data for the study.

### **4. IMPACT OF COVID-19 ON TRAVEL INSURANCE MARKET**

The wide spread of COVID-19 has impacted all areas, especially the near suspension of the travel industry, aviation and international tourism activities. The Travel & Tourism sector suffered a loss of almost US\$4.5 trillion and reached US\$4.7 trillion in 2020, with the contribution to GDP dropping by a staggering 49.1% compared to 2019; this is relative to a 3.7% GDP decline of the global economy in 2020 (WTTC 2020).

In 2019, the Travel & Tourism sector contributed 10.4% to global GDP; a share which decreased to 5.5% in 2020 due to ongoing restrictions to mobility (WTTC 2020).

In 2020, 62 million jobs were lost, representing a drop of 18.5%, leaving just 272 million employed across the sector globally, compared to 334 million in 2019. The threat of job losses persists as many jobs are currently supported by government retention schemes and reduced hours, which without a full recovery of Travel & Tourism could be lost (WTTC 2020).

Domestic visitor spending decreased by 45%, while international visitor spending declined by an unprecedented 69.4%. The tables below, demonstrate, regression of economic

performance over the past year caused by the global pandemic (WTTC 2020). [See the Tables 1 and 2].

**Table 1- Total contribution of Travel and Tourism 2019**

Total contribution of Travel and Tourism to (%)	Regional Overview 2019						
	North America	Caribbean	Latin America	Europe	Africa	Middle East	Asia Pacific
GDP	8,8	14,1	8,1	9,5	6,9	8,9	9,9
Employment	11	15,4	8,0	10,1	6,5	8,9	10,0

Source: Travel and Tourism Economic Impact Research May 2020(WTTC)

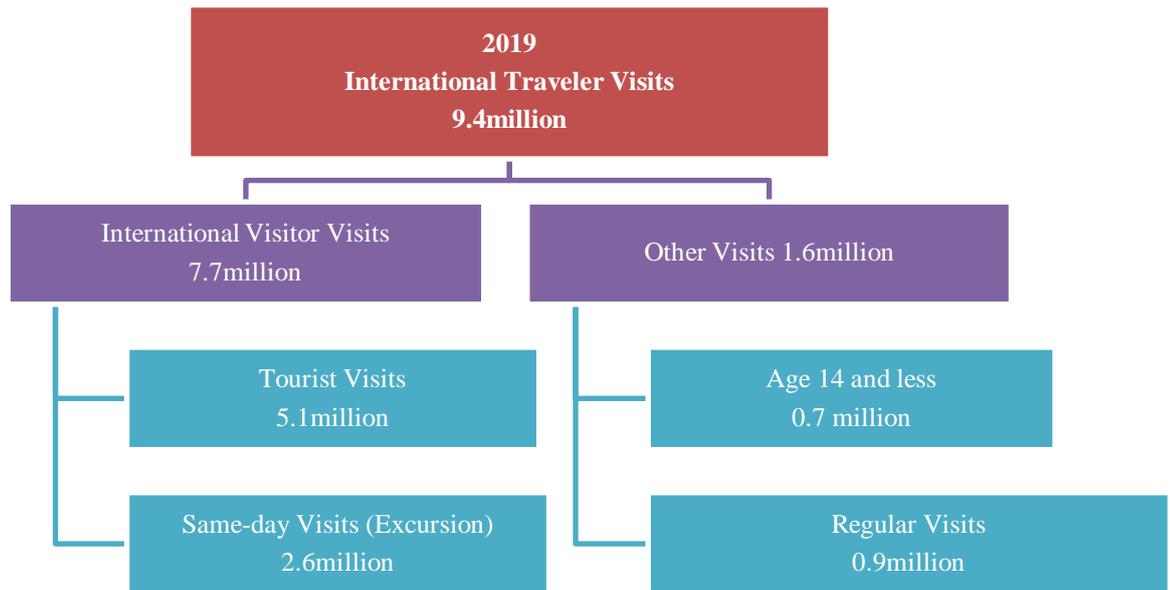
**Table 2 - Total contribution of Travel and Tourism 2020**

Total contribution of Travel and Tourism to (%)	Regional Overview 2020						
	North America	Caribbean	Latin America	Europe	Africa	Middle East	Asia Pacific
GDP	-42,2	-58,0	-41,1	-51,4	-49,2	-51,1	-53,7
Employment	-27,9	-24,7	-23,4	-9,3	-29,3	-17,4	-18,4

Source: Travel and Tourism Economic Impact Research May 2020(WTTC)

As mentioned above, there is direct correlation between tourist flows and travel insurance market capability. According to world-wide rules, international trip planning includes insurance service, and for some countries or region entrance - as in the Schengen Area - it is a strong prerequisite. Consequently, outbound tourist quantity describes number of used travel insurance service [See figure 3 and 4].

**Figure 3 – International Travelers 2019**



**Source:** Georgian National Tourism Administration statistical report 2019

**Table 4- International Travelers 2019-2020**

Country	2019	2020	Change	% Change
International Traveler Trips	9.357.964	1.747.110	-7.610.854	-81,3%
Other (non-tourism)	1.632.190	233.689	-1.398.501	-85,7%
International Visitor Trips	7.725.774	1.513.421	-6.212.353	-80,4%

**Source:** Georgian National Tourism Administration statistical report 2019-2020

Understanding the full assessment of the situation in the travel insurance market, it is important to consider statistical data from the past short-term period and compare it with the current data.

