

An exclusive whitepaper produced by Berkshire Hathaway Travel Protection

# STATE OF TRAVEL INSURANCE 2018



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# ABOUT

## the State of Travel Insurance

The State of Travel Insurance (SOTI) 2018 is based on two major surveys and a predictive model that uses a variety of research methods to generate its outcomes. This research is augmented with quotes from BHTP's travel-agent bloggers, Daniela Harrison and Cat Zuniga. Please see the Appendix for details on how the research was conducted.

# OVERALL

## WE PROJECT

We predict travel-insurance sales to Americans traveling outside of the country will *increase 2.88%* in 2018 to \$2.37 billion, still a positive result but down from our 4.93% projected increase for 2017. This prediction is based on projections of percentages of covered trips, traveler ages, and travel-insurance cost as a percentage of trip cost; calculations of total 2018 travel-insurance sales; and a comparison of those figures against last year's figures.



## WHY?

Key reasons, positive and negative, for making this projection include:

### **More covered trips in 2018**

Consumers and travel agencies indicated they intend to buy/sell more travel insurance in 2018. When weighted purchase likelihood was used to calculate actual intent to purchase, the increase in pure travel-insurance sales, unaffected by any other factors, was around 1.5%.

### **More trips in general**

Consumers indicated they are planning more international travel in 2018, and travel agencies said they expect to sell more international travel in 2018. Based on survey research, we project that travelers will take 9%-10% more trips, international and domestic, in 2018. Since the bulk of those trips will be uninsured business travel and/or domestic trips, we project the number of trips that have traditionally been insured to grow around 2.45%. (Note: The 2.45% figure refers to traditionally insurable trips, not necessarily the number of trips that will be insured.)

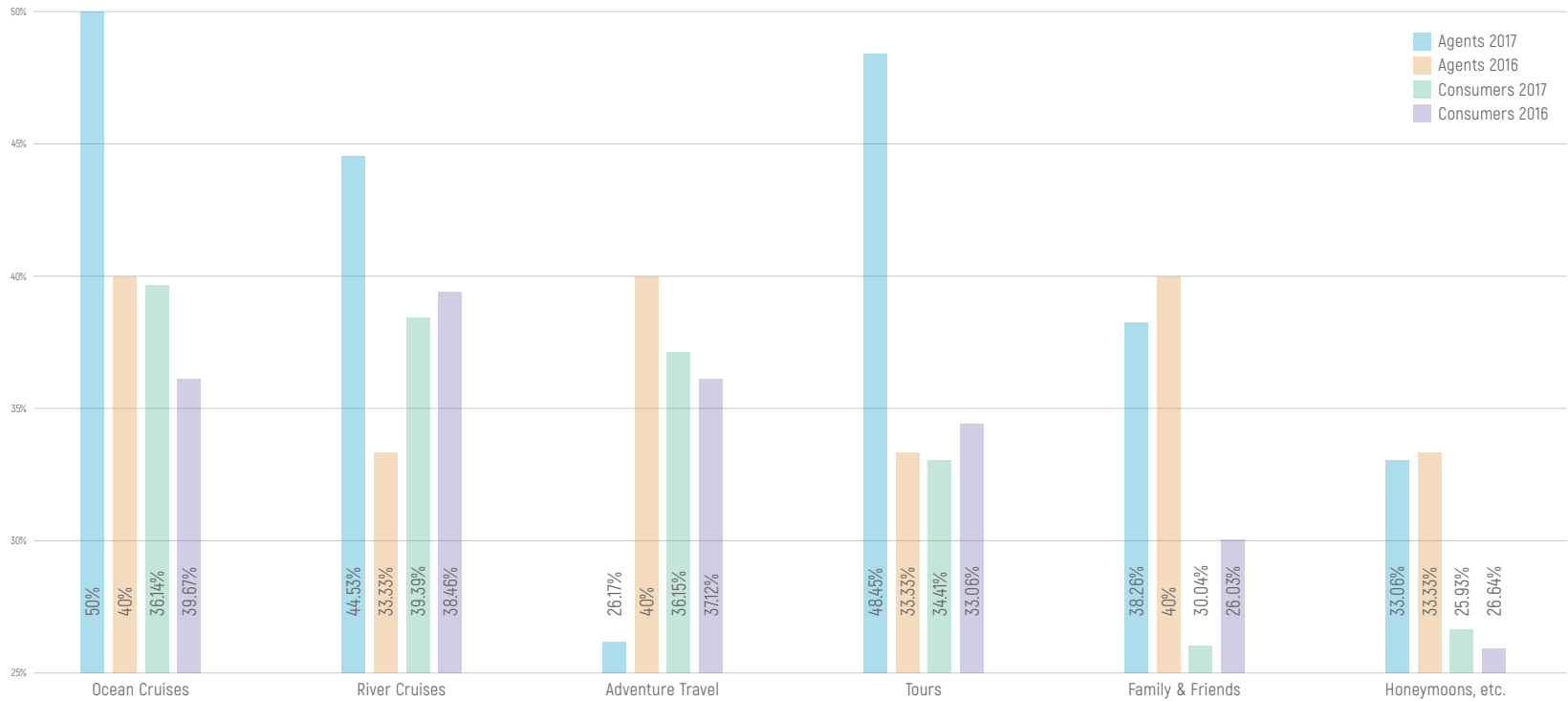
### **A shift in the market from older buyers to younger**

For several years, MMGY Global's *Portrait of American Travelers*<sup>1</sup> (*Portrait*) has pointed out the various ways in which younger travelers are expected to keep driving travel growth, even as they mature. This year's SOTI consumer survey pointed up another key aspect of this demographic: They increasingly buy travel insurance to cover their trips. In 2016, 35% of younger travelers said they planned to buy more travel insurance in the upcoming year; in 2017, that number zoomed to 65%. Conversely, 43% of 55-74-year-old travelers said they planned to buy less travel insurance

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<sup>1</sup> "Portrait of American Travelers 2016-2017: Executive Summary" (New York: MMGY Global, 2016), p. 4.

## Expectation of Travel by Trip Type



Cruises are the one trip type where agents and consumers have been in general agreement on the desire to travel more. Part of the reason is that these trips are more commonly booked through travel agents than many other trip types.

in 2018, compared to 5% who expressed similar sentiments the previous year. Only 7% of older travelers said they planned to buy more travel insurance in 2018 than they did in 2017. Younger travelers take more trips of all kinds, but they increasingly like to take highly insurable trips like adventure travel and cruises. This behavior is being driven by 35-44-year-old female travelers, who exhibit many of the same fearless travel behaviors of their male counterparts from ages 25-34, but then exhibit much more conservative and family-oriented travel behaviors – including taking cruises – when they turn 35 and/or have children. Regardless of their overall behaviors, this group is living up to their billing in *Portrait*: “The key to the future health of the travel industry.”<sup>2</sup>

### Decreased travel by older travelers

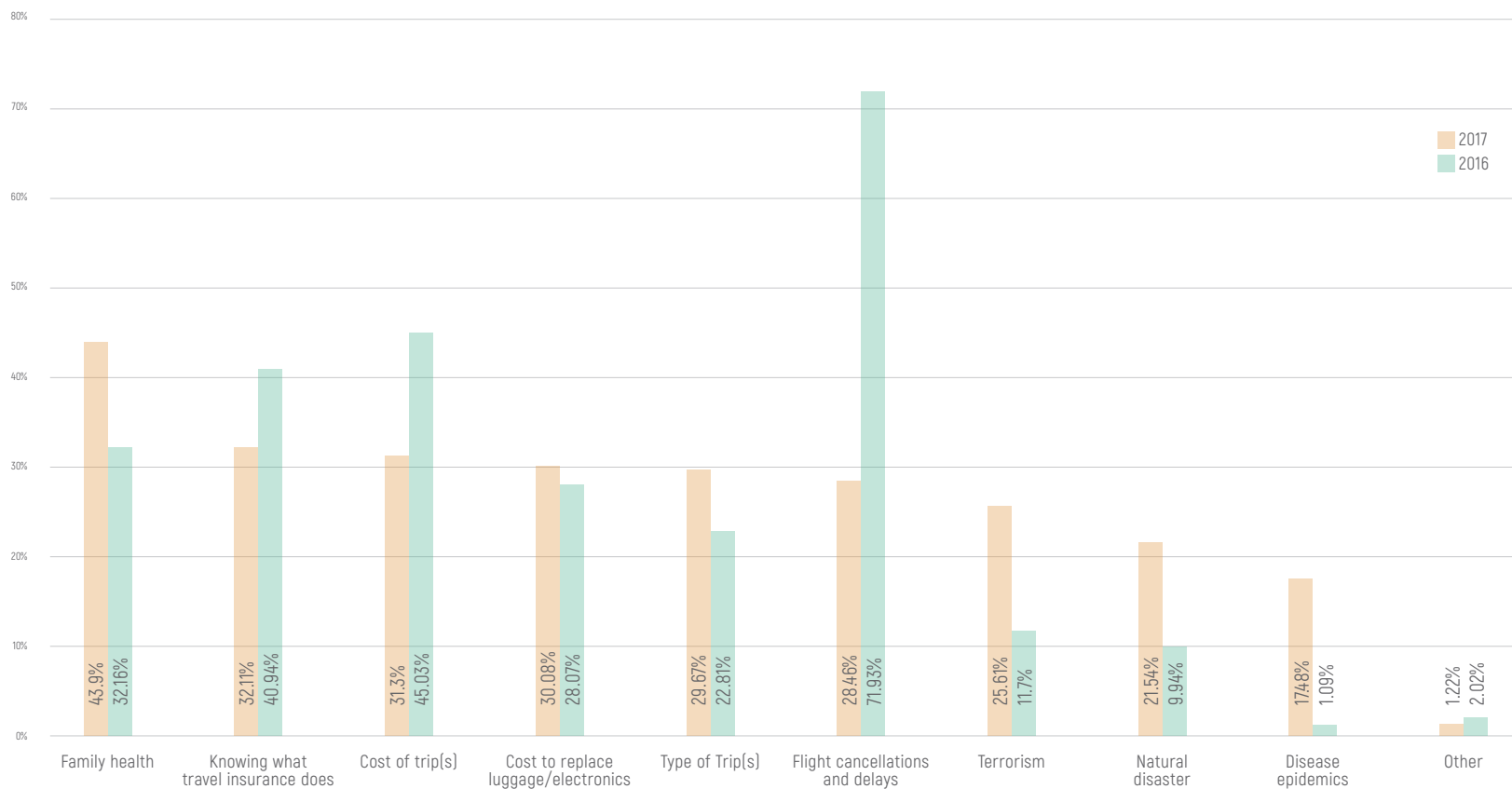
More than 40% of travelers ages 55-74 said the main reason why they plan to buy less travel insurance in 2018 was because they were traveling less. This begs the question: Has age finally caught up with many of the most actively traveled Baby Boomers? There is evidence to support this claim: In addition to taking fewer trips, older travelers say they are taking different types of trips, and increasingly those trips are domestic road trips. They are more likely to be afraid of terrorism, are displaying signs of being fatigued by international travel, and are looking to travel more simply and safely than they have in the past, with greater control over their travel experience. These findings from the SOTI survey align with findings from 2017 AARP research.<sup>3</sup>

*“Baby Boomers are  
approaching travel differently  
from younger travelers. They’re  
kind of done.”  
– Cat Zuniga  
Tarverdi Travel, Glendale, Calif.*

<sup>2</sup> “Portrait of American Travelers: Highlights 2017-2018” (New York: MMGY Global, 2017), p. 7

<sup>3</sup> Gelfeld, Vicki, “Travel Research: 2017 Travel Trends” (Washington, D.C., AARP), p. 7.

