

ABI response: Airline Insolvency Review Call for Input

1. About the ABI

- 1.1 The Association of British Insurers is the voice of the UK's world leading insurance and long-term savings industry.
- 1.2 A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

2. Introduction

- 2.1 The ABI supports the aim of the Airline Insolvency Review (the Review) to assess consumer protection in the event of an airline or travel company failure and to look at the potential options to tackle such events. Recent high-profile insolvencies have highlighted the importance of this issue and the need to ensure that consumer protections are well understood, widely available and easily accessed.
- 2.2 We note that the Review will consider both repatriation and refund protection in determining the value of replacing or amending the current system of protection. We welcome the Review's acknowledgement of the existing different consumer protections and note the Call for Input's observation that there are both gaps and overlaps. Any consideration of improvements to the current schemes should consider the extent to which shortcomings are caused by a lack of awareness or access to existing protections, as well as their scope.

3. Executive Summary

- 3.1 Travel insurance is primarily designed to cover the cost of medical treatment when abroad and to provide cancellation cover should someone be unable to travel. However, there are policies available in the market that will offer some financial protection against the risk of travel disruption, airline insolvency and supplier failure. Working with a wide range of groups, including the FCO, the ABI regularly promotes a message to travellers that they should purchase adequate cover for their needs, rather than choosing cover based on price alone.
- 3.2 When someone is not travelling on a package holiday they are more likely to be at risk of bearing the costs that may arise from the insolvency of a travel provider, such as an airline, accommodation provider or activity supplier. Generally, this will be because they are not protected by the ATOL scheme or ABTA member protection. When booking holidays on this basis, travellers may want to consider travel insurance that includes Scheduled Airline Failure Insurance (SAFI) or End Supplier Failure Insurance (ESFI), particularly if Section 75 of the Consumer Credit Act 1974 may not apply, perhaps due to the transactions costing less than £100.

- 3.3 There appears to be poor awareness amongst travellers of the range of consumer protections that exist, what these provide cover for and when they might want to consider paying for further protection, such as via travel insurance. This lack of clarity has led to some gaps in consumer protection, where some travellers have not acted to protect themselves, as well as some overlaps, where some travellers may be covered by more than one consumer protection. In such cases, consumer should be made aware of which protection they should claim from first. More could be done to promote awareness of existing consumer protections and how they can be accessed, to avoid gaps and unnecessary duplication. A clear gap analysis of existing customer protections, which also identifies overlaps, would be helpful in this regard to ensure consumers are clear who should be first to pay where there is multiple cover. This lack of clarity - as well as the difficulty in getting refunds - is part of the reason people often approach their travel insurer to make a claim before others.
- 3.4 The ABI does not support mandating airline insolvency cover within travel insurance policies. Mandated cover of this nature would be an unwelcome disruption to an already competitive market, limit customer choice and potentially act as a barrier to take up of cover by adding additional expense. It is also an unnecessary measure given the protections available by other means and the potential to improve those existing protections. It is not optimal for consumers to be paying for cover where they may already be protected via other means. It is far from clear where there would be extra market capacity for airline insolvency insurance to be more widely underwritten, given it is a risk that necessitates higher capital requirements.
- 3.5 The ABI would support the Review's consideration of a model that either extends or replicates the ATOL protections across all airlines operating in and out of the UK, not just for those airlines which are part of package holidays.

4. Overview of the UK travel insurance market

- 4.1 The primary aims of travel insurance is to provide cover for the cost of medical treatment, incurred while abroad, and cancellation cover should the customer be unable to travel due to illness. The cost of overseas medical treatment will vary, depending on the country where the treatment is provided, and the type of treatment needed. Falling ill or getting injured overseas can be extremely expensive if an individual does not have travel insurance. Medical costs abroad can quickly add up, especially in countries where there are no reciprocal health agreements, where non-state healthcare is expensive and/or in situations where medical evacuation is necessary.
- 4.2 One example, as set out in the ABI's online [travel insurance guidance](#), shows that a 12 year old traveller and her family would have been left with a medical bill for £32,000 when she fell ill with pneumonia, and was hospitalised for 4 days, on a school trip to the USA.

4.3 The standard cover provided by travel insurance does not generally seek to duplicate protections that are available elsewhere. Additional cover options can include baggage, pre-existing conditions cover and activities - these are commonly sold as either an add-on to the core cover, or as part of a premium, or gold-standard coverage. The ABI regularly promotes a message to travellers that they should purchase adequate cover for their needs, rather than choosing insurance purely based on price alone.

Travel insurance key facts in 2016

- 10.5m multi-trip policies
- 2.7m single-trip policies
- £461m total value of all premiums
- Insurers paid out a total of £369m for 480,000 claims
- £199m for cost of emergency medical treatment
- £130m for cancellations
- £37 average premium cost

4.4 The Financial Conduct Authorityⁱ has recently conducted some work on access to travel insurance for those with certain pre-existing medical conditions, many of whom will pay more for travel insurance due to their higher risk of making a cancellation claim or an overseas emergency medical claim. In this context, adding mandatory protections, such as airline insolvency failure, to core travel insurance coverage could create additional expense and act as a disincentive for people to take out cover, particularly for those who are already high-risk.

