



## Cruise Insurance Issues

*With the increase in importance of cruise insurance this year, Cruise Week headed to Travel Guard headquarters in Stevens Point, Wisc., to interview VP Dan McGinnity for news on this aspect of the industry.*

**Business Update:** "The slashing of cruise prices last year certainly impacted travel insurance as well," reports McGinnity. "But we have seen a lot of stabilization this year; people are traveling, and the average cost of the trip is on the rebound."

And what's bad news for the rest of the industry is good p.r. for the insurance industry. "We've had so many events that call attention to the importance of travel insurance--the two February east coast storms, the two earthquakes, the volcanic ash, and now the Gulf and the fact that eight to fourteen hurricanes are predicted this year," notes McGinnity. "Our numbers are through the roof in terms of call volume for clients needing assistance--up 300% during the 10-day period of the ash crisis, and call volume is still way up."

Despite all the headlines, McGinnity is the first to point out most cruise insurance claims are for personal reasons. "The vast majority of claims for people booking cruises are trip cancellation claims related to an illness or an injury to the traveler or immediate family member," he says. "In terms of actual numbers, 75% of claims are trip cancellation claims; of that, 60-75% are medical related."

### **Claims Confusion: Earthquake & Ash**

McGinnity points out that claims situations can be subjective. "Insurance is black and white, and then there is some gray," he says. "Sometimes it's how you interpret the gray that can make a huge difference."

He points to the Chilean earthquake as an example: "One cruise line had people both flying into Santiago to catch a ship and departing to return home. That cruise line's insurance made the determination that the closure of the airport was done by the government. They made a blanket determination that they weren't going to provide any coverage for people who were or were not insured."

Travel Guard interpreted it differently. "We viewed the closure of the airport as due to the earthquake and determined clients who couldn't get to Santiago or even the alternative port were covered as part of trip cancellation," he reports.

The volcanic ash cloud was another confusing situation. McGinnity draws an analogy with hurricane season: "Say you book a cruise from Miami and decline the insurance. Next day on the news there's a hurricane bearing down on Miami. You say, 'Holy Cow, I better get some of that travel insurance.' To us, that's like going home, finding your house on fire, and then saying, 'Holy Cow, I ought to get some home insurance.'"

Hence, if you bought cancellation/trip interruption insurance prior to April 13, you were covered for the initial

event, which Travel Guard considered to have ended on 4/22/10, when Eurocontrol announced that air traffic had returned to normal level. "Consumers who purchased insurance after 4/22 would be covered for any further eruptions that would impact their travel plans, subject to the policy terms and conditions of their policy," he says.

### **Storm Season Sales**

Does the recent prediction from the National Hurricane Center that 2010 would be a stronger than usual hurricane season make a difference in insurance sales for cruises to the Caribbean? "We've found that until the first one hits, there's not much of a bounce," responds McGinnity. "Still, I think that's one more thing to bring up."

He cites hurricane season interruptions as one of the most frequent claims involving cruises. "Oftentimes, it's just the ability of the passenger to get to the port, not the cruise's ability to depart," says McGinnity. "There's a fine line for the travel agent and, really, for us, as well, in terms of you don't want to be the purveyors of doom and gloom: 'You better watch out for this and that.' But I do think agents have a responsibility to let the clients know that insurance is going to provide financial protection for your trip investment in case you have to cancel or your trip is interrupted."

### **Commissions & Comprehensive Coverage**

We've run across reports alleging that agents recommend third party insurance over cruise line insurance, because the former typically pay significantly higher commissions (20-35%) than the latter. Any truth to this?

"I've seen that, 'If you're going to buy it, don't buy it from a travel agent, because they're going to mark it up,'" replies McGinnity. "The fact of the matter is, that's an absolute untruth. There's no discount buying it direct from any of the major third party providers or from the cruise lines. We don't want to undercut the travel agent."

The more important comparison between third party and supplier coverage is comprehensiveness, he says. "For me, the biggest thing is that the person buying the third party insurance gets more comprehensive coverage--door to door, every element is covered," he says. "With the cruise line insurance, the only thing you're covered for is the cruise portion, unless you buy the whole package (air, hotel, etc.) through the cruise line."