## Reasons for Buying More Travel Insurance



The reasons why people buy more travel insurance are more nuanced than they were in the 2016 survey. However, knowing how travel insurance works continues to be a strong inducement to buy more.



### Increased knowledge of how travel insurance works

This attitude first cropped up in the 2017 survey. It was reinforced this year, but with a twist: Younger travelers are increasingly more likely to say they understand how travel insurance works. Part of this stems from their buying behavior, but it poses an interesting marketing challenge for travel-insurance companies: How to appropriately educate a new buying segment that needs education, yet says they know how the product works.

### Global inflation and currency recoveries driving increases in trip costs

Trip costs and travel-insurance revenue are related, though that relationship is not exactly linear; some of the trips that experience the greatest cost increases may go uninsured, and other uninsured trips may be taken simply because of a once-in-a-lifetime bargain fare. We project the average trip cost will increase about 2.7% in 2018 (including insured and uninsured trips), driven by general inflation and gains made against the dollar by many of the world's top currencies, including the British pound, the Euro, and the ruble<sup>4</sup>. While this is down from the 4.1% increase projected in 2017, we project that trip costs for European travel will increase 6.8%, meaning that any increase in European travel will have a significant impact on world travel costs.

### Increases in lodging costs

Globally, lodging prices are expected to increase 3.7%<sup>5</sup>, driven by strong price increases in Europe resulting from new pricing models and moratoriums on hotel construction in key markets. In general, the effects of mergers and acquisitions and dynamic pricing are making themselves felt globally, and the price deflation caused by Airbnb's sudden popularity is abating. What is unknown is the impact

*"Booking ahead has become more and more important. You get a lot of affluent travelers who say, 'I want to be here in three months with a guide that rocks my world.' Yeah, you and the 200,000 other affluent travelers out there. If you want some of these experiences, you need to book them out a year or more."*

*– Daniela Harrison*

*Avenues of the World Travel,  
Flagstaff, Ariz.*

<sup>4</sup> "2018 Global Travel Forecast: Global air, hotel, and ground prices" (Alexandria, Va.: Global Business Travel Association), p. 5.

<sup>5</sup> Ibid., p. 12.

of hurricanes on Caribbean lodgings. We predict the storms' aftereffects will depress travel into affected regions through the first quarter of 2018, but effects beyond that are unclear. Past experience shows that recovery efforts tend to outpace timelines for those efforts; if that's the case here, affected regions may bounce back faster than expected.

### Some increases in airfares

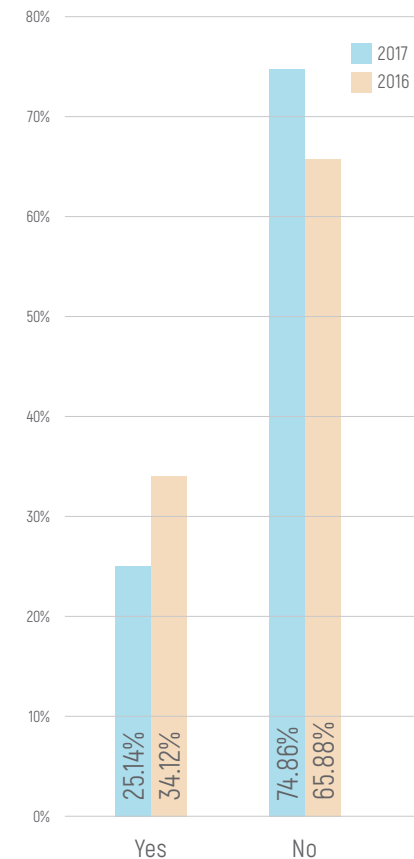
Driven by a 7.1% increase in airfares to Eastern Europe (due in part to the upcoming World Cup in Russia<sup>6</sup>), global airfares are expected to increase 3.5% in 2018<sup>7</sup>. Domestic airlines' costs are also expected to rise 2% in 2018, possibly triggering a round of fare increases<sup>8</sup>. The total story is more complex; flights to western Europe should only increase slightly, and disruption could drive down Asia-Pacific flight price increases from the projected 2.8%. On the other hand, our survey data, reinforced by GBTA data, shows increased demand for business air travel in 2018. An increased incidence of high-priced business flights could drive up general global air-travel prices without affecting the costs paid by leisure travelers. Among the unknowns: the impacts of laptop bans, travel bans and other geopolitical decisions that affect travel.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid., p. 7.

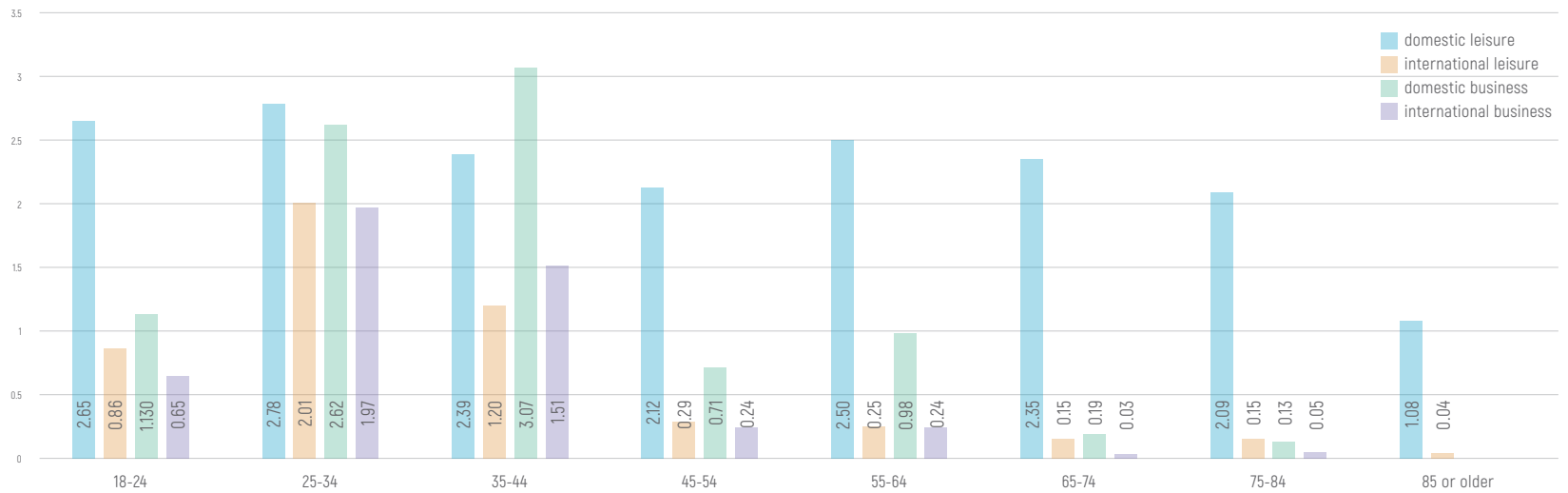
<sup>8</sup> Peterson, Barbara, "Airfares Could Rise Next Year as Carriers Face Rising Costs," accessed Nov. 3, 2017, at <http://www.travelmarketreport.com/articles/Airfares-Could-Rise-Next-Year-as-Carriers-Face-Rising-Costs>.

### Trips Covered by Travel Insurance



A key inconsistency in the data is that while respondents to the 2017 survey indicated they bought more travel insurance than they did in 2016, the number of insured trips fell from the 2017 survey to the 2016 survey. This is not an uncommon aberration with self-report data.

### Trips Taken in 2017 by Age



The impact of younger travelers on the travel market is on full display in this chart. They are taking significantly more trips of all kinds than older travelers. The only area where older travelers are keeping up: domestic leisure travel...road trips.

### **Increases in other travel costs**

Cruise costs are expected to increase around 5% in 2018<sup>9</sup>, and other travel-related expenses are expected to rise at least with the rate of inflation, though ground-transportation cost increases are expected to be negligible, thanks in part to business travelers' increased reliance on ride-sharing services. Transportation cost increases can lead to cost increases for tours and other organized travel, which can lead to higher travel-insurance premiums and eventually higher travel-insurance revenues.

### **Undifferentiated products aimed at an increasingly differentiated market**

For the most part, travel insurers are selling the same product they've been selling for decades, in many of the same ways, to many of the same customers. Outside pressures are forcing changes. Younger travelers want more dynamic products, which are outside of many companies' wheelhouses. SOTI surveys shows younger travelers also use online reviews and comparison sites as key tools in their buying, which not only challenges travel agents' role in travel-insurance sales but demands a new breed of products that look differentiated on comparison sites.