4.5 Beyond medical treatments costs, travel insurance policies vary widely in their coverage provisions. Common insurance policies can include: legal expenses, personal liability, lost/stolen/damaged baggage or belongings, winter or extreme sports and cancelled or truncated holidays. Policies can also cover travel disruption, such as extra nights in a hotel if travel plans are disrupted and the cost to a customer of rescheduling flights if an airline becomes insolvent. This level of customer choice is important and reflective of the competitive nature of the market.

4.6 Travel insurance policies can also be distributed in a variety of ways – directly from an insurer, through a price comparison website, from a travel agent and, for multi-trip policies, as a bank account benefit. Policies can apply to a single location, to Europe and beyond, or be worldwide (including the United States). Cover limits or excesses may vary between policies and this can reflect the price of cover that has been taken out. Policies that provide wider cover and/or lower excess amounts may be more expensive but can also offer greater protection.

4.7 In recent years, a growing percentage of travel insurance policies sold have been multi-trip policies (10.5m in 2016) with a declining percentage of single-trip policies (2.7m in 2016) sold. In 2016, travel insurance premiums totalled £461m gross written premiums with insurers paying out £369m for 480,000 claims to travellers who needed

help whilst they were abroad. £199m of this was to cover the cost of emergency medical treatment and £130m was for cancellations.

- 4.8 There are three specific aspects of travel insurance cover that will be of interest to the Review: Scheduled Airline Failure Insurance (SAFI), End Supplier Failure Insurance (ESFI) and Travel Disruption Cove.

5. Existing Protections Under Travel Insurance

Scheduled Airline Failure Insurance (SAFI)

- 5.1 SAFI will cover either the travelling public, the travel agent, tour operator or consolidator against the financial failure of any scheduled airline. Cover is in place for travellers if they buy a policy that has SAFI cover. Rarely is SAFI sold as an add-on or standalone policy to consumers, although it can be sold to travel agents and tour operators on that basis. It can also be found on some Bank account schemes or via the membership of some travel clubs.
- 5.2 SAFI is a specific type of coverage that generally protects travellers who choose to book via non-ATOL bonded travel agents or tour operators, or flights directly with an airline rather than as a packaged holiday. It will generally cover the cost of flight tickets if the airline goes bankrupt or the cost of replacement flights if the airline goes bankrupt whilst a customer is abroad.
- 5.3 It is worth noting that much of the available SAFI on travel policies in the UK market comes via one provider, underwritten by various Lloyd's syndicates and that it concentrates purely on financial failure products for the UK travel industry. Some individual insurers do underwrite SAFI themselves, although this varies by risk appetite. Even though airline insolvency is rare, the impact of an insolvent airline on any one insurer could potentially necessitate prohibitively higher premiums for customers. In addition, the capital requirements take SAFI outside of many insurers' risk appetites. As such, SAFI can be bought from various insurance providers to form part of the insurer's standard cover offering to their customers with SAFI providers often insisting on handling claims themselves. It is worth noting that SAFI is a 'cover of last resort' meaning that the customer must have exhausted all other refund routes, such as ATOL or section 75 of the Consumer Credit Act.

End Supplier Failure Insurance

- 5.4 End Supplier Failure Insurance (ESFI) reflects the shift in travel behaviour of recent times that sees more and more travellers choosing to book different elements of a holiday - flights, train, hire car, accommodation, cruises, sporting activities - directly with the end supplier. Whilst this ensures that travellers get what they want, it can leave them financially exposed if any of these suppliers become insolvent. Not only will travellers lose the money they have paid out, but they would also need to pay again to rebook with other suppliers. Therefore, ESFI extends failure cover to all transport providers, accommodation providers, car hire companies and, sometimes, excursion providers. Typically, ESFI is only included in more comprehensive travel insurance policies.

Travel disruption cover

- 5.5 Travel insurance policies can provide cover for travel disruption and SAFI/ESFI, although not all provide cover for both. This is more common in policies with higher levels of cover, which can have higher limits and broader cover sections. Travel disruption cover is generally designed to cover the cost of extra hotel expenses that are incurred when travel plans are disrupted for reasons outside of an individual's control – such as tsunamis, hurricanes or storms, as well as the insolvency of an accommodation provider, car hire company or travel agent. It can also provide the difference in cost between an original flight which is cancelled and a replacement flight (the latter will usually be more expensive as it is booked last minute).