### **Cruise Relations**

Despite being in a competitive situation, McGinnity says relations with cruise lines are solid: "The major third party insurance players--Access America, Travel Guard, Travelex, CSA--we're all involved in multiple channels. We don't get any pushback from our travel supplier partners saying, 'How can you be providing our product and then selling a retail product through the travel agency channels?' It's understood that consumers buy travel and they buy travel insurance through multiple distribution systems, and if we're not there, someone else will be."



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Cruises, in particular, are important to the industry. "It's estimated that prior to the events of 9/11, somewhere between eight to nine percent of people purchased leisure travel involving prepaid, nonrefundable, purchased travel insurance. Today, it's closer to 30%, and cruises are much higher than that."

Through it all, the role of agents is vital. "The retail travel channel is still our biggest," says McGinnity. "While the number of travel agencies out there have been pared down, we're finding the ones who are left are very business focused and fully understand the value of travel insurance--not only from the standpoint of protecting their clients but as ancillary revenue which travel agents earn from sales."

## Value Message Back In Forefront

At both ends of the market, there's a renewed focus on the value message. Most visibly, Carnival is promoting up to \$160 cash back (via shipboard credits) for cruises booked through June 30 effective for departures into February 2011. That's the type of promotion that was a dime a dozen in 2009 but not as common in recent months, since prices are on the upswing.

CCL yield management has a reputation for spotting market trends early on, so this promo may indicate the recent spate of bad news is affecting Caribbean mass market. "There's a lot of factors in play here, one being the market has slowed down since early May," notes Gayle Gunther, of Cruise Directors, Alexandria, Va.

On the luxury side, at the *Seabourn Sojourn* christening in London, our Europe Correspondent Ralph Grizzle reports value was very much on the minds of both the hosts and retail leaders attending. Noting space available for Seabourn in Europe this summer, Adam Snitzer, vp of marketing, pointed out the "confluence of the financial crisis and the additional capacity" is making for exceptionally good value.

Indeed, those onboard *Sojourn* emphasize the cost comparisons with luxury cruise and luxury land are more disparate than ever. For instance, Tom Baumann, president of Travel Leaders Leisure Group, drew a comparison: "We checked in at the Four Seasons here at Canary Wharf before coming on the ship, and it was £450 per night. Do the math. At US\$600 per couple, per night on *Sojourn*, including drinks and gratuities and food and everything, you cannot begin to compare the value. To stay at the Four Seasons for a week in London would cost at least double, if not triple, the amount of money you'd spend to sail on *Sojourn*, and you're going to have a lot less fun."

Putting it all together in a report on CCL/RCL out

this week, Joseph Hovorka, of Raymond James Equity Research, says the EU debt problems and oil spills could impact what would otherwise be a smoother, more robust cruise recovery. "...The current pricing recovery appears to be weakening somewhat sequentially," writes Hovorka. "Demand for all three regions (Europe, Alaska, and Caribbean) appears to have moderated from March." Overall, Hovorka noted, pricing is still up year over year, but moderating.

## Booking Direct: Why Not

Direct bookings are certainly nothing new, but in our visits to agency offices in recent months, agents are expressing concerns about them with renewed vigor.

While most vacation planners at cruise lines may be competent at what they do, we've learned, from visiting agency models ranging from high tech/online to small home-based, that they aren't not meant to perform all the functions an travel agent can perform. So how can agents get this message across?

"What agents have to get across and be aggressive in communicating is not only what they do, but what a cruise line does not," says Mark Schiffner, vp for Cruise Holidays. "Every agency owner can make sure part of what they do in their individual client interaction is to give a little bit more information on why to use a travel agent."

Schiffner says, first of all, tailor your message to your respective audience--this is where local agents have an advantage over direct.

Make it clear, even to repeat clients, when you can offer deals that aren't available from booking direct. Schiffner notes that people are used to doing easy searches for hotels, cars, and airline tickets, but they may need to be reminded it's not so simple for cruises. "Cruises are not a simple purchase, and agents can answer the questions people have," says Schiffner. "All the research agents do leads to knowing the deals out there, having inside information about the various categories, and, of course, knowing in depth about many cruise lines versus vacation planners, who don't know about all the different cruise lines."

In verbal communications, point out how using an agent can save the client time. "There are 40-50 pages on shore excursions; it's time consuming to do it on your own versus dealing with someone who knows," says Schiffner.

Above all, don't take it for granted that consumers understand even your most basic knowledge. "Some clients still don't know the differences within categories of cruise lines," says Schiffner. "Some don't know what is a luxury ship, what is a premium ship, or where to find the best values. Agents do."