### **Market shifts not entirely compensating for departure of older travelers**

Younger travelers are taking up some of the travel-insurance-buying slack from their older counterparts, but what's unclear are the amounts of shift on both sides. Survey data indicates a rough tradeoff between losses of older travel-insurance buyers and gains of younger buyers; however, this occurred in a study where both groups were roughly the same size. Census Bureau data indicates that Americans ages 55-plus make up 28% of the population, while those 25-44 make up 26.3%<sup>10</sup>; however, the 25-44 age band takes on average one more trip a year than their older counterparts<sup>11</sup>. Over time this should grow the travel-insurance

*"Travel has become very specialized. I've worked with people who are food photographers and want to go to resorts specializing in culinary creations. People say, 'We're only into paddleboarding. I want the best paddleboarding ever.'"*

*– Daniela Harrison*

<sup>9</sup> "Growth," accessed Oct. 2, 2017, at <http://www.cruisemarketwatch.com/growth/>.

<sup>10</sup> "Share of US Population, by Popular Age Group and Gender," accessed Sept. 14, 2017, at <http://www.marketingcharts.com/featured-30401/attachment/censusbureau-share-of-pop-by-age-group-gender-may2017>

<sup>11</sup> AARP, p. 7.

market; however, we expect these conflicting dynamics to largely neutralize each other in 2018, and their net effect on overall travel-insurance sales to be slight. In 2019 and beyond, we expect this shift to begin to exert significant influence on the market.

### **Changes in buying (and traveling) behaviors**

Not only are younger travelers buying more travel insurance, they're buying it in different ways. Younger travelers increasingly use comparison sites (46% of younger travelers vs. 14% of older travelers), read online reviews (46% vs. 10%) and talk to friends (32% vs. 17%) when they make their travel-insurance buying decisions. And this is just one manifestation of a more tech-driven approach to travel that younger travelers take. For instance, 60% said they like having the latest travel tech, 41% say they have live-streamed their travels, and 17% have used a drone to document their travels.

*"Younger travelers totally get travel insurance, and they love some of the options that are coming out. Pay a claim instantly into a PayPal account? They're all over that."*  
– Cat Zuniga

### **Core of travelers/trips that do not utilize travel insurance**

State of Travel Insurance surveys show about 30% of travelers will not buy travel insurance for some highly ingrained reasons – for instance, they feel they're covered through their credit card or other insurance. For higher-income 55-64-year-old travelers, credit-card coverage (real or perceived) is a particular factor in their decision not to buy travel insurance. More than half of U.S. travelers are willing to buy travel insurance but currently not buying the product. Converting those consumers has been difficult, and as this core group of non-buyers trends younger, less-traveled, and less insurance-savvy in general, the educational hurdles become higher.

In general, the 2018 travel-insurance market has many of the same attributes as the 2017 hurricane season: There are more dynamic events than in past years, the events are stronger in intensity, and their effects will be more keenly felt.



# EUROPE

## **WE PROJECT**

an increase of 4.66%

Travel insurance sales to Americans traveling to Europe will *increase* 4.66% in 2018. Europe remains the top destination in terms of its ability to generate travel-insurance revenue.



## WHY?

Key reasons, positive and negative, for making this projection include:

### **Continuation of low-cost fares to Europe**

Business and leisure fares to Europe will be flat in 2018<sup>12</sup>, according to AdVito. This signals a slowdown in the rampant cost-cutting on fares to Europe, but these fares will not go away entirely – not with new competitors like Level and Primera entering the market. The conventional wisdom is that trips featuring these fares are rarely insured, but the shift in travel-insurance purchases to younger travelers who do buy these fares means that low-cost fares will develop as a driver of insurable trips, though not to a great extent in 2018.

### **Hot destinations**

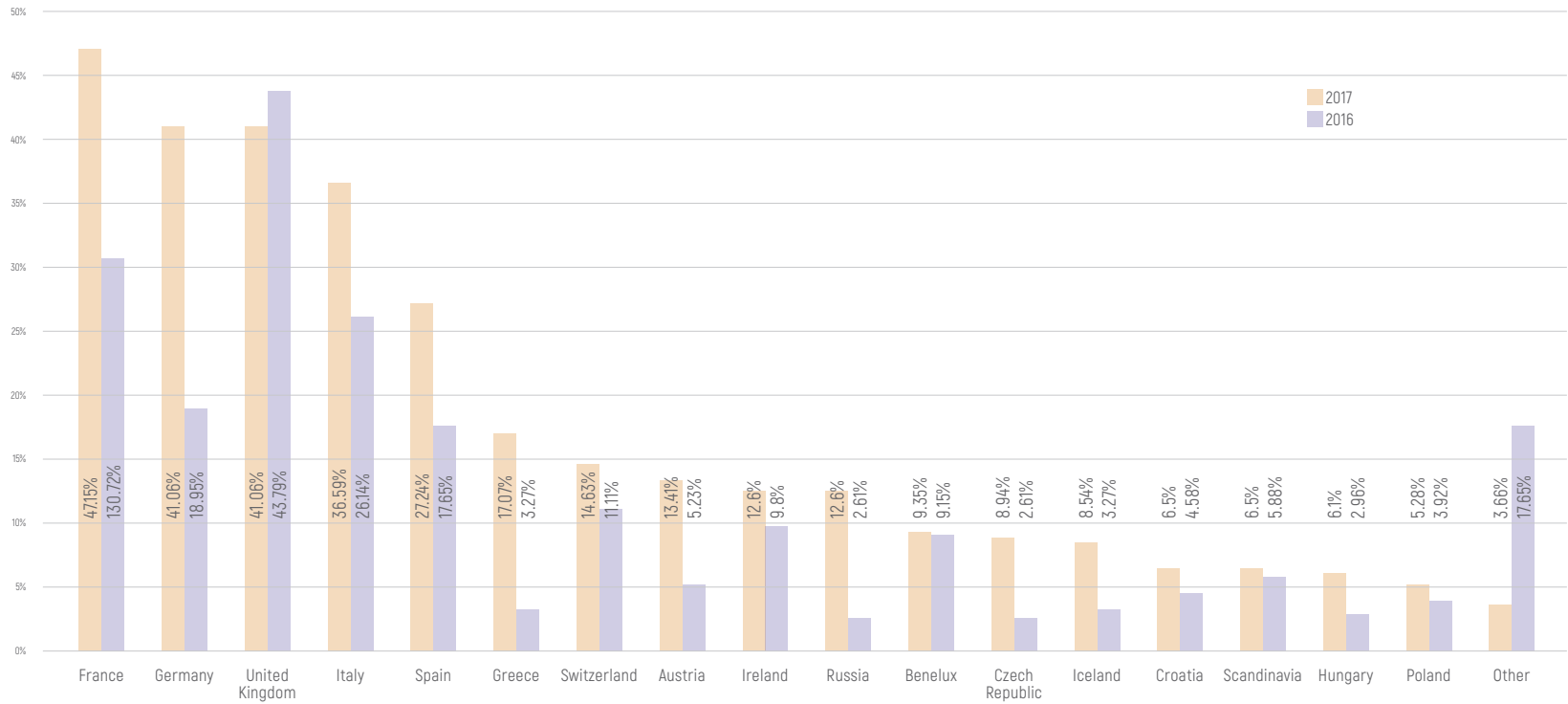
According to both SOTI surveys, Iceland remains the world's hottest destination for 2017. Travel to Iceland nearly tripled from 2016 to 2017 among respondents to the SOTI consumer survey. Even more Icelandic travel will boost the overall European travel outlook – and if this travel takes the form of something other than a bargain jaunt to the island, it will likely be insured. Coincidentally, prices are rising rapidly in Iceland as the country tries to adjust to the tourist influx<sup>13</sup>. However, because Icelandic travel is still such a small percentage of overall European travel volume, an increase in expensive trips to Iceland will have only a slight impact on overall European travel-insurance revenue.

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<sup>12</sup> "2018 Industry Forecast" (Chicago: AdVita, 2017), p. 3.

<sup>13</sup> Adam, Nina, "Tourism Saved Iceland, but Now It's a Headache," The Wall Street Journal, Aug. 20, 2017, p. 34.

## Americans' Travel to European Destinations, 2016 and 2017



France, Germany, Italy, and Spain – and even less-visited destinations like Greece, Russia, the Czech Republic, and Iceland – made significant gains among European travelers in 2017.

### Increased interest in Russia and environs as destinations

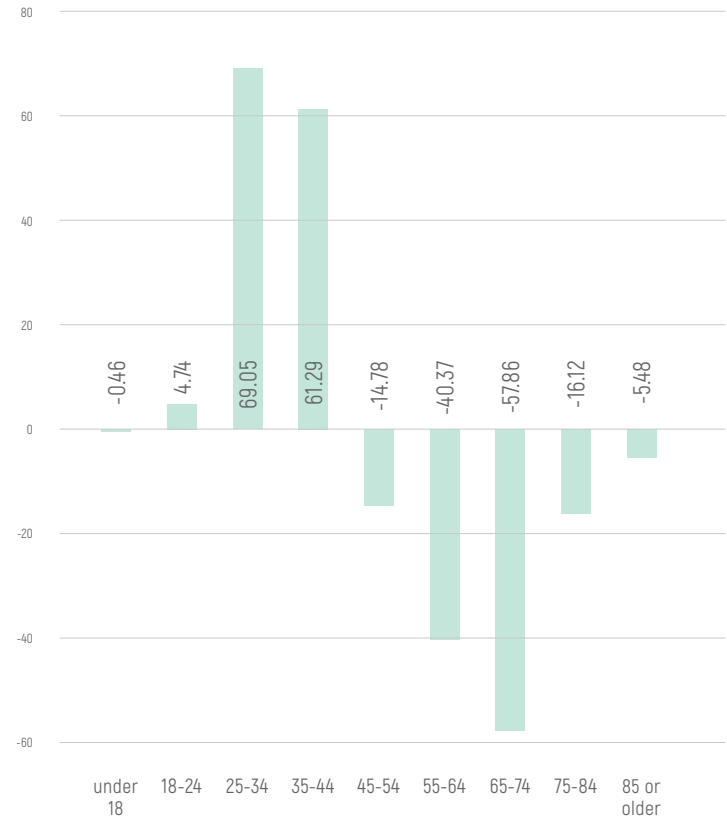
The World Cup is coming to Russia in 2018, and that will boost U.S. travel to the country, though not as much as originally projected, due to the U.S. not making the tournament. The SOTI consumer survey projects that U.S. travel to Russia will increase significantly (albeit from a very small sample). Since many American travelers to Russia also visit other destinations, increased Russian travel will boost travel to all of Eastern Europe. In fact, destinations between Russia and the rest of Europe, like Moldavia, Montenegro, and Belarus, are targets of tourists and tour operators looking to relieve the pressure from over-visited areas like France and Italy<sup>14</sup>. They also provide a handy entry point for the World Cup.