6. The role of travel insurance

- 6.1 We recognise there is an important role for travel insurance in helping customers who suffer financial loss because of travel disruption or airline failure. Travel insurance should not, however, be viewed as a replacement or duplicate for existing protections. Communicating a better understanding of existing protections should help improve awareness of when specific travel insurance cover is of value, with customers then empowered to decide on purchasing the right cover to meet their needs.
- 6.2 Due to the highly competitive and largely price-driven nature of the travel insurance market, challenges do exist for the industry in ensuring consumers understand what travel insurance covers and how to encourage consumers to buy the right level of insurance cover, rather than choosing cover based on price alone.
- 6.3 Despite a record number of overseas visits made by Brits in 2016, travel premiums fell to their lowest level since 2004 at £481m. With the average premium at just £37, and just £21 for those aged between 26-30, travel insurance can very easily cost less than what many spend at the airport on drinks and snacks. This only emphasises the difficulty in getting travellers to purchase what should be essential cover for travelling abroad.
- 6.4 The ABI and its members work with various stakeholders - including the Foreign and Commonwealth Office and its Travel Aware campaign - to improve consumer understanding of travel insurance, the protections it provides and the importance of choosing the right level of coverⁱⁱ. We also support initiatives that seek to improve consumers' awareness of the risks when travelling abroad and how they can ensure they have adequate protection for their needs.

7. Protection for airline passengers

- 7.1 We note the Call for Input's reference, in para 1.3, to a declining percentage of passengers who are protected by the ATOL scheme; however, we are aware that various means of refund protection are available to consumers. Consumer protections exist under ATOL, ABTA (refund and cost of repatriation provided if flights are bought from a UK travel company who is an ABTA member) and Section 75 of the Consumer

Credit Act 1974. Mandatory protections under travel insurance for airline failures could not only raise premiums for consumers but also see a duplication of protection for many consumers given the existing protections that exist elsewhere. Insurers seek to treat customers fairly and avoid providing extra cover, that customers must pay for, that duplicates existing cover. If they can, insurers will try to detect where customers have duplicate cover, although this is difficult to do in practice.

- 7.2 Although we are not aware of the number of individuals who are unprotected, and who could benefit from taking out travel insurance that gives them protection, we can assume that the recent government ban of card transaction fees will remove previous disincentives for paying for airline flights via a debit or credit card. This should mean more people are protected for transactions under the Consumer Credit Act (there is also some cover under the debit card Charge Back process, although this is not backed by legislation). We would also suggest that significant attempts to increase awareness of current protections for consumers would go some way to improving refund protection coverage, before any alternative solutions are considered.
- 7.3 We are aware that routes to compensation can sometimes be difficult to access, despite providers being legally obliged to provide compensation, with customers instead often referred to claim on their travel insurance. As already mentioned, travel insurance aims to provide cover for individuals when they cannot get it elsewhere. It is not designed to allow airlines or travel agents a route to avoid their legal obligations to their customers. Most travel insurance policies state that coverage will only apply where the traveller is unable to receive compensation elsewhere, such as through the supplier, card provider or via the ATOL or ABTA protection schemes. A number of consumer groups, including Which?'s recent Consumer Charter for Brexit ⁱⁱⁱ, have advocated that the current process for receiving compensation through airlines and travel agents needs to be improved. It would help consumers if they had clarity on where to claim, who is liable (where multiple protections exist) and knowing who to claim from first – saving consumers time and avoiding duplication of effort.

8. Expanding Consumer Protections

- 8.1 The ABI encourages the Review to consider how existing consumer protections designed explicitly for repatriation and/or refund, such as that provided by ATOL or travel agents, could be extended to fill existing gaps. The onus should first be on airlines to provide protection to passengers in the event of an airline insolvency. The ABI would support the Review's consideration of a model that either extends or replicates the ATOL protections across all airlines operating in and out of the UK, not just for those airlines which are part of package holidays.
- 8.2 Other models that cater for consumer protections in the event of an insolvency exist in other markets, for example, the Financial Services Compensation Scheme where customers are protected from insolvent financial service providers. A similar scheme could be considered by the Review to ensure consumer protections in the case of airline insolvency.

9. ABI recommendations

Consider extending ATOL to all airlines

9.1 The ABI would support the Review's consideration of a model that either extends or replicates the ATOL protections across all airlines operating in and out of the UK, not just for those airlines which are part of package holidays.

Gap analysis of protections and improve consumer awareness

9.2 A clear gap analysis of existing customer protections and overlaps to help customers understanding of: what protections they already have; who should be first to pay where there is multiple cover; and, the role travel insurance can play when other protections do not apply.

Avoid mandating of travel insurance

9.3 Avoid mandating any form of travel insurance cover. It is not optimal for consumers to be paying for cover where they may already be protected via other means, it would be an unwelcome disruption to an already competitive market, it could limit customer choice and potentially act as a barrier to take up of cover by adding additional expense.

ⁱ [FCA Call for Input on access to insurance](#)

ⁱⁱ [ABI Travel Insurance 'Choosing the right insurance' web page guidance](#)

ⁱⁱⁱ [Which's Consumer Charter for Brexit](#)