For US residents traveling internationally, the Travel Insurance industry provides coverage for unexpected travel and medical expenses. It should be pointed out, that insurance covers domestic travels to a lesser extent. In general, travel insurance policies include trip cancelation, delay protection, baggage and other personal effects protection, emergency medical assistance and accidental death coverage. The industry in the US primarily derives revenue from premiums, which averaged 5.0% to 10.0% of consumers' total travel expenses over the five years leading to 2020 (Travel Insurance Industry in the US 2020).

There was expected decline in Travel Insurance industry in 2020 due to a sharp decrease in travel activity (Travel Insurance Industry in the US 2020). Accordingly, there was a spike in trip cancellation claims due to numerous global travel restrictions. This is expected to hamper the industry's profitability.

**5. DISCUSSIONS**

In 2019 the global travel insurance market continued to grow and, its size was valued at USD 19.2 billion. Prospects forecasted based on past data showed that that amount was about to reach USD 39.3 billion by 2027. Travel insurance covers the expenses incurred and minimizes several types of risks during travel (WTTC).

In order to draw appropriate conclusions and to understand the impact of the global pandemic on tourism development, in particular on the sale of travel insurance, it is necessary to analyze results of statistical data of tourist flows and their economic effects. Using the example of Georgia, the author will try to see the impact of recent events on travel insurance market development [see Tables 5 and 6].

**Table 5- Outbound Visitor Survey Tourist Trips 2019**

2019 Outbound Visitor Survey Tourist Trips									
I Quarter		II Quarter		III Quarter		IV Quarter		Total	
Quantity	% Share	Quantity	% Share	Quantity	% Share	Quantity	% Share	Quantity	% Share
269.834	55,7%	325.630	58,0%	417.655	59,7%	344.088	54,7%	1.357.207	57,2%

Source: Georgian National Tourism Administration statistical report 2019

**Table 6 - Outbound Visitor Survey Tourist Trips 2019**

2020 Outbound Visitor Survey Tourist Trips				
I Quarter	II Quarter	III Quarter	IV Quarter	Total
Quantity	Quantity	Quantity	Quantity	Quantity
15,822	12,230	18,883	23,290	51,306

Source: Georgian National Tourism Administration statistical report 2020

As it is demonstrated from the tables above, outbound tourism flows from Georgia have decreased from 1.357.207 to 51,306 which is approximately 4% of previous year results. One

needs to keep in mind that travel insurance is rarely used for domestic trips and, therefore this kind of service is mostly concomitant with tourism packages planned for outbound travelers. With the aim to understand travel insurance market distributions in Georgia and generalize this approach, it is important to calculate or collect statistical data about outbound travelers. Consequently, based on the above-mentioned data we can come to conclusions about the decreasing number of travel insurance realization ( -96%).

This decreasing number of travel insurance uptake in Georgia is very disastrous for business. Therefore, it is a big challenge to find a solution for further development. Tourism in one of the most sensitive economic fields, that has been affected by the global pandemic. With the new initiatives to open countries and restart business activities related to Tourism, consequently, the travel insurance market faced many problems and new rules. Tourism and insurance companies are trying to involve new, Covid-19 coverage offers in their service and, therefore, increase sales.

For the purpose of this paper, we have studied tourism companies operating in Georgia, in particular Kutaisi city tour operators. The study covered the maximum number of tourism companies – 22 - who are working and nowadays are trying to implement mandatory issues caused by Covid -19. The interview contained 8 main questions, related to the challenges and conditions before and during pandemic period. The survey was conducted with the managers or executives of the companies. The result are presented in Table 7.

**Table 7 - Tourism Organizations Survey- Integration of new Insurance services in tour packages 2021**

Service type	Number %	Additional service
Organizing insurance requirements including Covid -19 PCR Test	40 %	
Organizing insurance requirements including Covid -19	35%	
Organizing only standard insurance requirements	25%	Introducing about some flight companies, with Covid Insurance or booking tickets with those companies.

**Source:** Performed by the author

According to our survey it is possible to conclude that tourism and, consequently, the travel insurance market moving forward to develop new insurance covers.

It can be pointed out that two contradictory trends are emerging. The Insurance market size will decrease due to the less tourist flows, however, the penetration of travel insurance in tourism planning with these pandemic conditions will become more essential.

## 6. CONCLUSIONS

Over the last period, travel insurance has become an essential part of tourism planning, in particular in relation to international travel. Therefore, there are several trends demonstrating travel insurance market development:

- ✓ Travel insurance market size is directly correlated with outbound tourism flows;
- ✓ Travel insurance market size has decreased all over the world and also in Georgia. When compared to 2019, the market decreased by -96% in 2020;
- ✓ Due to the travel insurance market shrink, its penetration in travel planning is becoming more essential;
- ✓ Tourism companies are trying to implement local or pandemic conditions in travel planning and, therefore, insurance organization.

Following the above and with the intention to increase tourism activities and social-economic development, travel insurance content is one of the key factor for the safe travel planning during and post pandemic periods.

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