### The continued popularity of river cruises

Agents and consumers agree that river cruises are expected to be one of the hottest travel types in 2018. What makes river cruises particularly interesting from a travel-insurance standpoint is that their popularity cuts across generations better than ocean cruises, and people who take river cruises take up a lot of them – 3.5 a year, according to the SOTI consumer survey. These are not simple, cheap trips, and they're very likely

<sup>14</sup> Baran, Michelle, "Capacity the biggest challenge for Europe tour operators," accessed Sept. 26, 2017, at <http://www.travelweekly.com/Travel-News/Tour-Operators/Capacity-the-biggest-challenge-for-Europe-tour-operators>.

Change in Demand for European Travel in 2018 by Age



It's clear that any growth in European travel in 2018 will come from younger travelers.

to be insured. In addition, cruise companies have been rolling out new products aimed at younger cruisers, including U by Uniworld, slated to launch in 2018<sup>15</sup>, and the Ritz-Carlton Yacht Collection, which will debut in 2019<sup>16</sup>.

### **A general cooling in demand for European travel**

One year ago in the SOTI consumer survey, 19% of travelers said they definitely would visit Europe, and 25% said they definitely would not. This year's numbers were 8.4% and 2.6% respectively. The top two-box score for Europe fell by 50%, from 38% to 19%. There are many reasons for travelers to visit Europe – and actually, agents are as bullish on European travel as they were last year<sup>17</sup>. However, travelers, and particularly older travelers, are showing fatigue over European travel.

*"Cruises to the Baltics and the British Isles have been huge for 2018. A lot of cruise lines are based out of London, so you can hop a cruise into Russia for the World Cup and don't have to get a visa."  
– Daniela Harrison*

### **Decrease in travel to Europe among Boomers**

Reversing last year's findings, SOTI consumer research showed that travelers who fall into the Baby Boomer age groups are much less likely to travel to Europe in 2018 compared to past years. These age groups also over-index for terrorism fears, indicating that terrorist incidents in Europe may be convincing older tourists to look at other destinations.

### **Continuing terrorism concerns alienating a segment of traveling population**

More than 50% of agents and 45% of travelers stated in the SOTI surveys that international terrorism was a threat to their travels. That fear is most fully realized in Europe.

<sup>15</sup> Pratesi, Gwen, "9 Travel Trends To Watch In 2017 and 2018," accessed Sept. 18, 2017, at <https://travel.usnews.com/features/9-travel-trends-to-watch-in-2017-and-2018>.

<sup>16</sup> "Cruise Industry Bounces Back," accessed Oct. 26, 2017, at <https://www.eyefortravel.com/social-media-and-marketing/cruise-industry-bounces-back>.

<sup>17</sup> Baran.



### **A continent-wide economic recovery**

According to the European Commission, “Real GDP in the euro area has grown for 15 consecutive quarters, employment is growing at a robust pace and unemployment continues to fall<sup>18</sup>.” There are red flags – much of the projected future growth can be influenced by global and regional politics, terrorism, and Brexit – but all essential signs are pointed in the right direction.

### **An expected currency strengthening in the Euro Zone**

The GBTA projects that the British pound will increase 7% against the dollar, and the Euro Zone currencies, plus the currencies of Germany, Italy, and Spain, will increase 5%<sup>19</sup>. In fact, European currencies are already strengthening against the dollar. Travelers will have two options: pay more for essentially the same trip, or cut corners. At least some travelers will opt for the first option, meaning that trip costs will increase – around 6.8%, according to our model.

### **More troubles for Turkey**

At this writing, Turkey has suspended visas for American tourists as part of a set-to with the Trump Administration<sup>20</sup>. While this squabble will likely not last far into 2018, it deals another blow to a Turkish travel scene already reeling from several years of political instability, following a multi-year stretch where Turkey was one of the hottest travel destinations on the planet.

<sup>18</sup> “All EU Member States’ economies set to grow in 2016, 2017 and 2018,” accessed Sept. 14, 2017, at [https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/winter-2017-economic-forecast\\_en](https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/winter-2017-economic-forecast_en).

<sup>19</sup> GBTA, p. 5.

<sup>20</sup> Baran, Michelle, “Turkey visa suspension hits amid recovery,” accessed Oct. 11, 2017, at <http://www.travelweekly.com/Travel-News/Tour-Operators/Turkey-visa-suspension-hits-amid-recovery>.

# CARIBBEAN/CENTRAL AMERICA

## WE PROJECT

a decrease of 1.3%

Travel-insurance sales to Americans traveling to the Caribbean and Central America will *decrease 1.3%* in 2017 – the only decrease on a region-by-region basis. However, this is a highly speculative finding based on a projected slow recovery from storm-related damage.

## WHY?

Key reasons, positive and negative, for making this projection include:

### **A strong intent to travel to the region**

More than half of travel agents surveyed (pre-hurricanes) said they expect demand for the Caribbean will be above average in 2018. Almost 10% said demand will be far above average. Almost 20% of consumers – the highest percentage for any destination outside of the U.S. – concurred. Of course, all this data is pre-hurricane. Post-hurricane reality may be different.

### **Increase in cruise-ship capacity**

This year's increase in Caribbean cruise-ship capacity doesn't match last year's growth; three of the biggest cruise lines serving the Caribbean – Carnival, Royal Caribbean, and Norwegian – are projecting capacity increases of 3.9%, 4.3%, and 1.2%, respectively, as opposed to 6.1%, 4.1%, and 2.9% in 2017<sup>21</sup>. Still, an increase is an increase, and more capacity ostensibly means more revenue.

### **Downward price pressure on transportation and lodging**

Cruise costs are projected to remain steady or decrease slightly in 2018, as cruise lines embark on discounting to drive traffic to a storm-ravaged Caribbean. Airfares are projected to be flat and lodging costs are expected to drop 1.2%<sup>22</sup>. Demand is not keeping up with supply, even with hurricanes taken into account, and marketing practices

*"[With younger travelers] it's word-of-mouth augmented by social. I follow them, they follow me, and when I see them posting something I say, 'Hey, have you considered this destination?' It's very effective."*

*– Daniela Harrison*

<sup>21</sup> "2017-2018 Annual Report" (New York: Cruise Industry News, 2017), p. 18.

<sup>22</sup> GBTA, p. 15.

for lodgings make it hard to increase prices. Currencies are projected to fall from 2%-3% against the dollar, making travel to these regions more affordable<sup>23</sup>. Assuming the Caribbean is in sufficient state of repair to meet tourist demand – a significant assumption – there's plenty to drive tourist travel to the region.

### **Continued demand for cruises from travelers, and continued promotion of cruises by agencies**

Travel agents are still bullish on cruises – half of agents surveyed predict they will sell more cruises in 2018 than 2017 – but those figures are 10 percentage points off last year's figures. Agents have similar opinions of Caribbean travel in 2018 – better, but not to the degree it was in 2017. Consumers are not as optimistic about ocean-cruise booking in 2018, and not as optimistic as last year by a significant amount (19.6% vs. 26.6%) – and these numbers were pre-hurricanes. There is absolutely demand for the Caribbean, but the nature of that demand seems somewhat soft.

### **Younger travelers indicating they will take more cruises and/or travel to the region**

According to the SOTI consumer survey, around 58% of travelers ages 25-44 said they will definitely or probably visit the Caribbean in 2017. While these results are pre-hurricanes, they are strong findings which, if sustained, will buoy the region's travel picture. In addition, these SOTI respondents display interesting attitudes toward cruises. 25-34-year-old respondents are unenthusiastic about cruises, but 35-44-year-olds are much more enthusiastic – especially women. This trend will be supported by new types of cruise offerings – like the Ritz-Carlton Yacht Collection, which is slated to debut in 2019<sup>24</sup>, and Virgin Voyages, debuting in 2020<sup>25</sup> – and new marketing practices, including Carnival's new dedicated channel streaming on Roku and other digital platforms<sup>26</sup>.

*"People are steering away from the Caribbean for a lot of reasons. It's overdone for some of them; they went there on their honeymoon, and now they're looking for something different."*  
– Cat Zuniga

<sup>23</sup> Ibid, p. 5.

<sup>24</sup> "Cruise Industry Bounces Back," accessed Oct. 26, 2017, at <https://www.eyefortravel.com/social-media-and-marketing/cruise-industry-bounces-back>.

<sup>25</sup> McCarthy, Daniel, "Richard Branson's Virgin Voyages Will Enter Cruise Market as Adult-Only Line," accessed Nov. 3, 2017, at <http://www.travelmarketreport.com/articles/Richard-Bransons-Virgin-Voyages-Will-Enter-Cruise-Market-as-Adult-Only-Line>

<sup>26</sup> Sampson, Hannah, "Carnival Is Creating New Ways to Get People to Consider Taking a Cruise," accessed Sept. 26, 2017, at <https://skift.com/2017/09/26/carnival-is-creating-new-ways-to-get-people-to-consider-taking-a-cruise>.

### Hurricane-related damage to key ports and destinations

2017 was one of the worst years for Caribbean hurricanes in recorded history; islands that were damaged significantly include Puerto Rico, Dominica, British and U.S. Virgin Islands, Cuba, St. Marten, Anguilla, Barbuda, St. Bart's, and Turks and Caicos<sup>27</sup> – tourist destinations visited by more than 81% of Caribbean travelers, according to the 2018 SOTI consumer survey. Estimates of time to repair and reopen vary by territory, but range from several weeks to more than a year<sup>28</sup>, and while Puerto Rico vows to be “open” by Christmas, that status only applies to the areas around San Juan. Even the most optimistic observers of the Puerto Rican travel scene acknowledge other popular parts of the territory will take significantly longer to recover<sup>29</sup>.

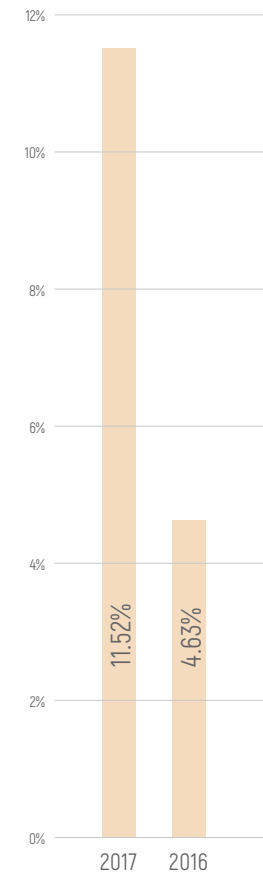
### Cheaper lodging and transportation costs

This isn't a bad thing – except to the extent that lower trip costs mean lower premiums, and less insurance revenue. Deflation in the region will result in less revenue per trip.

### Uncertainty surrounding Cuba

Travel to Cuba by Americans could continue its downward spiral in 2018. U.S. travel to the island took a hit after the Trump administration reinstated some travel restrictions. Though there's not an outright ban on Cuban travel, travel to the country has become more difficult and restrictive. On the plus side, this gives Cuba a chance to build infrastructure and recover from Hurricane Irma.

Percentage of Regional Travelers Who Traveled to Cuba



A relaxing of travel policies toward Cuba had its desired effect. Expect numbers to trend in the opposite direction in 2018.

<sup>27</sup> Mackintosh, Eliza, and Fox, Kara, "A week after Irma, Caribbean destruction is laid bare," <http://www.cnn.com/2017/09/13/americas/hurricane-irma-caribbean-one-week-on/index.html>

<sup>28</sup> McHugh, Jess, "What Travelers Should Know About Traveling To The Caribbean After Hurricane Maria," accessed Sept. 27, 2017, at <http://www.travelandleisure.com/travel-tips/travel-warnings/hurricane-maria-caribbean-tourism>.

<sup>29</sup> D'Ambrosio, Richard, "Despite Hurricane Maria Damage, Puerto Rico Plans for a Merry Christmas," accessed Oct. 16, 2017, at <http://www.travelmarketreport.com/articles/Despite-Hurricane-Maria-Damage-Puerto-Rico-Plans-for-a-Merry-Christmas>.



# ASIA/OCEANIA

## **WE PROJECT**

an increase of 3.16%

Travel-insurance sales to Americans traveling to Asia and Oceania  
will *increase 3.16%* in 2017.

## WHY?

Key reasons, positive and negative, for making this projection include:

### **A projected 1.1% increase in travel to the region**

### **A 9.4% increase in cruise capacity<sup>30</sup>**

This is below last year's 22.6% increase in cruise capacity but is still significant.

### **Another large increase in adventure travel to New Zealand, Australia and Antarctica**

The increase in adventure travel to the area is helping drive a 14.9% projected increase in travel to Australia.<sup>31</sup> In addition, we expect Antarctica to continue to post double-digit gains in 2018 on the heels of a 12% increase in tourism to the continent in 2017<sup>32</sup>. Among the drivers: adventure cruises that combine two popular travel types and appeal to Millennial adventure-seekers and older bucket-list travelers.

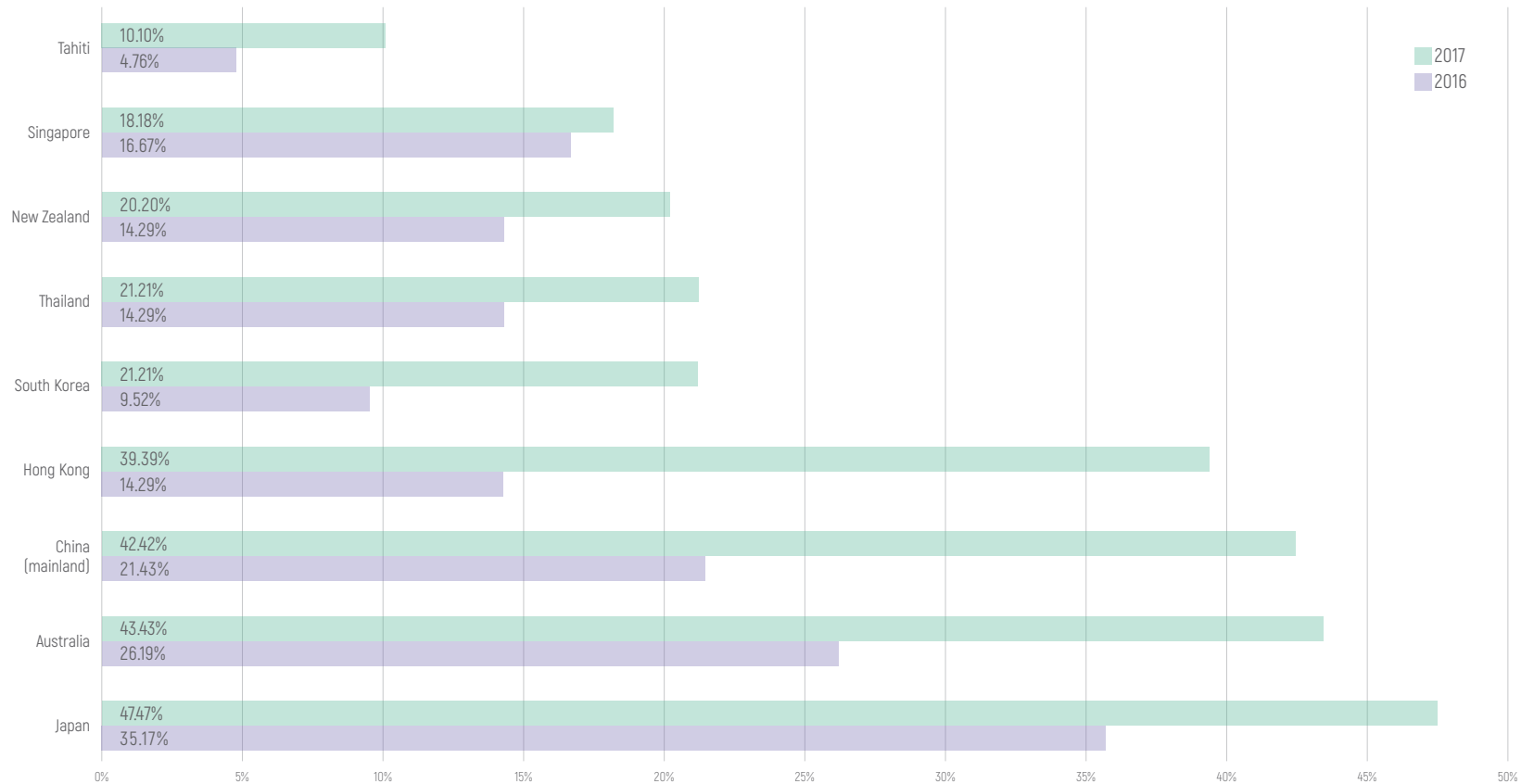
*"Australia and New Zealand have been our absolute biggest sellers. People have done the Caribbean over and over, and they're looking for a safe place where they can do hiking, kayaking and cultural immersion."*  
– Daniela Harrison

<sup>30</sup> "Asia Growth Moderately tapers Until 2020," accessed Sept. 18, 2017, at <https://www.cruiseindustrynews.com/cruise-news/16233-asia-growth-moderately-tapers-until-2020.html>.

<sup>31</sup> "Tourism Forecasts 2017," accessed Sept. 18, 2017, at [https://www.tra.gov.au/documents/forecasts/Tourism\\_Forecasts\\_2016.pdf](https://www.tra.gov.au/documents/forecasts/Tourism_Forecasts_2016.pdf).

<sup>32</sup> "Tourists By Nationality," accessed Dec. 23, 2016, at <https://iaato.org/documents/10157/1017626/Tourists+by+Nationality+-+Total.pdf/9a175577-5e15-4ee8-97d4-5a4327c4ea25>.

## Americans' Travel to European Destinations, 2016 and 2017



Travel within Asia was up significantly in 2017 among visitors to the region, but the number of respondents traveling to the region fell 17% in 2017.

### **Slight growth in travel to South Asia**

The real growth is coming, according to projections; however, demand for destinations like Myanmar, Laos, and especially Indonesia continues to grow. This is balanced by flat projections for U.S. travel to Thailand and Vietnam<sup>33</sup>.

### **A continuing proliferation of bargain airfares to Asia**

Though the region lacks a single disruptive airline, there are downward pressures on air travel to the region emanating from multiple carriers, domestic and overseas.

### **The PyeongChang Winter Olympics**

Winter Olympics are rarely as politicized or disruptive as the summer games; venues are less elaborate and require less construction – though the last Winter Games, in Sochi, Russia, were an exception. They tend to be modest travel drivers with limited residual effects. We predict that the PyeongChang games will produce a slight bump in South Korean travel that will not linger long past the event.

### **The dollar is very strong against the currencies of several key Asian countries**

The currencies of Japan, Malaysia, Thailand, and China<sup>34</sup> remain weak against the dollar. This has been one of the contributing factors to stabilizing lodging costs, long a driver of travel inflation in the region.

### **Continued weakness in travel to China**

Statistics from the Chinese government show a 15% decline in U.S. travel to China from 2014 to 2015<sup>35</sup>; nothing has changed to alter the direction of that trend, though its velocity has likely slowed over the last two years. Without any events to reignite travel to the country, Chinese travel should extend its downward progression in 2018.

<sup>33</sup> Wood, Andrew, "Thailand's 2018 Tourism forecast: US \$9.1 billion in revenue," accessed Sept. 18, 2017, at <https://eturbonews.com/159460/thailands-2018-tourism-forecast-us-9-1-billion-revenue>.

<sup>34</sup> GBTA, p. 3.

<sup>35</sup> "Major Source Markets In December 2015," accessed Sept. 18, 2017, at [http://en.cnta.gov.cn/Statistics/TourismStatistics/201601/t20160115\\_758275.shtml](http://en.cnta.gov.cn/Statistics/TourismStatistics/201601/t20160115_758275.shtml).

## Competition for the travel dollar

Asia has to compete against closer, less-exotic destinations like Europe, the Caribbean, and the U.S. Sustained competitiveness can be challenging.

## Significant softness in Japanese tourism

The yen is expected to fall 4% against the dollar in 2018. Hotel rates and airfares are likewise lower. However, Japan struggles to convert American tourists. Why? According to a McKinsey study, it struggles to connect with Americans on social media, its marketing is unfocused and scattershot, its least expensive lodging and travel options are often hidden, and many of its most potentially compelling destinations are virtually unknown to prospective tourists<sup>36</sup>.

*"The cost of travel to the South Pacific continues to rise every year, and people aren't willing to travel in the off-season, when costs are lower."*  
– Cat Zuniga

<sup>36</sup> Andonian, Andre, "The Future of Japan's Tourism" (Tokyo: McKinsey Japan and Travel, Transport, and Logistics Practice), p. 26.



# SOUTH AMERICA

## **WE PROJECT**

an increase of 1.95%

Travel-insurance sales to Americans traveling to South America will  
*increase 1.95% in 2017.*

## WHY?

Key reasons, positive and negative, for making this projection include:

### **A rebound in travel to the region**

We predict South American travel will increase 0.3% in 2018. This weak increase represents an improvement from last year's steep decline. Leading the way: Brazil, which recovered somewhat in 2017 after a disastrous 2016 marred by the Zika epidemic and weak interest in the Summer Olympics.

### **A 1.2% increase in trip costs**

This is driven by higher costs for lodging and airfares.

### **Demand for Ecuador and Peru as travel destinations, especially for younger adventure travelers**

Peru is a particularly appealing destination for many travelers, with a strong economy and opportunities for many types of travel.<sup>37</sup> Ecuador appeals to adventure travelers and ecotourists but is investing in infrastructure and looking to diversify<sup>38</sup>.

### **A strong U.S. dollar**

This is especially noticable in Argentina (up 8% against the Argentinian peso), Venezuela (up 8% against the bolivar), Brazil (up 6% against the real), and Colombia (up 3% against the peso).<sup>39</sup>

<sup>37</sup> "Adventure travel: The Hottest Destinations and Trends."

<sup>38</sup> "Travel and Tourism in Ecuador to 2018," accessed Oct. 25, 2016, at <http://www.reportlinker.com/p02268187-summary/Travel-and-Tourism-in-Ecuador-to.html>.

<sup>39</sup> GBTA, p. 5.

### Lack of airline disrupters keeping airfares high

While fares to Brazil are expected to drop, fares across the rest of the region are expected to increase.<sup>40</sup> And South America is largely exempt from any budget-fare frenzy.

### Restrictions on travel to some of the region's most popular destinations

Restrictions on Machu Picchu were enacted in 2017; travel restrictions to the Galapagos have been in place since 2001, but new entry regulations were put into place in June<sup>41</sup>. Demand remains very strong for these destinations in spite of these restrictions, but difficulties in visiting the region's most iconic destinations will only slow tourism growth.

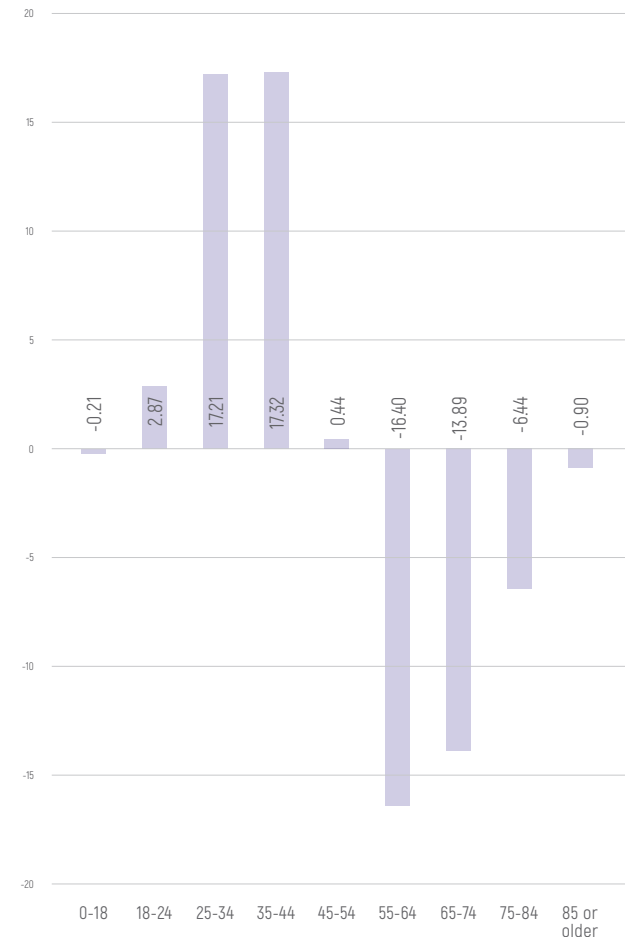
### Continued political instability in Venezuela and Brazil

Venezuela is a familiar story; the country just made it onto President Trump's travel-ban list. Brazil is less so. Last year we said, "Brazil's poor economy and unstable politics will depress Brazilian travel at least through the first part of 2017." Though Brazilian tourism recovered to an extent in 2017, more political stability is necessary for the country to sustain growth through 2018 and beyond.

<sup>40</sup> Ibid., p. 10.

<sup>41</sup> Caputo, Lorraine, "New Galapagos Entry Requirements," accessed Sept. 18, 2017, at <http://www.galapagostravelplanner.com/new-galapagos-entry-requirements/>.

### Who Feels Threatened by Travel Restrictions and Vanishing Destinations?



Younger travelers, who haven't seen many of the world's most spectacular attractions, feel most threatened by travel restrictions and vanishing destinations.

# AFRICA/MIDDLE EAST

## **WE PROJECT**

an increase of 4.05%

Travel-insurance sales to Americans traveling to Africa and the Middle East will *increase 4.05%* in 2017.

## WHY?

Key reasons, positive and negative, for making this projection include:

### **A 1.07% projected increase in trip costs to the region**

#### **Increased demand for travel to South Africa and Kenya**

American travel to South Africa in 2016 was up 16% from 2015; while the year-over-year growth in South African tourism in 2017 did not reach those levels, South African travel is definitely on a growth trajectory<sup>42</sup>. Kenya was also popular with State of Travel Insurance survey respondents; 31% of respondents who visited Africa in 2017 visited the country.

#### **Continued recovery for the Egyptian travel market**

Egypt's rebound as a tourist destination was somewhat under-the-radar; however, 38% of SOTI consumer-survey respondents who visited Africa in 2017 visited Egypt, and the country appears poised for more growth in 2018, as the effects of an investment in tourism by the country's central bank begins to pay dividends.<sup>43</sup>

#### **Strong baseline support for travel to Israel**

Israel remains a tourism bellwether in the region. Virtually nothing appears to deter Israeli tourists, and very little will encourage significantly more tourists to visit the country.

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<sup>42</sup> "African Insights, Hotels Outlook: 2017-2021" (Johannesburg: PricewaterhouseCoopers, 2017), p. 5.

<sup>43</sup> Farouk, Menna, "Egypt sets up new fund to revive tourism industry," accessed Sept. 18, 2017, at <http://www.al-monitor.com/pulse/originals/2017/01/egypt-new-tourism-industry-fund.html>.

### Flat airfares and lodging rates across the region<sup>44</sup>

Emirates-based carriers have relaxed some fares to drive traffic, and a boom in hotel construction will keep down room rates.

### Terrorist fears throughout the Middle East will encourage purchase of travel insurance

The “terrorist effect” driving travel-insurance purchases is probably less of an effect in the Middle East than elsewhere, since there has almost always been terrorism in the region. However, to the extent that these fears are spreading further and into Africa, there may be more terrorism-driven purchases of travel insurance for travelers to those regions. But we project that impact to be small.

### Experiential and bucket-list travel buoying the African travel market

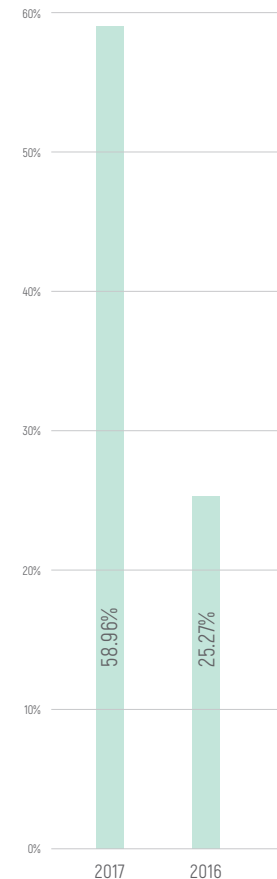
Continuing last year’s trend, more than three-quarters of agencies said bucket-list travel will be “hot” or “very hot” in 2018. African safaris and trips to the Pyramids are high on many travelers’ bucket lists. We expect to see more of these kinds of trips in 2018, and we expect the vast majority to be insured.

### Political instability throughout the region driving down travel demand

In late November 2017 the State Department had active travel warnings for Egypt, Jordan, Yemen, Tunisia, Israel, Syria, Ethiopia, the Central African Republic, the Congo, Cameroon, Eritrea, Nigeria, Lebanon, Saudi Arabia, Somalia, South Sudan, Iraq, Iran, Afghanistan, Mali, Kenya, Libya,

<sup>44</sup> GBTA, p. 14.

How Big of a Threat is International Terrorism to Frequent Travel Insurance Buyers?



While significantly more frequent travel-insurance buyers view International terrorism as a threat in 2017 as opposed to 2016, terrorism is actually one of the least significant threats to frequent buyers.



Chad, Burundi, Algeria, Sudan, Niger, Burkina Faso, Togo, and Mauritania<sup>45</sup>. That's a significant percentage of countries in the region, and the sheer numbers of countries with travel advisories are bound to drive down travel to the region.

### **A decline in Emirates travel**

The decline is because of restrictions on Emirates-based flights to the U.S. and continuing friction between Qatar and its Middle East neighbors. It is harder to travel to the UAE than it's been in some time. Price cuts notwithstanding, that will depress tourism to the area.

### **Refugee issues and regional violence**

Fighting across Syria, Iraq, and surrounding areas continues to have an effect on regional tourism. More than 16% of travel agents labeled it a threat to travel. This situation of living in a state of perpetual unrest – what Skift calls “permanxiety<sup>46</sup>” – will continue to affect this region more than others in 2018.

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<sup>45</sup> “Alerts and Warnings,” accessed Oct. 25, 2016, at <https://travel.state.gov/content/passports/en/alertswarnings.html>.

<sup>46</sup> Ali, Rafat, “Travel in an Age of Permanxiety: An Introduction,” accessed Sept. 25, 2017, at <https://skift.com/2017/09/25/travel-in-an-age-of-permanxiety>.

# CANADA AND MEXICO

## WE PROJECT

an increase of 4.98% and 2.68%

Travel-insurance sales to Americans traveling to Canada and Mexico in 2017 will *increase 4.98%* for travels to Canada and *increase 2.68%* for travels to Mexico.



## WHY?

Key reasons, positive and negative, for making this projection include:

In the case of Canada:

### **A stronger Canadian dollar**

The Canadian dollar is projected to be 4% stronger against the American dollar in 2017<sup>47</sup>.

### **Higher airfares and lodging costs**

A 3.3% increase in airfares to Canada and a 4.4% increase in lodging costs<sup>48</sup> should result in leading to an 3.1% increase in total trip cost.

### **Canada is growing in popularity as a destination for adventure travel**

Virtuoso's rankings of the top adventure destinations for 2017 put Canada – the Arctic and the Arctic Circle, specifically – fifth<sup>49</sup>. That ranking should at least hold steady in 2018, as northwest-passage cruises become more frequent, thanks to global warming and a melting ice cap.

### **Continued demand for cruises via the inside passage, and related tourism in Canada**

North American cruise-ship capacity is expected to increase slightly in 2018<sup>50</sup>, which combined with a slight increase in occupancy will have a residual impact on the Canadian travel market.

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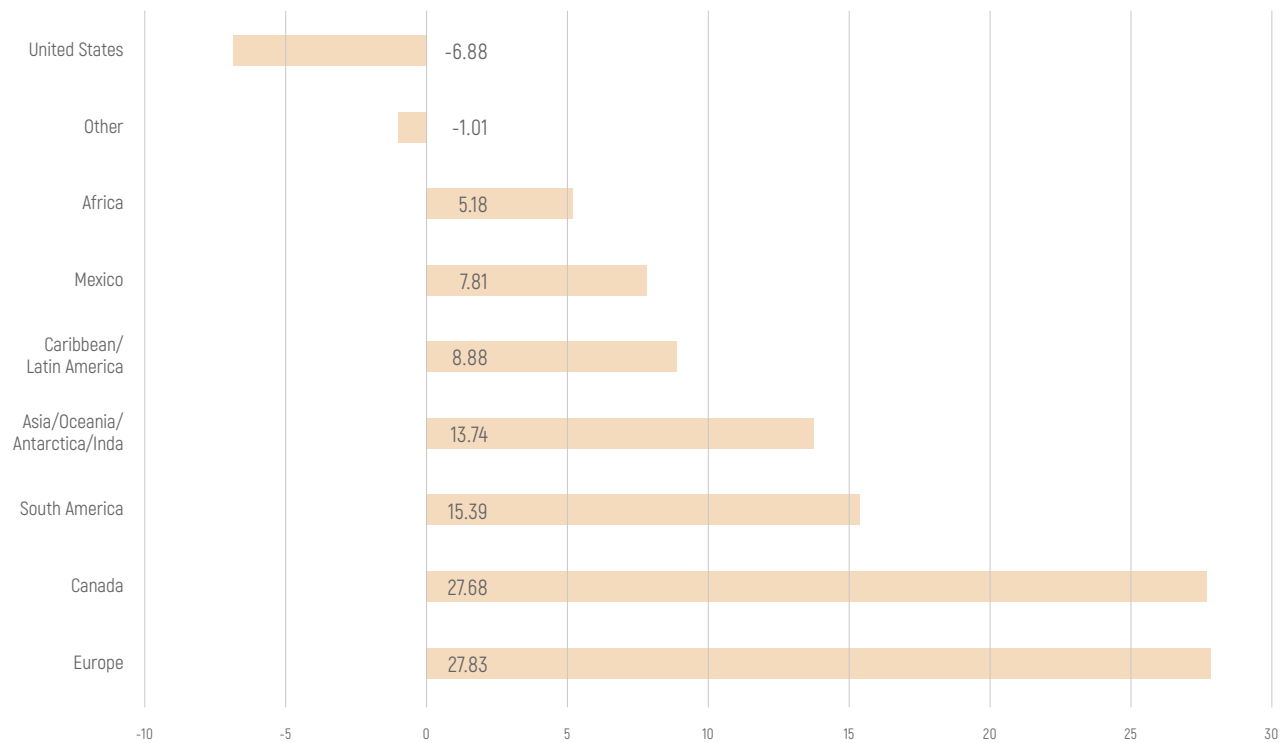
<sup>47</sup> GBTA, p. 3.

<sup>48</sup> Ibid., p. 11.

<sup>49</sup> "Adventure travel: The Hottest Destinations and Trends."

<sup>50</sup> "2017-18 Annual Report," accessed Sept. 18, 2017, at <http://www.cruiseindustrynews.com/flip/cina16/mobile/index.html#p=9>.

## Where Are Adventure Travelers Traveling?



Europe, Canada, South America, and Australasia are top destinations for adventure travelers.

### **Increased demand for road trips**

Many U.S. road trips will extend into Canada.

### **The affordability of travel to other destinations**

The continued affordability of travel to Europe will have an impact on the number of Canadian vacations that aren't pure road trips.

### **The aftereffects of Canada's 150th birthday**

2017 was a big travel year for Canada. In 2018, Canadian travel demand should regress toward the mean.

### **The lack of a true disruptive air carrier**

There is little downward fare pressure on flights to Canada. Currently most flights between the U.S. and Canada are on American or Canadian legacy carriers. There is no WOWAir for U.S.-Canada air travel.

In the case of Mexico:

### **A 2% weaker Mexican peso against the American dollar<sup>51</sup>**

### **Higher airfares and lodging costs**

A 1.5% increase in airfares to Mexico and a 1.5% increase in lodging costs should lead to a 2.7% increase in total trip cost<sup>52</sup>.

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<sup>51</sup> GBTA, p. 3.

<sup>52</sup> Ibid., p. 11.

### **Moderately strong indications of increased travel to Mexico from agency and consumer survey respondents**

Almost 14% of consumers said they plan to travel to Mexico in 2017, and one-third of travel agencies said they consider Mexico to be a hot destination.

### **The continuing popularity of Mexican resort areas for honey/ babymooners, destination weddings and bachelor/ette parties**

One-quarter of travelers and about one-third of travel agents said there will be more of this travel type in 2018, and Mexico is a prime destination.

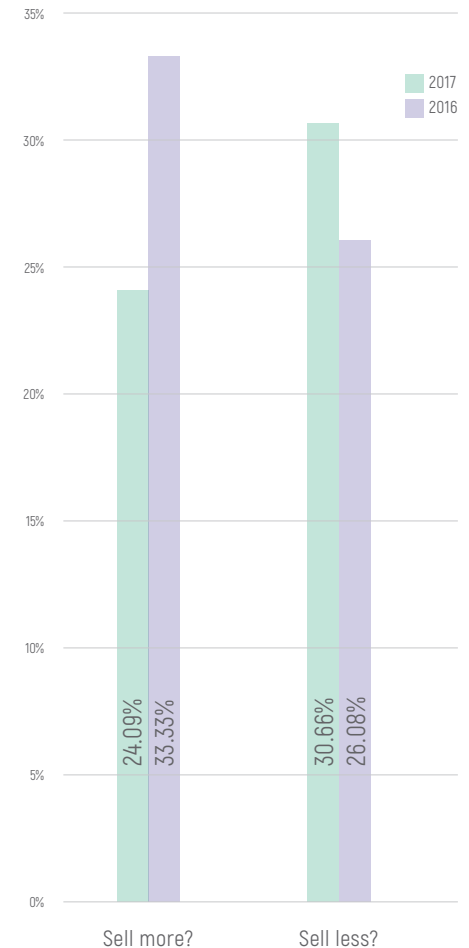
### **Fears of violence**

There are State Department travel warnings for many Mexican states, including states with popular tourist destinations like Cancun, Cozumel, Acapulco, Riviera Nayarit, and Los Cabos<sup>53</sup>. Even though much of the violence that has prompted the warnings does not affect the resort areas at those destinations, adverse publicity and the halo effect will depress Mexican tourism at least through the first quarter of 2018.

### **Hesitance from travel agents to recommend Mexico as a destination**

According to the SOTI agent survey, while a quarter of agents say demand for Mexico will be above-average, 35% say demand will be below-average. This is the strongest negative sentiment for any destination. Consumers largely share this sentiment – 62% of consumers in the SOTI

### **Travel Agents' Attitudes Towards Mexico**



Travel agents are significantly less enthusiastic about Mexico than they were in 2016.

<sup>53</sup> "Mexico Travel Warning," accessed Sept. 18, 2017, at <https://travel.state.gov/content/passports/en/alertswarnings/mexico-travel-warning.html>.

survey say they will not visit Mexico this year – though younger travelers still show a strong affinity for the country. The combination of violence and scandals involving tourists and tainted alcohol is accounting for much of the negative sentiment from agents; it's unclear how long these negative sentiments will linger, and affect Mexican travel.

### **Increased risks of hurricanes and other severe storms due to global warming**

The government's Geophysical Fluid Dynamics Laboratory says global warming is affecting the frequency and severity of hurricanes and other storms<sup>54</sup>. Mexico frequently bears the brunt of these storms. The increased possibility of very severe storms striking Mexico and adversely impacting travel must be worked into any calculations regarding travel to the country.

### **The Mexican earthquakes**

Mexico City is not at the top of most tourists' Mexican travel lists, but damage there has ripple effects throughout the country, and will likely depress Mexican travel to a degree through the first quarter of 2018.

*"Crime in Mexico has been more of an issue than [the hurricanes]. We have to do some restructuring to get people out of this crime-in-Mexico mindset."*  
– Cat Zuniga

<sup>54</sup> Geophysical Fluid Dynamics Laboratory, "Global Warming and Hurricanes," accessed Sept. 19, 2017, at <https://www.gfdl.noaa.gov/global-warming-and-hurricanes/>.



# UNITED STATES

## **WE PROJECT**

an increase of 4.07%

Travel-insurance sales to Americans traveling within the United States in 2017 will *increase 4.07%*.

*Note: Due to a lack of credible longitudinal data, calculations on sales of travel insurance to Americans traveling within the U.S. are not figured into the data on overall market sizes and growth stated earlier in this report.*



## WHY?

Key reasons, positive and negative, for making this projection include:

### More trips

According to the U.S. Travel Association, the number of domestic person-trips in 2018 will increase 2% for leisure trips and 1.5% for business trips.<sup>55</sup> Those numbers may be conservative. According to BHTP's SOTI consumer research, 30% of travelers surveyed said they will take more domestic vacations in 2018 than in 2017, and 41% said they will take more domestic business trips. This echoes the findings of *Portrait*, which states, "During the past 12 months, 13.9 million more vacations were taken within the U.S. compared to outside the country. This significant variance helps insulate the domestic travel market from the flat growth predicted [globally] in the coming year<sup>56</sup>."

### Higher airfares

The GBTA projects a 2.3% increase in domestic airfares.<sup>57</sup> PricewaterhouseCoopers corroborates this finding, and projects demand for domestic air travel will track closely with GDP in 2018, suggesting a growth in air travel in the 2.5% range<sup>58</sup>.

### Level gas prices

The Energy Department projects steady gasoline prices in 2018.<sup>59</sup> Level gas prices have historically encouraged travel, particularly in the summer and around holidays.

<sup>55</sup> "Travel Forecasts," accessed Sept. 18, 2017, at <https://www.ustravel.org/research/travel-forecasts>.

<sup>56</sup> MMGY, p. 11.

<sup>57</sup> GBTA, p. 8.

<sup>58</sup> Bohlkman, Jim, Kletzel, Jonathan, and Terry, Bryan, "2017 Commercial Aviation Trends," accessed sept. 18, 2017, at <https://www.strategyand.pwc.com/trend/2017-commercial-aviation-trends>.

<sup>59</sup> "Short-Term Energy Outlook," accessed Jan. 19, 2017, at <http://www.eia.gov/outlooks/steo/>.

## Higher lodging costs

There will be a 2.7% increase in U.S. lodging costs in 2017, according to the GBTA,<sup>60</sup> as increasing supply outpaces flat demand in many key markets. Based on the continuing lodging oversupply, we project the increase to be less than 2%.

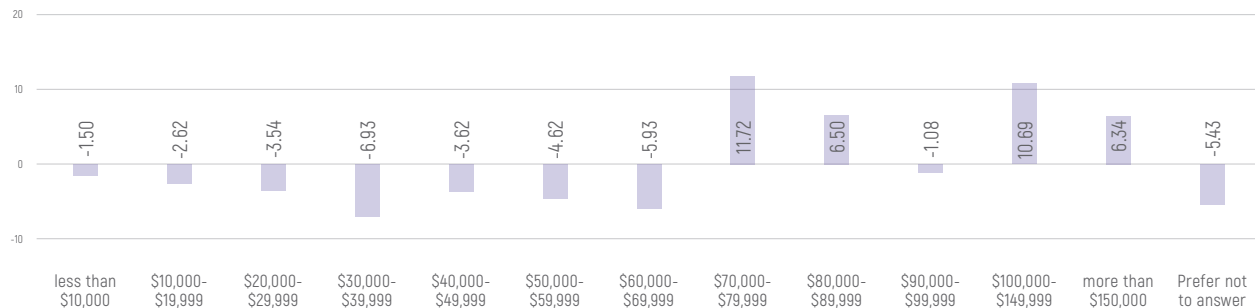
## More Boomers sticking closer to home

The SOTI consumer survey finds that Baby Boomers are increasingly likely to take road trips and trips to see family, as opposed to taking lengthier, more complicated and expensive (and insured) overseas trips. These findings were strongly corroborated by *Portrait* and AARP research, which indicates that 95% of Boomers plan to take at least one domestic trip in 2018<sup>61</sup>. Since younger travelers also show an affinity for road trips, and since gas prices are expected to remain flat, 2018 could be the Year of the Road Trip.

<sup>60</sup> GBTA, p. 12.

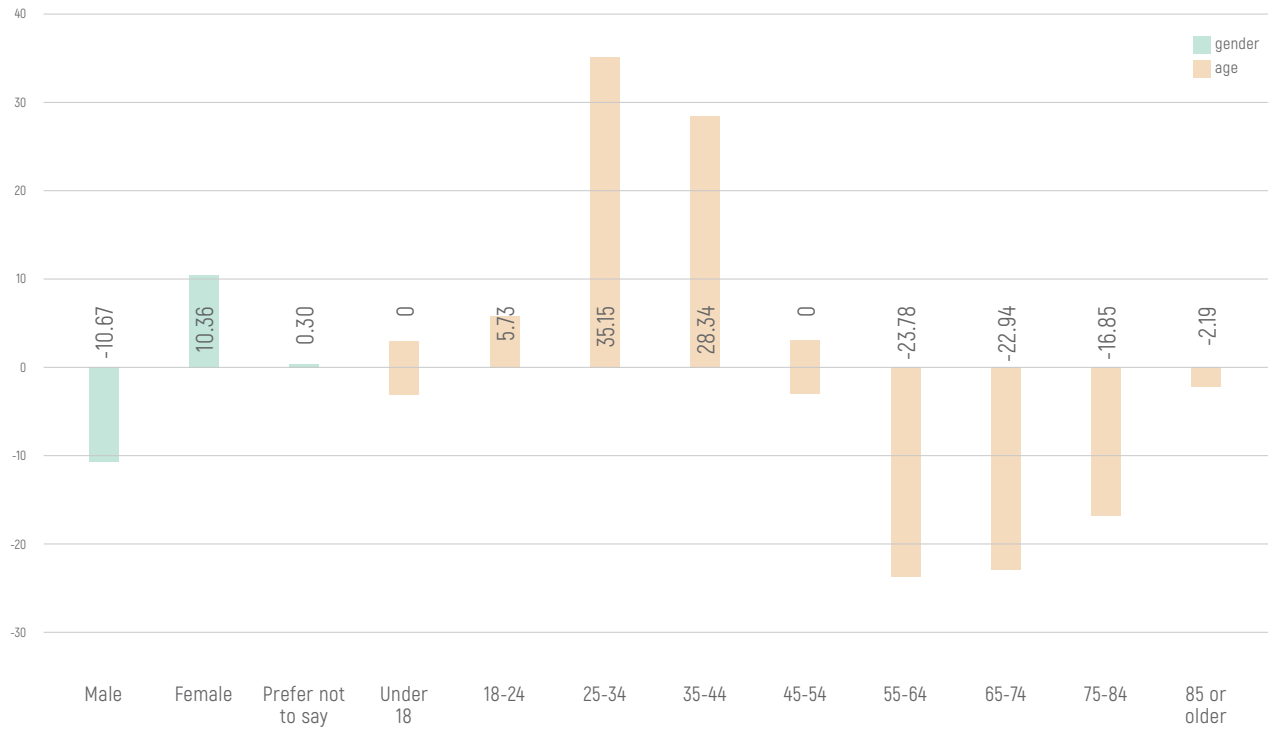
<sup>61</sup> AARP, p. 14.

Who's Going on Road Trips by Income



In general terms, Millennial females making more than \$70,000 a year are the group most likely to go on road trips, but actually, road trips are appealing to a wide range of travelers.

## Who's Going on Road Trips by Gender and Age



In general terms, Millennial females making more than \$70,000 a year are the group most likely to go on road trips, but actually, road trips are appealing to a wide range of travelers.

### **A smaller number of insured trips**

An increase in business travel plus an increase in road trips, coupled with a lack of products that address the needs of these travelers, means that a smaller percentage of domestic trips will be insured in 2018.

### **Fewer vacation days taken**

According to Glassdoor, around half of Americans don't take all of their vacation days – and Millennials are the worst at not taking their vacation time.<sup>62</sup> Most often vacation days are spent traveling domestically. This continues to affect domestic travel insurance sales.

### **Potential for domestic civil unrest**

Nearly 700,000 fewer foreigners visited America in Q1 2017, in part because of the potential for violence directed against them<sup>63</sup>. Several countries, including New Zealand and the United Kingdom, still have travel advisories for the United States<sup>64</sup>. It's a longshot that civil issues would keep Americans from travel in their own country, but it's a possibility.

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<sup>62</sup> Jackson, Amy Alyssa, "We Just Can't Unplug: 2 in 3 Employees Report Working While on Vacation," accessed Sept. 18, 2017, at <https://www.glassdoor.com/blog/vacation-realities-2017/>.

<sup>63</sup> Glusac, Elaine, "International Tourism to the U.S. Declined in Early 2017," *The New York Times*, Sept. 20, 2017, p. 36.

<sup>64</sup> *Ibid.*

# APPENDIX: RESEARCH DETAILS

## Quantitative Research

In preparation for this report, travelers and travel professionals were invited to take a survey asking about their travel habits, their travel business, their experiences in 2017, and/or their expectations for 2018. Two hundred sixty-five travel professionals and 1,788 travelers responded to the survey. While the confidence level is considerably greater for the consumer survey ( $\pm 3.0\%$ ) than the travel-professionals survey ( $\pm 7.8\%$ ), the confidence levels in both surveys are sufficient to draw large-scale conclusions from the results.

## Other Statistical Sources

The travel-and-tourism statistics from the Department of Commerce (<http://travel.trade.gov/research/programs/i92/index.html>) provide a month-by-month report of U.S. citizen travel to international regions. Because these statistics are historical, monthly, valid, and detailed, they provide a highly accurate picture of Americans' travel patterns over time and help us accurately project Americans' travel habits – and travel-insurance buying preferences – in 2018.

## Literature Review

Sources consulted in preparing this report included travel-trend reports from the Global Business Travel Association, AARP, IATA, Cruise Lines International Association, and [cruisemarketwatch.com](http://cruisemarketwatch.com). MMGY Global's Portrait of American Travelers was particularly helpful.

## Building the Model

Data from these sources were used to create detailed models of trip costs to various regions, to extrapolate out the Commerce Department statistics, and to make projections on percentage of covered trips, traveler ages, and travel-insurance cost as a percentage of trip cost. These projections were used to calculate total 2018 travel-insurance sales, and those figures were compared against last year's figures to chart percentage change.

## Questions on the research?

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